BPER: Gruppo

BPER: Banca

ANNUAL REPORT 2020.

The present document is the English translation of the Italian Financial Statements (consolidated and separate), prepared for and used in Italy, and has been translated only for the convenience of international readers. Financial Statements were prepared using International Reporting Standards (IAS/IFRS); therefore they are not intended to present the financial position and results of operations and cash flows according to accounting principles and practices other than IAS/IFRS.

BPER Banca S.p.A.
Head office in Via San Carlo 8/20, Modena, Italy
Tel. 059/2021111 – Fax 059/2022033
Register of Banks no. 4932
Parent Company of the BPER Banca S.p.A. Banking Group
Registered in the Register of Banking Group with ABI code 5387.6
http://www.bper.it, http://istituzionale.bper.it;
E-mail: bpergroup@bper.it – Certified e-mail (PEC): bper@pec.gruppobper.it
Company belonging to the BPER Banca VAT Group, VAT no. 03830780361
Tax Code and Modena Companies Register no. 01153230360
Modena Chamber of Commerce 222528 Share capital Euro 2,100,435,182.40
Member of the Interbank Deposit Protection Fund and of the National Guarantee Fund
Ordinary shares listed on the MTA market

Shareholders' Meeting

Modena, 21st April 2021

Agenda

Ordinary part:

1) presentation of the draft financial statements for 2020 and related reports; presentation of the consolidated financial statements for 2020 and of related reports; related and consequent resolutions;
2) appointment of the Board of Directors for the three-year period 2021-2023;
3) appointment of the Board of Statutory Auditors for the three-year period 2021-2023;
4) proposal for the Directors' remuneration for 2021; related and consequent resolutions;
5) proposal for the Board of Statutory Auditors' remuneration for the three-year period 2021-2023; related and consequent resolutions;
6) integration of the fees paid to Deloitte & Touche S.p.A., the company responsible for auditing the accounts for the period 2017-2025, based on a reasoned proposal by the Board of Statutory Auditors; related and consequent resolutions;
7) remuneration:

   a) Report on Remuneration Policy and Compensation Paid, made up of:

      a1) Remuneration Policies of the BPER Group for 2021; related and consequent resolutions;

      a2) Compensation Paid in 2020; related and consequent resolutions.

   b) proposal for the Remuneration Plan pursuant to art. 114-bis of Legislative Decree 58 dated 24 February 1998, implementing the Remuneration Policies of the BPER Group for 2021; related and consequent resolutions;

   c) authorisation for the purchase and disposal of treasury shares for the "2019-2021 Long-Term Incentive Plan for Material Risk Takers", for the 2021 MBO incentive plan and for any severance payments; related and consequent resolutions.

Contents

2020 FINANCIAL STATEMENTS

Directors and officers of the Parent Company at the date of approval of the financial statements as at 31 December 2020

Board of Directors

Chairman:		Pietro Ferrari
Deputy chairman:		Giuseppe Capponcelli
Chief Executive Officer:	*	Alessandro Vandelli
Directors:	*	Riccardo Barbieri
		Massimo Belcredi
		Mara Bernardini
	*	Luciano Filippo Camagni
		Alessandro Robin Foti
		Elisabetta Gualandri
		Silvia Elisabetta Candini (#)
		Ornella Rita Lucia Moro
	*	Mario Noera
		Marisa Pappalardo
	*	Rossella Schiavini
		Valeria Venturelli

(*) Members of the Executive Committee

Board of Statutory Auditors

Chairman:	Paolo De Mitri
Acting Auditors:	Cristina Calandra Buonaura
	Diana Rizzo
	Francesca Sandrolini
	Vincenzo Tardini
Substitute Auditors:	Patrizia Tettamanzi
	Veronica Tibiletti

(#) Silvia Elisabetta Candini was appointed at the Shareholders' Meeting of 6 July 2020 following the resignation of Roberta Marracino with effect from 30 June 2020.

General Management

General Manager:	Alessandro Vandelli
Deputy General Managers:*	Stefano Rossetti (Vice) Eugenio Garavini Pierpio Cerfogli

Manager responsible for preparing the Company's financial reports

Manager responsible for preparing the Company's financial reports:	Marco Bonfatti

Independent Auditors

Deloitte & Touche s.p.a.

(*) Claudio Battistella (formerly the Deputy General Manager responsible for the Lending Department) resigned with effect from 12 April 2020. Gian Enrico Venturini (formerly the Deputy General Manager, Chief Legal & Governance Officer and Secretary General of the Board) resigned with effect from 1 December 2020.

Chairman's Message to the Shareholders' Meeting

In the reflections on the year just ended, the theme of change as the engine of growth emerges once again as the key topic, but this time it takes on a profile that in some ways is unique in the recent history of our Bank.

In fact, 2020 will be remembered for the turning point that made it stand out: the acquisition of an important business complex that will soon allow the Bank to expand into strategic areas, especially in the North West of Italy and in Lombardy, but also in the Marche and other Regions. In this way, BPER will increase in size considerably, especially for the number of branches, overall funding and total assets, to become the third largest Banking Group in the country.

The goal is to preserve the network of contacts that we will acquire from early 2021 and enhance the value of the members of staff who already work there with a high level of professionalism. This will confirm the historical approach of the Bank, which has always grown putting first and foremost its relationship with households, companies and institutions, maintaining a spirit that is typical of the old cooperative model, even after its transformation into a joint-stock company.

We want to become a point of reference for these new areas by offering quality products and services, and the recent increase in capital, which was fully subscribed by the shareholders, reflects the fact that we want to complete this strategic operation in the best way possible.

Having said this, I would like to emphasise that the new activities - by which I mean not only the acquisition of this important business complex, but more generally everything that distinguishes our approach to banking in all the geographical areas in which we operate - have been continued with extraordinary commitment and dedication by the Bank's structures and functions in a very particular year, marked by a constant health emergency, which has had serious repercussions all over the world.

In such a delicate situation, the banking system is playing an indispensable role in supporting businesses and households. This has required changes in business and service models, lean digital procedures and ways of working that are different from the past, an intelligent use of data to assess risks and guide decisions.

Our Group has worked promptly and efficiently to ensure continuity of service, paying maximum attention to the health of employees and all those who, for various reasons, come into contact with the Bank. On the solidarity front, I would also like to recall the "United beyond expectations" initiative, with which the BPER Group has donated substantial resources to help cope with the Covid-19 emergency, largely the result of an internal fundraising campaign. The amount raised was earmarked for scientific research and health care, aid to families and the fight against new types of poverty, contributions to ease the educational emergency and facilitate distance learning.

Now we are being called upon to face more challenges, but with these positive premises I am sure that we will be up to the task. In the meantime, I should also underline the positive things that were achieved during the year, continuing implementation of the Business Plan 2019-2021, now at an advanced stage of completion, with a series of interventions to develop the business, increase operational efficiency and accelerate derisking. Put briefly, the Bank was able to achieve high levels of profitability, demonstrating an ability to generate revenues and hold down costs, while at the same time further improving its quality of credit and already solid capital position.

In addressing the numerous commitments that I have mentioned, the BPER Banca Group has been able to count on the contribution of a wide range of players. Above all, our Shareholders and Customers, who more and more frequently show their tangible appreciation. We also wish to thank the Chairmen, Directors, Statutory Auditors, Senior Managers and all members of the general management teams at all of the Banks and Companies belonging to the Group. Special thanks goes to the Chief Executive Officer and the General Management team as a whole. We would like to express our gratitude and esteem for all those who went into retirement during the year.

Greetings go to the Governor and Directorate of the Bank of Italy, to the Management of the Central Administration, as well as to the branch managers and staff of the Supervisory Authority and, in particular, to the representatives of the ECB with whom we have had a profitable and constructive dialogue. Also a thought for CONSOB and Borsa Italiana, which runs the Italian Stock Exchange. Lastly, we would like to thank the auditors and their staff, with whom we have had positive and effective exchange of views that was respectful of the different roles and functions.

We now turn with renewed commitment to the future that awaits us, hopeful that - with the combined efforts of all the Institutions concerned - we can overcome this difficult phase and lay the foundations for a new period of growth.

2020 CONSOLIDATED FINANCIAL STATEMENTS

Directors' Report on Group Operations


BPER:
Banca
PER BIANCA
E IL SUO ORTOFRUTTA.
Da più di 150 anni mettiamo la nostra solidità al servizio di ogni cliente.
Come Bianca, che con il nostro Finanziamento ha rinnovato il suo negozio.
Vai su bper.it
Paese che vai, BPER Banca che trovi.
Vicina. Oltre le attese.
bper.it 800 22 77 88
Messaggio pubblicitario con finalità promozionale. La Banca si riserva il diritto di subordinare l'accesso al finanziamento ad una valutazione del merito creditizio. Per tutte le condizioni contrattuali ed economiche si rinvia ai fogli informativi a disposizione della clientela in ogni Filiale o su bper.it Offerta valida fino al 31.12.2021.

Content

1. The macroeconomic context

1.1. Background

In 2020, the trend of the world economy was characterized by the effects of the Covid-19 pandemic which crossed Chinese borders and spread rapidly throughout the world, forcing many countries to adopt strict restrictive measures during the first half of the year. These measures, which were designed to stop the wave of infection, almost totally paralysed the various economies for several weeks, dragging the whole world into deep recession. In order to counter the negative effects of Covid-19, central banks and governments have repeatedly intervened with extraordinary measures to support the economy, through a hefty injection of new liquidity into the system which, among other things, has helped to bring stability to financial markets. After the historic collapse in March and April, in the following months the world economy showed encouraging signs of recovery, although significant differences emerged at a geographical level. For example, while in China and the United States the pace of growth remained more or less constant until the end of the year, in Europe the recovery suffered a gradual deceleration. In fact, the second wave of infection has induced several countries on the Old Continent to adopt new restrictions on travel and economic activities, measures which - even if less severe than those experienced in the spring - have inevitably slowed down the European economy. According to the latest IMF projections, the global economy closed 2020 with a substantial contraction, a decline - in terms of world GDP - of 4.3% compared with the previous year. Our comments on the main macro areas are as follows.

Within developed countries, the United States stood out for the resilience of its economy, mainly thanks to the prompt reaction of the institutions against the crisis caused by the pandemic. After facing a severe recession in the first part of the year (in April, the month in which the lockdown measures reached their peak, the US economy lost over 20 million jobs), the Central Bank and the Government acted in a timely and coordinated manner, by launching massive stimulus plans in order to avoid, above all, a dangerous chain of corporate defaults. In particular, after cutting rates by a full 150 bps (effectively reducing the cost of money to zero), the Federal Reserve (Fed) arranged to guarantee wide market liquidity and support credit in all its forms. Among the various measures, one of them included the launch of a new purchasing programme (Quantitative Easing) of unlimited duration and amount that, for the first time, was extended to accept corporate bonds. The US Congress, on the other hand, approved a maxi rescue plan worth over 2,000 billion dollars and designed for all those operating both in public and private sector most affected by the pandemic. This plan was then followed by a second aid plan, launched in December and worth other 900 billion dollars. Thanks to these efforts and the gradual reopening of the economy, from the summer months onwards the US cycle returned to expansionary levels. The labour market is slowly but surely returning to normal, with unemployment rate gradually decreasing from 14.8% in April to 6.7% in December. Consumer confidence has risen thanks to the help of generous state subsidies, while the main leading indicator of the cycle, the Purchasing Managers Index (PMI), has been showing steady growth in the economy since returning to expansion in July. Only in December was there a new partial slowdown in the macro indicators, due to the restrictive measures adopted to deal with the second wave of Covid-19. Inflation, which decreased significantly during the months of lockdown, has gradually recovered, showing an increase of 1.4% in December compared with the previous year. On the domestic political front, the presidential elections were held in November: contrary to what was feared, the outcome of the vote was announced relatively quickly, and the absence of a strong legal challenge by the defeated President Trump removed the spectre of a prolonged phase of political instability.

The Eurozone, after a positive start to 2020, saw the macroeconomic situation rapidly deteriorate in line with the worsening health emergency. After hitting Italy, Covid-19 then spread to the rest of the Eurozone, resulting in a freeze on productive activities that lasted several more weeks than in the United States. Similarly to what the Fed did on the other side of the Atlantic, the European Central Bank (ECB) also boosted its monetary policy measures in the wake of an economic contraction which in the second quarter resulted in a q/q drop in GDP of -11.7%. In particular, the ECB added a new plan called "PEPP" (Pandemic Emergency Purchase Programme) to the securities purchase programme already underway which, with an endowment of Euro 1,350 billion and a minimum duration until June 2021, envisaged the purchase of government and private sector bonds in a much more flexible way than on previous times. The Eurotower also launched new measures in favour of banks and even decided to accept certain public and private securities of below the investment grade as collateral for bank refinancing operations. This measure had the merit of guaranteeing a more effective protection for the business-system of the area and for the bloc of more vulnerable countries, i.e. the "peripheral" ones. Several fiscal policy measures were also introduced: the individual States, temporarily exempted from the constraints of the Stability Pact, acted in support of their respective economies, but the most important - and in some ways historic - decision came in July. Based on a proposal made a few weeks before by the European Commission, the EU heads of State reached an agreement about a new EU-wide aid plan which, through a mix of loans and grants, aims to provide financial support to the countries most penalised by the pandemic at extremely beneficial terms. During the third quarter, the Eurozone economy showed encouraging signs of recovery, but then it retreated again in the last part of the year because of the latest developments in the health emergency, which forced several countries to adopt new containment measures. A renewed weakness which was also reflected in the inflation rate of the entire Euro Area: the rate turned negative and forced the ECB to take actions once again by increasing the budget of the "PEPP" plan and extending its expiry date. Looking at Europe as a whole, Brexit was formalised on 31 January 2020: the divorce between London and Brussels, effective from midnight on 31 December 2020, will be governed by an agreement reached only in extremis by the two counterparties, and which will now have to be ratified by their respective parliaments.

As regards Italy, the economy has more or less followed the trend of the entire Eurozone. After the marked contraction in the first half of the year and the expansion during the summer, the economic activity returned to values close to stagnation, only to deteriorate again in the latter part of the year in parallel with the increase in the number of infections and the new restrictive measures imposed by the Government. At the same time, in line with the rest of the Eurozone, deflationary pressures were confirmed (the annual change in Italian inflation in December was -0.3%).

The economic shock caused by Covid-19 did not save emerging nations, obviously, given their sensitivity to trends in international trade and the fact that they are integral part of global technology and production supply chains. According to the latest IMF projections, the GDP of developing economies closed 2020 with an annual contraction of 3.3%, a decline partially mitigated by the performance of China which - alone among the major world economies to register growth in the last twelve months - after the drastic slowdown in the first two months, already showed the first signs of recovery in March, signs that then consolidated in the months that followed. Weighing on the performance of some emerging economies was not only the pandemic, but also the sharp drop in the price of oil which, despite the excellent recovery achieved in the second half of the year, decreased by more than 20%. Similarly to what happened in advanced countries, developing economies also found support from broadly expansive monetary policies implemented by the various Central Banks through substantial interest rate cuts.

1.2 Public-sector finance[1]

Starting from the last ten days of February 2020, the trend of the Italian economy was disrupted by the Covid-19 epidemic. Social distancing and closures of productive sectors, while much needed, caused a deep recession. However, economic recovery should pick up momentum in 2021, also leading to a significant carry-over effect on 2022, thanks to the progressive distribution of vaccines and full use of the subsidies envisaged in the first phase of the European Recovery Plan.

The growth forecasts for Italy's real GDP in the budget scenario are 6% for 2021 and 3.8% for 2022, a strong recovery compared with the estimated -9.0% contraction in 2020. The growth rate forecast for 2023 is 2.5%.

The debt/GDP ratio is expected to rise to 158% at the end of 2020, due to a highly expansive accounting policy motivated by the need to support incomes and employment, at a time when economic activity has been hard hit by the pandemic. However, this ratio should start a downward trend as early as next year: it is expected to fall to 155.6% in 2021, 153.4% in 2022 and to reach 151.5% in 2023.

The interventions envisaged by the Budget Law aim to support the economic recovery with a further fiscal boost in 2021. It will then be reduced in 2022 and aim for a significant improvement in the budget balance in 2023. The target budget deficits have therefore been set at 7.0% in 2021, 4.7% in 2022 and 3% in 2023.
These targets are in turn based on reducing the primary deficit, which is expected to fall from 7.0% of GDP this year to 3.7% in 2021 and 1.6% in 2022, turning into a small surplus (+0.1%) in 2023.

Public-sector finance balance *(% of GDP)*	2020e	2021f	2022f
Net borrowing	10.5	7.0	4.7
Borrowing	158.0	155.6	153.4

Key:
e = estimate
f = forecast

Source: "2021 Budgetary Planning Document" presented in November 2020 by the Economic and Finance Minister, Roberto Gualtieri.

1.3 The financial market and interest rates

The year 2020 was also a year out of the ordinary for financial markets, which experienced twelve months of strong volatility, though most of them ended the year with positive performances. In the first quarter, when the pandemic started to spread beyond Asia and the forecasts for world growth resulted in significant downward revisions, the prices of assets most at risk were marked down considerably, in a context of high instability made even more precarious by the collapse in oil prices. Subsequently, the risk appetite of financial markets returned as a consequence of the extraordinary action taken by the leading Central Banks, the fiscal stimulus announced by Governments and the steady reopening of productive

[1] *The scenario presented below has been taken from the 2021 Budgetary Planning Document sent to the EU Commission in November 2020.*

activities in all those countries previously forced to lockdown for extended periods. However, investor confidence deteriorated again between September and October: developments on the health emergency front deteriorated rapidly, with the number of Covid-19 cases rising sharply, especially in Europe, forcing several countries on the Old Continent to adopt new containment measures. Finally, in November, sooner than expected, anti-Covid-19 vaccines showed positive responses and became available for large-scale administration. The news provoked a positive reaction from the markets, so much so that the MSCI AC World global equity list posted the best month in its entire history. In addition to the arrival of drugs, the outcome of the American presidential elections also helped to calm down the climate on markets. Contrary to what was feared, the US presidential elections ended relatively quickly and had no legal aftermath, which could have been the prelude to a long period of political instability.

In terms of performance, 2020 was a positive year overall for the main stock markets. After the heavy losses accumulated during the most acute phase of the pandemic between February and March, on average they were able to fully recover the declines and to register annual increases that were more than acceptable thanks to the support of Governments and Central Banks. The MSCI AC World index, which measures the global equity trend, rose by almost 15%, although there were substantial differences within it. The US indices, driven primarily by technology stocks that have seen their businesses hardly hit by the virus - indeed, they seem to have benefited from it, have all recorded double-digit increases, reaching their respective all-time highs. The S&P500 rose by 16.3%, while the Nasdaq Composite, one of the lists with the highest number of technology stocks, jumped by all of 43.6%. The performance of European stock markets was distinctly disappointing in comparison, with a much more "cyclical" connotation, though at least they recovered most of the losses during the last quarter thanks to a strong sector rotation. The index of the main European stocks, the EuroStoxx 600, fell by 4%, while Milan's stock market, with a high content of energy and financial stocks - two of the sectors that fared worst last year - closed 5.4% down. Another event that affected the European continental equities was the strong revaluation of the Euro, which in 2020 appreciated against all the other major currencies. The performance of the Japanese stock market was positive (Topix, +4.8%), as was the overall index of emerging markets (MSCI Emerging Markets) which, thanks to China's decisive contribution (Shanghai Composite, +13.9%), ended the year 15.8% up.

Things also went very well on bond markets. In the first few months of the year, evidence of a global recession provided support for government bonds from core countries, which recorded significantly lower yields. The climate was very different for the bonds of "peripheral" Europe countries, including Italian government bonds which, given the strong aversion to risk that characterised the markets during that phase, were the subject of heavy sales. Only thanks to the intervention of monetary and fiscal policies the markets have regained their serenity and the trends for the various classes of bonds have begun to converge. The "PEPP" (Pandemic Emergency Purchase Programme) - launched specifically by the ECB to counter the effects of the pandemic - was the first decisive step in restoring confidence in the countries deemed most vulnerable, followed by approval of the "Next Generation EU" aid plan, which took place in July. Unconventional monetary policies, both in Europe and in the United States, have also had the important merit of minimising the upward pressure on interest rates deriving from the intense and inevitable activity of all the main governments on the primary market. These governments had to significantly increase their bond issues to finance the huge stimulus plans launched during the first half of the year. The government bond market has therefore turned in a positive performance overall, despite a violent sell-off when Pfizer announced the development of the Covid-19 vaccine. The spread bond component also ended on a rise, following the upward trend in share prices (and peripheral Euro bonds).

First there was a sharp decline that reflected major risk aversion linked to Covid-19 (as well as the collapse in oil prices), but then it recovered later on due to the Fed's decision to broaden its QE purchases to include lower-grade corporate bonds, among other things. The search for yield from investors has also supported the credit market in a context that has seen the total of negative-yielding bonds reach a new historical record worldwide.

In the currency field, the Euro appreciated against all other major currencies, favoured among other things by the aid program approved by European leaders in order to counter the effects of the pandemic; contrary to what often happened in the past, this underlines the willingness to strengthen the foundations of the Union. The single currency was also supported by the phase of marked risk appetite that characterised the markets in the last few months of 2020, which penalised the classic safe-haven currencies such as the Yen and the US dollar; the latter, in turn penalised by the enormous amount of liquidity placed on the market by the Fed and by the surge in the US budget deficit, lost over 8% of its value against the Euro. The UK pound sterling deserves a separate mention, having lost 5.3% against the Euro. After being penalised at the beginning of the year by the formalisation of Brexit on 31 January 2020, it was no longer able to recover its losses. Emerging currencies were weak overall, weighed down by the outflows recorded in the first quarter and by the drop in oil prices. Beyond the -34.7% of loss by the Argentine peso (against the Euro), particularly striking was the -28.8% of loss by the Brazilian real, which paid for the first part of the year when the country not only had to face a particularly acute Covid-19 emergency, but was also shaken by a long internal political crisis.

Lastly, as regards raw materials, 2020 saw the general CRB index close down by more than 9%, penalised above all by the drop in oil prices. In the wake of the slowdown in consumption due to the blocking of production and transport activities, Brent went through a nightmarish first quarter. This quarter was made even more dramatic by a price war between producing countries which, in the most critical moment of the pandemic, helped to lower prices even more. Then, in the following months, the cuts in production decided by OPEC, the gradual reopening of production activities and the prospects of economic normalisation linked to the distribution of vaccines, allowed oil to recover part of the losses and close with a performance over the year of -21.5%. On the other hand, gold performed extremely well (+25.1%); as a store of value, it benefited from ultra-expansionary monetary policies and the constant decrease in real interest rates.

1.4 The banking system and domestic interest rates

In a context of low (or negative) interest rates due, in part, to the extremely accommodating monetary policy of the ECB (made possible by the lack of obvious inflationary pressures), European banks are struggling to find the levels of profitability that they used to achieve. Low interest margins, the pressure on profitability brought by the Challenger Banks and the technology giants and, lastly, more stringent regulations, are all elements that - combined with the violent economic recession generated by the spread of the coronavirus - contribute to creating a challenging and complex situation. Undoubted progress has been made in recent years, in terms of both capital solidity and reducing non-performing loans, but the road to greater efficiency necessarily passes through a different business model, that is multi-channel and with a wide range of services, providing reduction of excessive fragmentation, lower costs and rationalisation of branches. In the first place, however, to support the banking system as a whole, the Italian economy needs to emerge from the swamps of the recession caused by the pandemic, embarking on a path of solid recovery.

Deposits

According to the initial SI-ABI estimates made in December 2020, deposits from bank customers in Italy, including deposits from residents and bonds (net of those repurchased by banks), was 7.8% higher than in the previous year. More specifically, deposits from resident customers grew at a headline rate of +10.3%, with an annual increase in absolute value of more than Euro 162 billion, bringing total deposits to Euro 1,737 billion. The annual change in bonds, on the other hand, was negative (-8.6%) for a total of approximately Euro 218 billion.

The average interest rate paid on customer funds (comprising the yield on Euro deposits, bonds and repurchase agreements recognised to households and non-financial companies) was 0.50% in December 2020. More specifically:

- the rate on Euro deposits recognised to households and non-financial companies was 0.33%;
- the yield on bonds was 1.93%;
- on repurchase agreements it was 0.88%.

Loans

In December 2020, total loans to residents in Italy (private sector plus public administrations, net of repos with central counterparties) amounted to Euro 1,721 billion, with an annual change of +3.9%. Loans to Italian residents in the private sector amounted to Euro 1,462 billion at the end of December 2020, an increase of 4.3% compared to previous year, of which Euro 1,324 billion was to households and non-financial companies.

According to what emerges from the latest quarterly survey on bank credit, in the last few months of 2020 the lending policies applied to loans remained unchanged for businesses, whereas they tightened slightly for households. The demand for corporate loans remained very high, reflecting huge liquidity requirements during the pandemic. Household demand for mortgages also increased, boosted by the general decline in interest rates.

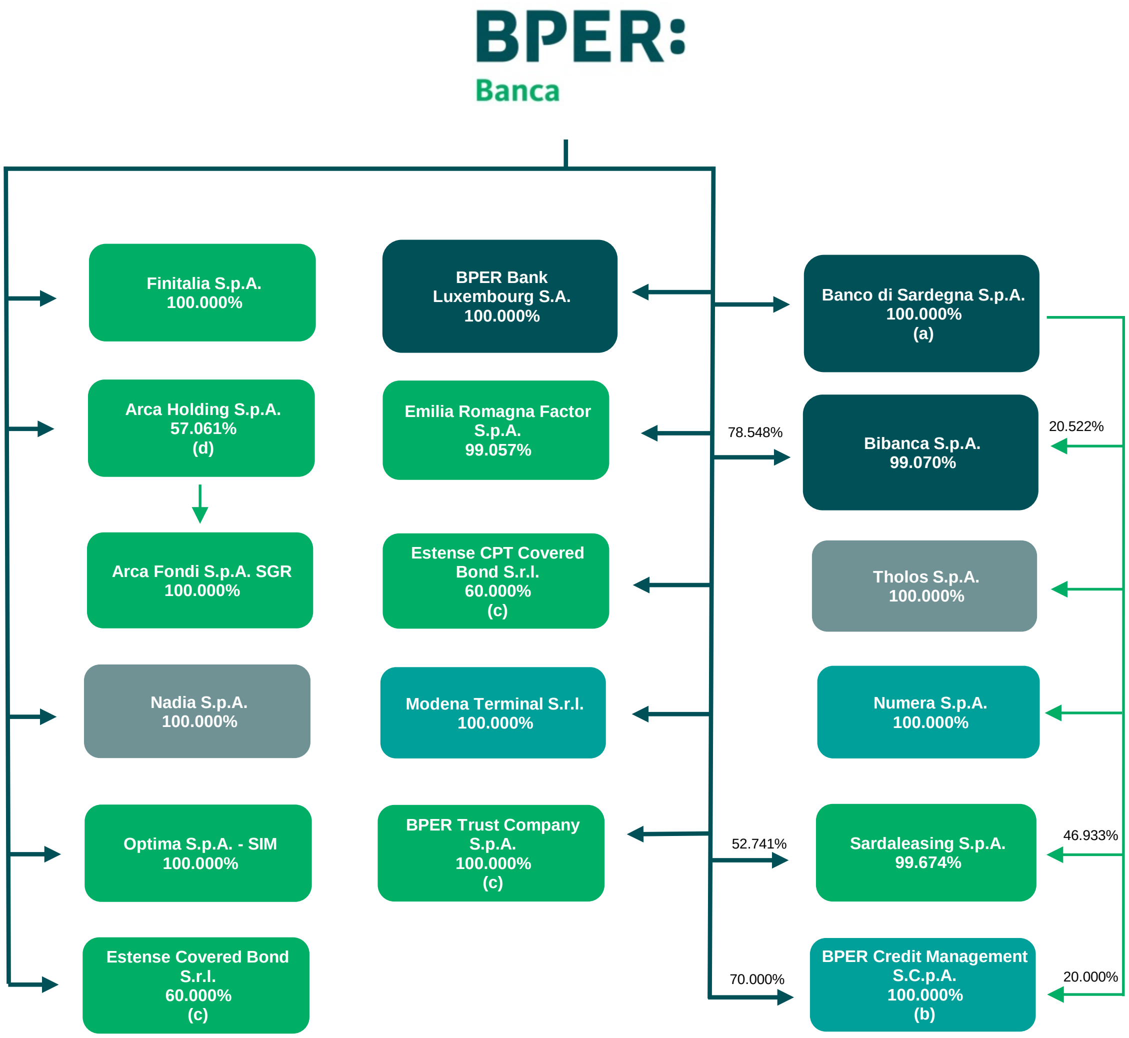
The credit quality of Italian banks is still improving. Bad loans, net of the write-downs and provisions already made by banks using their own resources, totalled Euro 23.6 billion in November 2020, down from Euro 29.3 billion a year earlier. The ratio of net bad loans to total loans has fallen to 1.35% (from 1.70% in November 2019). This is the lowest level since July 2010.

ABI reports that the rate on Euro home purchase loans to households - average of fixed and floating rates - came to 1.27% at the end of December 2020 (5.72% at the end of 2007, 1.47% in December 2019). Over 89% of new mortgage loans are arranged at a fixed rate in order to exploit the all-time low level of interest rates. The average rate on new Euro loans to non-financial companies has risen slightly to 1.30% (1.27% in December 2019; 5.48% at the end of 2007). Lastly, the weighted average interest rate on all loans to households and non-financial companies was 2.28% at the end of December 2020 (2.48% in December 2019, 6.16% at the end of 2007).

For banks, the spread between the average rate on loans and the average rate on deposits from households and non-financial companies is still very low: in December 2020 it was 178 basis points (bps), down from 190 bps at the end of 2019. Before the beginning of the financial crisis, it was more than 300 bps.

2. Key figures

2.1 BPER Banca Group's structure as at 31 December 2020



a) Equivalent to 99.124% of the entire Share Capital consisting of ordinary and preference.

b) The following Companies are also shareholders of BPER Credit Management S.C.p.A.:
- Sardaleasing S.p.A. (6.000%);
- Bibanca S.p.A. (3.000%);
- Emilia Romagna Factor S.p.A. (1.000%).

c) Subsidiary companies consolidated under the equity method.

d) Subsidiary company which is not member of the banking Group since it does not contribute directly to its activities.

The scope of consolidation also includes the following subsidiary companies which are not members of the banking Group since they do not contribute directly to its activities.
These companies are consolidated under the equity method of the Parent Company:
- Adras S.p.A. (100%);
- Italiana Valorizzazioni Immobiliari S.r.l. (100%);
- Sifà S.p.A. (100%).

2.2 Summary of results

The net profit of BPER Banca Group in 2020, Euro 245.7 million, is 35.28% down compared with the net profit reported at 31 December 2019. A number of non-recurring elements have had an impact on the result: *(i)* an increase in the cost of credit (101 bps) to reflect a precautionary estimate of the foreseeable effects of the deterioration in the macroeconomic scenario resulting from the pandemic, *(ii)* the recognition of impairment losses on properties, inventories and rights of use for a total amount of Euro 12.6 million, *(iii)* adjustment of the profit-sharing contribution payable to the Resolution Fund in accordance with the agreements associated with the purchase of Nuova Carife s.p.a. (Euro 11.5 million payable to the seller following the recovery of prior-year tax losses), *(iv)* the recognition of impairment losses on equity investments for a total of Euro 8.2 million, *(v)* the recognition of costs associated with the deterioration in the macroeconomic situation caused by the health emergency for a total of Euro 15.3 million; *(vi)* the revaluation of an equity investment by Euro 20.6 million; *(vii)* the recognition of losses on the sale of loans for Euro 21.4 million.
The result for the year is also affected by charges for contributions to systemic funds for a total of Euro 88.2 million, as well as the costs incurred by the Group for the acquisition of the business complex from the Intesa Sanpaolo Group for Euro 29.0 million. Lastly, income taxes for the year are positive for Euro 67.0 million.

The Group's capitalisation shows strong growth, incorporating the effects of the increase in capital to purchase the business complex from the Intesa Sanpaolo Group: the Fully Loaded CET1 ratio comes to 15.90%, 389 bps up on 12.01% at the end of 2019, while the Phased In CET1 ratio is 17.70% (13.91% at 31 December 2019, +379 bps), well above the ECB's minimum requirement of 8.125%. Even without the increase in capital carried out in 2020, the Group's capitalisation would still have increased compared with 2019, with a Fully Loaded CET1 ratio of 13.52% (+151 bps) and a Phased In CET1 ratio of 15.14% (+123 bps).
The liquidity position is excellent, with a liquidity coverage ratio (LCR) of 200.1%, twice the regulatory threshold of 100%.

Asset quality continues to improve with a reduction in the stock of gross and net non-performing exposures (NPEs) to Euro 4,342.9 million and Euro 2,130.2 million respectively (-29.07% and -28.96% since the end of 2019), mainly as a result of the sale of loans for a gross book value of Euro 1.6 billion. In particular, at 31 December 2020:

- the gross and net NPE ratios were 7.84% and 4.02% respectively, in strong decrease from 11.07% and 5.77% at the end of 2019;
- the coverage ratios of non-performing exposures are improving on a quarterly basis in all categories;
- the default rate is 1.0%, a sharp decrease of 70 bps compared with 1.7% at the end of 2019;
- the Texas ratio has fallen to 55.39%, from 79.04% at 31 December 2019 (-23.65%).

2.3 Performance ratios[2]

Financial ratios	31.12.2020	2019 (*)
Structural ratios		
Net loans to customers/total assets	56.96%	65.80%
Net loans to customers/direct deposits from customers	83.95%	89.58%
Financial assets/total assets	26.50%	23.99%
Gross non-performing loans/gross loans to customers	7.84%	11.07%
Net non-performing loans/net loans to customers	4.02%	5.77%
Texas ratio[3]	55.39%	79.04%
Profitability ratios		
ROE[4]	4.58%	8.66%
ROTE[5]	5.25%	9.92%
ROA[6]	0.29%	0.50%
Cost to income ratio[7]	65.30%	74.11%
Cost of credit risk[8]	1.01%	0.86%

(*) The comparative ratios have been calculated on figures at 31 December 2019 as per the Consolidated financial statements as at 31 December 2019.

[2] *The information provided is consistent with the ESMA document of 5 October 2015 "Guidelines - Alternative performance indicators", aimed at promoting the usefulness and transparency of Alternative Performance Indicators included in prospectuses or regulated sources of information. To construct ratios, reference was made to the balance sheet and income statement figures of the reclassified statements prepared from a management point of view as mentioned in chapter of this report "The BPER Banca Group's results of operations".*

[3] *The texas ratio is calculated as total gross non-performing loans on net tangible equity increased by impairment provisions for non-performing loans.*

[4] *ROE has been calculated as net profit for the year on average shareholders' equity of Group not including net profit.*

[5] *ROTE has been calculated as net profit for the year on average shareholders' equity of Group not including net profit and intangible assets.*

[6] *ROA has been calculated as net profit for the year (including net profit pertaining to minority interests) on total assets.*

[7] *The Cost to income ratio has been calculated on the basis of the layout of the reclassified income statement (operating costs/operating income); when calculated on the basis of the layout provided by the 6th update of Bank of Italy Circular no. 262, the Cost to income ratio is at 69.61% (76.80% at 31 December 2019 as per the Consolidated financial statements as at 31 December 2019).*

[8] *The Cost of credit risk has been calculated as net impairment losses to loans to customers on net loans to customers.*

(cont.)

Financial ratios	31.12.2020	2019 (*)
Own Funds (Phased in)[9] (in thousands of Euro)		
Common Equity Tier 1 (CET1)	5,928,350	4,828,807
Own Funds	7,094,229	5,839,914
Risk-weighted assets (RWA)	33,501,647	34,721,277
Capital and liquidity ratios		
Common Equity Tier 1 Ratio (CET1 Ratio) - Phased in[10]	17.70%	13.91%
Tier 1 Ratio (T1 Ratio) - Phased in[11]	18.15%	14.35%
Total Capital Ratio (TC Ratio) - Phased in[12]	21.18%	16.82%
Common Equity Tier 1 Ratio (CET1 Ratio) - Fully Loaded[13]	15.90%	12.01%
Leverage Ratio - Phased in[14]	6.9%	6.1%
Leverage Ratio - Fully Loaded[15]	6.1%	5.3%
Liquidity Coverage Ratio (LCR)	200.1%	158.9%
Net Stable Funding Ratio (NSFR)	123.7%	114.0%

(*) The comparative ratios have been calculated on figures at 31 December 2019 as per the Consolidated financial statements as at 31 December 2019.

[9] *Items have been calculated according to the provisions of Regulation (EU) 2395/2017, which amends the Regulation (EU) 575/2013 (CRR) relating to "Transitional provisions to mitigate the impact of IFRS 9 on Own Funds". Regulation introduced the transitional arrangement (or so-called "Phased In") giving banks a chance to spread the effect on Own Funds over a period of 5 years (from March 2018 to December 2022), sterilizing the impact on CET1 by applying decreasing percentages over time. The BPER Banca Group chose to adopt the so-called "static approach" to be applied to the impact from comparing the IAS 39 adjustments at 31 December 2017 and the IFRS 9 adjustments at 1 January 2018.*

[10] *It should be noted that the Phased in capital ratios are equal to 15.14% for the CET1 Ratio Phased in, 15.60% for the T1 Ratio Phased in and 18.66% for the TC Ratio Phased in if we separate the impact of the increase in capital for the acquisition of going concern from the Intesa Sanpaolo Group.*

[11] *See previous note.*

[12] *See previous note.*

[13] *The CET1 ratio Fully Loaded has been estimated excluding the effects of the transitional provisions in force and taking into account the result for the year, net of the pro-quota dividends, and the expected absorption of deferred tax assets relating to first-time adoption of IFRS9. It should also be noted that such ratio is equal to 13.52% if we separate the impact of the increase in capital for the acquisition of going concern from the Intesa Sanpaolo Group.*

[14] *The ratio has been calculated according to the provisions of Regulation (EU) 575/2013 (CRR), as amended by the Commission Delegated Regulation (EU) 62/2015.*

[15] *The Leverage Ratio Fully Loaded has been estimated excluding the effects of the transitional provisions in force and taking into account the result for the year, net of the pro-quota dividends, and the expected absorption of deferred tax assets relating to first-time adoption of IFRS9.*

3. Significant events and strategic transactions

3.1 Increase in capital of BPER Banca and acquisition of a Business Unit from the Intesa Sanpaolo Group

On 29 September 2020, under the mandate granted by the Extraordinary Shareholders' Meeting of 22 April 2020 pursuant to art. 2443 of the Italian Civil Code, the Board of Directors of BPER Banca resolved to increase the share capital in one or more increments, against payment, for a maximum amount including share premium of Euro 802,258,257.60, approving the final terms and conditions.
23 October 2020 marked the end of the period for exercising the option rights relating to the offer of a maximum 891,398,064 newly issued BPER ordinary shares coming from the cash increase in capital.
During the offer period, which began on 5 October 2020 and ended on 23 October 2020 included, 552,724,115 rights were exercised for the subscription of 884,358,584 new shares, equal to 99.21% of the total number of new shares, for a total value of Euro 795,922,725.60. Thus, at the end of the option period, 4,399,675 rights for the subscription of 7,039,480 new shares (0.79% of all new shares for a total of Euro 6,335,532) had not been exercised.
The unexercised rights were offered on the Mercato Telematico Azionario (MTA) organised and managed by Borsa Italiana S.p.A., pursuant to art. 2441, paragraph 3, of the Italian Civil Code, at the trading sessions of 27 and 28 October 2020; the offer would have closed early if all the unexercised rights were sold. The unexercised rights could be used for the subscription of the new shares, at the price of Euro 0.90 per new share (of which Euro 0.30 by way of share premium), at a ratio of 8 new shares for every 5 unexercised rights purchased.
On 27 October 2020, as part of the offer on the MTA, during the first trading session, all of the 4,399,675 option rights not exercised at the end of the option period were sold. They referred to the subscription of 7,039,480 newly issued BPER ordinary shares (0.79% of all the new shares resulting from the increase in capital).
On 28 October 2020, following the trading session on 27 October 2020 during which all of the 4,399,675 rights not exercised during the option period were sold, 7,039,480 newly issued BPER ordinary shares deriving from full exercise of the unexercised rights were subscribed. The increase in capital was therefore concluded with the 891,398,064 new shares being fully subscribed for a total of Euro 802,258,257.60, so the underwriters did not have to intervene.
On 3 November 2020, certification of the full subscription of the increase in capital, with an indication of the new share capital, was registered with the Modena Companies Register in accordance with art. 2444 of the Italian Civil Code. As a result of full subscription of the new shares for a total of Euro 802,258,257.60, of which Euro 267,419,419.20 as share premium, the share capital of BPER Banca S.p.A. increased by Euro 534,838,838.40 by issuing 891,398,064 BPER ordinary shares, with regular dividend rights and the same characteristics as the shares currently outstanding, with an amendment to art. 5 of the Articles of Association.

The increase in capital aims to finance the acquisition of a business complex made up of three business units. This will significantly increase the size of the BPER Banca Group and its customer base for banking services.
Negotiations for the business complex began with Intesa Sanpaolo s.p.a. in 16 February 2020 as part of its acquisition of control of UBI Banca s.p.a. and continued until the final purchase contracts were signed on 19 February 2021. The business complex includes the following: (i) the legal relationships, assets and

liabilities of a business unit owned by UBI Banca (consisting of 455 bank branches and 132 operating points), of a business unit owned by Intesa Sanpaolo (consisting of 31 bank branches and 2 operating points) and of a business unit owned by UBISS (a consortium company controlled by UBI Banca), essentially focused on providing services to the branches being acquired[16], (ii) a certain amount of risk-weighted assets (RWA) not exceeding Euro 15.5 billion, and (iii) a total amount of net loans that ranges between Euro 25.2 billion and Euro 27.2 billion.
The geographical distribution of the branches and operating points shows a high concentration in Northern Italy, particularly in Lombardy.
The human resources referred to the Business Unit amount to a total of 5,107 people, including a number of resources affected by the voluntary exit plan contained in the trade union agreement signed by Intesa Sanpaolo with the Trade Unions on 29 September 2020, substantially in line with the objectives of BPER Banca. The Business Complex is made up principally of staff from the network of branches and operating points and from the Private and Corporate Banking departments, to which are added resources from the "semi-centre", who support the regional and area coordination units of the branches that have been acquired, and from the "centre", to strengthen the central, control and IT support functions.
Lastly, it should be noted that, taking into account the context in which this operation takes place and the negative effects that the Covid-19 pandemic has had on the business and on the profitability of the BPER Banca Group, the acquisition of this Business Complex should also help to contrast any deterioration in the Group's profit margins.

3.2 The 2019-2021 Business Plan of the BPER Banca Group: update of financial forecasts

On 27 February 2019, the BPER Banca Group approved and presented to the market its new "Business Plan 19/21 – BEST WAY[17]". These forecasts were then updated by later market communications, including: (i) the announcement of the agreement with Intesa Sanpaolo for the acquisition of a Business Complex represented by branches of the former-UBI Banca on 17 February 2020 and (ii) the subsequent supplementary agreements, which defined more precisely the perimeter of the "Business Complex" and revised the mechanism for calculating its price.

The emergency associated with the Covid-19 pandemic and the consequent significant change in the current and future macroeconomic context has also had a substantial effect on the economic and financial dynamics of the BPER Banca Group that were originally envisaged in the Business Plan 2019-21. In fact, the restrictive measures adopted by the Italian government (e.g. lockdowns), the macroeconomic scenarios expected for the economy, the significant changes in monetary policy made at European level and the government action introduced in support of households and businesses, taken together, significantly alter the assumptions underlying the economic-financial targets contained in the Business Plan.

Without prejudice to the strategic directions embodied in the BEST WAY Plan, which are confirmed, the Parent Company started work in April 2020 on updating the forecasts by simulating alternatives for the growth prospects of the BPER Banca Group. These simulations considered different macroeconomic and financial scenarios linked to the possible duration of the emergency, the potential impacts that it might

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[16] *The transfer to BPER Banca of the business units belonging to UBI Banca and UBISS took effect for legal purposes on 22 February 2021, while the transfer of the business unit belonging to the Intesa Sanpaolo Group will take effect on 21 June 2021.*
[17] *See the Directors' report on Group operations accompanying the Consolidated financial statements as at 31 December 2019 for an explanation of the basic principles underlying this Plan.*

cause and the effects of the mitigating measures adopted by government and banking sector authorities. The Board of Directors of BPER Banca has recognised both the substantial alteration of market prospects, due to the major change in the macroeconomic context caused by the emergency, and the latest forecasts for interest rates that show them in negative territory for an extended period, rather than making the recovery envisaged in the original plan. Given this, the Board approved the updated financial forecasts for 2020-2021 of the BPER Banca Group on 5 August 2020[18]. This update also takes appropriate account of the change in the macroeconomic situation, the change in scope following the aggregation of Arca Holding - not envisaged in the original plan, as well as the acquisition of the Business Complex according to the agreement with Intesa Sanpaolo and the related increase in capital, which for obvious reasons were not planned either.
It was noted that the growth in revenue - being significantly slower than the forecasts included in the original Plan – as well as the dynamics of impairment losses on loans - affected by the different and worse expectations for economic performance - would not allow the profit target of Euro 450 million that was forecast in the original Business Plan to be reached by the end of 2021, assuming that the scope remains unchanged.

That said, the acquisition of control over Arca Holding, not included in the original Plan, will provide partial internal compensation for the difference in profitability attributable to the changed scenario, thus mitigating the shortfall with respect to the profit target included in the Plan. The Business Complex acquired from Intesa Sanpaolo is also expected to make a contribution in this regard. In confirmation of the above, the new combined entity is expected to generate a consolidated profit in 2021 of Euro 348 million, to which the result of the Purchase Price Allocation relating to the acquisition of the Business Complex from Intesa Sanpaolo will then have to be added. In addition, the target gross NPE Ratio, originally expected to fall below 9% by the end of the Plan, is also affected by the deterioration in the macroeconomic scenario. The adoption of additional measures to contain and reduce the stock of non-performing loans should however result in a ratio at the end of 2021 that is only slightly higher than the expected level and, in any case, somewhere around 10%. Financial strength, as reflected in the target CET1 ratio, is expected to exceed 13%[19].
Below there is a summary of the main extraordinary transactions envisaged in the BEST WAY Plan and already carried out at the date of these financial statements.

Transactions carried out in 2019

The following were carried out in particular:

- absorption of the BPER Services consortium by BPER Banca;
- acquisition from the Unipol Group of 100% of Unipol Banca (and therefore, indirectly, of Finitalia) and its subsequent absorption by BPER Banca;
- disposal to the Unipol Group, at the same time, of a portfolio of bad loans totalling about Euro 1 billion;
- significant reduction in the Group's minorities by purchasing the minority interests in Banco di Sardegna.

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[18] A further update of the financial forecasts was approved by the Board of Directors on 29 September 2020, to reflect the most recent forecasts on the timing of execution of the agreements with Intesa Sanpaolo, initially assumed to be by the end of 2020.
[19] In addition to the effects of acquiring the Business Complex from Intesa Sanpaolo, this forecast also includes other projects, currently underway, which are able to influence regulatory capital.

Also in 2019, a further interest in Arca Holding (and therefore, indirectly, in Arca Fondi SGR) was acquired, resulting in control over it.

Transactions carried out in 2020

Last July, the Parent Company's absorption of the two Piedmontese subsidiaries Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a. was completed, as described below.
On 26 and 27 March 2020, the Boards of Directors of Cassa di Risparmio di Bra s.p.a., Cassa di Risparmio di Saluzzo s.p.a. and BPER Banca s.p.a. approved, each to the extent of their responsibilities, the plan for the absorption of Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo by BPER Banca, as well as the increase in the share capital of BPER Banca to service the absorption of Cassa di Risparmio di Bra.
The overall operation aims to simplify further and rationalise the organisational structure and governance of the Group, as well as to improve operational efficiency and facilitate the monitoring and control of risks.
The standard statutory procedure applied to the absorption of Cassa di Risparmio di Bra, as BPER Banca held 84.286% of the share capital. The merger therefore took place through an increase in capital of the merging company BPER Banca S.p.A., with the issue of 1,237,500 new ordinary shares assigned to the minority shareholders of the merged company.
The procedure for the absorption of Cassa di Risparmio di Saluzzo was simplified pursuant to art. 2505 of the Italian Civil Code, as BPER Banca held the entire share capital of the absorbed company.

Macroeconomic and financial forecasts

In the context of updating the forecasts included in the Plan for 2019-2021, the changes in the principal economic and financial aggregates of the BPER Banca Group were determined by estimating the volumes, interest rates and spreads applicable to customers, partly with reference to forecasts about macroeconomic trends and the performance of the banking sector prepared by leading research centres. The effects of the several planned initiatives were applied to the information obtained in the above manner.
The macroeconomic variables of greatest importance for the BPER Banca Group relate to the Italian economy. The dynamics of international variables (trends in the GDPs of principal world economies, changes in the monetary policies of non-Eurozone countries and exchange rate movements) are relevant to the extent that they affect the Italian economy.
The assumptions about the changes in the macroeconomic scenario and the dynamics of the banking system that underpin the Business Plan for 2019-2021 were made with reference to forecasts, selected from among those available at the time, made by leading economic research centres and applied by the Parent Company considering the context and dynamics within which the Group operates.
As stated, the principal macroeconomic variables underpinning the Plan have been heavily influenced by the change in scenario imposed by the Covid-19 emergency. At the time of preparing these financial statements as at 31 December 2020, the global macroeconomic picture is still clouded by significant uncertainties.
Preparing updated forecasts inevitably suffers from this uncertainty, which led the principal providers (including the Bank of Italy, the ECB, specialist companies and the research departments of leading banks and asset managers) to assume different forward-looking scenarios, depending on the evolution of the pandemic and the effectiveness of the health, political and economic measures taken by the relevant institutions.

The updated forecasts for the economic performance of the country that were used to revise the BEST WAY Business Plan targets are a possible scenario, though it may have to be adjusted later. These

forecasts combine the changes in GDP and other economic changes considered significant (default rates, unemployment, trends in lending and funding etc.) with assumptions about the duration and intensity of the lockdown measures. In addition, they take account of the economic support measures (moratoria, etc.) introduced by the government and the banks, as well as the effects of the extraordinary liquidity measures adopted by the ECB.
More specifically, the update took into consideration a substantial drop in GDP for 2020 (-9.4%), followed by only a partial recovery in 2021 (+5.4%). The phase of normalisation was assumed to be reached only gradually. Full recovery was expected to be long and difficult, with different effects depending on the sectors and geographical areas. A return to pre-crisis conditions was not considered likely prior to 2024[20].
The updated forecasts used in the 2019-2021 Plan - limited to 2021 as this was last year of the Plan - were confirmed when that year's Budget was being prepared, though at that stage an even more recent update of the macroeconomic scenario was available.

3.3 Covid-19 emergency: strategies adopted by BPER Banca Group

Since the start of the emergency, the BPER Banca Group has tackled the situation with immediate answers, taking steps to contain risk, safeguard the health of employees and customers, guarantee the continuity of critical business processes and implement economic support measures for households and businesses.
A Consultation Committee was set up immediately to monitor the evolution of the healthcare emergency. Coordinated by the Group Crisis Manager, this committee comprises the Chief Human Resource Officer (CHRO), the Safety Officer (RSPP), the Chief Operating Officer (COO), the Chief Risk Officer (CRO), the Business Continuity Manager and representatives from the Systems Department, the Risk Management Department and the Service Desk Department.
The first measures related to what was initially called the "Red Zone", being the geographical area worst hit by the initial contagion, with the closure of branches and the suspension of work, including quarantine for employees and residents, in compliance with the procedures laid down in regional and governmental regulations.
As the emergency continued, the Committee's lines of intervention involved various areas: the management of human resources, business continuity, protection of the general public and support for the economy, with differentiated actions according to the various phases that the emergency passed through.

Management of human resource

In order to tackle the healthcare emergency, the BPER Banca Group implemented a series of solutions to safeguard the health of personnel and ensure that they work safely. The methods of work activated made possible a major reduction in their physical presence in the workplace, especially during the initial phase of the emergency: a substantial number of workstations were activated for emergency remote working (employees with computer equipment deemed suitable for remote working were able to work from home with prior authorisation from the manager of the organisational unit, who has had the possibility to reshape the flexible work on the basis of the coverage needs of the Office and in line with the decreasing risk of contagion); platforms were purchased to enable the delivery of training at home (smart learning),

[20] The summary outcomes of the scenario used are consistent with the equivalent results of the macroeconomic scenario prepared by the ECB/Bank of Italy in June 2020.

shifts were agreed at organisational units, certain branches were closed, opening hours were changed and the maximum number of customers present in each branch at any one time was restricted.
During the central part of the year, access to branches was only allowed by appointment for all consulting services, whereas for cashier services, customers were able to access without an appointment exclusively in a one-to-one relationship with the cashier and limited to the morning opening hours, in line with the protocols defined from time to time at national level by ABI and the Trade Unions.
In the latter part of the year, from 16 November 2020 to be precise, with the advent of the second wave of the health emergency, the branches returned to being accessible by customers exclusively by appointment, with cash services provided in the morning and consulting services and assistance provided in both the morning and afternoon.
During the first phase of the emergency, the BPER Banca Group devised a package of paid and unpaid leave of absence for all employees, partly to take account of the nationwide suspension of education activities; ad hoc leave arrangements were also made for certain categories of employee (parents with children under 14, persons with weakened immune systems, parents with disabled children, pregnant women not yet on maternity leave).
An agreement was signed with the Trade Unions for access to the sector solidarity fund, in order to cover the periods of work reduction/suspension during the first phase of the emergency. Under another such agreement in the second phase, the Group made additional paid and unpaid leave of absence available to all employees, with a special focus on specific categories of employee (parents with children under 14, the immunosuppressed, parents with disabled children, pregnant women not yet on maternity leave). Some of these measures continued to be applied until 30 September 2020.
Faced with the resurgence of the virus in the second half of the year, BPER maintained a strong focus on its employees, by intensifying the use of levers such as emergency remote working and offering partially paid leave to employees into specific circumstances (employees with children under the age of 14, employees with disabled children, pregnant employees not yet on maternity leave, those living with immunosuppressed members of the family).
Informing all personnel about the introduction or modification of security measures took place promptly and effectively by means of FAQs on the corporate intranet or by bulk e-mails.
Business travel remained strictly limited to cases of real need, subject to authorisation from the manager of the organisational unit concerned. Practically all meetings took place by video-conferencing. Hygiene and sanitary measures were further strengthened at all branches and central offices. The telephone line to provide professional psychological support was maintained and health insurance cover was extended to protect employees.
In parallel with all these initiatives, the Safety Officer (RSPP) maintained regular contact with the Workers' Representatives (RLS) in order to facilitate a nationwide exchange of information about Covid-19.
Collaboration between the Safety Officer and the Human Resources function to ensure the operational continuity of any Organisational Units affected by cases of coronavirus was constant and fruitful.

Business Continuity

The provision of services continued without interruption in the second half too, thanks to the use and reinforcement of the solutions mentioned previously (above all, remote working). Branch processes were also refined to manage any temporary closures, above all to minimise any inconvenience to customers.
The Business Continuity plans were updated accordingly to ensure the continuity of essential services in pandemic scenarios.

Protection of the general public

Since the beginning of the emergency, all of the measures stated in the Prime Minister's decrees (DPCM), in the official documents of the Ministry of Health and in the recommendations of the health authorities (including international ones), as well as in local ordinances, have been implemented, with a view to limiting the risk for customers. The protocols signed by the trade association and the trade unions were applied and supplementary instructions were issued at the level of best practice to protect the health of employees and customers. Ever since the first phase, precautions have been taken in order to reduce the presence of customers in branches (reservations for service, restricted access, etc.). The BPER Banca Group was one of the first financial institutions to introduce the obligation to wear a mask and (temporarily, in some regions) for customers to wear gloves, not just employees, as well as to supply Plexiglass screens for front office workstations.
Sanitising gel for frequent hand sanitation has always been made available to customers in every branch and company location open to the public.
Sanitisation of all customer contact points (handles, push-button panels, chairs and sofas in waiting areas, etc.) was carried out daily, according to the standards suggested by the Ministry of Health.
Customers were continuously informed also through window stickers applied inside and outside branches. Information systems have been adopted outside the premises to distinguish entry and exit routes, as well as providing the widest possible publicity on the methods of booking and assistance for the services offered in the branch.

Support for the economy and local communities

In order to mitigate the adverse effects of Covid-19 on the real economy, the Group activated a series of measures in favour of households and businesses, while also adopting and implementing the related ministerial decrees. Action included the suspension of instalment payments for various reasons, including job loss and liquidity shortages due to the emergency, as well as advances against government-assisted redundancy pay (CIG) and loans funded by the Liquidity Decree.
More specifically, during 2020 the BPER Banca Group granted:

- moratoria for more than 62,000 loans, for Retail customers, with a gross exposure of Euro 3.97 billion;
- moratoria for more than 38,000 loans to businesses, for Corporate customers, with a gross exposure of over Euro 7.01 billion.

At 31 December 2020, the moratoria still active amounted to Euro 7.2 billion[21] (defaults on loans for which the moratorium has not been renewed are marginal).
Even before publication of the Liquidity Decree, the "BPER Banca per l'Italia" initiative was launched, with the creation of two funds amounting respectively to Euro 100 million (for individuals, professionals, artisans and traders) and Euro 1 billion (for firms in order to provide access to liquidity and short/medium-term loans). In order to help businesses in crisis, the Group strengthened its commitment to enable applicant customers to access the guarantee fund for SMEs and other loans backed by public guarantees. At 31 December 2020, loans guaranteed by the State totalling more than Euro 3.5 billion had been granted.
With a view to strengthening efforts to tackle Covid-19, the Parent Company launched an internal fundraising campaign called "United Beyond Expectations", which involved directors, senior management and employees. Contributions from all the members of the Group made it possible to raise about Euro 1,200,000, an amount that was then doubled by the Bank and allocated to finance various structures operating in different areas:

[21] *For details on the Covid-19 moratoria in effect at 31 December 2020, please refer to the details contained in the Explanatory Notes, Part B - Assets, Section 4.*

- 14% health care support;
- 20% support for scientific research;
- 20% educational emergency;
- 21% to the fund to support the families of health workers who died of the virus;
- 25% for the fight against new forms of poverty.

In collaboration with local organisations, the recipients of this money were defined with the aim of supporting health and personal assistance structures, as well as supporting schools by favouring the use of distance learning by disadvantaged families in the 19 Regions where BPER has a presence; ample support was also given to social solidarity shops and soup kitchens to combat new forms of poverty.
The scientific research projects selected by the Bank's General Management are developing health care solutions to Covid-19. A Trust Onlus has also been set up by BPER Trust Company, which will be able to guarantee agile intervention for other emergencies and which will start off by creating a fund for the families of nurses who have died.
Moreover, as a sign of unity, hope and courage, BPER Banca has turned on "recovery lights" that illuminate the façades of major branches, including those in Modena, Bologna, Matera, Sassari and Lanciano, with the colours of the Italian flag.
The "United Beyond Expectations" initiative came after an initial urgent allocation by the Group, at the very beginning of the emergency, involving approximately Euro 1 million of charitable donations, mainly to buy lung ventilators and other equipment for a number of healthcare facilities.
Throughout the emergency, constant contact has been maintained with the Local Authorities, the Ministry of Health and ABI in order to monitor the national situation and identify any instructions issued and actions taken by the banking system. The regular flow of information to the Directors and the Supervisory Authorities has been maintained throughout the crisis period.

Other impacts of the pandemic on the BPER Banca Group

As previously mentioned, the measures to contain and manage the effects of the lockdown and the pandemic generated additional costs for the BPER Banca Group of about Euro 15.3 million, mainly attributable to the personal protection measures adopted and the activation of remote working.
The uncertainty linked to the impact of the pandemic on the real economy also led to the application of correctives to certain valuation methods used by the BPER Banca Group, particularly related to loan classification and assessment. For a more in-depth analysis of these aspects, please refer to the Explanatory Notes, Part A.1, Section 5, para. "Accounting estimates - Overlay approach applied in the assessment of credit risk" and Part E - Section 2, 1.1 Credit risk, para. 2.3 "Methods for measuring expected losses".

3.4 Progress of de-risking activities

The strategic directions identified in the BEST WAY Plan include objectives for reducing the portfolio of non-performing loans; as already mentioned, this strategic objective, pursued with determination by the Group in recent years, has most likely been affected by the economic crisis caused by the Covid-19 pandemic. Nevertheless, the NPL portfolio was reduced significantly during 2020: thanks to the following initiatives, combined with those realized in the previous year, the target gross NPE ratio envisaged in the Plan was reached a whole year in advance. It is worth noting that the sales carried out in the first half of 2020 made it possible to exhaust the residual portion of the provision attributable to the so-called "disposal scenario", set aside at the time of First-Time Adoption (FTA) of IFRS 9. The trend in this provision in the second half of 2020 therefore had a direct impact on the Group's income statement.

The NPE Strategy of the BPER Banca Group (still for the three-year period 2019-2021) is currently being updated.

Operation "Spring" - securitisation of bad loans

On 18 June 2020, BPER Banca, Banco di Sardegna and Cassa di Risparmio di Bra formalised the bad loan securitisation known as "Operation Spring". In particular, a portfolio of bad loans, comprising 57% secured loans and 43% unsecured loans with a gross carrying amount of about Euro 1,219 million at 30 September, was assigned to Spring SPV s.r.l., a securitisation vehicle formed pursuant to Law 130/99. The loans granted by BPER Banca totalled Euro 1,022.5 million, by Banco di Sardegna Euro 135.5 million and by Cassa di Risparmio di Bra Euro 61 million.

The SPV funded the purchase by issuing three classes of notes on 18 June 2020, for a total of Euro 343.4 million, comprising:

- a senior tranche, amounting to Euro 320 million, corresponding to 26.2% of the gross carrying amount, to which the investment grade ratings were assigned by Moody's (Baa1) and Scope Ratings (BBB);
- a mezzanine tranche of Euro 20 million;
- a junior tranche of Euro 3.4 million.

The Senior, Mezzanine and Junior notes were initially subscribed by the originator banks. On 6 July 2020, Banco di Sardegna and Cassa di Risparmio di Bra sold all their Mezzanine and Junior Notes, representing 16.22% of all the notes issued by the SPV, while BPER Banca sold 78.78% of the Mezzanine and Junior Notes to a third-party investor (transactions were settled for accounting purposes on 7 July 2020 and they made it possible to derecognise the portfolio). At a consolidated level, therefore, the BPER Banca Group has retained 5% of all the Mezzanine and Junior notes issued by the special purpose vehicle, in compliance with the retention rule. The overall negative impact of the Spring operation was Euro 16.4 million (of which Euro 14.3 million attributable to the portfolio of BPER Banca and CR Bra and Euro 2.1 million to the portfolio of Banco di Sardegna).

The Senior notes were all retained in the portfolios of the originator banks. The GACS state guarantee was granted on these securities by decree of the Minister of Economy and Finance signed on 16 October 2020.

Operation "Summer" - securitisation of bad loans

On 30 December 2020, BPER Banca and its subsidiary Banco di Sardegna completed the securitisation of bad loans known as "Operation Summer". In particular, a portfolio of bad loans, made up of 49% secured loans and 51% unsecured loans with a gross carrying amount of about Euro 270.8 million at 31 July 2020, was sold to Spring SPV s.r.l., a securitisation vehicle formed pursuant to Law 130/99. These loans were made by BPER Banca for Euro 239.6 million and by Banco di Sardegna for Euro 31.2 million.

The SPV funded the purchase by issuing three classes of security on 30 December 2020, for a total of Euro 96.4 million, comprising:

- a senior tranche of Euro 85.4 million (31.5% of the gross carrying amount) to which the investment grade ratings were assigned by Moody's (Baa2) and Scope Ratings (BBB);
- a Mezzanine tranche of Euro 10 million;
- a Junior tranche of Euro 1 million.

The Senior notes were subscribed and retained by the originator banks, as well as 5% of the Mezzanine and Junior notes, while 95% of the subordinated tranches were placed with a third-party institutional investor (allowing derecognition of the portfolio), in compliance with the "Retention rule". The overall

negative economic impact of "Operation Summer" was Euro 16.6 million (of which Euro 14.9 million attributable to the portfolio of BPER Banca and Euro 1.7 million to the portfolio of Banco di Sardegna).
The procedure for requesting the GACS State guarantee has been initiated for the Senior securities.

Disposals to mutual funds that specialise in NPL recovery

During 2020, the BPER Banca Group finalized no. 3 other mass disposals of Non-performing loans (unlikely to pay loans) to mutual funds that specialise in loan recovery. Once the conditions for derecognition of the assets were ascertained, the overall gross carrying amount sold with these operations was Euro 108 million, at the same time recording shares issued by the funds at a fair value substantially aligned with the estimated net recoverable value of the positions sold (the sale had a negative impact of around Euro 2 million). The financial instruments acquired are subsequent remeasured by applying a dedicated valuation method (mark-to-model fair value) implemented by the BPER Banca Group.

"Cream 4" disposal

In December 2020, Sardaleasing carried out a mass disposal of bad loans resulting from property leases to two vehicle companies (a SPV and a LeasCo) belonging to the same institutional investor, for a total gross amount of Euro 34.8 million. The project was called "Cream 4", as it followed a sale with similar characteristics last year, which was called "Cream 3". The operation qualifies for the application of a structure adhering to the most up-to-date regulatory provisions of Law no. 130/99, which also allow the sale of property assets involved in terminated lease agreements. The proceeds of the sale were substantially in line with the estimated net recoverable value.

Other "Single name" disposals

In addition to the mass sales described above, in 2020 the Group pursued its derisking objectives through "single name" sales of impaired exposures for a total gross carrying amount of Euro 145.3 million at a price substantially in line with the net recoverable value. Of these, Euro 85.5 million were classified as bad loans (of which Euro 44.4 million deriving from terminated lease agreements), while Euro 59.8 million were classified as unlikely to pay loans.

3.5 Other significant events

New name for subsidiary company Bibanca s.p.a. (formerly Banca di Sassari s.p.a.)

The extraordinary session of the Shareholders' Meeting of this subsidiary, held on 16 April 2020, amended art. 1 of its Articles of Association to adopt the new name of Bibanca S.p.a, instead of Banca di Sassari s.p.a.
The new name and logo (chosen in collaboration with the Holden School of Turin and the Milan office of Agenzia Giugnini Associati, based in Cagliari) expresses the dual nature of the bank, which focuses on the funding and payment needs of customers, while also specialising in the tools of the digital economy. Its services are offered throughout the country.

New distribution agreement with UnipolSai

The "Assurbanca" distribution agreement between the BPER Banca Group and UnipolSai Assicurazioni for the presentation of customers of UnipolSai Agencies to BPER Banca branches went operational on 4 May 2020.

This agreement makes it possible to create new and innovative opportunities for the development of the banking business, in particular through:

- the acquisition of new retail and corporate customers for current accounts;
- the presentation of retail customers who need a mortgage, personal loan or consumer credit (also in the form of a salary-backed loan);
- the presentation of entrepreneurs who need to finance their business.

In the first 8 months, due to the Covid-19 pandemic, many of the activities planned for the full launch of this operation were not possible, given that interaction between the staff of the BPER Banca branches and the staff of the UnipolSai agencies was severely limited, as were the synergies that were meant to result from it.
However, the development objectives of the distribution model initially envisaged for 2020 have been maintained for 2021, compatibly with the evolution of the pandemic and limitations on the development of new commercial relationships.

Purchase of the entire share capital of Società Italiana Flotte Aziendali (SIFA')

On 15 October 2020, the Board of Directors of BPER Banca decided to increase its investment in SIFA', a subsidiary, by purchasing the other 49% on 30 December 2020 for Euro 8.2 million. SIFA' operates in the medium-long term car rental market and in the provision of ancillary services to Corporate customers, including fleet management. The acquisition was motivated by BPER Banca's desire to have a greater impact on the company's strategic decisions and to align the role of the Bank with its shareholding, given that it was SIFA's sole source of finance.

Rationalisation of the branch network

During 2020, the BPER Banca Group continued the process of rationalisation of the network by closing a total of 112 branches spread over 15 Regions. 14 of these branches belonged to Banco di Sardegna and 98 to BPER Banca. The rationalisations relating to BPER Banca involved 12 Regional Offices and 2 former Group Banks (CRBra and CRSaluzzo); 9 of the 98 points of sale were Limited Service Branches.
As a result, the number of Italian branches in the BPER Banca Group network decreased from 1,349 at 31 December 2019 to 1,237 at 31 December 2020.

BPER Banca VAT Group

The BPER Banca VAT Group is operational from 1 January 2019 as a VAT payer regulated by the EU legislation introduced into Italian law (Law 232 of 11 December 2016). This taxpayer replaces the individual participants, limited to the scope of application of value added tax, which otherwise retain distinct legal status from a legal, accounting and fiscal standpoint.
Arca Holding s.p.a., Arca Fondi SGR s.p.a. and Finitalia s.p.a. became members of the BPER Banca VAT Group with effect from 1 January 2020. In fact, BPER Banca had acquired control over these companies, as defined in art. 2359, para. 1.1, of the Italian Civil Code during 2019. They were able to join the VAT Group because both of the constraints envisaged in art. 70-bis of D.P.R. 633/1972 were satisfied.
Moreover, the VAT Group has been changed following the mergers by absorption into the Parent Company that took place in July 2020, which resulted in the cessation of the subsidiaries Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo.

Events of the Parent Company BPER Banca

- *Shareholders' Meeting on 22 April 2020*

The Shareholders' Meeting of BPER Banca, held in ordinary session on 22 April 2020, approved the proposal made by the Board of Directors to allocate the entire profit for 2019, Euro 385,435,201.37, to reserves. This proposal was approved by the Board of the Parent Company on 1 April 2020 in response to the strong recommendation expressed by the European Central Bank on 27 March 2020 (the effects of which were extended to 1 January 2021 on the recommendation of the European Central Bank of 27 July 2020) *"to avoid the payment of dividends and any irrevocable commitments to pay dividends for 2019 and 2020".* This recommendation reflects the consideration made by the ECB that banks should enhance their capital adequacy in support of lending to households and firms, in a context marked by the serious repercussions of the Covid-19 healthcare emergency.
This meeting, in an extraordinary session, also approved the proposal to grant the Board of Directors the power under art. 2443 of the Italian Civil Code, to be exercised by 31 March 2021, to increase the share capital against payment in one or more increments, also in several tranches, for a total maximum amount of Euro 1,000,000,000, including any share premium, by issuing ordinary shares without par value to be offered under option to those entitled to them under art. 2441, paragraph 1, of the Italian Civil Code. On 29 September 2020, the Bank's Board of Directors resolved to increase the share capital against payment, based on the aforementioned mandate; details of this operation are provided in section 3.1 of this Report.

- *Shareholders' Meeting on 6 July 2020*

The Shareholders' Meeting of BPER Banca, held in ordinary and extraordinary session on 6 July 2020, approved the following proposals:

- integration of the Board of Directors for the rest of the three-year period 2018-2020 by appointing a Director to replace the one who has resigned; Silvia Elisabetta Candini was elected to replace Roberta Marracino, who resigned for personal reasons on 3 June 2020, with effect from 30 June 2020, as detailed below;
- Approval of the merger plan for Cassa di Risparmio di Saluzzo S.p.A. and Cassa di Risparmio di Bra S.p.A. to be absorbed by BPER Banca S.p.A. and increase in capital to service the merger of Cassa di Risparmio di Bra S.p.A. with consequent amendment of art. 5 of the articles of association.

With the amendments approved by the Extraordinary Shareholders' Meeting of 22 April 2020 and 6 July 2020, the articles of association of BPER Banca were updated on 8 September 2020 and were made available, in accordance with current legislation, at the head office and filed with Borsa Italiana s.p.a. and on the Bank's website https://istituzionale.bper.it.

- *Shareholders' Meeting on 29 January 2021*

The Shareholders' Meeting of BPER Banca, which met in an extraordinary session on 29 January 2021, approved the proposal of the Board of Directors to amend articles 5, 11, 14, 17, 18, 19, 20, 22, 24, 27, 28, 29, 31, 32, 33, 34, 36, 37 and 45 of the Articles of Association; to repeal articles 21 and 23 and insert a new article 28, with consequent renumbering of the Articles of Association.
With the changes approved by the Extraordinary Shareholders' Meeting, the Articles of Association of BPER Banca were updated and, in addition to being filed with the Register of Companies and CONSOB in accordance with current legislation, they have been made available in the storage mechanism 1INFO and on the Bank's website https://istituzionale.bper.it - Governance Section - Documents.
For further details, see chapter 3.6 "Subsequent events to the 31 December 2020".

Events of the subsidiary Banco di Sardegna

- *Mandatory conversion of savings shares into preference shares*

On 30 July 2020, the Extraordinary Shareholders' Meeting of Banco di Sardegna s.p.a., as well as the Special Meeting of Savings Shareholders and the Special Meeting of Preference Shareholders, approved (i) the mandatory conversion of the savings shares of Banco di Sardegna into preference shares (the "Mandatory Conversion"), at an exchange ratio of one preference share for each savings share, and (ii) the amendment of certain rights of the preference shares (the "Amendment of Rights").

Following the Mandatory Conversion and Amendment of Rights, the holders of savings shares and preference shares of Banco di Sardegna, if entitled, were able to exercise their right of withdrawal by 10 September 2020.

The liquidation value of the preference shares (formerly savings shares) subject to withdrawal, determined pursuant to art. 2437-ter, paragraph 3, of the Italian Civil Code was set at Euro 8.83 per share and the liquidation value of the preference shares subject to withdrawal determined pursuant to art. 2437-ter, paragraph 2, of the Italian Civil Code is set at Euro 7.19 per share.

BPER Banca fully exercised its option right, as well as the pre-emption right on all the shares subject to withdrawal that remained unexercised.

The Mandatory Conversion took effect on 18 September 2020, so from that date 6,600,000 savings shares of Banco di Sardegna were removed from listing on the electronic exchange (MTA) organised and managed by Borsa Italiana s.p.a. and they were converted into an equal number of preference shares; the Amendment of Rights took effect on the same date.

Following the execution of the shareholders' resolutions of 30 July, the share capital of Banco di Sardegna, fully subscribed and paid in, of Euro 155,247,762.00, at 30 September 2020 was made up of 51,749,254 shares, without par value, of which 43,981,509 ordinary shares and 7,767,745 preference shares.

23 October 2020 marked the end of the offer period under option and pre-emption for the shareholders of Banco di Sardegna of 3,770 preference shares of Banco di Sardegna and 178,915 preference shares deriving from the conversion of savings shares, which took place on 18 September 2020, in relation to which the right of withdrawal was exercised as a result of the resolutions passed on 30 July 2020.

At the end of the offer period, the shareholders of Banco di Sardegna expressed their willingness to purchase - both as a result of the option rights and as a result of the pre-emption right pursuant to art. 2437-*quater*, third paragraph, of the Italian Civil Code - all of the shares subject to withdrawal. At the end of this transaction, BPER Banca holds 100% of the ordinary shares and 93.53% of the preference shares of Banco di Sardegna.

- *Disposal of branches in Sardegna*

On 17 July 2019, the Italian Antitrust Authority authorised the purchase of Unipol Banca s.p.a., subject to the implementation of measures to resolve certain competition issues that emerged in the investigation into the banking market in Sardinia. These measures included the sale of no. 5 branches in Sassari, Alghero, Iglesias, Nuoro and Terralba to third parties.

Having come to the end of the first phase of the disposal process without a successful outcome, the trustee appointed to sell the branches in compliance with the Authority's instructions, in the next phase proceeded to contact a large number of banking operators who could have been potential buyers, but without receiving any offers. So despite carrying out all of the appropriate procedures to sell the branches, BPER Banca found it objectively impossible to implement the measures as prescribed, which was communicated to the Authority in September 2020. Discussions are underway with the Authority in order to identify possible alternative measures in a climate of absolute collaboration and transparency, though the Authority's provision is still valid as of 31 December 2020.

3.6 Subsequent events to the 31 December 2020

Merger for absorption of Tholos with Nadia

The merger of Tholos s.p.a. with Nadia s.p.a., both real estate companies controlled by BPER Banca S.p.A., took effect for legal, accounting and tax purposes on 1 January 2021.
On 6 November 2020, the Boards of Directors of Nadia s.p.a. and Tholos s.p.a., each to the extent of their sphere of competence, approved the merger plan for the absorption of Tholos s.p.a. by Nadia s.p.a. On 18 November 2020, the Shareholders' Meetings of the two companies approved the merger.
On 15 December 2020, the deed of merger of Tholos with Nadia was signed, both real estate companies belonging to the BPER Banca Group and wholly owned respectively by Banco di Sardegna s.p.a. and by BPER Banca s.p.a.
This operation forms part of the initiatives designed to simplify the Group and increase its operational efficiency, as envisaged in the 2019-2021 Business Plan, while enhancing the value of its property assets.

Amendments to the Articles of Association relating to the appointment of the Corporate Bodies

On 29 January 2021, the Shareholders' Meeting approved draft amendments to the Articles of Association, prepared by the Board of Directors on 5 August 2020 and authorised by the European Central Bank on 15 December 2020. The purpose of the amendments was mainly to align the rules of composition of the Board with BPER Banca's transformation into a joint-stock company and the subsequent evolution of the Bank's ownership structure. In this perspective, without altering the fact that the Board had a fixed number of Directors (15), the amendments involved:

- adopting a proportional method of electing the Board of Directors based on "quotients", with the aim to give adequate representation to the various components of the shareholder structure, by encouraging the participation of minority shareholders and without contemplating limits on the maximum number of Directors eligible from each list;
- an "access to allotment" threshold designed to ensure stability and cohesion in the functioning of the administrative body, in such a way that, without prejudice to the legal requirement to ensure the possibility for the first minority list to express at least one Director, the other minority lists are able to run for seats on the Board if they have obtained votes equal to at least 5% of the voting capital;
- the introduction of limits on the connection between lists, strengthened with respect to those applicable according to the law, in order to ensure effective representation of minority shareholders on the Board of Directors, while at the same time avoiding the situation whereby minority lists connected to each other can express a majority due to the proportional system.

The reform also introduced an exemption from this proportional system if the list with the highest number of votes has obtained the favourable vote of more than half the voting capital, providing it contains a number of candidates equal to or greater than the majority of Directors to be elected. In this case, a similar rule will be applied to that foreseen in the current Articles of Association of BPER Banca with consequent extraction from the first list of a number of Directors between twelve (12) and fourteen (14) and the possibility for the second list that is not connected in any way to the first to appoint one (1) to three (3) Directors based on the ratio between the number of votes obtained by it and the number of votes obtained by the first list.

In line with the choice to leave decisions relating to the composition of the Board of Directors to the Shareholders, the faculty of the outgoing Board to present a list of candidates for the election of the Administrative Body has been done away with.
Other minor changes concerned, among other things:

- elimination of the role of Honorary Chairman;
- modification of the structure of the Executive Bodies, making the appointment of the Executive Committee optional and leaving this decision to the Board of Directors;
- reduction in the number of acting members of the Board of Statutory Auditors from 5 (five) to 3 (three).

Acquisition of the Business Unit from the Intesa Sanpaolo Group - acquisition completed

On 19 February 2021, the final contracts were signed for the purchase of a line of business consisting of three business units from the Intesa Sanpaolo Group. The transfer to BPER Banca of the business units owned by UBI Banca s.p.a. and UBISS s.c.p.a. took place for legal purposes on 22 February 2021, whereas the transfer of the business unit owned by Intesa Sanpaolo will take effect on 21 June 2021.
For further details on the composition of the Business Complex that has been acquired and on its integration with BPER Banca, please refer to what has already been presented and commented on in section 3.1 "Increase in capital of BPER Banca and acquisition of a Business Unit from the Intesa Sanpaolo Group".

3.7 European Single Supervisory Mechanism (SSM)

BPER Banca and its Banking Group are among the major European banks supervised directly by the ECB[22].
Consistent with the European SSM, BPER Banca has organised a process of constant discussion and alignment with the ECB that includes the provision of detailed periodic information flows in response to requests from the Joint Supervisory Team (JST).
On 26 November 2019, after completing the 2019 annual SREP prudential review and evaluation process[23], BPER Banca received notification from the ECB of the latest prudential requirements to be met on a consolidated basis pursuant to art. 16 of EU Regulation 1024/2013.
Based on the outcome of the SREP, the ECB decided that BPER Banca had to maintain, from 1 January 2020 and on a consolidated basis, an additional Pillar 2 requirement (according to art. 16 of EU Regulation 1024/2013 - P2R component) of 2%.
In consideration of the emergency linked to the spread of Covid-19, the ECB sent a letter dated 8 April 2020 which said that the 2% P2R requirement must be met at least 56.25% by CET1 and at least 75% by T1, which translates into the following minimum capital ratios:

- Common Equity Tier 1 Ratio: equal to 8.125%, which is the sum of the minimum requirement under art. 92 of EU Regulation 575/2013 (4.50%), the quota of P2R (1.125%) and the capital conservation buffer according to art. 129 of Directive 2013/36/EU as transposed into Italian law (2.50%);

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[22] *Regulation (EU) 1024 of 15 October 2013 assigned specific tasks to the European Central Bank (ECB) regarding the prudential supervision of banks in cooperation with the national Supervisory Authorities of the participating countries, within the Single Supervisory Mechanism (SSM). The ECB accepted the tasks assigned by this Regulation on 4 November 2014; they are performed with assistance from the Bank of Italy, in the manner envisaged in Regulation (EU) 468/2014 of 16 April 2014. The ECB works closely with the various European Authorities including the European Banking Authority (EBA), as it has to perform its functions in compliance with EBA regulations.*
[23] *As required by CONSOB Communication 6 of 15 March 2019.*

- Total Capital Ratio: equal to 12.50%, which is the sum of the minimum requirement under art. 92 of EU Regulation 575/2013 (8.00%), the additional Pillar 2 requirement according to art. 16 of EU Regulation 1024/2013 (P2R component of 2%) and the capital conservation buffer according to art. 129 of Directive 2013/36/EU as transposed into Italian law (2.50%).

In accordance with regulations for the prudential supervision of banks, failure to comply with the CET1 Ratio and Total Capital Ratio minimum requirements would lead to limitations on the distribution of earnings and the need to adopt a plan for the conservation of capital.
The ECB has confirmed that the Italian Group banks and the Luxembourg bank must constantly meet the requirements for Own Funds and liquidity on the basis of EU Regulation 575/2013, the national legislation enabling Directive 2013/36/EU, and any applicable national liquidity requirement, in compliance with Article 412 paragraph 5 of EU Regulation 575/2013.
On 27 November 2020, the ECB communicated to the BPER Banca Group that, in relation to the supervisory review and evaluation process (SREP), it will not issue any decision on the related prudential requirements in 2020. The Bank will therefore have to comply with the requirements currently in place on consolidated basis in 2021 as well.

These quantitative capital objectives were accompanied by the following qualitative requests to be sent to the ECB, mainly related to the achievement of the targets established in the Business Plan and the management of the Non-Performing Exposures (NPEs).
To be more specific, the ECB recommended that BPER Banca should implement, only for Pillar 2 regulatory purposes, a gradual adjustment of the coverage for the stock of non-performing loans outstanding at 31 March 2018 until full coverage is achieved, with the following objectives:

- achieving minimum 50% coverage of secured NPEs outstanding for more than 7 years by the end of 2020, with a linear increase towards full coverage by the end of 2025;
- achieving minimum 60% coverage of unsecured NPEs outstanding for more than 2 years by the end of 2020, with a linear increase towards full coverage by the end of 2024. These requirements were confirmed in the ECB's letter of 26 November 2019.

BPER Banca operates continuously, defining and implementing the appropriate measures to comply with the Authority's requests by the prescribed deadlines.

In addition, during 2020:

- further work was carried out to align internal models with the new definition of default, which was implemented for the purpose of classifying credit exposures from 8 October 2019, following authorisation from the Supervisory Authorities on 19 September 2019;
- a Remedy Plan was sent to the Supervisory Authority in response to the matters raised in the final decision letter received in March 2020 regarding the "Targeted Review of Internal Models" (TRIM, which commenced in 2018 and was completed in March 2019); following this:
    - a new Large Corporate PD model was released for use in the calculation of capital requirements with effect from the Regulatory Reporting dated 31 March 2020;
    - in December 2020 the remedial actions relating to the TRIMIX obligations regarding the Large Corporate PD model and the LGD model were sent to the Supervisory Authority;

- an application was sent to the Supervisory Authority in March 2020 for permission to apply the advanced AIRB methodology to the credit exposures originated by the former Unipol Banca, which was absorbed by the Parent Company in November 2019;
- the update of the BPER Banca Group's Roll Out Plan was sent to the Supervisory Authority in December 2020 and a first version of the "Return to Compliance Plan" relating to the plan for the extension of the AIRB BPER models on the former UBI/ISP loan portfolio subject to acquisition in the first half of 2021;
- as regards Resolution, considering what is indicated in the Working Priorities 2020, the “FMI contingency plan” and the update of the playbook on the bail-in were prepared and sent to the Authority. In the Recovery area, the Recovery Plan 2020 was updated and sent to the Supervisory Authority in December 2020;
- in light of the impacts deriving from the project to acquire the Business Complex from the Intesa Sanpaolo Group, the ECB communicated to BPER Banca the exclusion from the panel of banks on which the 2021 regulatory stress test will be carried out.

4. Summary of activities and strategic direction of the BPER Banca Group

4.1 Introduction

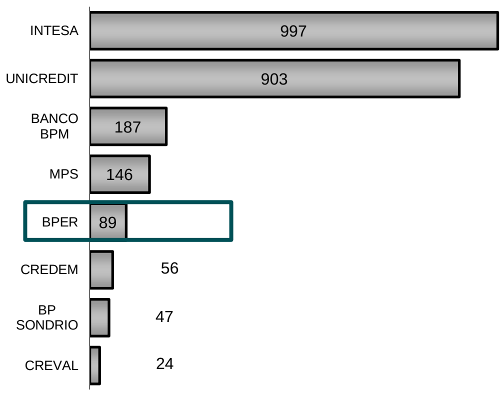
The Consolidated Non-Financial Statement ("Consolidated NFS") of the BPER Banca Group, prepared pursuant to Legislative Decree 254/16, constitutes a separate report (Sustainability Report) with respect to this Report on Operations, as provided for in art. 5, paragraph 3, letter b) of Legislative Decree 254/16, and is available on the website https://istituzionale.bper.it.
As regards the information usually provided also in the Report on Operations and dedicated to "Our employees", "Relations with the community" and the overall issue of Environmental Social Governance (ESG) and related risks, please refer to the contents of the Consolidated NFS.

4.2 Market positioning

The BPER Banca Group operates mainly in the traditional banking sector, i.e. loans and deposits and providing credit to customers, who are mainly represented by households and small and medium-sized corporates.
The Parent Company BPER Banca operates throughout the country, except for the Sardinia Region which is overseen by Banco di Sardegna. On 27 July 2020 Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a. were absorbed by BPER Banca with effect for accounting purposes from 1 January 2020.
At 31 October 2020, the Group's network consists of 1,237 branches located in 19 Italian regions, as well as a branch office in the Grand Duchy of Luxembourg, with a domestic market share, updated to 31 October 2020, of 5.19%[24].
On the Italian banking scene, the BPER Banca Group ranks fifth by total assets and loans.

Positioning with respect to competitors

Figures at 30 September 2020 (total assets in Euro/billion)



Source: Accounts of banking groups

[24] *Source: Planus Corp. analysis of Regulatory Reports.*

Within the domestic banking system, the Group's market share of loans to customers, excluding bad loans, was 2.99% at 31 October 2020, while its market share of deposits in October 2020 was 3.12%.

	Loans		Deposits	
	October 2019	October 2020	October 2019	October 2020
Producer households	4.68%	5.12%	5.72%	5.98%
Consumer households	3.13%	3.09%	2.48%	2.48%
Corporates	3.71%	3.43%	4.33%	4.13%
Total customers	3.02%	2.99%	3.07%	3.12%

The market share of assets under management was 1.76% in October 2020[25].

4.3 Relations with customers

Breakdown of the customer base

Originally with a federal structure and a vocation for providing services to households and SMEs, the BPER Banca Group now comprises two regional banks that handle 2.7 million customers.

The age distribution of the Retail customers sees the majority of customers at the mature end of the scale: more than one quarter of customers are aged over 65, while fewer than one out of every five customers is younger than 35. The breakdown of customers by gender remains essentially balanced (51% men and 49% women). The average duration of existing customer relationships continues to be high: two in three customers have been with the Group for more than ten years, and more than 30% have been account holders for more than twenty years.

For more information on customer relations, please refer to the "Consolidated Non-Financial Statement" as at 31 December 2020.

4.4 Lending policies

The macroeconomic context in the latter part of 2020 was characterised by the rising level of contagion, which meant having to resort to new containment measures, which in turn slowed down the recovery in the world economy. Also in Italy, as indeed in the Eurozone in general, after the growth achieved in the third quarter of the year (higher than initial estimates), the second wave of the pandemic caused a new contraction in GDP in the fourth quarter which can be estimated at around -3.5% according to the Bank of Italy's Economic Bulletin no. 1–2021.

The decline in business was significantly relevant in Service sectors and decidedly less so in manufacturing, but it still fuelled less favourable assessments by companies, which is the reason why it will be essential to continue giving adequate support to the productive system through the various measures provided for by government decrees, including the use of state guarantees on new liquidity operations or on consolidation facilities.

The climate of confidence among households is also not positive, not so much due to the restrictive measures, but to fear of infection, which tends to put a further brake on the consumption of services.

[25] *Source: Assogestioni.*

As the health emergency got worse, the government launched further interventions to support families and businesses in the last quarter of 2020 and, through the year-end budget, confirmed that the support measures already launched would be extended for part of 2021. Based on the hypothesis that the emergency should be resolved by this year and completely overcome by 2022, the macroeconomic projections of the Italian economy for the three-year period 2021-2023 (contained in the Economic Bulletin No. 1) foresee that there should already be growth in the spring, with GDP rising by around 3.5% on average in 2021, followed by 3.8% in 2022 and 2.3% in 2023.
In this situation of constant uncertainty, the BPER Banca Group has substantially confirmed the credit policy guidelines already approved in July to manage the riskiness of the loan portfolio and provide management strategies and asset-allocation objectives aimed at reducing negative impacts on the loan portfolio.

In pursuit of these targets and with the desire to support customers, a forward-looking approach was adopted with a view to:

- incorporating the sector and micro-sector forecasts for 2021-22;
- assessing the resilience of individual companies' finances by applying simulations of stress due to the health crisis;
- extending portfolio segmentation to the various branches of the economy in order to intercept dissimilar micro-sector dynamics within the same business areas;
- favouring the use of state measures and the "consolidation" operations provided for in the Liquidity Decree;
- introducing assessments on climate, environmental and sustainability risks, with particular reference to those sectors with greater energy absorption or characterised by a high dependence on fossil fuels;
- providing for the development of "green financing" and "technological innovation", transversal to all sectors of the economy and intended to ensure greater competitiveness for the companies concerned;
- continuing with the financing of consumer households in the various technical forms (home loans, personal loans, etc.).

4.5 IT research, development and innovation

A new organisational model for the structure entrusted to the Chief Operating Officer (COO) was activated and implemented in 2020, in line with the objectives of the 2019-2021 Business Plan. The focus is on increasing efficiency, to be achieved also by simplifying the operating machine. The new organisational model was therefore defined with objectives designed to: strengthen areas that are critical for the Bank (such as IT security); rationalise the role-mandates of management and simplify critical processes with an impact on banking operations; strengthen operational efficiency by revising the Operations and Service Desk functions; moreover, to secure the delivery machine by redesigning the IT operating model, strengthening its operational efficiency.

The adoption of the new organisational model involved establishing a new staff department reporting to the COO (the Demand, Planning and Cost Department) and two new offices (the Security Office – CISO and the Data and Analytics Office); within the ICT Systems Department, two new staff units reporting to

the Chief Information Officer (CIO) were established, responsible respectively for Governance and IT Architectures and for the management of Enterprise Applications and Service Design.
During 2020, the main planning activities involving the ICT Systems Department of BPER Banca included the following:

- IT implementations and developments in preparation for BPER Banca's absorption of CR Bra and CR Saluzzo, which took place on 27 July 2020;
- IT implementations and developments in preparation for the acquisition of the business units owned by UBI Banca, UBI Sistemi e Servizi and Intesa Sanpaolo, expected to take place in 2021; in particular, upgrading the IT infrastructure and applications in order to manage the expected increase in volumes handled by the information system;
- measures to help with the Covid-19 healthcare emergency, with the activation of IT support initiatives having a cross-functional impact on the business and IT areas, which included: evolution of the security infrastructure to support remote working, assistance with reviewing the processes and extraordinary operations implemented to tackle the emergency, development work for the activation of emergency measures with regard to lending (e.g. loan moratoria);
- continuation of the various projects in the Business Plan, which include: management of the financial covenants agreed for loans, management of Business Process Re-engineering for special loans, implementation of automation and measures to improve operational efficiency, development work on new HR projects, action related to the administration of the stress-testing platform, and forward-looking analyses and support for the internal rating system used by the Group; evolutionary development of the Interbank Corporate Banking system, covering functionality and the EVO and Bancassurance digital products; development work on the second phase of the PSD2 initiatives, continuation of initiatives linked to the multi-channel distribution model (new CRM, evolution of the BStore platform, for the Modern Branch and broad operational reporting), development work on projects for the management of big data and data mining, in order to improve the effectiveness of marketing campaigns and the targeting of customers; preparations for the activation of platforms dedicated to wealth management and work on regulatory alignment. As part of the project to activate the new ICT model, work continued on the evolution of the IT applications architecture, with the monitoring of initiatives that pursue offloading strategies and improvement of the efficiency of virtualisations;
- launch and continuation of the initiative to evolve IT strategies, updated and aligned with the context, to provide an all-encompassing view of the various strategic IT aspects relating to the activities in progress: review of the process of defining ICT strategic development work, with approval of the new IT Strategic Guidelines for 2020-21, which are aligned with the Business Plan. By working on IT processes, tools and resources, the new ICT Strategic Plan 2020-21 seeks to achieve four macro-objectives designed to increase operational resilience, focus on spending and investment, strengthen ICT governance at Group level and enhance ICT skills and capabilities via dedicated initiatives. The intermediate goals envisaged have been achieved (in particular, enhancements in the field of ICT risk management and operational safety, activation and improved efficiency of processes to oversee the management of assets and their obsolescence, revision of the ICT regulatory framework) and the continuation of the activities defined for each initiative in the plan.

4.6 Real estate sector

The BPER Banca Group's real estate sector is managed by the Parent Company's Real Estate Department. The property assets of the BPER Banca Group are managed by the competent structures of the individual legal entities, with the Parent Company's Real Estate Department doing the coordination.
It should be noted that among the projects envisaged in the 2019-2021 Business Plan - BEST WAY, one of the main initiatives was "to increase efficiency and simplification". This was to be implemented by enhancing the value of the Real Estate sector through the Real Estate Active Management (REAM) Project. From 1 December 2020, a profound review of the entire Real Estate sector was launched. This envisages, among other things, the creation of a new Business Unit called "Real Estate Active Management" reporting to the Chief Strategy Officer, which operates as:

- a *Business Unit* to manage the properties of the entire BPER Banca Group in an innovative way;
- a *Service Unit* specialising in Real Estate to support the credit and commercial chain with the aim of accelerating the introduction of a more streamlined and efficient approach to real estate management.

There is also a plan to centralise all of the *Real Estate* administrative functions in a single structure at the Parent Company and to create a single *Business Unit* dedicated to *Facility Management*, which will report directly to the Organisation Department.

At 31 December 2020, the BPER Banca Group had two real estate companies: Nadia s.p.a., a subsidiary of BPER Banca based in Modena, and Tholos s.p.a., a subsidiary of Banco di Sardegna based in Sardinia. Both companies are active in the real estate sector, managing and enhancing the value of their property assets, some of which are in use in the banking activities of the BPER Banca Group.
At 31 December 2020, the total carrying amount of the real estate owned by the Group totals Euro 921.6 million, with Euro 287.7 million of "land" and Euro 633.9 million of "buildings" (including Euro 16.4 million in property held for sale).
During 2020, the maintenance and investments already foreseen in the budget were carried out.

Significant refurbishment works that increased the value of property in Italy include:

- Modena Service Center: significant, also from the point of view of environmental sustainability, was the construction of a large solar power plant in the Center's carpark. This important project involved simultaneously redeveloping the area and redistributing the car parking spaces to ensure that it could be used to the full. More specifically, the solar park, with 2,312 panels and 855 kW of power - equal to two thirds of the daily consumption of the Bank's headquarters - is one of the largest ever built in the region. It will triple the BPER Banca Group's capacity to produce renewable energy with immediate positive impacts on the reduction of emissions and on air quality (1,618 kg of NOx no longer emitted per year). Another plant was then added at the Modena Terminal, also started up in 2020, leading to an increase in installed power of almost 1 GW in one year;
- Foggia Head Office: construction work for the new Self-Service Area and a new entrance reserved for area management on the first floor;
- L'Aquila Head Office: reconstruction of the building hit by the 2009 earthquake was completed and in the first half of 2020 work was started for the transfer of the L'Aquila head and territorial offices from the Via Strinella Management Centre to the new building;
- Cavezzo (Modena): in the first few months of 2020 the branch was transferred to the building subject to major post-earthquake renovation;

- Spilamberto Head Office, Viale Marconi 2: renovation of the building was completed with the construction of the ventilated façade and the Self-Service Area with the installation of an advanced ATM;
- Bologna Head Office: renovation work was carried out on the staircase, offices and external ramp.

On 6 November 2020, the Boards of Directors of Nadia s.p.a. and Tholos s.p.a., each to the extent of their sphere of competence, approved the merger plan for the absorption of Tholos s.p.a. by Nadia s.p.a. Please refer to the chapter "*Significant events and strategic transactions*" for further details.

5. Scope of consolidation of the BPER Banca Group

5.1 Composition of the Group as at 31 December 2020

The BPER Banca Group has been registered since 7 August 1992 at no. 5387.6 in the Register of Banking Groups referred to in art. 64 of Legislative Decree 385 of 1 September 1993.
The following is a list of the Banks and Companies included in the scope of consolidation at 31 December 2020, distinguishing between Banks and Companies consolidated on a line-by-line basis and Banks and Companies, whether or not belonging to the Group, consolidated using the equity method.
The BPER Banca Group has decided to align the scope of consolidation used for accounting purposes with that required for prudential reporting purposes. This is discussed further in Part A of the Explanatory Notes.
Details are also provided below of the percentage held by the Group[26], with further specific information provided, where necessary, by means of footnotes.

a) Group companies consolidated on a line-by-line basis:

1) BPER Banca S.p.A., based in Modena (Parent Company);
2) BPER Bank Luxembourg s.a., based in the Grand Duchy of Luxembourg (100%);
3) Banco di Sardegna s.p.a., based in Cagliari, which is held as follows: 100% of the ordinary shares and 94.162% of the preference shares, representing 99.124% of total capital;
4) Bibanca s.p.a., based in Sassari (99.070%)[27];
5) Nadia s.p.a., based in Modena, property company (100%);
6) Modena Terminal s.r.l., based in Campogalliano (Modena), the activities of which are the storage of goods, the storage and ageing of cheeses and the cold storage of meat and perishable products (100%);
7) Emilia Romagna Factor s.p.a., based in Bologna, a factoring company (99.057%);
8) Optima s.p.a. SIM, based in Modena, investment broker (100%);
9) Sardaleasing s.p.a., based in Sassari, leasing company (99.674%)[28];
10) Numera s.p.a., based in Sassari, IT company and subsidiary of Banco di Sardegna s.p.a. which holds 100% of share capital;
11) Tholos s.p.a., based in Sassari, property company and subsidiary of Banco di Sardegna s.p.a. which holds 100% of share capital;
12) BPER Credit Management s.cons.p.a., based in Modena, a consortium for the recovery and management of non-performing loans (100%)[29];
13) Arca Holding s.p.a.[30] based in Milan (57.061%);
14) Arca Fondi SGR s.p.a. based in Milan, asset management company wholly owned by Arca Holding s.p.a.;
15) Finitalia s.p.a. based in Milan, company that specialises in consumer lending (100%).

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[26] *Unless stated otherwise, percentages refer to the Parent Company.*
[27] *Held by: the Parent Company (78.548%) and Banco di Sardegna s.p.a. (20.522%).*
[28] *Held by: the Parent Company (52.741%) and Banco di Sardegna s.p.a. (46.933%).*
[29] *Held by: the Parent Company (70.000%), Banco di Sardegna s.p.a. (20.000%), Sardaleasing s.p.a. (6.000%), Bibanca s.p.a. (3.000%) and Emilia Romagna Factor s.p.a. (1.000%).*
[30] *The company is not a member of the Banking Group.*

b) Other subsidiaries measured using the equity method[31]*:*

1) Estense Covered Bond s.r.l. based in Conegliano (Treviso), a vehicle for the issue of Guaranteed Bank Bonds under art. 7 *bis* of Law 130/99 (60%);
2) BPER Trust Company s.p.a., based in Modena, with the role of trustee for trusts established by customers, as well as providing advice on trust matters (100%);
3) Estense CPT Covered Bond s.r.l., based in Conegliano (TV), a vehicle for the issue of Guaranteed Bank Bonds under art. 7 *bis* of Law 130/99 (60%).

In addition to the above companies that belong to the Banking Group, the following direct and indirect subsidiaries are included in this grouping at 31 December 2020, even though they are not members of the Banking Group since they do not contribute to its banking activities[32]:

- Italiana Valorizzazioni Immobiliari s.r.l. (100%);
- Adras s.p.a. (100%);
- SIFA'- Società Italiana Flotte Aziendali s.p.a. (100%).

c) Associated companies measured using the equity method

1) Cassa di Risparmio di Fossano s.p.a., based in Fossano (Cuneo) (23.077%);
2) Cassa di Risparmio di Savigliano s.p.a., based in Savigliano (Cuneo) (31.006%);
3) Alba Leasing s.p.a., based in Milan (33.498%);
4) CO.BA.PO. - Consorzio Banche Popolari s.con., based in Bologna (23.587%);
5) Sofipo s.a. in liquidation, based in Lugano, held by BPER Bank Luxembourg SA. which holds 30% of share capital;
6) CAT Progetto Impresa Modena s.c.r.l., based in Modena (20%);
7) Resiban s.p.a., based in Modena (20%);
8) Unione Fiduciaria s.p.a., based in Milan (24%);
9) Atriké s.p.a., based in Modena (45%);
10) Sarda Factoring s.p.a., based in Cagliari (21.484%)[33];
11) Emil-Ro Service s.r.l., based in Bologna (25%)[34];
12) Lanciano Fiera - Polo fieristico d'Abruzzo - consortium based in Lanciano (25%);
13) Immobiliare Oasi nel Parco s.r.l., based in Milan (36.80%).

The Annual General Meeting of CONFORM – Consulenza Formazione e Management s.c.a.r.l. was held on 13 February 2020. At that time, BPER Banca and Banco di Sardegna withdrew as members. This decision had previously been authorised by the Board of Directors of the two banks in order to reduce their investments in companies with activities unrelated to their core business.

On 27 July 2020, Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a. were absorbed by BPER Banca s.p.a. as resolved by the respective Boards of Directors on 26 and 27 March 2020. Details of this transaction were provided in chapter 3.2 "Business Plan of the BPER Banca Group 2019-2021: update of the financial forecasts" of this Report.
It takes the form of a "business combination between entities under common control"; it is therefore excluded from the application of IFRS 3 – Business Combinations. The merger takes effect for legal purposes from 27 July 2020; the tax and accounting effects will be backdated to 1 January 2020.

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[31] *following alignment of the scope of consolidation for accounting purposes with that used for regulatory purposes.*
[32] *following alignment of the scope of consolidation for accounting purposes with that used for regulatory purposes.*
[33] *held by: Banco di Sardegna s.p.a. (13.401%) and the Parent Company (8.083%).*
[34] *held by: the Parent Company (16.667%) and Emilia Romagna Factor s.p.a. (8.333%).*

At the end of the Directors' report on operations in the separate financial statements of the Parent Company, in the paragraph "Restatement of the Reclassified financial statements of the Parent Company as at 31 December 2019", the reclassified financial statements of the Parent Company BPER Banca at 31 December 2019 have been restated in order to show the effects of the mergers of Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a., thereby making it possible to comment "on a like-for-like basis" in the section "The BPER Banca Group's results of operations" of this Report on Group operations.

On 24 September 2020, the Board of Directors of BPER Banca approved the purchase of the investment held by SACMI (SaCMI Cooperativa Meccanici Imola) in Emilia Romagna Factor, consisting of 169,389 shares. A Memorandum of Understandings was signed to regulate the commercial relations between the parties. The deal was then completed on 21 December 2020. Following completion of the deal, BPER Banca holds 5,407,602 shares equal to 99.057% of Emilia Romagna Factor.

On 15 October 2020, the Board of Directors of BPER Banca resolved to purchase the residual 49% of SIFA', gaining full control over it at the end of December 2020. The company operates in the medium/long-term vehicle rental market and in the provision of ancillary services to Corporate customers.
Details of the transaction are provided in the chapter entitled "*Significant events and strategic transactions*" of this Report on Group operations.
Even though it is controlled by BPER Banca, at the moment SIFA' is not part of the Banking Group, a condition that is reserved for entities that are prevalently involved in some aspect of banking.

6. The BPER Banca Group's results of operations

6.1 Balance sheet aggregates

The most important consolidated balance sheet aggregates and captions at 31 December 2020 are presented below on a comparative basis with 31 December 2019, in thousands of Euro, indicating the changes between periods in absolute and percentage terms.
To ensure comparability with 2020 (only in this report on operations), the figures at 31 December 2019 have been restated with respect to those in the report on operations that accompanied the previous year's Consolidated financial statements to simulate the mergers of Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a. which took place on 27 July 2020 with effect for accounting and tax purposes from 1 January 2020, as if they had taken effect from 1 January 2019 (for further details on how the 2019 figures were restated for comparative purposes only, please refer to the disclosure at the end of the Directors' report on operations in the separate financial statements of the Parent Company, in the paragraph entitled "Restatement of the Reclassified financial statements of the Parent Company as at 31 December 2019").

For additional clarity in the presentation of the results for the year, the accounting schedules envisaged by the 6th update of Bank of Italy Circular no. 262/2005 are presented below on a reclassified basis[35]. In particular:

- Debt securities valued at amortised cost (caption 40 *"Financial assets measured at amortised cost"*) have been reclassified under caption *"Financial assets"*;
- *"Other assets"* include captions 110 *"Tax assets"* and 130 "*Other assets*";
- "*Other liabilities"* include captions 60 "*Tax liabilities"*, 80 "*Other liabilities"*, 90 "*Employee termination indemnities"* and 100 "*Provisions for risks and charges*";
- assets and liabilities classified as held for sale (asset caption 120 *"Non-current assets and disposal groups classified as held for sale"* and liability caption 70 *"Liabilities associated with assets classified as held for sale*") are presented in their original portfolios in order to report the aggregates more clearly[36].

[35] *For further details on the methods of presentation of the reclassified statements, please refer to the attachment entitled "Reconciliation between the Consolidated financial statements and the Reclassified consolidated financial statements as at 31 December 2020".*
[36] *The balance sheet data include the amounts for 5 branches held for sale. These branches belong to the group of 10 former Unipol Banca branches acquired by BPER Banca on 25 November 2019 and subsequently transferred to Banco di Sardegna. In that regard, the Italian competition authority (Autorità Garante della Concorrenza e del Mercato - AGCM) authorised the operation on condition that the 5 branches located in Sardinia would be sold subsequently. The disposal is intended to resolve the competition issue identified in the AGCM investigation, which found excessive concentration in the Municipalities of Sassari, Alghero, Iglesias, Nuoro and Terralba, which would create and/or strengthen a dominant position.*

Assets

(in thousands)

Assets	31.12.2020	31.12.2019	Change	% Change
Cash and cash equivalents	482,192	566,930	(84,738)	-14.95
Financial assets	24,661,915	18,956,906	5,705,009	30.09
a) Financial assets held for trading	279,009	270,374	8,635	3.19
b) Financial assets designated at fair value	127,368	130,955	(3,587)	-2.74
c) Other financial assets mandatorily measured at fair value	765,917	692,995	72,922	10.52
d) Financial assets measured at fair value through other comprehensive income	6,269,818	6,556,202	(286,384)	-4.37
e) Debt securities measured at amortised cost	17,219,803	11,306,380	5,913,423	52.30
- banks	4,496,133	2,744,570	1,751,563	63.82
- customers	12,723,670	8,561,810	4,161,860	48.61
Loans	62,888,784	54,353,634	8,535,150	15.70
a) Loans to banks	9,856,598	2,321,809	7,534,789	324.52
b) Loans to customers	53,005,879	52,006,038	999,841	1.92
c) Financial assets measured at fair value	26,307	25,787	520	2.02
Hedging derivatives	57,776	82,185	(24,409)	-29.70
Equity investments	225,558	225,869	(311)	-0.14
Property, plant and equipment	1,352,690	1,369,724	(17,034)	-1.24
Intangible assets	702,723	669,847	32,876	4.91
- of which: goodwill	434,758	434,758	-	-
Other assets	2,679,200	2,808,403	(129,203)	-4.60
Total assets	**93,050,838**	**79,033,498**	**14,017,340**	**17.74**

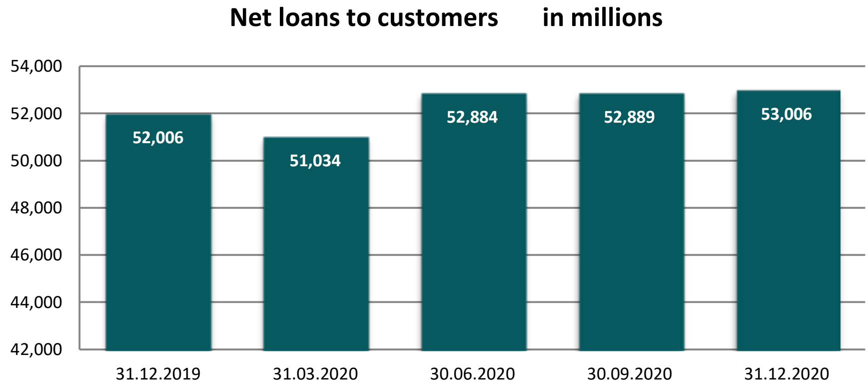
Loans to customers

Net loans to customer comprise solely loans allocated to asset captions 40 b) "Financial assets measured at amortised cost – loans to customers" and 120 "Non-current assets and disposal groups classified as held for sale".

(in thousands)

Captions	31.12.2020	31.12.2019	Change	% Change
Current accounts	3,668,713	4,841,510	(1,172,797)	-24.22
Mortgage loans	35,355,336	32,540,195	2,815,141	8.65
Repurchase Agreement	83,949	591,175	(507,226)	-85.80
Leases and factoring	3,966,030	3,833,890	132,140	3.45
Other transactions	9,931,851	10,199,268	(267,417)	-2.62
Net loans to customers	**53,005,879**	**52,006,038**	**999,841**	**1.92**

Loans to customers, net of impairment provisions, total Euro 53,005.9 million (Euro 52,006.0 million at 31 December 2019) up by Euro 999.8 million since 31 December 2019.
As regards the various technical forms, the increase particularly affects mortgage loans for Euro 2,815.1 million, while there was a decrease in current accounts for Euro 1,172.8 million and repurchase agreements for Euro 507.2 million. The increase in mortgage loans, also evident in the quarterly trends below, is also attributable to the disbursement of loans to support the economy during the health emergency, including disbursements guaranteed by the State, mainly to the retail and small business segment. For more details, please refer to the Explanatory Notes Part B - Assets, Section 4.



(in thousands)

Captions	31.12.2020	31.12.2019	Change	% Change
Gross non-performing exposures	**4,342,940**	**6,122,541**	**(1,779,601)**	**-29.07**
Bad loans	2,076,384	3,448,761	(1,372,377)	-39.79
Unlikely to pay loans	2,125,247	2,478,777	(353,530)	-14.26
Past due loans	141,309	195,003	(53,694)	-27.53
Gross performing exposures	**51,047,978**	**49,169,481**	**1,878,497**	**3.82**
Total gross exposure	**55,390,918**	**55,292,022**	**98,896**	**0.18**
Impairment provisions for non-performing exposures	**2,212,728**	**3,124,116**	**(911,388)**	**-29.17**
Bad loans	1,349,653	2,277,480	(927,827)	-40.74
Unlikely to pay loans	831,394	818,231	13,163	1.61
Past due loans	31,681	28,405	3,276	11.53
Impairment provisions for performing exposures	**172,311**	**161,868**	**10,443**	**6.45**
Total impairment provisions	**2,385,039**	**3,285,984**	**(900,945)**	**-27.42**
Net non-performing exposures	**2,130,212**	**2,998,425**	**(868,213)**	**-28.96**
Bad loans	726,731	1,171,281	(444,550)	-37.95
Unlikely to pay loans	1,293,853	1,660,546	(366,693)	-22.08
Past due loans	109,628	166,598	(56,970)	-34.20
Net performing exposures	**50,875,667**	**49,007,613**	**1,868,054**	**3.81**
Total net exposure	**53,005,879**	**52,006,038**	**999,841**	**1.92**

At 31 December 2020, the impairment provisions relating to non-performing loans amount to Euro 2,212.7 million (Euro 3,124.1 million at 31 December 2019; -29.17%), for a coverage ratio of 50.95% (51.03% at 31 December 2019), while impairment provisions relating to performing loans amount to Euro 172.3 million (Euro 161.9 million at 31 December 2019; +6.45%), leading to a coverage ratio of 0.34% (0.33% at 31 December 2019), which still reflects the high credit quality of the Group's performing portfolio, despite having been affected by the negative consequences of the Covid-19 pandemic.
Considering the direct write-offs of bad loans still outstanding, Euro 302.9 million (Euro 444.0 million at 31 December 2019), the coverage ratio increases to 54.15% (54.34% at 31 December 2019).
The total coverage ratio is therefore 4.31%, down compared with 5.94% at 31 December 2019. Based on the same considerations made above concerning direct write-offs, the total effective coverage of loans comes to 4.83% (6.69% at 31 December 2019).

(in thousands)

Loans to customers	31.12.2020		31.12.2019		%	%	%
	Gross	Net	Gross	Net	Gross change	Net change	Coverage ratio
1. BPER Banca S.p.A.	45,281,975	43,586,332	44,871,402	42,422,442	0.91	2.74	3.74
2. BPER Bank Luxembourg s.a.	214,109	205,363	248,608	240,039	-13.88	-14.45	4.08
3. Bibanca s.p.a.	1,458,406	1,436,112	1,299,644	1,282,601	12.22	11.97	1.53
4. Banco di Sardegna s.p.a.	7,630,038	7,236,104	8,052,242	7,550,322	-5.24	-4.16	5.16
Total banks	**54,584,528**	**52,463,911**	**54,471,896**	**51,495,404**	**0.21**	**1.88**	**3.89**
5. Sardaleasing s.p.a.	3,374,997	3,143,840	3,356,780	3,081,446	0.54	2.02	6.85
6. Emil-Ro Factor s.p.a.	1,066,501	1,047,843	1,090,696	1,071,966	-2.22	-2.25	1.75
7. Finitalia S.p.a.	612,956	598,349	593,824	578,396	3.22	3.45	2.38
Other companies and consolidation adjustments	(4,248,064)	(4,248,064)	(4,221,174)	(4,221,174)	0.64	0.64	-
Total of balance sheet	**55,390,918**	**53,005,879**	**55,292,022**	**52,006,038**	**0.18**	**1.92**	**4.31**

Net non-performing loans amount to Euro 2,130.2 million (-28.96% compared with 31 December 2019), equal to 4.02% of total net loans to customers (5.77% at 31 December 2019), whereas on a gross basis, the ratio between non-performing loans and loans to customers comes to 7.84% (11.07% at 31 December 2019).

More specifically, net bad loans amount to Euro 726.7 million (-37.95% compared with 31 December 2019), net unlikely to pay loans amount to Euro 1,293.9 million (-22.08% compared with 31 December 2019) and net past due loans amount to Euro 109.6 million (-34.20% compared with 31 December 2019).

The level of coverage (50.95%) is essentially in line with the figure at the end of 2019 (51.03%).

The reduction in the proportion of the non-performing portfolio to total loans, both gross and net, is affected by the sale of bad loans and unlikely to pay loans carried out in 2020 (the main ones being the "Spring" and "Summer" GACS-backed securitisations completed in the second half of the year for a gross carrying amount at the date of sale of Euro 1.3 billion). On the other hand, this derisking did not have a significant impact on the average coverage of the non-performing portfolio, which remained close to 51%.

(in thousands)

Non-performing loans	31.12.2020		31.12.2019		%	%	%
	Gross	Net	Gross	Net	Gross change	Net change	Coverage ratio
1. BPER Banca S.p.A.	2,998,231	1,424,112	4,421,953	2,095,214	-32.20	-32.03	52.50
2. BPER Bank Luxembourg s.a.	10,000	1,517	9,898	1,776	1.03	-14.58	84.83
3. Bibanca s.p.a.	50,236	32,116	35,434	23,397	41.77	37.27	36.07
4. Banco di Sardegna s.p.a.	743,536	373,831	983,153	497,976	-24.37	-24.93	49.72
Total banks	**3,802,003**	**1,831,576**	**5,450,438**	**2,618,363**	**-30.24**	**-30.05**	**51.83**
5. Sardaleasing s.p.a.	501,749	284,846	624,791	360,570	-19.69	-21.00	43.23
6. Emil-Ro Factor s.p.a.	24,446	8,392	29,109	12,494	-16.02	-32.83	65.67
7. Finitalia S.p.a.	14,742	5,398	18,203	6,998	-19.01	-22.86	63.38
Total of balance sheet	**4,342,940**	**2,130,212**	**6,122,541**	**2,998,425**	**-29.07**	**-28.96**	**50.95**
Direct write-offs of bad loans	302,916	-	444,039	-	-31.78	n.s.	100.00
Adjusted total	**4,645,856**	**2,130,212**	**6,566,580**	**2,998,425**	**-29.25**	**-28.96**	**54.15**
Non-performing loans (Total of balance sheet)/Loans to customers	**7.84%**	**4.02%**	**11.07%**	**5.77%**			

Net bad loans amount to Euro 726.7 million (-37.95% compared with 31 December 2019), representing 1.37% of total net loans to customers (2.25% at 31 December 2019), whereas on a gross basis the ratio of bad loans to total loans to customers comes to 3.75% (6.24% at 31 December 2019).
The coverage of bad loans is 65.00% (66.04% at 31 December 2019).

(in thousands)

Bad loans	31.12.2020		31.12.2019		%	%	%
	Gross	Net	Gross	Net	Gross change	Net change	Coverage ratio
1. BPER Banca S.p.A.	1,326,248	423,770	2,463,892	776,859	-46.17	-45.45	68.05
2. BPER Bank Luxembourg s.a.	6,104	-	6,004	262	1.67	-100.00	100.00
3. Bibanca s.p.a.	9,452	2,640	7,312	1,521	29.27	73.57	72.07
4. Banco di Sardegna s.p.a.	451,382	190,828	613,293	249,194	-26.40	-23.42	57.72
Total banks	**1,793,186**	**617,238**	**3,090,501**	**1,027,836**	**-41.98**	**-39.95**	**65.58**
5. Sardaleasing s.p.a.	252,486	101,120	321,987	131,725	-21.59	-23.23	59.95
6. Emil-Ro Factor s.p.a.	20,786	5,331	23,613	7,647	-11.97	-30.29	74.35
7. Finitalia S.p.a.	9,926	3,042	12,660	4,073	-21.60	-25.31	69.35
Total of balance sheet	**2,076,384**	**726,731**	**3,448,761**	**1,171,281**	**-39.79**	**-37.95**	**65.00**
Direct write-offs of bad loans	302,916	-	444,039	-	-31.78	n.s.	100.00
Adjusted total	**2,379,300**	**726,731**	**3,892,800**	**1,171,281**	**-38.88**	**-37.95**	**69.46**
Bad loans (Total of balance sheet)/Loans to customers	**3.75%**	**1.37%**	**6.24%**	**2.25%**			

Net unlikely to pay loans total Euro 1,293.9 million (-22.08% compared with 31 December 2019), representing 2.44% of total net loans to customers (3.19% at 31 December 2019), while on a gross basis the ratio is 3.84% (4.48% at 31 December 2019).
The coverage of unlikely to pay loans has increased since the end of 2019 to 39.12%, compared with 33.01% at 31 December 2019.

(in thousands)

Unlikely to pay loans	31.12.2020		31.12.2019		%	%	%
	Gross	Net	Gross	Net	Gross change	Net change	Coverage ratio
1. BPER Banca S.p.A.	1,618,665	958,838	1,846,503	1,221,479	-12.34	-21.50	40.76
2. BPER Bank Luxembourg s.a.	3,896	1,517	3,894	1,514	0.05	0.20	61.06
3. Bibanca s.p.a.	6,807	4,099	7,139	4,715	-4.65	-13.06	39.78
4. Banco di Sardegna s.p.a.	259,957	157,305	332,535	216,927	-21.83	-27.48	39.49
Total banks	**1,889,325**	**1,121,759**	**2,190,071**	**1,444,635**	**-13.73**	**-22.35**	**40.63**
5. Sardaleasing s.p.a.	230,536	168,680	281,588	210,722	-18.13	-19.95	26.83
6. Emil-Ro Factor s.p.a.	2,875	2,322	4,600	4,003	-37.50	-41.99	19.23
7. Finitalia S.p.a.	2,511	1,092	2,518	1,186	-0.28	-7.93	56.51
Total of balance sheet	**2,125,247**	**1,293,853**	**2,478,777**	**1,660,546**	**-14.26**	**-22.08**	**39.12**
Unlikely to pay loans/Loans to customers	**3.84%**	**2.44%**	**4.48%**	**3.19%**			

The net amount of past due loans of Euro 109.6 million (-34.20% compared with 31 December 2019) represents 0.21% of total net loans to customers (0.32% at 31 December 2019), whereas on a gross basis the ratio of past due loans to total loans to customers is 0.26% (0.35% at 31 December 2019). The coverage of past due loans is 22.42% (14.57% at 31 December 2019).

(in thousands)

Past due loans	31.12.2020		31.12.2019		% Gross change	% Net change	% Coverage ratio
	Gross	Net	Gross	Net			
1. BPER Banca S.p.A.	53,318	41,504	111,558	96,876	-52.21	-57.16	22.16
2. Bibanca s.p.a.	33,977	25,377	20,983	17,161	61.93	47.88	25.31
3. Banco di Sardegna s.p.a.	32,197	25,698	37,325	31,855	-13.74	-19.33	20.19
Total banks	**119,492**	**92,579**	**169,866**	**145,892**	**-29.66**	**-36.54**	**22.52**
4. Sardaleasing s.p.a.	18,727	15,046	21,216	18,123	-11.73	-16.98	19.66
5. Emil-Ro Factor s.p.a.	785	739	896	844	-12.39	-12.44	5.86
6. Finitalia S.p.a.	2,305	1,264	3,025	1,739	-23.80	-27.31	45.16
Total of balance sheet	**141,309**	**109,628**	**195,003**	**166,598**	**-27.53**	**-34.20**	**22.42**
Past due loans/Loans to customers	**0.26%**	**0.21%**	**0.35%**	**0.32%**			

The distribution of loans to non-financial corporates is analysed by ATECO category below:

(in thousands)

Distribution of loans to non-financial corporates	31.12.2020	%
A. Agriculture, forestry and fishing	791,820	1.49
B. Mining and quarrying	36,394	0.07
C. Manufacturing	7,666,955	14.48
D. Provision of electricity, gas, steam and air-conditioning	831,777	1.57
E. Provision of water, sewerage, waste management and rehabilitation	378,636	0.71
F. Construction	2,155,797	4.07
G. Wholesaling and retailing, car and motorcycle repairs	4,436,218	8.37
H. Transport and storage	1,469,699	2.77
I. Hotel and restaurants	1,490,703	2.81
J. Information and communication	324,337	0.61
L. Real estate	3,118,663	5.88
M. Professional, scientific and technical activities	777,044	1.47
N. Rentals, travel agencies, business support services	1,124,495	2.12
O. Public administration and defence, compulsory social security	2,303	-
P. Education	33,612	0.06
Q. Health and welfare	411,109	0.78
R. Arts, sport and entertainment	176,452	0.33
S. Other services	346,544	0.65
Total loans to non-financial corporates	**25,572,558**	**48.24**
Individuals and other not included above	21,898,759	41.32
Financial corporates	3,220,402	6.08
Insurance companies	54,121	0.10
Governments and other public entities	2,260,039	4.26
Total loans	**53,005,879**	**100.00**

Financial assets and equity investments

Among financial assets, debt securities measured at amortised cost are represented solely by the bond component allocated to balance sheet captions 40 a) and b) "Financial assets measured at amortised cost – loans to banks and loans to customers".

(in thousands)

Captions	31.12.2020	31.12.2019	Change	% Change
Financial assets measured at fair value through profit or loss	1,172,294	1,094,324	77,970	7.12
- of which derivatives	*140,043*	*142,662*	*(2,619)*	*-1.84*
Financial assets measured at fair value through other comprehensive income	6,269,818	6,556,202	(286,384)	-4.37
Debt securities measured at amortised cost	17,219,803	11,306,380	5,913,423	52.30
a) banks	4,496,133	2,744,570	1,751,563	63.82
b) customers	12,723,670	8,561,810	4,161,860	48.61
Total financial assets	**24,661,915**	**18,956,906**	**5,705,009**	**30.09**

Financial assets amount to Euro 24,661.9 million, including Euro 23,616.3 million of debt securities (95.76% of the total): of these, Euro 11,705.4 million relate to sovereign states and central banks (+40.91% compared with 31 December 2019, mainly due to the purchase of securities measured at amortised cost), while Euro 8,128.2 million relate to banks (+18.24% compared with 31 December 2019).
Equity instruments come to Euro 394.2 million (1.60% of the total), including Euro 248.2 million of stable equity investments classified in the FVOCI portfolio.
"Financial assets held for trading" include Euro 140.0 million of financial derivatives (-1.84% compared with 31 December 2019), consisting of interest rate and currency derivatives intermediated with customers, derivatives related to securitisation transactions, as well as forward currency transactions (intermediated with customers and/or used in management of the foreign exchange position).

(in thousands)

Financial assets	31.12.2020	31.12.2019	Change	% Change
1. BPER Banca S.p.A.	22,855,992	17,185,617	5,670,375	32.99
2. BPER Bank Luxembourg s.a.	172,037	152,243	19,794	13.00
3. Bibanca s.p.a.	11,539	10,956	583	5.32
4. Banco di Sardegna s.p.a.	1,589,462	1,578,812	10,650	0.67
Total banks	**24,629,030**	**18,927,628**	**5,701,402**	**30.12**
Other companies and consolidation adjustments	32,885	29,278	3,607	12.32
Total	**24,661,915**	**18,956,906**	**5,705,009**	**30.09**

(in thousands)

Captions	31.12.2020	31.12.2019	Change	% Change
Equity investments	225,558	225,869	(311)	-0.14
of which subsidiaries	*13,757*	*6,712*	*7,045*	*104.96*
of which associates	*211,801*	*219,157*	*(7,356)*	*-3.36*

Following the alignment of the scope of consolidation for accounting and supervisory purposes, as explained in Part A of the Explanatory Notes, this caption comprises significant investments (non-Group companies subject to significant influence, which are usually investments in which the interest held is equal to or greater than 20% of the share capital), subsidiaries that are not members of the Banking Group since they do not contribute to its banking activities, and Group companies that do not meet the requirements of art. 19 of EU Regulation 575/2013 and are measured using the equity method.
The impairment test identified a need to write down the goodwill embedded in the carrying amounts of the investments in Cassa di Risparmio di Fossano s.p.a. and Cassa di Risparmio di Savigliano s.p.a. by a total of Euro 8.2 million.
The increase in the value of equity investments in subsidiaries is due to the acquisition of 100% of SIFA' - Società Italiana Flotte Aziendali, which was completed in the fourth quarter.

Fixed assets

(in thousands)

Captions	31.12.2020	31.12.2019	Change	% Change
Intangible assets	702,723	669,847	32,876	4.91
of which goodwill	*434,758*	*434,758*	-	-

Intangible assets include amounts of goodwill for a total of Euro 434.8 million, unchanged compared with the end of the previous year, as follows:

(in thousands)

Goodwill	31.12.2020	31.12.2019
1. Group companies	**230,366**	**230,366**
1.1 Banks/Other companies	**204,392**	**204,392**
- Banco di Sardegna s.p.a.	*27,606*	*27,606*
- Emilia Romagna Factor s.p.a.	*6,768*	*6,768*
- Arca Holding s.p.a.	*170,018*	*170,018*
Total	**434,758**	**434,758**

The BPER Banca CGU includes goodwill arising from bank acquisitions and subsequent mergers by absorption, as well as goodwill relating to purchases of bank branches from the Unicredit Group.
The IAS 36 impairment tests carried out did not identify any need to write down the goodwill recognised. For more details, please refer to Part B of the Explanatory Notes.

(in thousands)

Captions	31.12.2020	31.12.2019	Change	% Change
Property, plant and equipment	1,352,690	1,369,724	(17,034)	-1.24
of which owned land and buildings	*905,262*	*916,771*	*(11,509)*	*-1.26*
of which rights of use acquired with leasing	*255,649*	*302,573*	*(46,924)*	*-15.51*

Interbank and liquidity position

(in thousands)

Net interbank position	31.12.2020	31.12.2019	Change	% Change
A. Loans to banks	**9,856,598**	**2,321,809**	**7,534,789**	**324.52**
1. Current accounts and deposits	438,253	441,913	(3,660)	-0.83
2. Other	9,418,345	1,879,896	7,538,449	401.00
B. Due to banks	**20,180,999**	**12,213,133**	**7,967,866**	**65.24**
Total (A-B)	**(10,324,401)**	**(9,891,324)**	**(433,077)**	**4.38**

The following table gives details of such operations with the ECB. Since 31 December 2019, the Group has benefited from the additional financial instruments made available by the ECB by repaying early the TLTRO-II loans expiring subsequent to 30 June 2020 and arranging two new tranches of TLTRO-III and currency loans.

(in millions)

Refinancing transactions with the European Central Bank	Capital	Maturity
1. Targeted Long Term Refinancing Operation (TLTRO-III) - BPER Banca	14,000	28.06.2023
2. Targeted Long Term Refinancing Operation (TLTRO-III) - BPER Banca	2,710	27.09.2023
3. Currency loan through auction	100	21.01.2021
4. Currency loan through auction	100	04.02.2021
5. Currency loan through auction	100	11.02.2021
Total	**17,010**	

The BPER Banca Group has therefore obtained Euro 16,710 million of TLTRO III loans, which is 100% of its participation limit.
At 31 December 2020, the Central Treasury held significant resources relating to securities eligible for refinancing at the European Central Bank of an overall amount, net of margin calls, of Euro 28,095 million (Euro 20,911 million at 31 December 2019). The available portion amounts to Euro 10,048 million (Euro 10,363 million at 31 December 2019).

(in millions)

Counterbalancing Capacity	Nominal value	Guarantee value	Restricted portion	Available portion
Eligible securities and loans		**28,095**	**18,047**	**10,048**
1 Securities as collateral for own and third-party commitments		738	738	
2 Securities subject to funding repurchase agreements		366	366	
3 Securities and loans not transferred to the Pooling Account		7,022		7,022
4 Securities and loans transferred to the Pooling Account		19,969	16,943	3,026
of which:				
Own securitisations	*1,428*	*1,314*		
Guaranteed Bank Bonds issued by the Bank	*5,680*	*4,878*		
COllateralized BAnk Assets	*5,237*	*4,161*		

As summarised in the table, at 31 December 2020, the Pooling account of the Central Treasury had significant resources relating to securities eligible for refinancing with the European Central Bank of an overall amount, net of margin calls, of Euro 19,969 million, of which Euro 16,943 million has been refinanced (Euro 3,026 million is still available).

These include:

- securities from self-securitisations of performing residential mortgage loan portfolios given to the Bank's own customers (currently Euro 1,077.4 million, eligible for refinancing up to Euro 988.9 million), using the special purpose vehicles Dedalo s.r.l. and Sardegna RE Finance s.r.l.;
- securities from self-securitisations of performing loan portfolios given to the Bank's own customers in the Small and Medium-sized Corporates segment (currently Euro 350.3 million, eligible for refinancing up to Euro 325.5 million), using the special purpose vehicle Multi Lease AS s.r.l.;
- guaranteed bank bonds issued by the Bank with a nominal value of Euro 5,680.0 million, eligible for refinancing up to Euro 4,878.0 million, using the special purpose vehicles Estense Covered Bond s.r.l. and Estense CPT Covered Bond s.r.l;
- COllateralized BAnk Assets (A.BA.CO) for Euro 5,236.5 million at 31 December 2020, of which Euro 4,161.2 million eligible for refinancing.

Liabilities and shareholders' equity

(in thousands)

Liabilities and shareholders' equity	31.12.2020	31.12.2019	Change	% Change
Due to banks	20,180,999	12,213,133	7,967,866	65.24
Direct deposits	63,140,669	58,055,608	5,085,061	8.76
a) Due to customers	58,458,479	52,220,719	6,237,760	11.94
b) Debt securities issued	4,682,190	5,834,889	(1,152,699)	-19.76
Financial liabilities held for trading	170,094	165,970	4,124	2.48
Hedging derivatives	469,240	294,114	175,126	59.54
Other liabilities	2,759,082	3,013,126	(254,044)	-8.43
Minority interests	133,935	131,662	2,273	1.73
Shareholders' equity pertaining to the Parent Company	6,196,819	5,159,885	1,036,934	20.10
a) Valuation reserves	118,105	37,750	80,355	212.86
b) Reserves	2,348,691	2,035,205	313,486	15.40
c) Equity instruments	150,000	150,000	-	-
d) Share premium reserve	1,241,197	1,002,722	238,475	23.78
e) Share capital	2,100,435	1,561,884	538,551	34.48
f) Treasury shares	(7,259)	(7,259)	-	-
g) Profit (Loss) for the year	245,650	379,583	(133,933)	-35.28
Total liabilities and shareholders' equity	**93,050,838**	**79,033,498**	**14,017,340**	**17.74**

Deposits

(in thousands)

Captions	31.12.2020	31.12.2019	Change	% Change
Current accounts and demand deposits	55,115,790	47,724,679	7,391,111	15.49
Time deposits	145,605	954,077	(808,472)	-84.74
Repurchase agreements	149,286	238,736	(89,450)	-37.47
Lease liabilities	257,071	306,037	(48,966)	-16.00
Other short-term loans	2,790,727	2,997,190	(206,463)	-6.89
Bonds	4,385,826	5,089,892	(704,066)	-13.83
- subscribed by institutional customers	3,565,484	3,278,364	287,120	8.76
- subscribed by ordinary customers	820,342	1,811,528	(991,186)	-54.72
Certificates	2,175	36,541	(34,366)	-94.05
Certificates of deposit	294,189	708,456	(414,267)	-58.47
Direct deposits from customers	**63,140,669**	**58,055,608**	**5,085,061**	**8.76**
Indirect deposits (off-balance sheet figure)	**114,775,96**	**110,623,35**	**4,152,617**	**3.75**
- of which managed	42,719,321	41,714,305	1,005,016	2.41
- of which administered	72,056,648	68,909,047	3,147,601	4.57
Customer funds under administration	**177,916,63**	**168,678,96**	**9,237,678**	**5.48**
Bank borrowing	20,180,999	12,213,133	7,967,866	65.24
Funds under administration or management	**198,097,63**	**180,892,09**	**17,205,544**	**9.51**

Direct customer deposits of Euro 63,140.7 million have increased by 8.76% since 31 December 2019.

Among the various technical forms, compared to 31 December 2019, bonds have decreased by Euro 704.1 million (-13.83%), in particular on issues subscribed by ordinary customers, as have repurchase agreements by Euro 89.5 million (-37.47%), certificates of deposit by Euro 414.3 million (-58.47%) and time deposits for Euro 808.5 million (-84.74%).
On the other hand, current accounts and demand deposits, mainly deposits belonging to retail and corporate customers, have increased significantly by Euro 7,391.1 million (+15.49%) compared to 31 December 2019. The trends within this aggregate again show for this year a propensity on the part of customers for more liquid forms of deposit.
Indirect deposits from customers, marked to market, come to Euro 114,776.0 million, up on 31 December 2019 (+3.75%). A recovery by the markets and net inflows to assets under management during the year made it possible to completely reabsorb the decline recorded at the end of the first quarter of 2020 due to market tensions caused by Covid-19.
Total funds under administration or management by the Group, including deposits from banks (Euro 20,181.0 million) amount to Euro 198,097.6 million.

(in thousands)

Direct deposits	31.12.2020	31.12.2019	Change	% Change
1. BPER Banca S.p.A.	51,471,778	47,301,234	4,170,544	8.82
2. BPER Bank Luxembourg s.a.	897,973	817,559	80,414	9.84
3. Bibanca s.p.a.	151,882	133,271	18,611	13.96
4. Banco di Sardegna s.p.a.	10,814,813	10,009,648	805,165	8.04
Total banks	**63,336,446**	**58,261,712**	**5,074,734**	**8.71**
Other companies and consolidation adjustments	(195,777)	(206,104)	10,327	-5.01
Total	**63,140,669**	**58,055,608**	**5,085,061**	**8.76**

Direct deposits include subordinated liabilities:

(in thousands)

Captions	31.12.2020	31.12.2019	Change	% Change
Non-convertible subordinated liabilities	926,443	761,177	165,266	21.71
Total subordinated liabilities	**926,443**	**761,177**	**165,266**	**21.71**

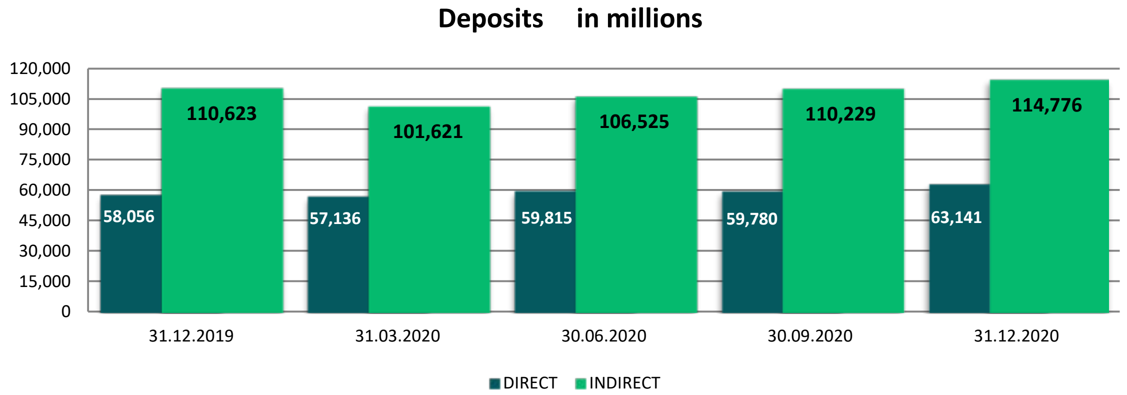
There are no convertible subordinated liabilities at 31 December 2020 (same as at 31 December 2019).

(in thousands)

Indirect deposits	31.12.2020	31.12.2019	Change	% Change
1. BPER Banca S.p.A.	92,440,968	89,355,334	3,085,634	3.45
2. BPER Bank Luxembourg s.a.	847,777	575,377	272,400	47.34
3. Banco di Sardegna s.p.a.	4,797,054	4,750,082	46,972	0.99
Total banks	**98,085,799**	**94,680,793**	**3,405,006**	**3.60**
4. Arca Fondi SGR s.p.a.	30,378,411	29,822,478	555,933	1.86
Other companies and consolidation adjustments	(13,688,241)	(13,879,919)	191,678	-1.38
Total	**114,775,969**	**110,623,352**	**4,152,617**	**3.75**

Indirect deposits from customers, marked to market, come to Euro 114,776.0 million, up by 3.75% since the end of 2019; the positive market trend in the second half of the year and the net inflows to assets under management for the year of Euro 665 million led to complete absorption of the negative effect recorded in the first quarter, caused by the Covid-19 emergency.
Assets under management amount to Euro 42,719.3 million (+2.41% from the end of 2019), of which Euro 17,444.8 million relating to Arca Holding, net of the portion of funds placed by the BPER Banca Group network (+1.80% since the end of 2019). Assets under administration amount to Euro 72,056.6 million (+4.57% since the end of 2019) which includes the assets under administration of a leading insurance company.

The graph shows the dynamics of direct and indirect deposits in the last five quarters:



Indirect deposits do not include the placement of insurance policies; the stock of customer assets invested in insurance products has increased by 7.06% since 31 December 2019.

(in thousands)

Bancassurance	31.12.2020	31.12.2019	Change	% Change
Insurance premiums portfolio	7,426,514	6,937,036	489,478	7.06
- of which life sector	*7,301,447*	*6,821,131*	*480,316*	*7.04*
- of which non-life sector	*125,067*	*115,905*	*9,162*	*7.90*

If life insurance premiums are added to the managed portion of indirect deposits, the total comes to Euro 50,020.8 million, which represents 40.97% of the overall total of indirect deposits and life insurance premiums (Euro 122,077.4 million).

Shareholders' equity

(in thousands)

Captions	31.12.2020	31.12.2019	Change	% Change
Shareholders' equity pertaining to the Parent Company	6,196,819	5,159,885	1,036,934	20.10
- of which profit (loss) for the year	*245,650*	*379,583*	*(133,933)*	*-35.28*
- of which shareholders' equity excluding profit (loss) for the year	*5,951,169*	*4,780,302*	*1,170,867*	*24.49*

(in thousands)

Captions	31.12.2020	31.12.2019	Change	% Change
Minority interests	133,935	131,662	2,273	1.73
- of which profit (loss) for the year pertaining to minority interests	*25,017*	*14,869*	*10,148*	*68.25*
- of which shareholders' equity pertaining to minority interests excluding their share of profit (loss) for the year	*108,918*	*116,793*	*(7,875)*	*-6.74*

(in thousands)

Shareholders' equity	31.12.2020	31.12.2019	Change	% Change
1. BPER Banca S.p.A.	5,771,715	4,597,385	1,174,330	25.54
2. BPER Bank Luxembourg s.a.	64,124	59,480	4,644	7.81
3. Bibanca s.p.a.	283,535	273,856	9,679	3.53
4. Banco di Sardegna s.p.a.	896,480	925,866	(29,386)	-3.17
Total banks	**7,015,854**	**5,856,587**	**1,159,267**	**19.79**
Other companies and consolidation adjustments	(955,767)	(959,492)	3,725	-0.39
Total	**6,060,087**	**4,897,095**	**1,162,992**	**23.75**
Profit (Loss) for the year pertaining to the Parent Company	245,650	379,583	(133,933)	-35.28
Profit (loss) for the year pertaining to minority interests	25,017	14,869	10,148	68.25
Total shareholders' equity	**6,330,754**	**5,291,547**	**1,039,207**	**19.64**

This figure is made up of liability captions 120, 140, 150, 160, 170, 180, 190 and 200.

Total net tangible shareholders' equity (after deducting Euro 702.7 million of intangible assets) amounts to Euro 5,628.0 million.

6.2 Own funds and capital ratios

The harmonised rules for banks and investment companies contained in Regulation (EU) 575/2013 (CRR) and in the 2013/36/EU Directive (CRD IV) approved on 26 June 2013 and published in the Official Journal of the European Union the next day, entered into force on 1 January 2014.
This regulatory framework, which is the only set of rules that seeks to harmonise prudential regulations of the Member States of the European Community, was made applicable in Italy by the Bank of Italy's Circular 285, published on 17 December 2013 and subsequent updates.
From 30 June 2015 the accounting scope of consolidation is aligned with that required for prudential reporting purposes: companies excluded are treated in the same way as the Banks and Companies subject to significant influence and consolidated under the equity method.

At 31 December 2020, the BPER Banca Group uses internal models for measuring the capital requirements relating to the credit risk represented by asset classes with exposures to both business and retail customers. The scope of the models[37] includes BPER Banca, Banco di Sardegna and Bibanca. Sardaleasing is formally included in the roll-out plan[38] and will adopt the IRB method in accordance with the planned timetable. The other BPER Banca Group companies and asset classes not included in the roll-out plan will continue to use the Standardised Approach.

Based on the results of the prudential review and assessment process carried out during 2019 with reference to the situation at 31 December 2018, the ECB established a minimum Common Equity Tier 1 coefficient of 9.0% at a consolidated level with effect from 1 January 2020.
However, in order to support supervised banks in their lending to the real economy under the extraordinary circumstances linked to the spread of the Coronavirus (Covid-19), the ECB informed BPER Banca on 8 April 2020 (with effect from 12 March 2020) about a new method for holding the additional

[37] *The ECB authorised the use of internal models on 24 June 2016.*
[38] *The roll-out plan also included Cassa di Risparmio di Saluzzo, which has now been absorbed by BPER Banca together with Cassa di Risparmio di Bra.*

Pillar 2 Requirement (of 2%), being at least 56.25% of CET1 and 75% of T1. At 31 December 2020, the Common Equity Tier 1 Ratio requirement to be met was therefore equal to 8.125% Phased in and Fully Phased.

This requirement is also influenced by the additional Countercyclical Capital Reserve requirement specified for the BPER Banca Group of 0.003% at 31 December 2020, raising the overall minimum to 8.128%.
Compared with that limit, the amount of available equity (CET 1) at 31 December 2020 can be quantified at Euro 3,207 million (about 957 bps of CET1) under the Phased In transitional arrangements, while on a Fully Loaded basis it can be estimated equal to Euro 2,577 million, or about 777 bps of CET 1.

With regard to the above, the amount of CET1 includes that portion of the profit for the year allocable to equity, totalling Euro 189.1 million, as determined in accordance with the process envisaged in art. 3 of ECB Decision (EU) 656/2015 dated 4 February 2015 and art. 26, para. 2, of Regulation (EU) 575/2013 (CRR).

The following table shows the BPER Banca Group's capital ratios and the minimum capital adequacy requirements for regulatory purposes as at 31 December 2020.

(in thousands)

	31.12.2020 Fully Loaded	31.12.2020 Phased in	31.12.2019 Fully Loaded	31.12.2019 Phased in	Change in Phased in	% Change
Common Equity Tier 1 capital - CET1	**5,272,201**	**5,928,350**	**4,154,505**	**4,828,807**	**1,099,543**	**22.77**
Additional Tier 1 capital - AT1	150,623	150,623	152,092	152,092	(1,469)	-0.97
Tier 1 capital - Tier 1	**5,422,824**	**6,078,973**	**4,306,597**	**4,980,899**	**1,098,074**	**22.05**
Tier 2 capital - Tier 2 - T2	1,014,969	1,015,256	858,760	859,015	156,241	18.19
Total Own Funds	**6,437,793**	**7,094,229**	**5,165,357**	**5,839,914**	**1,254,315**	**21.48**
Total Risk-weighted assets (RWA)	**33,161,036**	**33,501,647**	**34,579,423**	**34,721,277**	**(1,219,630)**	**-3.51**
CET1 Ratio (CET1/RWA)	**15.90%**	**17.70%**	**12.01%**	**13.91%**	**379 bps**	
Tier 1 Ratio (Tier 1/RWA)	**16.35%**	**18.15%**	**12.45%**	**14.35%**	**380 bps**	
Total Capital Ratio (Total Own Funds/RWA)	**19.41%**	**21.18%**	**14.94%**	**16.82%**	**436 bps**	
RWA/Total assets	**35.64%**	**36.00%**	**43.75%**	**43.93%**	**-793 bps**	

The capital ratios are as follows:

- Common Equity Tier 1 Ratio (Phased In) of 17.70% (13.91% at 31 December 2019). The Fully-Loaded Ratio is 15.90% (12.01% at 31 December 2019);
- Tier 1 Ratio (Phased In) of 18.15% (14.35% at 31 December 2019);
- Total Capital Ratio (Phased in) of 21.18% (16.82% at 31 December 2019).

The capital ratios are equal to 15.14% for the CET1 Ratio Phased In, 13.52% for the CET1 Ratio Fully Loaded, 15.60% for the T1 Ratio Phased In and 18.66% for the TC Ratio Phased In if we separate the impact of the increase in capital for the acquisition of Business Unit from the Intesa Sanpaolo Group.

Note that the BPER Banca Group uses different methods for calculating risk-weighted assets, which are summarised below:

- credit risk: for Group entities represented by BPER Banca, Banco di Sardegna and Bibanca, the credit risk measurement is performed using the AIRB method. For Banks and other Companies that are not in the scope of validation and for other risk assets not included in the validated models, the standardised approach has been maintained;
- credit down-rating risk: the standardised approach is used;
- market risk: the standardised approach is used for assessing market risk (general and specific risk on equities, general risk on debt securities and positioning risk for UCITS units) to determine the related individual and consolidated capital requirement;
- operational risk: operational risk measurement uses the standardised approach (TSA).

6.3 Reconciliation of consolidated profit/shareholders' equity

Consolidated net profit comprises, on shareholding basis, the sum of profits (losses) at 31 December 2020 of the following Banks and Companies of the Group included in the scope of line-by-line consolidation.

(in thousands)

Reconciliation of consolidated profit (loss) for the year	31.12.2020
BPER Banca S.p.A.	**143,853**
Other Group companies:	**112,923**
Banco di Sardegna s.p.a.	*41,137*
BPER Bank Luxembourg s.a.	*4,510*
Bibanca s.p.a.	*13,472*
Sardaleasing s.p.a.	*3,235*
Emilia Romagna Factor s.p.a.	*4,686*
Finitalia s.p.a.	*6,605*
Arca Holding s.p.a. - consolidated figure	*32,335*
Optima s.p.a. SIM	*5,486*
Nadia s.p.a.	*(392)*
BPER Credit Management s.c.p.a.	*(8)*
Modena Terminal s.r.l.	*739*
Numera s.p.a.	*1,588*
Tholos s.p.a.	*(470)*
Total profit (loss) of the Group	**256,776**
Consolidation adjustments	(11,126)
Consolidated profit (loss) for the year	**245,650**

The following statement is presented with regard to the position at 31 December 2020:

Reconciliation of the shareholders' equity and economic result of the Parent Company with the related consolidated amounts

		(in thousands)
	Increase (decrease)	
	Profit (Loss) for the year	Shareholders' equity
AMOUNTS RELATING TO THE PARENT COMPANY	**143,853**	**5,915,568**
DIFFERENCES between the shareholders' equity of companies consolidated on a line-by-line basis (net of minority interests) and the book value of the related equity investments held by their parent companies, as follows:	107,980	266,173
- consolidation adjustments	*(1,820)*	
- derecognition of intercompany profits and losses	*(3,123)*	
- share of the results of companies consolidated on a line-by-line basis after tax effect	*112,923*	
DIVIDENDS collected from companies consolidated on a line-by-line basis or stated under the equity method	(6,506)	
DIFFERENCE between the interest in shareholders' equity (including results for the year) and the book value of companies consolidated under the equity method	323	15,078
Profit (Loss) for the year and shareholders' equity of the Parent Company as at 31.12.2020	**245,650**	**6,196,819**
Profit (Loss) for the year and shareholders' equity of minority interests	25,017	133,935
Total consolidated Profit (Loss) for the year and shareholders' equity as at 31.12.2020	**270,667**	**6,330,754**
Total consolidated Profit (Loss) for the year and shareholders' equity as at 31.12.2019	**394,452**	**5,291,547**

6.4 Income statement aggregates

Summary data from the consolidated income statement at 31 December 2020 is presented below in thousands of Euro, appropriately compared with the amounts at 31 December 2019; the scope of consolidation in the two periods is not the same because of the business combinations that took place in the third quarter of 2019 involving Unipol Banca and Arca Holding.
To ensure comparability with 2020 (only in this report on operations), the figures at 31 December 2019 have been restated with respect to those in the report on operations that accompanied the previous year's Consolidated financial statements to simulate the mergers of Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a. which took place on 27 July 2020 with effect for accounting and tax purposes from 1 January 2020, as if they had taken effect from 1 January 2019 (for further details on how the 2019 figures were restated for comparative purposes only, please refer to the disclosure at the end of the Directors' report on operations in the separate financial statements of the Parent Company, in the paragraph entitled "Restatement of the Reclassified financial statements of the Parent Company as at 31 December 2019").

The accounting schedules envisaged by the 6th update of Bank of Italy Circular no. 262/2005 are presented below on a reclassified basis[39]. The principal reclassifications relate to the following captions:

- "*Net income from financial activities*" includes captions 80, 90, 100 and 110 in the standard reporting format;
- Indirect tax recoveries, allocated for accounting purposes to caption 230 *"Other operating expense/income"*, have been reclassified as a reduction in the related costs under *"Other administrative expenses"* (Euro 139,969 thousand at 31 December 2020 and Euro 137,269 thousand at 31 December 2019);
- *"Net provisions for risks and charges"* include Euro 11,452 thousand relating to the valuation of the profit-sharing clause in the contract for the acquisition of Nuova Carife, allocated to caption 230 *"Other operating charges/income"* in the accounting schedule;
- *"Net adjustments to property, plant, equipment and intangible assets"* include captions 210 and 220 in the standard reporting format;
- *"Gains (Losses) on equity investments, on disposal of investments and impairment losses on goodwill"* include captions 250, 270 and 280 in the reporting format;
- *"Contributions to the DGS, SRF and IDPF-VS funds"* has been shown separately from the specific accounting technical forms to give a better and clearer representation, as well as to leave the "Other administrative expenses" as a better reflection of the trend in the Group's operating costs. In particular, at 31 December 2020, this caption represents the component allocated for accounting purposes to administrative costs in relation to:
    - the 2020 contribution to the SRF (European Single Resolution Fund) for Euro 25,992 thousand;
    - additional contribution requested by the SRF (European Single Resolution Fund) for 2018 from Italian banks for Euro 8,149 thousand;
    - contribution to the SRF for the settlement of irrevocable commitments previously guaranteed by cash collateral for Euro 10,939 thousand;
    - the 2020 contribution to the DGS (Deposit Guarantee Schemes) for Euro 43,102 thousand.

[39] *For further details on the methods of presentation of the reclassified statements, please refer to the attachment entitled "Reconciliation between the Consolidated financial statements and the Reclassified consolidated financial statements as at 31 December 2020".*

Consolidated income statement

(in thousands)

Captions		31.12.2020	31.12.2019	Change	% Change
10+20	Net interest income	1,238,876	1,164,539	74,337	6.38
40+50	Net commission income	1,072,514	931,950	140,564	15.08
70	Dividends	18,492	14,101	4,391	31.14
80+90+100+110	Net income from financial activities	138,165	113,993	24,172	21.20
230	Other operating expense/income	40,974	51,079	(10,105)	-19.78
	Operating income	**2,509,021**	**2,275,662**	**233,359**	**10.25**
190 a)	Staff costs	(960,719)	(1,049,686)	88,967	-8.48
190 b)	Other administrative expenses	(499,040)	(451,830)	(47,210)	10.45
210+220	Net adjustments to property, plant and equipment and intangible assets	(178,518)	(185,076)	6,558	-3.54
	Operating costs	**(1,638,277)**	**(1,686,592)**	**48,315**	**-2.86**
	Net operating income	**870,744**	**589,070**	281,674	47.82
130 a)	Net impairment losses to financial assets at amortised cost	(541,877)	(447,547)	(94,330)	21.08
	- loans to customers	*(534,605)*	*(444,818)*	*(89,787)*	*20.19*
	- other financial assets	*(7,272)*	*(2,729)*	*(4,543)*	*166.47*
130 b)	Net impairment losses to financial assets at fair value	(362)	1,256	(1,618)	-128.82
140	Gains (Losses) from contractual modifications without derecognition	(2,141)	(2,979)	838	-28.13
	Net impairment losses for credit risk	**(544,380)**	**(449,270)**	**(95,110)**	**21.17**
200	Net provisions for risks and charges	(32,481)	(12,193)	(20,288)	166.39
###	Contributions to SRF, DGS, IDPF - VS	(88,182)	(60,681)	(27,501)	45.32
250+270+280	Gains (Losses) on equity investments, on disposal of investments and impairment losses on goodwill	(2,079)	6,611	(8,690)	-131.45
275	Gain on a bargain purchase	-	343,361	(343,361)	-100.00
290	**Profit (Loss) from current operations before tax**	**203,622**	**416,898**	**(213,276)**	**-51.16**
300	Income taxes on current operations for the year	67,045	(22,446)	89,491	-398.69
330	**Profit (Loss) for the year**	**270,667**	**394,452**	**(123,785)**	**-31.38**
340	Profit (Loss) for the year pertaining to minority interests	(25,017)	(14,869)	(10,148)	68.25
350	**Profit (Loss) for the year pertaining to the Parent Company**	**245,650**	**379,583**	**(133,933)**	**-35.28**

Consolidated income statement by quarter as at 31 December 2020

(in thousands)

Captions	1st quarter 2020	2nd quarter 2020	3rd quarter 2020	4th quarter 2020	1st quarter 2019	2nd quarter 2019	3rd quarter 2019	4th quarter 2019
Net interest income	307,971	310,280	325,492	295,133	273,896	272,288	315,909	302,446
Net commission income	267,595	245,102	262,127	297,690	192,544	195,210	268,316	275,880
Dividends	809	12,034	4,550	1,099	539	9,687	3,424	451
Net income from financial activities	5,642	46,832	43,115	42,576	22,062	5,403	49,721	36,807
Other operating expense/income	14,607	9,724	7,638	9,005	6,337	8,923	19,511	16,308
Operating income	**596,624**	**623,972**	**642,922**	**645,503**	**495,378**	**491,511**	**656,881**	**631,892**
Staff costs	(255,576)	(249,088)	(216,638)	(239,417)	(213,631)	(213,109)	(230,936)	(392,010)
Other administrative expenses	(114,546)	(116,917)	(120,137)	(147,440)	(90,930)	(96,204)	(118,223)	(146,473)
Net adjustments to property, plant and equipment and intangible assets	(40,957)	(44,051)	(42,995)	(50,515)	(33,172)	(35,380)	(40,189)	(76,335)
Operating costs	**(411,079)**	**(410,056)**	**(379,770)**	**(437,372)**	**(337,733)**	**(344,693)**	**(389,348)**	**(614,818)**
Net operating income	**185,545**	**213,916**	**263,152**	**208,131**	**157,645**	**146,818**	**267,533**	**17,074**
Net impairment losses to financial assets at amortised cost	(139,553)	(157,769)	(107,870)	(136,685)	(72,485)	(74,551)	(160,985)	(139,526)
- loans to customers	*(139,991)*	*(153,846)*	*(106,524)*	*(134,244)*	*(71,328)*	*(74,632)*	*(159,409)*	*(139,449)*
- other financial assets	*438*	*(3,923)*	*(1,346)*	*(2,441)*	*(1,157)*	*81*	*(1,576)*	*(77)*
Net impairment losses to financial assets at fair value	105	(963)	363	133	421	(392)	553	674
Gains (Losses) from contractual modifications without derecognition	(195)	(247)	(182)	(1,517)	(891)	(76)	(651)	(1,361)
Net impairment losses for credit risk	**(139,643)**	**(158,979)**	**(107,689)**	**(138,069)**	**(72,955)**	**(75,019)**	**(161,083)**	**(140,213)**
Net provisions for risks and charges	2,276	(17,177)	(15,109)	(2,471)	(1,995)	(9,698)	2,491	(2,991)
Contributions to SRF, DGS, IDPF – VS	(31,978)	(2,185)	(30,490)	(23,529)	(23,184)	(9,459)	(25,771)	(2,267)
Gains (Losses) on equity investments, on disposal of investments and impairment losses on goodwill	321	(5,481)	1,140	1,941	3,809	4,586	415	(2,199)
Gain on a bargain purchase	-	-	-	-	-	-	353,805	(10,444)
Profit (Loss) from current operations before tax	**16,521**	**30,094**	**111,004**	**46,003**	**63,320**	**57,228**	**437,390**	**(141,040)**
Income taxes on current operations for the year	(6,119)	75,066	(6,585)	4,683	(12,266)	987	(8,666)	(2,501)
Profit (Loss) for the year	**10,402**	**105,160**	**104,419**	**50,686**	**51,054**	**58,215**	**428,724**	**(143,541)**
Profit (Loss) for the year pertaining to minority interests	(4,320)	(6,563)	(8,479)	(5,655)	(3,083)	(5,694)	(6,291)	199
Profit (Loss) for the year pertaining to the Parent Company	**6,082**	**98,597**	**95,940**	**45,031**	**47,971**	**52,521**	**422,433**	**(143,342)**

Net interest income

Net interest income amounts to Euro 1,238.9 million, which is 6.38% higher than the comparative figure at 31 December 2019 (Euro 1,164.5 million) due to the increase in the size of the Group as a result of the business combinations carried out in the second half of the previous year.

The result also includes the interest (at negative rates) from participating in the TLTRO II refinancing operations (repaid on 24 June 2020) for Euro 18.9 million and TLTRO III for Euro 80.8 million;

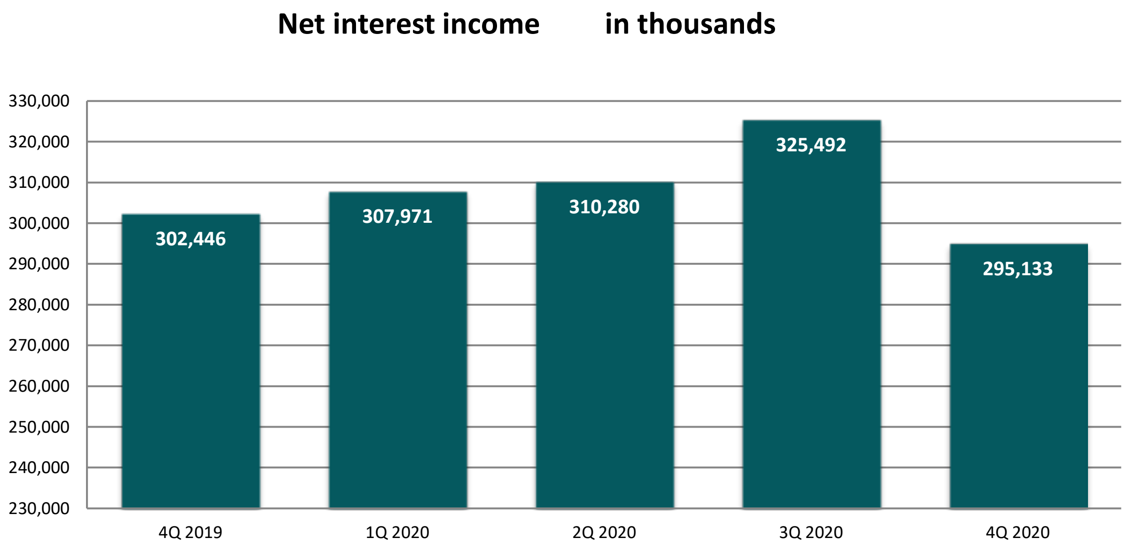
In addition to recalling the dynamics of loans and interest-bearing deposits, already highlighted in paragraph 6.1 *"Balance sheet aggregates"* (which feature a general increase in volumes), an indication of the trend in average lending/funding rates is given below for a better understanding of the trend in net interest income:

- the average interest rate for the year on the Group's loans to customers was 2.23%, a decrease of about 8 bps compared with the previous year's average rate (2.31%);
- the average cost of direct deposits from customers was 0.27%, which is down by about 7 bps (0.34%) compared to 2019;
- total interest-bearing liabilities involved a cost of 0.10%, a decrease of 19 bps compared with 0.29% the previous year;
- the spread between lending and borrowing rates of Group relationships with customers came to 1.96% (the same as at 31 December 2019);
- the overall gap between the average annual rate of return on interest-bearing assets and the average annual cost of interest-bearing liabilities amounts to 1.55%, down on last year (it was 1.59% at 31 December 2019).

(in thousands)

Net interest income	31.12.2020	31.12.2019	Change	% Change
1. BPER Banca S.p.A.	901,513	819,466	82,047	10.01
2. BPER Bank Luxembourg s.a.	5,040	4,833	207	4.28
3. Bibanca s.p.a.	48,262	43,467	4,795	11.03
4. Banco di Sardegna s.p.a.	191,233	206,534	(15,301)	-7.41
Total banks	**1,146,048**	**1,074,300**	**71,748**	**6.68**
Other companies and consolidation adjustments	92,828	90,239	2,589	2.87
Total	**1,238,876**	**1,164,539**	**74,337**	**6.38**

Compared with the quarterly trend of net interest income, shown in the following chart, there was a decrease in the last quarter mainly as a consequence of the reclassification for accounting purposes of Euro 23.1 million of income, previously included in interest income but now considered having commissional nature. For the rest of the change, there are higher charges for the liquidity deposited with the ECB and a decrease in the average remuneration obtained from assets due to the increase in volumes in technical forms of investment that typically have lower rates of return; this decrease was not fully offset by the reduction in the cost of interest-earning deposits.



Net commission income

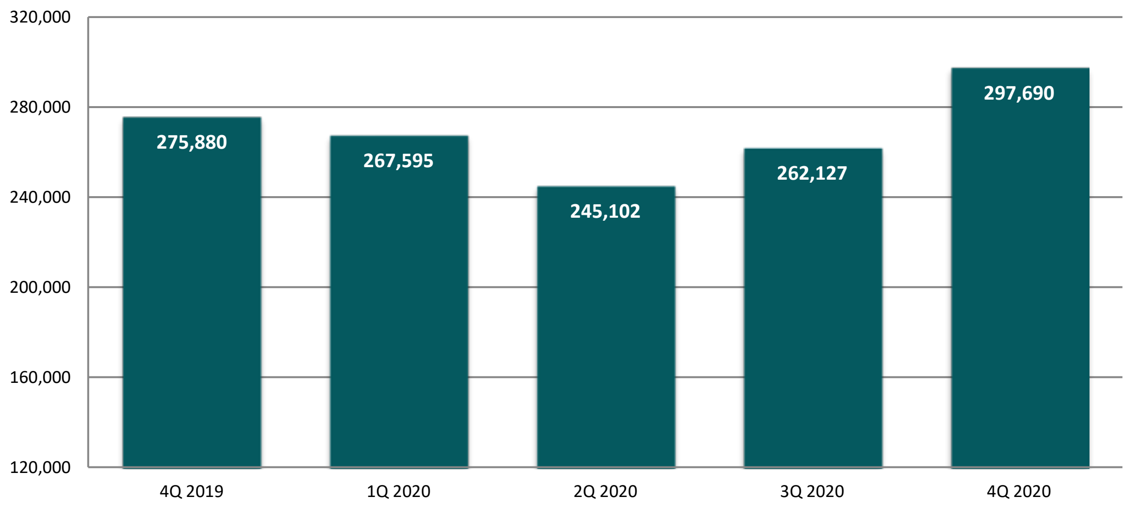
Net commission income, Euro 1,072.5 million, have increased compared with 31 December 2019 (Euro 932.0 million, +15.08%).

(in thousands)

Net commission income	31.12.2020	31.12.2019	Change	% Change
Trading in currency/financial instruments	6,801	9,222	(2,421)	-26.25
Indirect deposits and insurance policies	470,323	374,588	95,735	25.56
Credit cards, collections and payments	161,094	162,150	(1,056)	-0.65
Loans and guarantees	401,342	346,082	55,260	15.97
Other commissions	32,954	39,908	(6,954)	-17.43
Total net commission income	**1,072,514**	**931,950**	**140,564**	**15.08**

Compared with the quarterly trend of Net commission income shown in the chart, the growth in the last quarter compared with the previous one comes to 13.57%, mainly because of the reclassification of Euro 23.1 million of income explained above. In the fourth quarter, compared with the previous one, it is worth noting the positive performance of the Bancassurance segments (+33.62%), loans and guarantees (+27.93%) and those relating to cards, collections and payments (+4.58%).

Net commission income in thousands



Net income from financial activities

Net income from financial activities (including dividends of Euro 18.5 million) is positive and equal to Euro 156.7 million (Euro 128.1 million at 31 December 2019), positively influenced by the proceeds of disposal of debt securities on the market.

The result was determined by:

- gains on the disposal of financial assets for Euro 123.0 million;
- losses on the sale of loans for Euro 21.4 million, of which Euro 16.6 million referring to the "Summer" securitisation;
- net capital gains from the valuation of financial assets Euro 32.0 million, of which Euro 20.6 million referring to a single equity instrument held in portfolio;
- other positive elements for Euro 4.6 million.

(in thousands)

Net income from financial activities (including dividends)	31.12.2020	31.12.2019	Change	% Change
Dividends	18,492	14,101	4,391	31.14
Gain from disposal of financial assets and loans	101,584	68,638	32,946	48.00
Capital gains on financial assets	56,410	66,411	(10,001)	-15.06
Capital losses on financial assets	(24,435)	(29,710)	5,275	-17.75
Other revenues (losses)	4,606	8,654	(4,048)	-46.78
Total	**156,657**	**128,094**	**28,563**	**22.30**

Operating income

Considering Other operating expense/income of Euro 41.0 million (Euro 51.1 million at 31 December 2019), Operating income came to Euro 2,509.0 million (+10.25% on the previous year).

Operating costs

Operating costs amount to Euro 1,638.3 million, down 2.86% compared with 31 December 2019. The main components of operating costs are as follows.

Staff costs, Euro 960.7 million, are down compared with the previous year (-8.48%), which was affected by the provision for leaving incentives and the Solidarity Fund for a total of Euro 136 million.

Other administrative expenses, stated net of indirect taxes recovered (Euro 140.0 million) and the contributions paid to the Resolution fund (Euro 88.2 million), amount to Euro 499.0 million, 10.45% up on the previous year. This item is affected by the increase in size, as well as by non-recurring expenses incurred on the extraordinary transactions that involved the BPER Banca Group during the year, such as the acquisition of the business complex from the Intesa Sanpaolo Group.
Performance was also influenced by the Covid-19 healthcare emergency: non-recurring expenses were incurred for the purchase of hygiene-sanitary materials, licences and technical support for remote working, advertising and publicity, gifts and donations, and building maintenance; on the other hand, some savings were made with respect to budget, due to the suspension or reduction of activities as a result of the ongoing emergency (such as travel, training courses and cash-in-transit services).

Net adjustments to property, plant and equipment and intangible assets amount to Euro 178.5 million (Euro 185.1 million in 2019), including Euro 10.6 million of impairment adjustments to assets owned and inventories (Euro 25.7 million at 31 December 2019). The depreciation of right-of-use assets being leased amounts to Euro 59.4 million (Euro 55.3 million at 31 December 2019), while Euro 1.9 million of impairment adjustments were made for contracts terminated early (Euro 2,8 million at 31 December 2019).

(in thousands)

Operating costs	31.12.2020	31.12.2019	Change	% Change
1. BPER Banca S.p.A.	1,294,025	1,293,909	116	0.01
2. BPER Bank Luxembourg s.a.	5,068	4,342	726	16.72
3. Bibanca s.p.a.	35,394	35,370	24	0.07
4. Banco di Sardegna s.p.a.	247,120	307,998	(60,878)	-19.77
Total banks	**1,581,607**	**1,641,619**	**(60,012)**	**-3.66**
Other companies and consolidation adjustments	56,670	44,973	11,697	26.01
Total	**1,638,277**	**1,686,592**	**(48,315)**	**-2.86**

The Net operating income therefore came to Euro 870.7 million (Euro 589.1 million at 31 December 2019).

Net impairment losses for credit risk

Net impairment losses for credit risk amount to Euro 544.4 million (Euro 449.3 million at 31 December 2019), including a precautionary estimate of the foreseeable effects on credit of the macroeconomic scenario following the pandemic.
More specifically, the net impaiment losses on financial assets measured at amortised cost came to Euro 541.9 million (Euro 447.5 million at 31 December 2019), while debt securities measured at fair value through other comprehensive income were adjusted by a net amount of Euro 0.4 million.

Net impairment losses for credit risk on loans to customers are analysed below:

(in thousands)

Net impairment losses for credit risk on loans to customers	31.12.2020	31.12.2019	Change	% Change
1. BPER Banca S.p.A.	436,240	299,325	136,915	45.74
2. BPER Bank Luxembourg s.a.	177	1,049	(872)	-83.13
3. Bibanca s.p.a.	6,015	6,281	(266)	-4.23
4. Banco di Sardegna s.p.a.	53,335	84,699	(31,364)	-37.03
Total banks	**495,767**	**391,354**	**104,413**	**26.68**
Other companies and consolidation adjustments	38,838	53,464	(14,626)	-27.36
Total	**534,605**	**444,818**	**89,787**	**20.19**

The overall cost of credit at 31 December 2020, calculated only on loans to customers, amounted to 101 bps (86 bps at 31 December 2019) including, as we said, a number of interventions made because of the uncertainty caused by the pandemic, such as: i) a top-down "corrective", essentially to include in the ECL model adopted by the Group specific monitoring of the probable deterioration in credit quality expected when government measures to support the economy would be phased out, ii) some refinements (partly "expert") of the Stage 2 classification model of positions that showed a significant increase in credit risk (SICR), and iii) updating the recovery times for non-performing exposures[40].

Net provisions for risks and charges

Net provisions for risks and charges come to Euro 32.5 million (Euro 12.2 million at 31 December 2019). Similarly to what was said about "*Net impairment losses on loans*", this caption includes the increase in ECL on endorsement credits and commitments to disburse funds, accounted for in order to reflect the deterioration in the macroeconomic context caused by the Covid-19 health emergency; it includes provisions for indemnities on guarantees given in securitisation transactions, as well as write-backs which lead to net adjustments of Euro 6.3 million (at 31 December 2019 there were Euro 9 million of net writebacks).

Other provisions for risks and charges amount to Euro 26.2 million (Euro 21.2 million at 31 December 2019). These mainly reflect adjustment of the "profit sharing" element payable to the National Resolution Fund under the agreements for the acquisition of Nuova Carife (Euro 11.5 million payable to the seller following the recovery of prior-year tax losses), in addition to other provisions relating to legal risks on disputes.

Contributions to the SRF, DGS and IDPF-VS Funds

The total amount of contributions paid during the year was Euro 88.2 million (Euro 60.7 million at 31 December 2019). This amount comprises the ordinary contribution for 2020 paid to the SRF (European Single Resolution Fund), equal to Euro 26 million (Euro 23 million at 31 December 2019), the additional contribution requested by the SRF for 2018, Euro 8.1 million (Euro 9.6 million at 31 December 2019), the ordinary contribution paid to the DGS (Deposit Guarantee Scheme), Euro 43.2 million (Euro 28.1 million at 31 December 2019) and the settlement of irrevocable commitments previously guaranteed by cash collateral to the SRF for a total of Euro 10.9 million.

[40] *For more details about the interventions carried out on the valuation criteria for Loans to customers, please refer to the Explanatory Notes, Part A.1, Section 5, para."Accounting estimates - Overlay approach applied in the assessment of credit risk ".*

Gains (Losses) on equity investments, on disposal of investments and impairment losses on goodwill

The net loss of Euro 2.1 million (gain of Euro 6.6 million at 31 December 2019) deriving principally from impairment losses on the goodwill included in the equity investments in Cassa di Risparmio di Fossano (Euro 6.8 million) and Cassa di Risparmio di Savigliano (Euro 1.3 million), already accounted for in the first half of the year. The measurement at equity of the investments in companies subject to significant influence resulted in a gain of Euro 5.3 million.

Net profit

The profit from current operations before tax amounts to Euro 203.6 million (Euro 416.9 million at 31 December 2019, which included the badwill of Euro 343.4 million deriving from the business combination with Unipol Banca).

Income taxes for the year, Euro 67.0 million, were determined by applying the regulations in force at 31 December 2020 and, therefore, considering the changes introduced by the "Cura Italia"[41] Decree, in particular, the transformation into tax credits of the deferred tax assets on tax losses and excess ACE on the disposal of non-performing exposures. The regulation also envisages the transformation of deferred tax assets not already recognised. For the purposes of this transformation, tax losses and excess ACE can be considered up to a maximum of 20% of the nominal value of the loans sold. The positive impact of this transformation on the income statement was Euro 53.0 million.

During the year, the Parent Company also did the "step-up" pursuant to Law Decree 185/2008 of the goodwill allocated to the Arca Holding CGU and the intangible assets deriving from the fair value valuation of the client relationship of Unipol Banca. This had a positive impact on the income statement of Euro 33.9 million, recognised on the occasion of the respective Purchase Price Allocations which were definitively presented in the consolidated financial statements as at 31 December 2019.

No deferred tax assets have been recognised on temporary differences due to reverse after the five-year time horizon considered for the probability test (2021-2025). As a result of the test, deferred tax assets on tax losses were recognised for the portion transferred to the tax consolidation.

The profit for the year after tax is Euro 270.7 million (Euro 394.5 million at 31 December 2019). The profit pertaining to minority interests is Euro 25.0 million (Euro 14.9 million at 31 December 2019).

The profit pertaining to the Parent Company amounts to Euro 245.7 million (Euro 379.6 million at 31 December 2019).

(in thousands)

Net profit	31.12.2020	31.12.2019	Change	% Change
1. BPER Banca S.p.A.	143,853	386,652	(242,799)	-62.80
2. BPER Bank Luxembourg s.a.	4,510	5,100	(590)	-11.57
3. Bibanca s.p.a.	13,623	9,138	4,485	49.08
4. Banco di Sardegna s.p.a.	41,501	(29,596)	71,097	-240.23
Total banks	**203,487**	**371,294**	**(167,807)**	**-45.20**
Other companies and consolidation adjustments	42,163	8,289	33,874	408.66
Total	**245,650**	**379,583**	**(133,933)**	**-35.28**

[41] *Decree 18 of 17 March 2020.*

6.5 Employees

Employees	31.12.2020	31.12.2019	Change
1. BPER Banca S.p.A.	10,355	10,748	(393)
2. BPER Bank Luxembourg s.a.	24	22	2
3. Bibanca s.p.a.	138	144	(6)
4. Banco di Sardegna s.p.a.	2,231	2,468	(237)
Total banks	**12,748**	**13,382**	**(634)**
Subsidiaries consolidated line-by-line	429	423	6
Total of balance sheet	**13,177**	**13,805**	**(628)**

The figures refer to the point number of employees at 31 December 2020.
Group employment at 31 December 2020 includes 525 persons seconded within the Group (667 at 31 December 2019).

6.6 Geographical organisation

Branches	31.12.2020	31.12.2019	Change
1. BPER Banca S.p.A.	908	1,006	(98)
2. Banco di Sardegna s.p.a.	329	343	(14)
Total Italian banks	**1,237**	**1,349**	**(112)**
3. BPER Bank Luxembourg s.a.	1	1	-
Total	**1,238**	**1,350**	**(112)**

The number of BPER Banca branches at 31 December 2020 includes the branches of Cassa di Risparmio di Bra s.p.a. (26) and Cassa di Risparmio di Saluzzo s.p.a. (22), which were absorbed by the Parent Company on 27 July 2020.
Please refer to the "Other attachments" of these consolidated financial statements as at 31 December 2020 for details of the Group's local presence throughout the country.

7. Principal risks and uncertainties

7.1 Identification of risks, the uncertainties that characterise them and the approach to manage them

BPER Banca Group establishes its risk governance, assumption, control and monitoring policies on the basis of guidelines approved by the Parent Company's Board of Directors and that are applicable to all organisational units of the Parent Company and other Group companies; these regulate the management and control process, which is designed to cope with the risks to which they are exposed, as well as the roles of the bodies and functions involved.
To ensure the achievement of strategic and operational objectives, BPER Banca Group considers its Internal Control System (governed by "Group Guidelines - Internal Control System", in line with Bank of Italy Circular 285 of 17 December 2013 – Supervisory instructions for banks and subsequent updates) to be a fundamental element of the risk governance system and as a means of ensuring that the business is run in line with its corporate strategies and policies, as well as in compliance with concepts of sound and prudent management.
This system is organised to improve profitability, protect its financial strength, ensure compliance with internal and external regulations and codes of conduct, promote transparency towards the market by managing the risks taken on by the Group and, more in general, to ensure that the business is run in accordance with the Group's strategies and declared risk appetite. BPER Group's internal control system involves corporate bodies, control functions and line structures and is designed to take account of the business specifics of each Group Company and to comply with the principles established by the Supervisory Authorities, being:

- proportionality in the application of rules according to size and operations;
- gradual and progressive transfer to more advanced methodologies and processes for measuring risk and the capital that is available as a result;
- unity in the definition of the approaches used by the various functions foreseen in the Group's organisational system;
- economy: containment of costs for intermediaries.

The BPER Banca Group uses the Risk Appetite Framework (RAF) as the instrument to monitor the risk profile, which the Group deemed acceptable for implementation of the business strategies adopted by the Group (for further details, see Part E - Information on risks and related hedging policies of the Explanatory Notes).
To ensure the implementation and in compliance with prudential supervisory regulations (Bank of Italy Circular 285 of 17 December 2013 and subsequent updates), the BPER Banca Group performs an accurate identification of the risks to which it is or could be exposed by taking account of its operations and reference markets. For the BPER Group this activity is the result of an integrated and continuous recognition process carried out at a centralised level by the Parent Company. The risk identification process involves periodic updating of the "Map of Group Risks", which illustrates the relative position of the Bank with respect to Pillar 1 and 2 risks[42], with a current and forward-looking perspective, in order to foresee any risks capable of impacting on the operations of the Group or of the respective legal entities, recognising that this document has value as a management and risk governance tool. The purpose of this update is to define the scope of significant risks/entities through the application of appropriate criteria

[42] *See Bank of Italy Circular no. 285/13, Title III - Chapter 1 - Attachment D.*

of applicability and materiality, which make it possible to differentiate between risks that are material or immaterial for the Group.
The scope of "material risks" is made up of all First Pillar risks, mandatory regulatory risks and Second Pillar risks (credit, counterparty, market, operational, liquidity, interest rate in the banking book, strategic/business, reputation, equity investments).
They are divided into risk sub-categories, based on the specific nature of the main risk, the reference regulations and/or the specific operations of the Group, with the aim of pursuing a complete monitoring of the various types of risk, also in line with national and international regulatory developments[43].
During the updating of the 2020 Risk Map, the process of identification and analysis of Environmental Social Governance (ESG) risk factors and related components within the already existing risk verticals was refined. The approach of considering ESG risk as a whole was also confirmed within the category of Operational Risks, integrating its definition to better define the scope of reference.
The evolutionary maintenance of the Group's Risk Appetite Framework also paid particular attention to the areas connected to ESG risk factors.
During the course of 2021, the analysis of the impact of ESG risk factors on the existing risk categories is expected to continue, based on the legislation in force from time to time[44]; once completed, it will then be possible to consider integrating these factors into the monitoring and reporting of the overall risk of the Group, in order to contribute in a more pragmatic way to the decision-making process related to ESG issues.

Identification of these risks also considered their inherent uncertainties, understood as possible events whose potential impact is not quantifiable at present.
More specifically, as a key factor in the determining the outlook for Group operations, the Italian and global macroeconomic situation is currently characterised by significant uncertainties in relation, in particular, to the spread of the Covid-19 pandemic and its consequent considerable adverse impact on the economy and the financial markets.
Resolution of the major uncertainties and fears about the economic and social repercussions of the healthcare emergency will depend, in part, on the success of the monetary and fiscal measures adopted by the EU authorities and the governments of member States in support of the worst affected sectors and operators.
If the spread of the virus cannot be halted soon and the measures to contain its adverse economic effects do not achieve the desired results, the general economic consequences and the specific impact on the economic and financial position of the BPER Banca Group could be significant. In particular, in this context, the economic slowdown, the elimination of support measures already introduced (principally in the form of moratoria on loan repayments) might significantly increase the levels of credit risk and market risk faced by the Group.
The macroeconomic framework could be influenced by: (i) new international trade policies; (ii) global geopolitical risks; (iii) residual uncertainty about Brexit: the divorce between London and Brussels, effective from midnight on 31 December 2020, will be governed by an agreement reached only in extremis by the two counterparties, and which will now have to be ratified by their respective parliaments; and (iv) the volatile trend in the price of oil.
Alongside the international macroeconomic situation, there are also specific risks associated with the current economic, financial and political conditions in Italy.

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[43] *EBA Guidelines on SREP, ECB guidelines on ICAAP and ILAAP.*
[44] *ECB Guide on climate-related and environmental risk.*

In line with the RAF defined by the Parent Company, for each risk identified as significant, the Board of Directors of BPER Banca uses a special "governance policy" to set the risk objectives, the related risk exposure and operational limits and the process of risk assumption and management.

In line with the relevant regulations, the Corporate Bodies have a central role in the process of risk governance, providing for certain responsibilities with regard to the design, implementation, evaluation and external communication, as part of the development of the Group's system of internal controls.
The Parent Company's Board of Directors therefore performs the strategic supervision function at Group level, intervening in all phases envisaged by the model and, by issuing strategic directives, involving the Boards of Directors of the individual Group Banks and Companies for the activities that are their responsibility, i.e.:

- it gives the CEO adequate powers and resources to implement the strategic guidelines, the RAF and risk governance policies defined by the Board of Directors of the Parent Company in the design of the internal control system and is responsible for taking all the necessary steps to ensure that the organisation and its internal control system comply with the principles and requirements laid down in regulatory provisions, monitoring compliance on an ongoing basis;
- it receives, either directly or through the CEO, the information flows required to gain a full awareness of the various risk factors and the ability to govern them, as well as to plan and implement interventions to ensure the compliance and adequacy of the Internal Control System.

The various bodies of the Parent Company with delegated powers (i.e. the Executive Committee, Chief Executive Officer and Executive Board, in other words those with appropriate powers to carry on the functions of day-to-day management) perform the management function in all stages of the model. Added to these are the delegated bodies of the individual Group Companies that ensure implementation of management's strategies and policies at their own level.
The Boards of Statutory Auditors of the Parent Company and of Group companies, each to the extent of its own responsibilities, carry out the assessment of the internal control system foreseen by law and the articles of association and have the responsibility of ensuring the completeness, suitability and functionality of the internal control system and of the RAF. The results of these assessments are brought to the attention of the respective Boards of Directors.
Risk governance is also assisted by the articulated and consolidated system of Group Committees, which meet on a regular basis, monitoring the overall risk profile of the Group and contributing, together with the Parent Company's Board of Directors, to the definition of the risk management policies.
The following tasks are generally assigned to the Committees:

- to communicate and share information on changes in the Group's risk profile;
- to implement the function of guidance and coordination entrusted to the Parent Company;
- to support the competent Corporate Bodies in the area of risk management;
- to identify and propose strategic guidelines and policies for the management of Group risk.

In particular, the Risks Committee, a body with consultative powers, assists the Chief Executive Officer in the determination and implementation of the risk appetite framework, of risk governance policies and of the capital adequacy process for the Group and the companies belonging to it, as well as in the preparation of management reporting on risks and development and monitoring of the system of operating limits.

To this effect, the Committee is responsible for examining the following issues:

- risk capacity, risk appetite, risk tolerance, risk profile and risk limits under both normal and stressed conditions;
- consistency of and constant link between and among the business model, the strategic plan, the RAF, ICAAP and ILAAP processes, the budget, business administration and the internal control system;
- the risk management process indicates the series of rules, procedures, methodologies and models, resources (human, technological and organisational) and control activities to identify, measure or assess, monitor, prevent or mitigate and to communicate, by means of a specific reporting process, all risks assumed or assumable by the Group.

The Risks Committee is also responsible for the examination of methodologies, tools, reporting and internal regulations attributable to the Risk Management, Compliance, Anti-Money Laundering, Validation functions and to the Manager responsible for preparing the company's financial reports (hereinafter "Manager Responsible").

Decentralised at the individual Group companies there are people who act as "Contacts" for all of the second level control functions, in addition to the Manager Responsible, for the following purposes:

- overseeing operations in line with the Parent Company's duties of guidance and coordination, taking into account specific local aspects and the type of business carried on by individual Group companies;
- ensuring effective operational links between the Parent Company and each Group company;
- all communication flows to corporate bodies.

With respect to reporting, the Group has prepared an organic set of periodic reports to ensure the provision of adequate information to the Corporate Bodies of the Parent Company and the Group Banks and Companies about their risk exposure. The analyses contained in these reports are discussed in the various committees and are the basis of the assessment of capital adequacy, subsequently brought to the attention of Parent Company's Board of Directors.

For more information and details on the overall control system implemented at the Banking Group and on the tasks assigned to each control body or function identified, please refer to the information provided in the Explanatory Notes, Part E - Information on risks and related hedging policies (particularly the "Introduction" to the qualitative and quantitative information), to the Pillar 3 Public Disclosures as at 31 December 2020, as well as to the Report on Corporate Governance and Ownership Structures as at 31 December 2020, which are available on the company's website (https://istituzionale.bper.it).

Credit risk

With regard to credit risk, the measurements made by the internal rating system are used for management reporting purposes. In particular:

- a credit report is prepared for management every quarter and the results are included in the quarterly risk report, which is then sent to Top Management and the various Corporate Bodies of the Parent Company and of Group Banks and Companies. The information is discussed by the Risks Committee and presented by the Chief Risk Officer to the Control and Risk Committee and the Board of Directors of the Parent Company;

- a summary report is prepared for Top Management and the various Corporate Bodies of the Parent Company and of Group Banks and Companies on a monthly basis, including the monitoring of supervisory thresholds set for credit and concentration risk;
- a network reporting tool is prepared, characterised by different views of the loan portfolio, with different levels of aggregation (Branch, Regional Management, General Management, Bank/Company and Group) and hierarchical visibility cones.

Advanced methodologies (AIRB) based on internal ratings have long been used as part of the process of defining capital adequacy (ICAAP). To be precise, the BPER Banca Group has adopted the advanced methodologies (AIRB) starting from the Supervisory Reports of June 2016 with reference to the Banks falling within the scope of first validation (BPER Banca, Banco di Sardegna and BiBanca), subsequently extended to the Cassa di Risparmio di Bra[45] starting from the Supervisory Reports of March 2019.
The following asset classes are subject to AIRB methodologies:

- "Exposures to retail businesses";
- "Exposure to companies".

The other Group companies and asset classes for which Permanent Partial Use (PPU) is required or which are included in the roll-out plan, the BPER Banca Group will continue to use the Standardised Approach and the external ratings supplied by the ECAIs[46] recognised by the Supervisory Authority. In particular, the Group used the Cerved Rating for "Exposures to companies", the Scope Ratings AG Rating for "Exposures to central administrations or central banks", the Fitch Rating for "Financial Instruments" lodged in guarantee and "Exposures to UCITS" and the Standard & Poor's Rating for "Exposures to securitisation".
In relation to the updates/implementations of the internal models carried out in 2020, please refer to the information provided above in paragraph 3.7 "Single European Supervision".
For more qualitative and quantitative information on credit risk and related controls, please refer to the Explanatory Notes, Part E, Section 2, para. 1.1 Credit risk.

Financial risk

As regards financial risk management, an analytical system is used to measure, monitor and report on market, counterparty, liquidity and interest-rate risks. Guidance on management policies for market risk (VaR - Value at Risk), interest rate risk (ALM) and liquidity risk (operational and structural) is provided by the ALCO and Finance Committee and the Liquidity Committee. Operational reports are prepared on the risk profile, with frequencies varying from daily to monthly dependent on the characteristics of each risk that is monitored. Every quarter, an overall report on financial risk is presented to the Risks Committee and the Board of Directors of the Parent Company.
For more qualitative and quantitative information on financial risk and related controls, please refer to the Explanatory Notes, Part E, Section 2, para. 1.2 Market risk, para. 1.3 Derivative instruments and hedging policies, para. 1.4 Liquidity risk.

Operational risk

As regards the governance of operational risk, starting from the supervisory reports at 31 December 2013, the BPER Banca Group adopted the Traditional Standardised Approach (TSA) to calculate the capital requirement for operational risk.

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[45] *Subsequently absorbed by BPER Banca in July 2020.*
[46] *External agencies for the assessment of creditworthiness.*

The Own Funds requirement is calculated by determining the three-year average of the sum of the annual Own Funds requirement for the lines of business in which the relevant indicator was classified[47].
The model of operational risk governance and management adopted by the BPER Banca Group, designed to identify, assess, monitor, mitigate and report operational risks to the appropriate hierarchical levels, is formalised in specific internal rules. It provides for the centralised management at the Parent Company by the Credit and Operational Risk Department, which has a Contact of the Risk Management Department in place at all Group Banks and Companies.
The operational risk management and measurement system adopted by the BPER Banca Group is ensured by:

- Loss Data Collection: system for collecting and filing the loss events that derive from operational risks, supported by dedicated IT tools under constant development that ensure the completeness, accuracy and quality of the data gathered;
- measurement of operating risks via the Risk Self Assessment, in order to determine over a one-year time horizon the prospective level of exposure to operating risks and assess the adequacy of processes and line controls;
- measurement of risk by determining the level of capital absorption by operating risk from both a regulatory (own funds) and an operational standpoint (economic capital);
- system of reporting and communication to the Board of Directors and Senior Management, together with procedures to undertake appropriate mitigation actions based on the information flows sent.

Together, the analysis of loss data collection and the measurement of operational risks make it possible to identify areas of vulnerability in which operating losses are more concentrated, in order to understand the underlying causes and highlight the opportunity for corrective actions, including insurance cover (external transfer of risk).

Since 2015, the BPER Banca Group has implemented an analytical framework for IT risk, enhanced in 2019, with the aim of identifying the exposure to IT risk and the corrective actions needed to avoid exceeding the established risk appetite threshold.
A specific analysis is carried out in relation to operational risk and the security risk related to payment systems.

Reputational risk

Commencing from 2017, the BPER Banca Group has implemented a framework for the management of reputational risk in order to monitor, manage and periodically present in an organised manner the position of the Group in relation to this risk, together with the corrective actions needed to mitigate any vulnerabilities identified.
The principal elements comprising the framework for the management of reputational risk are described and formalised in the "Group policy on the governance of reputational risk". This document centralises the management of this activity within the Operational and Credit Risk Department of the Parent Company, and specifies the responsibilities of the organisational units within the Parent Company and the Group companies concerned, both under normal operating conditions and should any "critical reputational events" occur.

[47] *See CRR – Part three, Title III, Chapter 3, art. 317.*

The system of reputational risk management adopted by the BPER Banca Group has the following components:

- identification and assessment of risk based on Reputational Data Collection and Reputational Self Assessment;
- monitoring of the Group's exposure to reputational risk using a series of specific Key Risk Indicators;
- management of critical reputational events (escalation): management of particularly critical reputational events, by means of a functional escalation process and the determination of short and long term responses and mitigation;
- reporting: preparation of suitable reports, based on the various processes/sub-processes comprising the framework, in order to present in summary form the outcome of the risk management activities to all bodies and functions concerned.

For more qualitative and quantitative information on operational risk and reputational risk and related controls, please refer to the Explanatory Notes, Part E, Section 2, para. 1.5 Operational risk.

Business Continuity

The main feature of 2020 was the Covid-19 emergency.
In particular, with reference to the Central Offices, solutions were activated to guarantee the continued operation of critical processes (and, by extension, all banking processes) on a remote basis (emergency remote working).
With regard to the branch processes, the ability of specific roles to work remotely was supplemented (with different methods and timing) by shifts and the rotation of physical presence, in order to guarantee the safety of both customers and employees.

At the same time, routine work in the area of business continuity was completed, making it possible to update the business continuity plan of the Parent Company, the business continuity plans of those Banks and Companies within the Banking Group with critical processes, and the Disaster Recovery Plans of all the companies concerned.

With reference to the other interventions carried out in 2020, the following are worthy of note:

- formalisation of the pandemic scenario and identification of the solution of continuous distancing between emergency resources and substitutes, also through the use of remote work, applicable to processes with recovery needs exceeding 72 hours;
- expansion of the BIA scope of analysis by integrating processes for the outsourcing of essential and important functions and payment systems (PSD2);
- identification of processes needing recovery between 3 and 20 days, in addition to critical processes (with recovery needs of up to 72 hours);
- adaptation and optimisation of the attachments produced by the ORBIT procedure;
- improvement of tools to support Business Continuity Supplier References for monitoring such suppliers.

Training activity, carried out remotely via webinar, continued regularly according to the following two types of intervention:

- BIA training, for managers of the structures involved in the impact analysis and the compilation of BIA forms for all Banks and Companies included in the "Routine management of operational continuity" sub-process;

- Training and monitoring of suppliers for business continuity, for persons responsible for tracking critical suppliers (Business Continuity References), with in-depth analysis of the periodic activities to be carried out and the support tools available.

In addition to these, training/coaching sessions for backup resources are also underway.

With regard to the plan of annual tests established by the Group, the following tests were carried out:

- 11 test sessions impacting the "Unavailability of delivery sites" and "Pandemic" scenarios, including 10 carried out on all critical processes of Group companies that can be supplied remotely;
- 1 test session relating to the scenarios of "Unavailability of supply sites", "Pandemic" and "Unavailability of human resources";
- 9 test sessions relating to the "Unavailability of human resources" scenario for 2020 and 1 session relating to planning for 2019;
- 6 tests relating to the "Unavailability of the Information System" scenario;
- 1 Chain of Command test relating to the scenario of "unavailability of the supply site", conducted in walk-through mode.

Regarding the tests carried out by critical suppliers and/or related to the outsourcing of Important Operating Functions (IOF):

- The results of 27 tests were received;
- We participated, remotely, in 10 sessions and were present at 1 session.

The internal regulations dedicated to Business Continuity are constantly updated[48], thereby implementing any new internal and external regulations.

7.2 Disclosure of exposures to sovereign debt held by listed companies

As required by CONSOB Communication DEM/11070007 of 5 August 2011 (and in the letter sent to listed Banking Issuers dated 31 October 2018), details are provided below about the holdings of bonds issued by Central and Local Governments and by Government entities, as well as about the loans granted to them.

[48] *"Business Continuity Management" regulation of the BPER Banca Group.*

Debt securities

Issuer	Rating	Cat	Nominal value	Book value	Fair Value	OCI Reserves	%
Governments (*):			**10,581,933**	**10,901,952**	**11,297,508**	**11,461**	**93.14%**
Italy	BBB-		**7,415,058**	**7,775,462**	**8,111,006**	**9,991**	**66.43%**
		FVTPLT	2,785	2,852	2,852	#	
		FVO	100,000	120,711	120,711	#	
		FVTPLM	65,000	65,816	65,816	#	
		FVOCI	386,425	431,791	431,791	9,991	
		AC	6,860,848	7,154,292	7,489,836	#	
Spain	A-		**1,407,500**	**1,467,795**	**1,505,479**	**-**	**12.54%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	-	-	-	-	
		AC	1,407,500	1,467,795	1,505,479	#	
U.S.A.	AAA		**790,000**	**632,360**	**629,263**	**-**	**5.40%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	-	-	-	-	
		AC	790,000	632,360	629,263	#	
European Stability Fund	AA		**324,000**	**359,953**	**369,158**	**1,400**	**3.08%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	95,000	112,766	112,766	1,400	
		AC	229,000	247,187	256,392	#	
China	A+		185,000	162,774	167,787	25	**1.39%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	10,000	8,175	8,175	25	
		AC	175,000	154,599	159,612	#	
France	AA		**100,000**	**134,097**	**134,049**	**-**	**1.15%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	-	-	-	-	
		AC	100,000	134,097	134,049	#	
Others	-		**360,375**	**369,511**	**380,766**	**45**	**3.16%**
		FVTPLT	1,375	1,274	1,274	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	10,000	8,202	8,202	45	
		AC	349,000	360,035	371,290	#	

(*) The individual percentages shown in the above table may not agree with the total because of roundings.
The ratings indicated are those of Fitch Ratings as at 31 December 2020.

(cont.)

Issuer	Rating	Cat	Nominal value	Book value	Fair Value	OCI Reserves	%
Other public entities (*):			**780,262**	**803,481**	**812,188**	**27**	**6.86%**
Italy	-		**7,338**	**7,482**	**7,653**	**114**	**0.06%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	6,236	6,380	6,380	114	
		AC	1,102	1,102	1,273	#	
Germany	-		**327,000**	**352,038**	**356,057**	**-**	**3.01%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	-	-	-	-	
		AC	327,000	352,038	356,057	#	
France	-		**230,400**	**230,422**	**232,919**	**59**	**1.97%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	31,000	34,776	34,776	59	
		AC	199,400	195,646	198,143	#	
Others	-		**215,524**	**213,539**	**215,559**	**(146)**	**1.82%**
		FVTPLT	24	8	8	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	89,000	86,258	86,258	(146)	
		AC	126,500	127,273	129,293	#	
Total as at 31.12.2020			**11,362,195**	**11,705,433**	**12,109,696**	**11,488**	**100.00%**

(*) The individual percentages shown in the above table may not agree with the total because of roundings.
The ratings indicated are those of Fitch Ratings as at 31 December 2020.

Loans

Issuer	Rating	Cat	Nominal value	Book value	Fair value	OCI Reserves	%
Governments (*):			**1,918,427**	**1,918,427**	**2,497,628**	**-**	**84.88%**
Italy	BBB+		**1,918,427**	**1,918,427**	**2,497,628**	**-**	**84.88%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	-	
		FVOCI	-	-	-	#	
		AC	1,918,427	1,918,427	2,497,628	#	
Other public entities:			**341,612**	**341,612**	**377,590**	**-**	**15.12%**
Italy	-		**340,184**	**340,184**	**376,162**	**-**	**15.05%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	-	
		FVOCI	-	-	-	#	
		AC	340,184	340,184	376,162	#	
Algeria	-		**1,428**	**1,428**	**1,428**	**-**	**0.06%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	-	
		FVOCI	-	-	-	#	
		AC	1,428	1,428	1,428	#	
Total loans as at 31.12.2020			**2,260,039**	**2,260,039**	**2,875,218**	**-**	**100.00%**

(*) The individual percentages shown in the above table may not agree with the total because of roundings.
The ratings indicated are those of Scope Ratings as at 31 December 2020.

Based on their "Book Value", repayment of these exposures is distributed as follows:

	on demand	until 1 year	1 to 5 years	over 5 years	Total
Debt securities	-	550,973	4,615,708	6,538,752	**11,705,433**
Loans	162,806	55,846	62,161	1,979,226	**2,260,039**
Total	**162,806**	**606,819**	**4,677,869**	**8,517,978**	**13,965,472**

Control over the risks inherent in the portfolio is maintained by the Directors who monitor the effects on profitability, liquidity and the Group's capital base, also through sensitivity analyses. No critical elements have been identified on the basis of these analyses.

7.3 Contributions to the Single Resolution Fund and the Deposit Guarantee Fund and developments in the Interbank Deposit Protection Fund: Voluntary scheme and Solidarity Fund

Once again in 2020, the BPER Banca Group contributed to the mechanisms to safeguard the soundness of the banking system, established in 2015 at European and Italian level.
In April 2020, the BPER Banca Group received a request for the ordinary contribution to the Single Resolution Fund (SRF) for 2020, for a total amount of Euro 26 million (BPER Banca's share is Euro 23.2

million). In June 2020, on top of the ordinary contributions, additional contributions were requested in relation to 2018 totalling Euro 8.1 million at Group level (Euro 9.6 million requested for 2017, received in 2019).
In December 2020, the BPER Group received a request for the ordinary contribution to the Deposit Guarantee Scheme (DGS) for 2020, based on the level of protected funding at 30 September 2020, for a total of Euro 43.2 million (BPER Banca's share was Euro 33.8 million).
In addition to these, there was also the settlement of irrevocable commitments previously guaranteed by cash collateral to the SRF for a total of Euro 10.9 million.

7.4 IBOR Reform

Benchmark interest rates (such as the rates applied to interbank deposits – IBOR) play a fundamental role in the global financial markets as they are used to index numerous financial instruments (loans, securities, derivatives, etc.) with a turnover of trillions of dollars. Attempts to manipulate some of these reference parameters, combined with the liquidity crisis in the markets in the period following the economic crisis, have undermined confidence in the integrity, reliability and robustness of the principal market benchmarks. In this context, the G20 appointed the Financial Stability Board (FSB) to carry out a structural review of the main reference rates, coordinating the transition plans of the various jurisdictions and guaranteeing alternative benchmark rates that were solid and useable by the various market operators. The authorities in many jurisdictions have transposed the FSB's indications into national and EU regulations (such as the EU Benchmark Regulation - BMR in Europe), laying down road maps to replace current benchmark rates that are considered "critical" with "alternative interest rates".
The impacts on market participants deriving from the scope of the reform, as well as the uncertainty that still exists concerning the long-term availability of certain benchmark rates (including GBP Libor, USD Libor, Euribor, CHF Libor and JPY Libor) represent a challenge for financial institutions that will have to deal with various issues over the next few months, mainly related to the revision of contracts and measurement of the financial instruments that have been affected.

Given this situation, in 2020 the BPER Banca Group activated a specific assessment project dedicated to IBOR Reform in order to identify:

- the extent of the BPER Banca Group's exposure to each of the benchmark rates affected;
- the types of product/instrument/service directly or indirectly affected by IBOR Reform;

considering that:

- pursuant to the BMR, the BPER Banca Group is affected solely as a user (and not as a contributor) of benchmark/risk-free rates (RFR);
- the reform could affect (or not) the retail customers of Group banks/companies;

and, based on the principal effects identified, lay down an action plan to address each of them, with a timeline for the measures to be taken.

With reference to the BPER Banca Group's exposure to the benchmark rates in question, the analyses identified:

- limited exposure to EONIA, solely in relation to banking operations with institutional counterparties;
- significant exposure to EURIBOR, both for banking operations and those with customers (based on the number of contracts/accounts within the scope);

- reduced exposure to other LIBORs (GBP and USD), mostly in relation to banking operations with institutional counterparties.

At the end, this situation should be read in light of the process of adapting to the new method of calculating Euribor (so-called "hybrid Euribor"), recognized as compliant with the BMR by the Financial Services and Markets Authority (FSMA) and currently in force since 29 November 2019.
Moreover, following the assessment activity carried out in 2020, the Group plans to start a new project to lay down detailed plans for each area of the Bank that has been affected, ensuring that all of the measures required by the Reform are introduced and that they are all compliant with the guidelines being established by the Working Groups in the various jurisdictions.
The accounting effects of the IBOR Reform and consequent adoption of Regulation (EU) 2020/34 (amendments made to IFRS 9, IFRS 7 and IAS 39) are described in the Explanatory Notes, Part E – 1.3 Derivatives and hedging policies. 1.3.2 Accounting hedges.

8. Other information

8.1 Treasury shares in portfolio

No quotas or shares in Group companies are held through trust companies or other third parties; furthermore, such parties were not used during the period to buy or sell shares or quotas in Group companies.

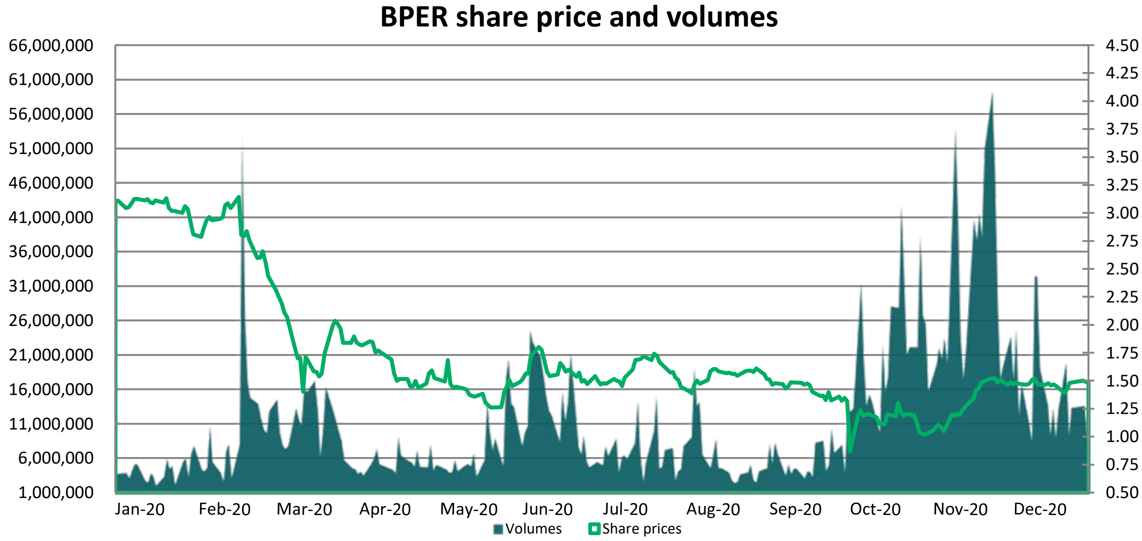
The carrying amount of the Group's interest in the treasury shares held by consolidated companies, classified as a deduction from shareholders' equity caption 180, is Euro 7,259 thousand, of which Euro 7,253 thousand relates to BPER Banca shares held by the Parent Company.

Shares of BPER Banca S.p.A.	Number of shares	Total par value
Total as at 31.12.2020	455,458	7,253,180
Total as at 31.12.2019	455,458	7,253,180

There are also 62,168 shares of Bibanca s.p.a. (formerly Banca di Sassari), held by it, for a total of Euro 6 thousand.

8.2 Share price performance

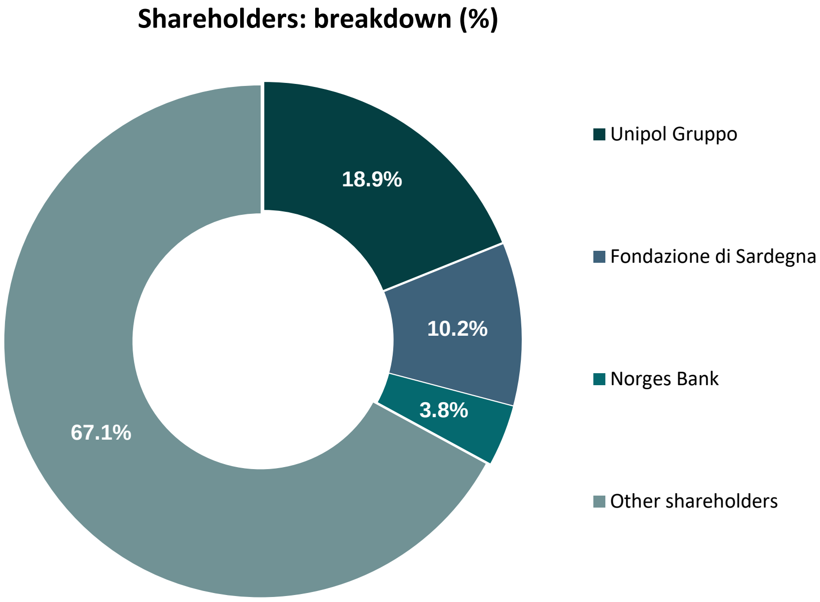
The year 2020 was characterised by strong volatility on world financial markets due to the Covid-19 pandemic. In the first quarter of 2020, world stock indices underwent a general phase of deep decline with the onset of the health crisis and growing fears of the impact on the world economy. However, the extraordinary heap of fiscal and monetary interventions made by the authorities - as already announced early in the year - managed to limit the damage and restore confidence in the markets, with a strong recovery in the second quarter, which then continued at a less sustained pace in the third quarter. The beginning of the fourth quarter saw a reversal of the trend due to fears related to a second wave of infections and the adoption of new restrictions, even if only partial. However from November the positive news about the arrival of vaccines restarted a positive phase on the markets, especially in those sectors that were most penalised immediately after the onset of the health crisis, including financials.
Overall, 2020 closed with stock market indices up compared with the start of the year in the United States and Japan, and down in the main European countries. In the United States, the S&P500 equity index rose by 15.9%. On the other hand, in Europe, the Euro Stoxx 50 dropped by 4.7% and Italy's FTSE MIB dropped by 5.4%. The financial sector was particularly penalised, with the index of Italian banks showing a decline of 21.1% since the beginning of the year.
In this difficult context, in which the Parent Company successfully completed an increase in capital for a total of Euro 802.3 million, BPER Banca's official share price went from Euro 3.0345 at 30 December 2019 to Euro 1.485 at 30 December 2020. Trading volumes of BPER Banca shares have stabilised at a daily average of about Euro 12 million.



8.3 Breakdown of ownership structure

Considering the cash increase in capital carried out during the year, the share capital, fully subscribed and paid in, amounts to Euro 2,100,435,182.40 and is made up of 1,413,263,512 registered ordinary shares.

The main shareholders of BPER Banca are: Gruppo Unipol (18.9%), Fondazione di Sardegna (10.2%) e Norges Bank (3.8%).



8.4 Ratings as at 31 December 2020

Fitch Ratings

Fitch confirmed the Bank's ratings on 23 October 2020. The Long-Term Issuer Default Rating ("IDR") and Viability Rating ("VR") were respectively confirmed at "BB" with a "Stable" outlook and "bb", while the Rating Watch Negative ("RWN") was removed.

The updated parameters are shown below.

International Rating Agency	Last review date	Short Term	Long Term	Rating watch	Viability Rating	Support rating	Support rating floor	Subordinated debt
Fitch Ratings	23.10.2020	B	BB	Stable	bb	5	No floor	B+

Short Term (Issuer Default Rating): Debt repayment capacity in the short term (less than 13 months) (F1: best rating – D: default).
Long Term (Issuer Default Rating): Ability to meet financial commitments in a timely manner regardless of the maturity of the individual bonds. This rating is an indicator of the issuer's probability of default (AAA: best rating – D: default).
Outlook: indicates the possible future evolution of the rating, which can be "positive", "stable" or "negative".
Viability Rating: Evaluation of the bank's intrinsic solidity, on the assumption that it cannot rely on extraordinary forms of external support (aaa: best rating – f: default).
Support rating: Opinion on the probability of any extraordinary external intervention (by the State or major shareholders) if the bank finds it difficult to honour its senior obligations (1: high probability of external support - 5: cannot rely on any support (as in the case of European banks under the BRRD resolution regime)).
Support rating floor: This rating is an accessory piece of information, closely related to the Support Rating, as it identifies, the minimum level for each level of Support Rating that the Issuer Default Rating could reach in the case of negative events (No Floor for European Banks under the BRRD resolution scheme).
Subordinated debt: Opinion on the issuer's ability to honour subordinated debt. Fitch adds "+" or "-" to report the relative position with respect to the category.
Rating watch: indicates a high probability of a change in rating and the likely direction of that change. The indicator may be "positive", if the rating is expected to remain stable or improve; "negative", if the rating is expected to remain stable or deteriorate; or "evolving", if the rating could be raised, lowered or confirmed.

Moody's

The ratings given by Moody's to BPER Banca in March 2020 were confirmed as of 31 December 2020. The details are as follows.

International Rating Agency	Last review date	Short Term Deposit	Long Term Deposit	Outlook (Long-term Deposit)	Long Term Issuer	Outlook (Long-term Issuer)	Baseline Credit Assessment ("BCA")	Subordinated debt
Moody's	26.03.2020	P-3	Baa3	Negative	Ba3	Negative	ba2	Ba3

Short Term Deposit: Ability to repay deposits in local currency in the short term (original maturity equal to or less than 13 months) (Prime-1: highest quality – Not Prime: not classifiable among the Prime categories).
Long Term Deposit: Ability to repay deposits in local currency in the long term (original maturity equal to or greater than 1 year) (Aaa: best rating – C: default).
Outlook: Indicates the possible future evolution of the rating that can be "positive", "stable", "negative" or "developing".
Long Term Issuer: Opinion on the issuer's ability to honour senior debt and bonds (Aaa: best rating – C: default).
Baseline Credit Assessment (BCA): The BCA is not a rating but an opinion on the intrinsic financial strength of the bank in the absence of external support (aaa: best rating – c: default).
Subordinated debt: Opinion on the issuer's ability to honour subordinated debt. Moody's adds 1, 2, and 3 to each generic class; 3 indicates that the issuer is positioned in the lower part of the category.

8.5 Investigations and audits

During the normal course of its business, the Group is subject to supervision by various national and European Authorities, including mainly the ECB, the Bank of Italy and CONSOB. The Supervisory Authorities carry out investigations, on-site or remotely, on the Issuer and on the Group, as a result of which areas for improvement are generally identified. Following these investigations, the Issuer prepares action plans with the corrective measures that it plans to take and the progress being made on them. This is usually monitored on a quarterly basis with a report being sent to the Supervisory Authorities.
The most recent investigations carried out by the Supervisory Authorities on the BPER Banca Group are as follows.

European Central Bank – ECB

The following information relates to the ECB's audits of the BPER Banca Group currently in progress (or already carried out, but with action plans prepared or sent in 2020).

- *Targeted review (2018)*

From September to December 2018 the BPER Banca Group was the subject of a Targeted Review of its Internal Models (TRIM) by the ECB. This was also carried out at a European level at other banks supervised by the ECB.
The follow-up letter on the results of the review was received on 2 March 2020. On 28 March 2020 BPER Banca sent its Action Plan to the Supervisory Authority in response to the recommendations made.

- *Audit (2018-2019)*

From November 2018 to April 2019 the BPER Banca Group was subjected to an on-site Credit Quality Review (CQR) by the ECB. The inspection involved analysing a sample of Corporate loans of various Group Banks and Companies, as well as checking that the internal credit processes and procedures complied with the Supervisory Regulations.
The follow-up letter on the results of the inspection was received on 17 December 2019 and the Bank answered it on 3 February 2020, by sending a specific action plan on the following areas of intervention:

- provisioning for bad loans and the management of secured guarantees;
- policies and internal processes in relation to ratings;
- updates to internal policies following the application of IFRS 9.

- *Audit (2019)*

The BPER Banca Group was inspected by the ECB between May and July 2019 to assess its corporate governance. The follow-up letter on the results of the inspection was received on 8 April 2020. On 6 May 2020 BPER Banca sent its Action Plan with corrective measures to the ECB in response to the recommendations made.

- *Audit (2019)*

From October 2019 to January 2020, the BPER Banca Group was the subject of an on-site inspection by the ECB focusing on IT risk assessment.
The follow-up letter on the results of the inspection was received on 12 October 2020. BPER Banca replied on 9 November 2020 with a specific Action Plan for the following areas of intervention:

- strengthening the IT component to support company development by bringing the IT strategy plans into line with the timing of the Business Plan;

- strengthening the self-assessment of IT risk mitigation controls;
- strengthening and optimising certain processes in the field of IT Security;
- reviewing part of the documentation that supports the IT Asset Management processes;
- optimising the activities of the Operations Centre for Safety;
- optimising IT reporting to the Corporate Bodies.

Bank of Italy - BI

- *Investigation (2019)*

In June 2019, the Regulator carried out an inspection at BPER Banca to check use of the IRB system in the context of the Eurosystem Credit Assessment Framework (ECAF). In particular, assurance was sought that the IT systems and administrative and organisational processes of BPER Banca were capable of reporting correctly the required information about the debtors considered potentially suitable for monetary policy refinancing (static pools), as measured by the internal ratings based (IRB) approach.
The letter with the results of the investigation was received on 29 January 2020, indicating that the check on the process of managing the static pools was "mostly satisfactory". A number of possible improvements were identified, however, as addressed in the specific Action Plan submitted by the Bank on 28 February 2020, involving the following areas:

- enhanced controls for monitoring the administrative status of the parties included in the static pools and updating significant information held about them;
- improvement of the IT procedure for managing the comments made when reporting on static pools;
- greater formalisation of the internal documentation.

- *Investigation (2020)*

Since October 2020, the subsidiary Arca Fondi SGR has been subject to an inspection by the Bank of Italy regarding the company's overall situation. The inspection was still underway at the date this document was prepared.

CONSOB

- *Investigation (2020)*

Since October 2020, BPER Banca has been subject to an inspection by CONSOB to ascertain the state of compliance with the new MiFID II regulation following the transposition of Directive 2014/65/EU into Italian law. The inspection was still underway at the date this document was prepared.

Italian Tax Authority – Cooperative Compliance and Tax Control Framework (TCF)

Following completion of a process that began in December 2017, on 25 July 2018 BPER Banca was admitted by the Italian Revenue Agency to the Cooperative Compliance regime pursuant to Legislative Decree 128 of 5 August 2015.
This important result was achieved after making a formal application, which was followed by an investigation by the Tax Authority, with the aim to check the adequacy of BPER Banca's Tax Control Framework (TCF). These checks had a positive outcome, after which BPER Banca was added to the list of companies admitted to the regime, which is published on the Revenue Agency's institutional website.

At present, the structure that manages and governs the TCF operates with reference to BPER Banca. A gradual extension of the same principles to the other companies of the BPER Banca Group is currently being studied. It is worth mentioning that the introduction of the VAT Group involved drawing up contracts between BPER Banca and the individual companies in the Group, which contain such a commitment for the individual companies belonging to the VAT Group.

The following assessments were made as a result of discussions with the Revenue Agency:

- Disciplinary system: the Bank has a disciplinary system that explains in detail the system of sanctions envisaged for various subjects, including employees. With this tool, it is believed that the responsibilities and duties envisaged for the purposes of internal control and the Code of Ethics are to all intents and purposes integral parts of the obligations and responsibilities assumed under the employment contract and, as such, punishable by disciplinary sanctions in the event of violations;
- Management of the VAT Group: the Bank has completed the risk map for the purpose of joining the VAT Group. Moreover, updating the risk map is an activity in constant and progressive evolution, also in relation to the preparation of its internal policies. In the meantime, reference was made to the risk mapping prepared by ABITACS, adapting it to the specific situation of BPER Banca;
- Interpretative risk assessment: for the purpose of evaluating interpretative risk, the Bank refers to its own calculation model. Following a technical discussion with the Revenue Agency, the weightings used in the assessment were recalibrated, putting more emphasis on factors that could theoretically lead to phenomena of double deductibility or double non-taxation; an internal policy for the assessment of interpretative risk was also drawn up.

For its part, the Bank has to guarantee that it will maintain and manage a TCF that is systematically updated and monitored. For this purpose, the Bank's Tax Unit is, for all intents and purposes, a Specialist Control that, working together with the Compliance Department, guarantees the systematic analysis, assessment and coverage of tax risks.
During 2020, the process of implementing and constantly improving the TCF structure continued, benefiting from the initiatives undertaken the previous year and therefore using the dedicated IT platform, whose evaluation metric is consistent with the methodology adopted by the Bank's Compliance Department. Having detailed operational manuals available, as well as the online tax consulting platform based on the ticketing system already in use at the Bank, made it possible to continue this activity despite the pandemic, also with remote working from home and hubworking,

Therefore, in addition to the ordinary monitoring and notification of regulatory updates, it was possible to have online discussions with the Revenue Agency - Collaborative Compliance Office for the annual update with the Tax Authority, pursuant to paragraph 6.1 of Provision 101573 of 26 May 2017.

A series of meetings were also held with the other second-level control functions on the update concerning activities that might be sensitive to the risk of committing significant offences under Legislative Decree 231/01 and the related prevention protocols that were the responsibility of the Tax Unit, as well as in-depth analysis with particular regard to tax crimes. These meetings, organised by the Chief Audit Executive (CAE), also discussed the possible integration of the 231 Model with the controls introduced by the TCF. Analysis of this issue is still underway.

Lastly, considerable work was carried out in the period from August to December 2020 on analysing the legislation introduced by the Relaunch Decree and, in particular, on analysing the so-called tax "bonuses", as well as on identifying and formalising the necessary safeguards.

8.6 Information on intercompany and related-party transactions

Relations between the various companies included in the scope of consolidation and with associates and related parties were all of a routine nature and were conducted properly.
For details, as required by art. 2497 *bis* of the Italian Civil Code and by the CONSOB Communication DEM 6064293 dated 28 July 2006, reference should be made to Part H of the Explanatory Notes to the consolidated financial statements.
In accordance with CONSOB's Regulation 17221/10 and subsequent amendments, issued on the subject of related-party transactions, the BPER Banca Group has adopted specific internal rules to ensure transparency and substantial and procedural correctness of transactions with related parties.
In this context, the Parent Company BPER Banca adopted the "Group policy for the governance of non-compliance risk concerning conflicts of interest with related parties and risk activities with associated persons", which was also implemented by the other Group Banks and Companies. This Policy also complies with the Bank of Italy's requirements in terms of "Risk activities and conflict of interest versus related parties and associated persons" as contained in Circular 285 dated 17 December 2013 and subsequent updates.
The document is published on BPER Banca's website (https://istituzionale.bper.it, in the "Information & Regulations" / "Associated Persons" section) and on the websites of the other Group banks.

Without prejudice to the disclosure requirements of IAS 24 (see Part H of the Explanatory Notes in relation to the scope of application of the international accounting standard), the following is a summary of transactions with related parties, for which information is provided under Regulation 17221/10.

a) most significant individual transactions concluded during the reference period

No.	Company that initiated the transaction	Name of the counterparty	Nature of the relationship with the counterparty	Object of the transaction	Consideration for each transaction completed (Euro/000)	Other information
1	BPER Banca S.p.A.	Alba Leasing S.p.A.	Directly associated company	Renewal Funds	625,500	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
2	BPER Banca S.p.A.	Alba Leasing S.p.A.	Directly associated company	Renewal Funds	625,500	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
3	BPER Banca S.p.A.	Sardaleasing S.p.A.	Directly controlled subsidiary	Credit line	715,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
4	BPER Banca S.p.A.	Sardaleasing S.p.A.	Directly controlled subsidiary	Credit line	402,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
5	BPER Banca S.p.A.	Sardaleasing S.p.A.	Directly controlled subsidiary	Credit line	353,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
6	BPER Banca S.p.A.	Optima S.p.A. SIM	Directly controlled subsidiary	Credit line	300,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
7	BPER Banca S.p.A.	Emilia Romagna Factor S.p.A.	Directly controlled subsidiary	Credit line	1,050,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221

(cont.)

No.	Company that initiated the transaction	Name of the counterparty	Nature of the relationship with the counterparty	Object of the transaction	Consideration for each transaction completed (Euro/000)	Other information
8	Banco di Sardegna S.p.A.	BPER Banca S.p.A.	Direct parent company	Credit line	4,000,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
9	Banco di Sardegna S.p.A.	BPER Banca S.p.A.	Direct parent company	Credit line	300,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
10	Banco di Sardegna S.p.A.	BPER Banca S.p.A.	Direct parent company	Credit line	950,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
11	BPER Banca S.p.A.	Banco di Sardegna S.p.A.	Directly controlled subsidiary	Credit line	400,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
12	BPER Banca S.p.A.	Bibanca S.p.A.	Directly controlled subsidiary	Credit line	1,100,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
13	BPER Banca S.p.A.	Sardaleasing S.p.A.	Directly controlled subsidiary	Credit line	715,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
14	BPER Banca S.p.A.	Sardaleasing S.p.A.	Directly controlled subsidiary	Credit line	402,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221

(cont.)

No.	Company that initiated the transaction	Name of the counterparty	Nature of the relationship with the counterparty	Object of the transaction	Consideration for each transaction completed (Euro/000)	Other information
15	BPER Banca S.p.A.	Sardaleasing S.p.A.	Directly controlled subsidiary	Credit line	353,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
16	Banco di Sardegna S.p.A.	Bibanca S.p.A.	Company belonging to the BPER Banca Group	Credit line	500,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221

b) other individual transactions with related parties as defined under article 2427[49], second paragraph, of the Italian Civil Code, entered into in the reporting period, that have materially impacted the financial position and results of the company

As required by CONSOB Regulation 17221/10 with regard to other transactions with related parties, it is confirmed that no transactions have had a significant effect on the balance sheet or results of the company. The merger deed for the absorption of Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a. by BPER Banca s.p.a. was signed on 22 July 2020. The merger took effect for tax and accounting purposes from 1 January 2020.

c) changes or developments in related-party transactions disclosed in the last Annual report that have had a material effect on the financial position or results of the companies during the period

During the period, there have been no changes or developments in the related-party transactions described in this Directors' Report on Group Operations that have had a material effect on the Company's financial position or results.

8.7 Information on atypical, unusual or non-recurring transactions

During 2020 there were no atypical or unusual transactions, as defined by CONSOB Communication DEM 6064293 dated 28 July 2006.
In relation to events and/or transactions that can be defined as "non-recurring", there are no further aspects to be mentioned beyond those already described in relation to the sale of bad and unlikely to pay loans.
Where considered significant, the information on the impacts that the non-recurring events or transactions have had on the economic and financial situation of the Group is provided in the specific sections of the Explanatory Notes.

[49] *Art. 2427 of the Italian Civil Code was amended by Legislative Decree 139/2015 that, inter alia, amended art. 2426 of the Italian Civil Code by adding regulations to the second paragraph governing other individual transactions with related parties during the period that had a significant effect on the financial position or results of the companies concerned.*

8.8 Remuneration policies

As required by current legislation, remuneration policies have been prepared covering the entire BPER Banca Group.
In particular, in an increasingly sophisticated regulatory environment, the Group adjusts its policies to the new rules on staff remuneration.
In confirming and consolidating the pillars of its policy, the Group has followed the evolution of the remuneration systems to ensure consistency with the Company's strategies and priorities, alignment with the rules and compliance with shareholders' expectations, also with reference to 2021.
The "Report on the remuneration policy for 2021 and compensation paid in 2020" has been prepared in light of the above and in accordance with CONSOB's instructions on remuneration policies.
This document, which consists of two complementary sections and is accompanied by the certification pursuant to paragraph 2 of article 154-*bis* of the CFA of the Manager responsible for preparing the company's financial reports, summarises the following information:

I. Remuneration Policies of the BPER Group for 2021: this section defines the model adopted by the Group for the policies that will be implemented in 2021;
II. Annual report on compensation paid in 2020, which provides information on:
    a) Part 1: the items that make up remuneration, the main results achieved in 2020 and pay for performance;
    b) Part 2: with particular regard to members of the Boards of Directors and Statutory Auditors, General Managers and any other Executives with strategic responsibilities, it provides a detailed list of the compensation paid in 2020 for any purpose and in any form by the Company, its subsidiaries and associates.
    c) Part 3: Shares held in the company and subsidiaries by members of the Boards of Directors and Statutory Auditors, General Managers and other Executives with strategic responsibilities, as well as their spouses, if not legally separated, and minor children, directly or through subsidiaries, trustees or nominees.

Together with this document, the "Proposed remuneration plan pursuant to art. 114-*bis* of Legislative Decree 58 dated 24 February 1998, implementing the remuneration policies for 2021 of the BPER Banca Group" will also be presented to the Shareholders' Meeting, along with a document to provide information on the proposal to adopt systems of annual incentives based on financial instruments as explained in the "BPER Banca Share-based compensation plan" pursuant to article 84-bis of the Issuers' Regulations and in accordance with the instructions contained in schedule 7 of Appendix 3A.
The remuneration plan (Plan) envisages paying part of the incentive of the Material Risk Takers (MRTs) of the BPER Banca Group through the assignment of ordinary BPER Banca shares, proposed as part of the remuneration policies adopted by the Group for its annual bonus scheme.

In 2019, the BPER Banca Group established a long-term variable incentive scheme - 2019-2021 Long Term Incentive Plan (LTI Plan) - based on the ordinary shares of BPER Banca. The Plan is of strategic importance to the BPER Banca Group as it is aimed at Management and is designed to align their interests with the creation of long-term shareholder value. The objectives to be achieved were defined in accordance with the relevant provisions and with the 2019-2021 Business Plan. The period of measurement of the results (performance period) is multi-year, as it is aligned with the Plan. Please refer to Part I of the Explanatory notes for further details.

8.9 Report on the Arms Industry

The BPER Banca Group prepared its 2020 Report on the Arms Industry in compliance with the "Group guidelines governing BPER Group Banks' relations with defence contractors and manufacturers of armaments".

It is worth recalling that the Report is based on ministerial information that is made public in the year after the reporting period.

This annual report, which has been approved by the governing bodies of the Parent Company BPER Banca, reports on the following types of activities in 2019:

- the identification of counterparties affected by the Guidelines;
- calculation of the aggregate of transactions by individual Group bank with an indication of the number and total amounts;
- other relevant aspects such as decisions regarding embargoes of specific countries, any exceptions to the guidelines, staff training, relations with civil society, businesses and entities for identification purposes.

The Report will be published on the website, together with the separate financial statements of BPER Banca and the consolidated financial statements of the Group, in the section dedicated to documentation for the Shareholders' Meeting in the "Governance" section, as well as in the "Sustainability" section.

On 26 November 2020 the Board of Directors approved the new "Group Policy on the regulation of BPER Group companies' relations with defence operators and companies involved in the production and trading of armaments" which repeals the "Group guidelines governing BPER Group Banks' relations with defence contractors and manufacturers of armaments".

The changes made with respect to the previous guidelines concern:

- the type of regulatory source adopted, i.e. the transformation of the "*Group Guidelines for the regulation of the relations of BPER Group Banks and Companies with defence operators and arms manufacturers*" into Group policy;
- the recipients of the document: extended to Emilia Romagna Factor and Sardaleasing, in addition to Group Banks;
- modification of the White List.

The desire is to prevent or contain the risk that the goods produced or services provided by arms manufacturers are destined for countries governed by undemocratic governments or subjects not legitimately authorised to use force (such as regular armies, police forces etc.). Group companies severely limit the types of eligible "final" recipients, on the one hand, and, on the other, restrict the number of destination countries to which it is possible to export.

The White List is a list of destination countries that are considered eligible and is made up of countries that are members of the EU or NATO and some specifically identified countries, currently only Switzerland.

9. Outlook for operations

9.1 Outlook for operations

The economic prospects are still affected by how the pandemic evolves and how this impacts the behaviour of households and businesses. In the fourth quarter, the second wave of infections caused a further contraction in the economy, after a strong recovery in the summer. The beginning of vaccination campaigns should however create the conditions for us to gradually overcome the emergency and, helped by the massive steps taken by governments and central banks to support the liquidity and incomes of families and businesses, this could generate a strong recovery in the Italian economy, especially from the second half of 2021. In the coming months, the BPER Banca Group will complete its purchase of the business complex from Intesa Sanpaolo, which will lead to a significant growth in size, an improvement in the competitive position in Italy and a significant increase in the customer base. This acquisition will provide important support to revenues in terms of both interest income and commission, especially in asset management and bancassurance; it will also make it possible to accelerate the improvement in asset quality, despite the context of high uncertainty, and at the same time to reduce the Group's cost/income ratio (the impact estimates of the Business Complex are provided in paragraphs 3.1 and 3.2 of the Report). All these factors should provide support for the Group's profitability outlook for the current year, making it possible to maintain solid capital ratios and increase shareholders' remuneration to an appreciable extent in the future.

Modena, 16 March 2021

The Board of Directors
The Chairman
Pietro Ferrari

Consolidated financial statements

Consolidated balance sheet as at 31 December 2020

(in thousands)

	Assets	31.12.2020	31.12.2019
10.	Cash and cash equivalents	482,192	566,924
20.	Financial assets measured at fair value through profit or loss	1,198,601	1,120,111
	a) financial assets held for trading	279,009	270,374
	b) financial assets designated at fair value	127,368	130,955
	c) other financial assets mandatorily measured at fair value	792,224	718,782
30.	Financial assets measured at fair value through other comprehensive income	6,269,818	6,556,202
40.	Financial assets measured at amortised cost	79,991,505	65,541,246
	a) loans to banks	14,352,731	5,066,379
	b) loans to customers	65,638,774	60,474,867
50.	Hedging derivatives	57,776	82,185
70.	Equity investments	225,558	225,869
90.	Property, plant and equipment	1,351,480	1,368,696
100.	Intangible assets	702,723	669,847
	of which:		
	- goodwill	434,758	434,758
110.	Tax assets	2,007,073	2,024,579
	a) current	418,174	466,312
	b) deferred	1,588,899	1,558,267
120.	Non-current assets and disposal groups classified as held for sale	98,714	97,142
130.	Other assets	665,398	780,697
	Total assets	93,050,838	79,033,498

(in thousands)

	Liabilities and shareholders' equity	31.12.2020	31.12.2019
10.	Financial liabilities measured at amortised cost	83,177,191	70,135,262
	a) due to banks	20,180,999	12,213,133
	b) due to customers	58,314,002	52,087,240
	c) debt securities issued	4,682,190	5,834,889
20.	Financial liabilities held for trading	170,094	165,970
40.	Hedging derivatives	469,240	294,114
60.	Tax liabilities	74,748	75,737
	a) current	4,797	5,405
	b) deferred	69,951	70,332
70.	Liabilities associated with assets classified as held for sale	144,809	134,077
80.	Other liabilities	1,945,822	2,069,511
90.	Employee termination indemnities	148,199	191,120
100.	Provisions for risks and charges	589,981	676,160
	a) commitments and guarantees granted	62,334	55,995
	b) pension and similar obligations	148,357	161,619
	c) other provisions for risks and charges	379,290	458,546
120.	Valuation reserves	118,105	37,750
140.	Equity instruments	150,000	150,000
150.	Reserves	2,348,691	2,035,205
160.	Share premium reserve	1,241,197	1,002,722
170.	Share capital	2,100,435	1,561,884
180.	Treasury shares (-)	(7,259)	(7,259)
190.	Minority interests (+/-)	133,935	131,662
200.	Profit (Loss) for the year (+/-)	245,650	379,583
	Total liabilities and shareholders' equity	**93,050,838**	**79,033,498**

Consolidated income statement as at 31 December 2020

(in thousands)

	Captions	31.12.2020	31.12.2019
10.	Interest and similar income	1,431,109	1,419,767
	of which: interest income calculated using the effective interest method	1,422,351	1,395,908
20.	Interest and similar expense	(192,233)	(255,228)
30.	**Net interest income**	**1,238,876**	**1,164,539**
40.	Commission income	1,246,875	1,043,000
50.	Commission expense	(174,361)	(111,050)
60.	**Net commission income**	**1,072,514**	**931,950**
70.	Dividends and similar income	18,492	14,101
80.	Net income from trading activities	(14,220)	180
90.	Net income from hedging activities	(653)	(1,546)
100.	Gains (Losses) on disposal or repurchase of:	141,182	116,600
	a) financial assets measured at amortised cost	130,513	38,710
	b) financial assets measured at fair value through other comprehensive income	10,356	77,664
	c) financial liabilities	313	226
110.	Net income on financial assets and liabilities measured at fair value through profit or loss	11,856	(1,241)
	a) financial assets and liabilities designated at fair value	(3,683)	(8,436)
	b) other financial assets mandatorily measured at fair value	15,539	7,195
120.	**Net interest and other banking income**	**2,468,047**	**2,224,583**
130.	Net impairment losses for credit risk relating to:	(542,239)	(446,291)
	a) financial assets measured at amortised cost	(541,877)	(447,547)
	b) financial assets measured at fair value through other comprehensive income	(362)	1,256
140.	Gains (Losses) from contractual modifications without derecognition	(2,141)	(2,979)
150.	**Net income from financial activities**	**1,923,667**	**1,775,313**
180.	**Net income from financial and insurance activities**	**1,923,667**	**1,775,313**
190.	Administrative expenses:	(1,687,910)	(1,699,466)
	a) staff costs	(960,719)	(1,049,686)
	b) other administrative expenses	(727,191)	(649,780)
200.	Net provisions for risks and charges	(21,029)	(12,193)
	a) commitments and guarantees granted	(6,329)	9,032
	b) other net provisions	(14,700)	(21,225)
210.	Net adjustments to property, plant and equipment	(118,816)	(125,524)
220.	Net adjustments to intangible assets	(59,702)	(59,552)
230.	Other operating expense/income	169,491	188,348
240.	**Operating costs**	**(1,717,966)**	**(1,708,387)**
250.	Gains (Losses) on equity investments	(2,945)	7,213
275.	Gain on a bargain purchase	-	343,361
280.	Gains (Losses) on disposal of investments	866	(602)
290.	**Profit (Loss) from current operations before tax**	**203,622**	**416,898**
300.	Income taxes on current operations for the year	67,045	(22,446)
310.	**Profit (Loss) from current operations after tax**	**270,667**	**394,452**
330.	**Profit (Loss) for the year**	**270,667**	**394,452**
340.	Profit (Loss) for the year pertaining to minority interests	(25,017)	(14,869)
350.	**Profit (Loss) for the year pertaining to the Parent Company**	**245,650**	**379,583**

	Earning per share (Euro) 31.12.2020	Earning per share (Euro) 31.12.2019
Basic EPS	0.362	0.766
Diluted EPS	0.339	0.743

Consolidated statement of other comprehensive income

(in thousands)

	Captions	31.12.2020	31.12.2019
10.	**Profit (Loss) for the year**	**270,667**	**394,452**
	Other comprehensive income, after tax, that will not be reclassified to profit or loss		
20.	Equity instruments designated at fair value through other comprehensive income	66,205	(53,182)
40.	Hedging of equity instruments designated at fair value through other comprehensive income	(1,163)	-
70.	Defined benefit plans	4,184	(30,998)
90.	Share of the valuation reserves of equity investments carried at equity	(148)	1,632
	Other comprehensive income, after tax, that may be reclassified to profit or loss		
120.	Cash-flow hedges	(359)	(143)
140.	Financial assets (no equity instruments) measured at fair value through other comprehensive income	15,683	68,310
170.	**Total other comprehensive income after tax**	**84,402**	**(14,381)**
180.	**Total other comprehensive income (Captions 10+170)**	**355,069**	**380,071**
190.	Consolidated other comprehensive income pertaining to minority interests	25,014	19,042
200.	**Consolidated other comprehensive income pertaining to the Parent Company**	**330,055**	**361,029**

Consolidated statement of changes in shareholders' equity

(in thousands)

	Balance as at 31.12.19	Changes in opening balances	Balance as at 1.1.20	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes during the year: Changes in reserves	Transactions on shareholders' equity: Issue of new shares	Transactions on shareholders' equity: Purchase of treasury shares	Transactions on shareholders' equity: Extraordinary distribution of dividends	Transactions on shareholders' equity: Changes in equity instruments	Transactions on shareholders' equity: Derivatives on treasury shares	Transactions on shareholders' equity: Stock options	Transactions on shareholders' equity: Changes in participatory interests	Other comprehensive income as at 31.12.2020	Shareholders' equity as at 31.12.2020: Group	Shareholders' equity as at 31.12.2020: Minority interests
Share capital:	**1,599,279**	**-**	**1,599,279**	**(299)**	**-**	**-**	**538,551**	**-**	**-**	**-**	**-**	**-**	**(11,324)**	**-**	**2,100,435**	**25,772**
a) ordinary shares	1,599,279	-	1,599,279	(299)	-	-	538,551	-	-	-	-	-	(11,324)	-	2,100,435	25,772
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**1,009,055**	**-**	**1,009,055**	**-**	**-**	**-**	**238,475**	**-**	**-**	**-**	**-**	**-**	**(3,464)**	**-**	**1,241,197**	**2,869**
Reserves:	**2,102,623**	**-**	**2,102,623**	**391,528**	**-**	**(65,599)**	**(838)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,348,691**	**79,023**
a) from profits	1,501,654	-	1,501,654	391,528	-	(44,586)	-	-	-	-	-	-	-	-	1,770,432	78,164
b) other	600,969	-	600,969	-	-	(21,013)	(838)	-	-	-	-	-	-	-	578,259	859
Valuation reserves	**43,397**	**-**	**43,397**	**-**	**-**	**(8,440)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**84,402**	**118,105**	**1,254**
Equity instruments	**150,000**	**-**	**150,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**150,000**	**-**
Treasury shares	**(7,259)**	**-**	**(7,259)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,259)**	**-**
Profit (Loss) for the year	**394,452**	**-**	**394,452**	**(391,229)**	**(3,223)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**270,667**	**245,650**	**25,017**
Group shareholders' equity	**5,159,885**	**-**	**5,159,885**	**-**	**-**	**(74,008)**	**776,188**	**-**	**-**	**-**	**-**	**-**	**4,699**	**330,055**	**6,196,819**	**-**
Minority interests	**131,662**	**-**	**131,662**	**-**	**(3,223)**	**(31)**	**-**	**-**	**-**	**-**	**-**	**-**	**(19,487)**	**25,014**	**-**	**133,935**

	Balance as at 31.12.18	Changes in opening balances	Balance as at 1.1.19	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes during the year: Changes in reserves	Transactions on shareholders' equity: Issue of new shares	Transactions on shareholders' equity: Purchase of treasury shares	Transactions on shareholders' equity: Extraordinary distribution of dividends	Transactions on shareholders' equity: Changes in equity instruments	Transactions on shareholders' equity: Derivatives on treasury shares	Transactions on shareholders' equity: Stock options	Transactions on shareholders' equity: Changes in participatory interests	Other comprehensive income as at 31.12.2019	Shareholders' equity as at 31.12.2019: Group	Shareholders' equity as at 31.12.2019: Minority interests
Share capital:	**1,582,935**	**-**	**1,582,935**	**-**	**-**	**-**	**117,959**	**-**	**-**	**-**	**-**	**-**	**(101,615)**	**-**	**1,561,884**	**37,395**
a) ordinary shares	1,582,935	-	1,582,935	-	-	-	117,959	-	-	-	-	-	(101,615)	-	1,561,884	37,395
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**1,011,302**	**-**	**1,011,302**	**-**	**-**	**-**	**72,649**	**-**	**-**	**-**	**-**	**-**	**(74,896)**	**-**	**1,002,722**	**6,333**
Reserves:	**1,838,838**	**-**	**1,838,838**	**371,301**	**-**	**(64,742)**	**(42,774)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,035,205**	**67,418**
a) from profits	1,234,613	-	1,234,613	371,301	-	(104,260)	-	-	-	-	-	-	-	-	1,435,679	65,975
b) other	604,225	-	604,225	-	-	39,518	(42,774)	-	-	-	-	-	-	-	599,526	1,443
Valuation reserves	**24,962**	**-**	**24,962**	**-**	**-**	**32,816**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(14,381)**	**37,750**	**5,647**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**150,000**	**-**	**-**	**-**	**-**	**150,000**	**-**
Treasury shares	**(7,259)**	**-**	**(7,259)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,259)**	**-**
Profit (Loss) for the year	**445,790**	**-**	**445,790**	**(371,301)**	**(74,489)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**394,452**	**379,583**	**14,869**
Group shareholders' equity	**4,389,111**	**-**	**4,389,111**	**-**	**(62,511)**	**8,300**	**147,834**	**-**	**-**	**150,000**	**-**	**-**	**166,122**	**361,029**	**5,159,885**	**-**
Minority interests	**507,457**	**-**	**507,457**	**-**	**(11,978)**	**(40,226)**	**-**	**-**	**-**	**-**	**-**	**-**	**(342,633)**	**19,042**	**-**	**131,662**

Consolidated statement of cash flows

Indirect method

(in thousands)

A. OPERATING ACTIVITIES	31.12.2020	31.12.2019
1. Operations	**1,046,055**	**983,449**
- profit (loss) for the year (+/-)	245,650	379,583
- gains/losses from financial assets held for trading and financial assets/liabilities measured at fair value through profit and loss (-/+)	(33,088)	(35,016)
- gains (losses) from hedging activities (-/+)	653	1,546
- impairment losses/write-backs for credit risk (+/-)	664,708	576,725
- impairment losses/write-backs to property, plant and equipment and intangible assets (+/-)	178,518	185,076
- net provisions for risks and charges and other expense/income (+/-)	41,223	238,555
- unsettled taxes (+/-)	(54,507)	(12,824)
- other adjustments (+/-)	2,898	(350,196)
2. Cash generated/absorbed by financial assets	**(14,406,716)**	**3,517,170**
- financial assets held for trading	13,012	16,754
- financial assets designated at fair value	(96)	89,644
- other financial assets mandatorily measured at fair value	(58,737)	108,655
- financial assets measured at fair value through other comprehensive income	452,482	2,549,586
- financial assets measured at amortised cost	(14,965,332)	850,689
- other assets	151,955	(98,158)
3. Cash generated/absorbed by financial liabilities	**12,725,677**	**(4,122,752)**
- financial liabilities measured at amortised cost	13,026,224	(4,054,947)
- financial liabilities held for trading	4,124	22,107
- other liabilities	(304,671)	(89,912)
Net cash generated/absorbed by operating activities	**(634,984)**	**377,867**

B. INVESTMENT ACTIVITIES	31.12.2020	31.12.2019
1. Cash generated by	**20,910**	**12,940**
- disposal of equity investments	290	6,706
- disposal of property, plant and equipment	20,620	6,234
2. Cash absorbed by	**(244,042)**	**(388,939)**
- purchase of equity investments	(8,250)	-
- purchase of property, plant and equipment	(143,211)	(86,639)
- purchase of intangible assets	(92,581)	(75,393)
- purchase of subsidiaries and business lines	-	(226,907)
Net cash generated/absorbed by investment activities	**(223,132)**	**(375,999)**

C. FUNDING ACTIVITIES	31.12.2020	31.12.2019
- issue/purchase of treasury shares	776,188	-
- issue/purchase of equity instruments	-	180,000
- distribution of dividends and other scopes	(3,223)	(74,489)
Net cash generated/absorbed by funding activities	**772,965**	**105,511**
Net cash generated/absorbed in the year	**(85,151)**	**107,379**

Reconciliation

(in thousands)

Captions	31.12.2020	31.12.2019
Cash and cash equivalents at the beginning of the year	566,924	459,782
Total net cash generated/absorbed in the year	(85,151)	107,379
Cash and cash equivalents: effect of change in exchange rate	419	(237)
Cash and cash equivalents at the end of the year	**482,192**	**566,924**

Key:
(+) generated
(-) absorbed

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Consolidated explanatory notes

Key to abbreviations in tables:

FV: Fair value
FV: Fair value excluding variations due to changes in the credit worthiness of the issuer since the issue date*
NV: Nominal or notional value
BV: Book value
L1: Fair value hierarchy – Level 1
L2: Fair value hierarchy – Level 2
L3: Fair value hierarchy – Level 3

X: not applicable

Part A – Accounting policies

A.1 – General information

Section 1 - Declaration of compliance with International Financial Reporting Standards

The consolidated financial statements for the year ended 31 December 2020 have been prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), endorsed by the European Commission, as provided by EU Regulation 1606 dated 19 July 2002, and currently in force, including the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

Reference was also made, where necessary, to the "Framework for the preparation and presentation of financial statements" and to the documents prepared by the Italian Accounting Body (OIC) and the Italian Banking Association (ABI).
In the absence of a standard or interpretation specifically applicable to a particular transaction, the Parent Company makes use of the professional opinion of its own staff, in particular the Administration and Reporting Department, to develop a rule for accounting recognition that makes it possible to provide reliable financial information and to ensure that the financial statements give a true and fair view of the financial position, result of operations and cash flows of the Group, reflecting the economic substance of the transaction and its key aspects.
In formulating these accounting rules, reference is made as far as possible to International Accounting Standards and interpretations dealing with similar or comparable matters.
As part of its guidance and coordination activity, the Parent Company requires the other Group Banks and Companies to apply the Group's own accounting recognition rules, in the right circumstances.

As required by IAS 8, the following table shows the new international accounting standards or amendments to standards already in force, with the related Approval Regulations, whose application is mandatory from 2020.

EC Approval Regulation	Title	In force from years beginning
2075/2019	The Commission Regulation (EU) No 2019/2075 of 29 November 2019, published in the Official Journal of the European Union L 316 on 6 December 2019, adopts amendments to references in the conceptual framework in International Financial Reporting Standards. The objective of the amendments is to update existing references in several standards and interpretations to previous frameworks with references to the revised Conceptual Framework.	1 January 2020
2104/2019	The Commission Regulation (EU) No 2019/2104 of 29 November 2019, published in the Official Journal of the European Union L 318 on 10 December 2019, adopts amendments to IAS 1 and IAS 8. The objective of the amendments is to clarify the definition of ‘material’ to make it easier for companies to make materiality judgements and to enhance the relevance of the disclosures in the notes to the financial statements.	1 January 2020
34/2020	The Commission Regulation (EU) No 2020/34, published in the Official Journal of the European Union on 16 January 2020, adopts amendments to IAS 39, IFRS 9 and IFRS 7. The objective of the amendments is to provide temporary and narrow exemptions to the hedge accounting requirements so that companies can continue to meet the requirements assuming that the existing interest rate benchmarks are not altered because of the interbank offered rate reform.	1 January 2020
551/2020	The Commission Regulation (EU) No 2020/551, published in the Official Journal of the European Union on 22 April 2020, adopts amendments to Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 3. The objective of the amendments is to clarify the definition of a business with a view to facilitating its practical implementation.	1 January 2020
1434/2020	The Commission Regulation (EU) No 2020/1434 of 9 October 2020, published in the Official Journal of the European Union on 12 October 2020, adopts amendements to Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 16. The amendment to IFRS 16 provides optional, temporary COVID-19 related operational relief for lessees benefitting from lease payments holidays without undermining the relevance and usefulness of financial information reported by companies.	1 June 2020

With respect to the regulations that have been endorsed and that came into effect on 1 January 2020, the Group has not identified any significant impacts on the consolidated financial statements as at 31 December 2020.

On 28 October 2020, ESMA published a Public Statement with which it announced the priorities on which listed issuers will have to focus in preparing their IFRS-compliant financial statements for 2020, with particular attention to the impacts deriving from Covid-19.

The following table shows the new international accounting standards or amendments to standards already in force, whose application is mandatory from 1 January 2021 or later date (if the financial statements do not coincide with the calendar year).

EC Approval Regulation	Title	In force from years beginning
2097/2020	The Commission Regulation (EU) No 2020/2097 of 15 December 2020, published in the Official Journal of the European Union on 16 December 2020, adopts amendements to IFRS 4. The amendments to IFRS 4 "Insurance Contracts" aim to address the temporary accounting consequences of the different effective dates of IFRS 9 "Financial Instruments" and the forthcoming IFRS 17 "Insurance Contracts". In particular, the amendments to IFRS 4 extend the expiry date of the temporary exemption from applying IFRS 9 until 2023 in order to align the effective date of IFRS 9 with the new IFRS 17.	1 January 2021

No significant impacts are expected for the BPER Banca Group from application of these amendments.

Section 2 - Basis of preparation

In terms of the schedules presented and its technical form, these consolidated financial statements have been prepared on the basis of Circular 262/2005, as amended (most recently by the 6th amendment dated 30 November 2018, effective from 1 January 2019) – issued in implementation of art. 9 of Legislative Decree 38/2005 – and the additional instructions provided in separate communications not yet incorporated into the main document[50]. During preparation, account has been taken of the interpretative and support documents for the application of the accounting standards in relation to the impacts of Covid-19, issued by the Italian and European regulatory and supervisory bodies and by the standard setters[51], to the extent applicable.

[50] These include the indications contained in the communication of 15 December 2020 with provisions concerning the impacts of Covid-19 and the measures to support the economy and amendments to IAS/IFRS.

[51] Amongst others, the following are worth mentioning: the communication from the EBA of 25 March 2020 "Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of Covid 19 measures", the communication of ESMA of 25 March 2020 "Public Statement. Accounting implications of the Covid 19 outbreak on the calculation of expected credit losses in accordance with IFRS 9", the document of the IFRS Foundation of 27 March 2020" IFRS 9 and Covid-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic", the letter from the ECB dated 1 April 2020" IFRS 9 in the context of the coronavirus (Covid 19) pandemic" addressed to all significant institutions, the EBA guidelines of 2 April 2020 "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid 19 crisis", the communication of ESMA of 20 May 2020 "Implications of the COVID-19 outbreak on the half-yearly financial reports", the EBA guidelines of 2 June 2020 "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid 19 crisis", the ESMA communication of 28 October 2020" European common enforcement priorities for 2020 annual financial reports", the EBA guidelines of 2 December 2020 "Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid 19 crisis" , the letter from the ECB dated 4 December 2020 "Identification and measurement of credit risk in the context of the coronavirus (Covid 19) pandemic" addressed to all significant institutions, the call for attention by CONSOB no. 1/21 of 16/02/2021 - Covid 19 - measures to support the economy.

Where not already included in these documents mentioned above, Italian laws on the financial statements of companies[52] and the Italian Civil Code have been taken into consideration.
The consolidated financial statements consist of the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity, the consolidated statement of cash flow and these explanatory notes. They are accompanied by the directors' report on operations.

The currency used in the financial statements is the Euro. Figures are expressed in thousands of Euro[53].

The general criteria underlying the preparation of the Consolidated financial statements are presented below:

- *Going Concern:* assets, liabilities and off-balance sheet transactions are measured in the context of continuity over time (please refer to the arguments in the "Business continuity" paragraph in the present Section).
- *Accrual Basis of Accounting:* costs and revenues are recognised on the accrual basis and in accordance with the matching principle, regardless of when they are settled.
- *Materiality and Aggregation:* each material class of similar items is presented separately in the financial statements. Items that are dissimilar in terms of their nature or use are only aggregated if they are individually immaterial.
- *Offsetting:* assets and liabilities, income and expenses are not offset unless required or permitted by a standard or an interpretation, or by the Bank of Italy's regulations for the preparation of financial statements.
- *Frequency of disclosures:* information must be prepared annually or more frequently; if an entity changes its accounting reference date, the reason must be indicated together with the fact that the information provided is not comparable.
- *Comparative Information:* comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements, unless required otherwise by a standard or an interpretation.
- *Consistency of Presentation:* the presentation and classification of items is maintained over time to ensure that information is comparable, unless specified otherwise in new accounting standards or their interpretations, or unless a change is required to improve the meaningfulness and reliability of the amounts reported. The nature of changes in account presentation or classification is described, together with the related reasons; where possible, the new criterion is applied on a retroactive basis.

The Expalantory Notes and attachments to the 2020 financial statements provide additional information deemed useful for a complete, true and fair view of the company's situation, even if such information is not expressly required by the regulations.

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[52] *In particular, Legislative Decree 136 of 18 August 2015 - Implementation of Directive 2013/34 / EU relating to financial statements, consolidated financial statements and related reports of certain types of companies, amending Directive 2006/43 / EC of the European Parliament and of the Council and repealing Directives 78 / 660 / EEC and 83/349 / EEC, for the part relating to the annual accounts and consolidated accounts of banks and other financial institutions, as well as the publication of the accounting documents of branches, established in a Member State, of credit institutions and financial institutions with registered offices outside that Member State, which repeals and replaces Legislative Decree 87.*
[53] *As regards roundings, reference has been made to the instructions given in Circular 262/2005 BI and subsequent updates, entering the amount due to rounding in "Other assets/other liabilities" in the balance sheet and "Other operating expense/income" in the income statement.*

Uncertainties in the use of estimates

The preparation of the Financial statements requires recourse to estimates and assumptions that may affect the amounts recorded in the balance sheet and the income statement, as well as the information about contingent assets and liabilities. The development of such estimates involves the use of available information and the adoption of subjective assessments, partly based on historical experience, in order to make reasonable assumptions for the recognition of operating events. By their nature, the estimates and assumptions used may change from period to period and, accordingly, it may be that the actual amounts recorded in the financial statements in subsequent periods are significantly different as a consequence of changes in the subjective assessments made.

The principal situations in which management is required to make subjective assessments include:

- quantification of the losses arising from the impairment of loans and, in general, other financial assets;
- determination of the fair value of financial instruments, in particular, the use of measurement models to determine the fair value of financial instruments that are not listed in active markets and those that are not routinely measured at fair value;
- quantification of the provisions for employee benefits and the provisions for risks and charges;
- estimates and assumptions about the recoverability of deferred tax assets;
- measurement of goodwill and other intangible assets.

The following paragraphs explain the accounting methods used to measure the main items in the financial statements, key assumptions and the valuation models used in preparing the consolidated financial statements.

With particular regard to the quantification of impairment losses on loans and financial assets, determination of the fair value of financial instruments, the results of the impairment test on goodwill, the considerations made regarding the recoverability of deferred tax assets, the estimates and assumptions relating to them and used to prepare these consolidated financial statements, they may be subject to amendment when new and potentially more reliable information gradually becomes available about the impacts deriving from the spread of Covid-19.

Referring to what is specified by the IASB in its document of 27 March 2020[54], the ordinary valuation models adopted by the BPER Banca Group (in particular the models used to calculate Estimated Credit Losses (ECL) and the Significant Increase in Credit Risk (SICR) within the ambit of IFRS 9 impairment) have not been applied "mechanically", given that the Covid-19 pandemic has brought about a very exceptional situation; valuations have therefore been carried out making reference, for some aspects, to alternative approaches (the so-called "overlay approach" explained in Section 5 below), it being understood that they too comply with IAS/IFRS.

Going Concern[55]

In preparing the consolidated financial statements for the year ended 31 December 2020, the Directors considered the going-concern assumption to be appropriate because they did not find any uncertainties related to events or circumstances that, individually or collectively, could give rise to doubts about the

[54] *IASB 27 March 2020: "IFRS 9 and Covid-19 – Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of the current uncertainty resulting from the Covid-19 pandemic".*

[55] *As required by document No. 2 issued with joint signature by the Bank of Italy, CONSOB and ISVAP (now IVASS) on 6 February 2009.*

going concern. This assessment took account of the capitalisation of the Group, which has significant buffer capital with respect to the minimum requirement for 2020 established by the European Central Bank, as well as the liquidity position and related buffer with respect to the regulatory threshold, and the likely outlook for operations despite the uncertainties linked to the current emergency.

Investigations and audits

The Directors believe that the observations arising from the various inspection areas will not have a significant impact on the income, balance sheet and cash flows of the BPER Banca Group. Nevertheless, recommendations made by the Supervisory Authorities are disclosed in the Directors' report on Group operations and suitable action plans are prepared in order to ensure a timely response.

Section 3 - Scope of consolidation and methodology

The international accounting standards referred to when preparing the consolidated financial statements, when the circumstances arise, are IFRS 3 "Business Combinations" (issued with EC Regulation 495/2009, effective from 1 July 2019 and last updated in 2020), IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint agreements", IFRS 12 "Disclosure of Interests in Other Entities", IAS 27 "Separate Financial Statements", IAS 28 "Investments in associates and joint ventures" (all issued with EC Regulation 1254/2012 and in force since 1 January 2014 and subsequent updates).

Consolidation principles

The BPER Banca Group's consolidated financial statements include the balance sheet and income statement results of the Parent Company and of its direct and indirect subsidiaries; they include subsidiaries operating in sectors dissimilar from that of the Parent Company and vehicle companies (SPEs or SPVs)[56], when they fulfil the requirements for effective control, whether or not there is an equity interest.

The concept of control (IFRS 10 § 6) is based on the simultaneous presence of three elements:

- the power to direct the relevant activities, i.e. the activities of the investee that significantly affect its returns;
- exposure to variable returns arising from the activity of the investee;
- the exercise of power to influence the returns.

Subsidiaries are companies in which the Parent Company, directly or indirectly, owns more than half of the voting rights. However, the concept of control is considered to exist when at the same time the investor has power over the investee and there has to be the correlation between power and return, which occurs when the investor holds valid rights that give it the ability to direct the activities of the investee or have a significant effect on its returns.

Structured entities are also consolidated, when effective control requirements are met, regardless of whether there is an equity interest.

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[56] *The consolidation of SPVs has the same effects as consolidation on a line-by-line basis.*

Jointly controlled companies are those in which the voting rights and control of economic activities are shared equally by the Parent Company, directly and indirectly, and by another external entity. An equity investment is also considered as subject to joint control when, in the absence of an equal share of voting rights, control over the company's economic activities and strategies are shared with other parties under contractual agreements. The BPER Banca Group does not include any jointly controlled entities at 31 December 2020.

Associates are companies subject to significant influence, in which the Parent Company, directly or indirectly, holds at least a fifth of the voting rights (including "potential" rights to vote) and which has the power to take part in deciding the financial and operating policies. Associated companies are also those in which – despite a lower share of voting rights – the Parent Company has the power to take part in deciding the financial and operating policies under a particular legal relationship, such as, for example, participation in shareholder agreements.

Consolidation methodology

As a rule, subsidiaries are consolidated on a line-by-line basis, while jointly controlled entities and non-controlling interests in which the Group exercises significant influence are accounted for using the equity method.

The methods adopted for consolidation on a line-by-line basis are as follows:

- assets, liabilities and equity and income statement items are combined on a line-by-line basis;
- debit and credit balances, off-balance sheet transactions and income and costs arising from transactions between consolidated companies are eliminated;
- the shareholders' equity and profit for the year pertaining to minority interests in the consolidated companies are classified separately in the balance sheet (as a liability) and the income statement;
- on first-time consolidation, the carrying value of the equity investments in companies consolidated on a line-by-line or proportional basis is eliminated against the shareholders' equity in these companies (or the portion of shareholders' equity that the equity investments concerned represent). The acquisition of interests in companies is recorded using the "purchase method" defined in IFRS 3, with the recognition of the assets, liabilities and contingent liabilities of purchased companies at their fair value at the time of acquisition, i.e. at the time that effective control over them is obtained. Accordingly, the results of a subsidiary purchased during the year are consolidated from the date of acquisition. Similarly, the results of a subsidiary that is sold are consolidated until the date that control is lost;
- any excess of the carrying value of the equity investments referred to above with respect to the interest held in their shareholders' equity, as adjusted to reflect the fair value of assets and liabilities, is classified as goodwill among caption 100 "Intangible assets", while any shortfall is credited to income statement caption 275. "Gain on a bargain purchase";
- any changes in the interest held in equity investments are booked as transactions on capital. Any difference between the value of equity investments to be adjusted and the fair value of the consideration paid (or received) has to be booked directly as a change in shareholders' equity and suitably allocated to minority interests;

- the fairness of the value recorded for goodwill is tested at least once a year (or whenever there is evidence of impairment), as required by IAS 36. To meet regulatory requirements, the cash-generating unit to which goodwill is allocated has to be identified. Adjustments reflect the difference between the book value of goodwill and its recoverable value, if lower, as represented by the fair value of the cash generating unit, less costs to sell, or, if higher, its value in use.

In order to apply the equity method:

- the book value of significant equity investments held by the parent bank or by other group companies is compared with the related interest in the shareholders' equity of these associated companies carried at equity. Any excess book value - identified on initial consolidation - is included in the carrying value of the investment. Changes in shareholders' equity subsequent to first-time consolidation are classified in caption 250 of the consolidated income statement as "Gains (Losses) of equity investments", to the extent that they relate to their profit or losses, while other changes are recognised as a direct adjustment of shareholders' equity;
- if there is evidence that a significant investment in an associate may be impaired, its recoverable amount is estimated with reference to the present value of future cash flows, including the expected proceeds from the future sale of the investment. If the recoverable amount is lower than the carrying amount, the related difference is charged to the income statement.

Current regulations require the scope of consolidation to be managed on two levels:

- the accounting scope of consolidation governed by IFRS 10[57] "Consolidated financial statements", IAS 27 "Separate financial statements", IAS 28 "Investments in Associates and Joint Ventures" and, if required by the circumstances, IFRS 11 "Joint Agreements" (all adopted by Regulation (EU) 1254/2012 and effective from 1 January 2014 and subsequent amendments) and IFRS 3 "Business Combinations" (adopted by Regulation (EU) 495/2009 and subsequent amendments).
- the prudential scope of consolidation governed by Regulation (EU) 575/2013, in which art. 19 indicates the entities to be excluded from the prudential consolidation.

The above regulations contribute to determining the scope of consolidation at each level, as well as the methodologies to be used for each consolidation.
International accounting standards require subsidiaries to be consolidated on a line-by-line basis, while jointly controlled entities and non-controlling interests in which the Group exercises significant influence are accounted for using the equity method.
Art. 19 of the CRR[58] excludes from the scope of line-by-line consolidation all financial entities and operating companies, including members of the Banking Group, whose total assets and off-balance sheet amounts are less than the lower of the following two amounts:

- Euro 10 million;
- 1% of the total assets and off-balance sheet amounts of the parent company or the entity that holds the equity investment.

The BPER Banca Group has decided to adopt the consolidation method envisaged for prudential regulatory purposes. This approach has also been applied when determining the financial disclosures to be made, bringing the two scopes of consolidation ("for accounting purposes" and "for regulatory purposes") into line.

[57] *IFRS 10 §B86 in relation to consolidation procedures.*
[58] *Regulation (EU) 575/2013*

This decision was needed to rationalise, simplify and streamline the production of consolidated information for supervisory and financial reporting purposes. Its effects on the latter are negligible. In terms of the areas affected, the marginal dynamics previously indicated in the income statement on a line-by-line basis are now summarised in the "Profit (loss) from equity investments" line item; in the assets and liabilities sides of the balance sheet, the *"Equity investments"* caption reports the amounts that have not been eliminated that were previously recognised on a line-by-line basis, while shareholders' equity remains unchanged.
The following companies are members of the Banking Group which at 31 December 2020 do not satisfy the requirements of art. 19 of the CRR:

- Estense Covered Bond s.r.l.;
- BPER Trust Company s.p.a.;
- Estense CPT Covered Bond s.r.l..

The other subsidiaries that are not members of the banking Group, since their activities do not contribute to its banking operations, are:

- Italiana Valorizzazioni Immobiliari s.r.l.;
- Adras s.p.a.;
- SIFA' - Società Italiana Flotte Aziendali s.p.a..

1. Investments in wholly-owned subsidiaries

1.1 Equity investments within the Group consolidated line-by-line

	Company name	Operational head office	Registered head office	Type of relationship (1)	Share capital in Euro	Nature of holding		% Available votes (2)
						Parent company	% holding	
1.	Banco di Sardegna s.p.a.	Sassari	Cagliari	1	155,247,762	BPER Banca	99.124	100.000
2.	Bibanca s.p.a.	Sassari	Sassari	1	74,458,607	BPER Banca	78.548	
						B. Sard.	20.522	
3.	BPER Bank Luxembourg SA	Luxembourg	Luxembourg	1	30,667,500	BPER Banca	100.000	
4.	Nadia s.p.a.	Modena	Modena	1	87,000,000	BPER Banca	100.000	
5.	Sardaleasing s.p.a.	Milan	Sassari	1	152,632,074	BPER Banca	52.741	
						B. Sard.	46.933	
6.	Optima s.p.a. S.I.M.	Modena	Modena	1	13,000,000	BPER Banca	100.000	
7.	Tholos s.p.a.	Sassari	Sassari	1	52,015,811	B. Sard.	100.000	
8.	Numera Sistemi e Informatica s.p.a.	Sassari	Sassari	1	2,065,840	B. Sard.	100.000	
9.	Modena Terminal s.r.l.	Campogalliano	Campogalliano	1	8,000,000	BPER Banca	100.000	
10.	Emilia Romagna Factor s.p.a.	Bologna	Bologna	1	54,590,910	BPER Banca	99.057	
11.	BPER Credit Management s.cons.p.a.	Modena	Modena	1	1,000,000	BPER Banca	70.000	
						B. Sard.	20.000	
						Bibanca	3.000	
						EmilRo Factor	1.000	
						Sardaleasing	6.000	
12.	Arca Holding s.p.a.(*)	Milan	Milan	1	50,000,000	BPER Banca	57.061	
13.	Arca Fondi SGR s.p.a	Milan	Milan	1	50,000,000	Arca Holding	100.000	
14.	Finitalia s.p.a.	Milan	Milan	1	15,376,285	BPER Banca	100.000	

(*) not a member of the banking Group.

The "% Available votes" column is only used if the actual share of votes exercisable at the Ordinary Shareholders' Meeting is different from the interest held in the company's share capital.
The figure for share capital is provided as extra information as required by CONSOB Communication DEM/6064293 dated 28 July 2006.

Key:

(1) Type of relationship:
1 Majority of votes at the ordinary shareholders' meeting.
(2) Available votes at ordinary shareholders' meeting, distinguishing between actual and potential.

1.2 Equity investments within the Group consolidated with the application of the equity method

	Company name	Operational head office	Registered head office	Type of relationship (1)	Share capital in Euro	Nature of holding		% Available votes (2)
						Parent company	% holding	
A. Subsidiaries Companies that are not members of the Banking Group								
1.	Adras s.p.a.	Milan	Milan	1	1,954,535	BPER Banca	100.000	
2.	Italiana Valorizzazioni Immobiliari s.r.l.	Milan	Milan	1	2,000,000	BPER Banca	100.000	
3.	SIFA' - Società Italiana Flotte Aziendali s.p.a.	Milan/Reggio Emilia	Trento	1	122,449	BPER Banca	100.000	
B. Subsidiaries Companies that are members of the Banking Group but do not satisfy the requirements of art. 19 of the CRR								
4.	Estense Covered Bond s.r.l.	Conegliano	Conegliano	1	10,000	BPER Banca	60.000	
5.	BPER Trust Company s.p.a.	Modena	Modena	1	500,000	BPER Banca	100.000	
6.	Estense CPT Covered Bond s.r.l.	Conegliano	Conegliano	1	10,000	BPER Banca	60.000	

The "% Available votes" column is only used if the actual share of votes exercisable at the Ordinary Shareholders' Meeting is different from the interest held in the company's share capital.
The figure for share capital is provided as extra information as required by CONSOB Communication DEM/6064293 dated 28 July 2006.

Key:

(1) Type of relationship:
1 Majority of votes at the ordinary shareholders' meeting.
(2) Available votes at ordinary shareholders' meeting, distinguishing between actual and potential.

2. Significant assessments and assumptions made when determining the scope of consolidation

As regards the companies included in the scope of consolidation, no facts or circumstances have emerged over the year that, as envisaged in IFRS 10, might change the assessments made regarding the possession of control, joint control or significant influence.

3. Investments in wholly-owned subsidiaries with significant minority interests

Minority interests are considered significant based on the materiality of total equity compared with the equivalent consolidated figure.

3.1 Equity investments of minority, available votes of minority and dividends distributed to minority

Name	% Equity investments of minority	% Available votes of minority (1)	Dividends distributed to minority
1. Banco di Sardegna s.p.a.	0.876	-	-
2. Bibanca s.p.a.	0.930	0.930	-
3. Arca Holding s.p.a.	42.939	42.939	3,220
4. Emilia Romagna Factor s.p.a.	0.943	0.943	-
5. Sardaleasing s.p.a.	0.326	0.326	-

BPER Banca holds 100% of the ordinary share capital of the subsidiary Banco di Sardegna s.p.a.
The consolidation was carried out using the sub-consolidations prepared for Arca Holding and its wholly-owned subsidiary, Arca Fondi SGR s.p.a.
The dividends relate to profit for 2019 that were distributed in 2020.

Key:

(1) Available votes at ordinary shareholders' meeting.

3.2 Equity investments with significant minority interests: accounting information

Company name	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Shareholders' equity	Net interest income	Net interest and other banking income
1. Banco di Sardegna s.p.a.	13,537,938	116,231	12,748,424	248,836	12,049,956	937,981	191,233	359,781
2. Bibanca s.p.a.	1,586,626	1	1,531,857	16,476	1,232,502	297,158	48,262	66,538
3. Arca Holding s.p.a.	492,889	2	225,394	135,920	3,396	389,100	(155)	134,418
4. Emilia Romagna Factor s.p.a.	1,073,379	1	1,057,400	9,470	864,254	137,699	10,403	17,387
5. Sardaleasing s.p.a.	3,385,359	3	3,248,509	46,096	3,194,843	121,501	51,269	48,628

(cont.)

Company name	Operating costs	Profit (Loss) from current operations before tax	Profit (Loss) from current operations after tax	Profit (Loss) after tax on non-current assets held for sale	Profit (Loss) for the year (1)	Other Comprehensive income after taxes (2)	Comprehensive income (3)= (1)+(2)
1. Banco di Sardegna s.p.a.	(256,913)	49,463	41,501	-	41,501	342	41,843
2. Bibanca s.p.a.	(40,081)	20,393	13,623	-	13,623	542	14,165
3. Arca Holding s.p.a.	(53,863)	80,555	56,668	-	56,668	(27)	56,641
4. Emilia Romagna Factor s.p.a.	(9,584)	6,879	4,731	-	4,731	17	4,748
5. Sardaleasing s.p.a.	(16,476)	1,762	3,259	-	3,259	(3)	3,256

The amounts provided are before intercompany eliminations.
The economic and financial information refers to the situation at 31 December 2020.

During the course of 2020, Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a. were absorbed by BPER Banca s.p.a. Details of the transaction are provided in the chapter “Significant events and strategic transactions” of the consolidated report on operations.

4. Significant restrictions

At the Banks and Companies that make up the BPER Banca Group's scope of consolidation, there are no significant restrictions as foreseen by IFRS 12 § 13.

5. Other information

The line-by-line consolidation is based on the financial statements prepared and approved by the individual subsidiaries as at 31 December 2020. These have been prepared in accordance with IAS/IFRS by the individual banks and financial companies subject to Bank of Italy supervision. All the other Group Italian companies and BPER Bank Luxembourg s.a. included in the scope of consolidation normally prepare their financial statements according to Italian accounting standards. These companies therefore prepared separate accounting schedules and data according to the international accounting standards used for consolidation purposes.
Accounts prepared according to IAS/IFRS and approved as at 31 December 2020 were used for companies owned or controlled by the Group and consolidated using the equity method.
The latest available accounts were used for the other equity investments consolidated using the equity method.

Section 4 – Subsequent events to the reporting data

These consolidated financial statements as at 31 December 2020 were approved on 16 March 2021 by BPER Banca's Board of Directors, which authorised their publication.
Information on events falling within the scope of strategic actions and occurring after the reporting date is presented and commented on in the Directors' Report on Group operations in paragraph 3.6 "*Events subsequent to 31 December 2020*". These events did not affect the consolidated financial statements pursuant to IAS 10.
In addition, it should be noted that in 2021 a binding purchase offer was received and accepted for the shares of Cedacri s.p.a. held by BPER Banca. This offer, which featured some conditions precedent, presents a higher value than the one used in preparing the consolidated financial statements as at 31 December 2020 as an expression of the value of a different type of investment from the one currently held (i.e. reflecting a new industrial project able to accelerate technological innovation and with the prospect of reducing costs for client banks). It is believed that the price offered can be considered in determining the fair value of the shares in question, subject to fulfilment of the contractual conditions precedent. The internal valuation carried out by the BPER Banca Group when preparing the financial statements as at 31 December 2020 is based on the objectives defined in the latest strategic planning document approved by the current shareholders on the basis of a different industrial project from the offer mentioned above.

Section 5 – Other aspects

Risks, uncertainties and impacts of the Covid-19 pandemic

For an analysis of the effects of the pandemic on the risks and uncertainties to which the BPER Banca Group is exposed, please refer to Chapter 7 - "*Principal risks and uncertainties*" of the Directors' Report on Group operations.

As already mentioned in the report on operations, the change in the general and sector macroeconomic situations starting in the second quarter of 2020 has required banks to update their measurements of credit risk. This parameter has, in fact, been heavily affected by uncertainties linked to the spread of the Covid-19 pandemic and the related containment measures, as well as by the scale and duration of the public support measures.
The emergency has also imposed on the BPER Banca Group the need to govern the impacts on credit risk and on the balance sheet assessments connected to it.
In this regard, the Parent Company has carried out analyses to identify the best methods of intervention on the credit risk measurement and forecasting systems, aligning them with the current context and trying to avoid being excessively pro-cyclical in the definition of collective provisions, as indicated by the Regulators, among others (especially ESMA and ECB).
The BPER Banca Group has implemented the various instructions issued by the Italian government[59] (including the suspension of loan instalment payments – the “Covid-19 moratoria”) and affirmed its commitment to support business and private customers, at the same time identifying the best methods

[59] *Decree Law 18 of 17 March 2020; Liquidity Decree 23 of 8 April 2020; Relaunch Decree of 13 May 2020.*

of recognition and presentation in the financial statements of these measures, in accordance with its accounting policies and instructions from the Regulators[60].

Below are some concepts relating to the recognition, classification, measurement and derecognition of "Financial assets measured at amortized cost", represented by loans disbursed, adopted for the preparation of the consolidated financial statements as at 31 December 2020, to which reference was made to direct the consequences of the Covid-19 pandemic. There is also an explanation of the method of application of the overlay approach, already introduced in the previous paragraph "Uncertainty in the use of estimates" in Section 2.

For the other methods used in the recognition, classification, measurement and derecognition of income statement items, please refer to Part A.2 of the Explanatory Notes. In fact, the Group did not feel the need for further interventions on the valuation methods of the items in the financial statements regulated, in particular, by IFRS 16 (also based on what is discussed below in relation to the contractual modifications), by IAS 19 and by IFRS 2, deeming the effects of the Covid-19 pandemic on these measurements to be immaterial. In relation to the valuations governed by IAS 36, please refer to the comments on Intangible assets with an indefinite useful life, particularly the information provided in Part B concerning the impairment test of goodwill, performed using financial forecasts of the BPER Banca Group and the individual CGUs updated according to the most recent macroeconomic scenarios released by the leading Italian company specialising in the processing of such data, to which the Group refers.

Contractual modifications resulting from Covid-19

1) *Contractual modifications and accounting derecognition (IFRS 9)*

The accounting treatment adopted by the BPER Banca Group for contractual modifications made to financial assets already recognised in the financial statements generally requires reflection of the amendments made to exposures known to be in financial difficulty (classified as forborne exposures) in the value of the loan, with an impact on income statement caption 140. "Gains/losses from contractual modifications without derecognition" (so-called "modification accounting").

As stated by the EBA in the "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis" dated 4 April 2020, moratoria granted to customers pursuant to the law and sector agreements (ABI agreements), are not considered indicators of financial difficulty for the purpose of classifying the individual positions concerned as forborne exposures (with consequent inclusion in Stage 2). The internal moratoria, granted to customers on the initiative of the BPER Banca Group, were agreed in a "standardised" manner on simple receipt of their applications. In this sense, the characteristics of the internal moratoria are similar to those of the law and, therefore, are not deemed to represent the provision of assistance for financial difficulties. In relation to all internal moratoria, the Parent Company carried out qualitative and quantitative analyses to check for earlier signs of temporary difficulty (considering the last six months of 2019) that would have required action for the mitigation of credit risk, with possible classification of the counterparties in Stage 2 and a related increase in ECL. The results of this analysis led to the identification of a series of debtors with potential financial difficulties that was fairly limited compared with the total exposures to counterparties subject to moratoria and confirmed that most of these customers were already classified in Stage 2 and therefore with ECL calculated with a probability of default assessed from a lifetime perspective.

[60] *For quantitative information on the moratoria granted by the BPER Banca Group and still in existence at the balance sheet date, please refer to Part B - Assets, Section 4 of the Explanatory Notes.*

In application of the BPER Banca Group policy, none of the Covid-19 moratoria qualify as forbearance measures and, therefore, have not been recognised in accordance with modification accounting.

2) *Amendment of IFRS 16*

The amendment to IFRS 16 concerning contractual modifications to leases made to take into account the situation caused by the Covid-19 pandemic did not have significant effects on the BPER Banca Group, as it did not make any Covid-related rent concessions in 2020.

Accounting estimates - Overlay approach applied in credit risk assessment

1) *Assessment of a significant increase in credit risk (SICR)*

The interventions resulting from the situation brought about by the Covid-19 pandemic on the SICR model adopted by the BPER Group consisted of the following:

- implementation of the EBA's recommendations made on various occasions during 2020 regarding the treatment of moratoria ("by law" and "by category"), with consistent indications incorporated into internal procedures and processes;
- interventions of "expert" classification in Stage 2 of counterparties operating in sectors of the economy most hit by the crisis, also with an intrinsic riskiness highlighted by higher internal ratings than the sector average, which was assessed as having encountered situations of financial difficulty on the basis of reasoned assumptions, taking into account the possible granting of Covid-19 moratoria; such interventions have gone to integrate the automatisms already foreseen by the SICR model.

More specifically, as regards implementation of the EBA's guidelines on moratoria in the Covid-19 era, the Group has regulated internally, with appropriate circulares, the methods of analysing counterparties requesting a moratorium or its renewal, with timely updates of EBA's publications, which took place in April, September and December 2020. Consequently, the processes needed for case-by-case identification of forbearance measures, suspended only for the “by law” and "by category" moratoria between March and September 2020, were then restored.
For the expert intervention for the attribution of Stage 2, a different approach was adopted according to the type of customer. For the Corporate Segment, the sectors with the greatest difficulties linked to the pandemic and its economic consequences (so called “vulnerable sectors”) were identified first, considering factors in this analysis indicative of a significant increase in credit risk that are as objective as possible (e.g. expected drop in turnover in 2020) and high internal ratings. In these cases, if the normal procedures had not already intercepted the riskiness of the counterparties, stage 2 was assigned. For the Retail Segment, the first loans to be considered were those that obtained a suspension of payments under the so-called "Gasparrini Law" which, due to the characteristics required for access (e.g. death of a joint holder, redundancy pay for at least 30 consecutive days, loss of job), was considered in itself an objective indicator of potential financial difficulty of the debtor, leading to the assignment of Stage 2 in this case too (if the counterparties had not already been intercepted by other automatisms of the staging model).
In addition, those exposures (in both the Retail and Corporate Segments) benefiting from Covid-19-related moratoria that presented a significant level of risk even before the outbreak of the pandemic were also considered potentially attributable to stage 2. The methods of identifying "vulnerable sectors", on which the expert intervention focused, were verified by the Risk Management Department.

The "expert" interventions carried out to supplement the automatisms of the IFRS 9 staging model adopted by the Group were also accompanied by some further refinements made to the model. These referred, in particular, to the estimate of the expected loss on sight and short-term exposures, more effective identification of the original rating and recalibration of the interception threshold of the "PD delta".
This set of interventions raised the number of positions classified to Stage 2, which at 31 December 2020 reached a gross exposure of Euro 6.2 billion. In addition, the average coverage of this portfolio increased by approximately 11 bps compared with the equivalent figure in September.

2) *Measurement of expected losses*

Performing

When applying the ECL model used by the BPER Banca Group in preparing the consolidated financial statements as at 31 December 2020, a number of scenario simulations were carried out to identify the macroeconomic forecasts that could best help intercept the unexpressed riskiness of the Group's loan portfolio as a consequence of the fact that the credit monitoring system was not able to intercept all possible signs of deterioration in credit quality, also in consideration of the support measures that had been agreed; this in compliance with the indications and expectations of the Supervisory Authorities, being well aware that the effects of the pandemic will contaminate credit quality for a long time to come.
More specifically, the simulations took into considerations the most up-to-date macroeconomic scenarios with respect to the end of 2020, including those prepared by the ECB/Bank of Italy in December 2020 (intended as a "backstop" with respect to the recovery expectations), and the consequent updates as of the same date prepared by the leading company that specialises in the preparation of forecasts to which the Group refers. Both scenario hypotheses are based on a forward-looking approach which, although rigorous and/or stressed, still makes it possible to see, in the near future, an improvement with respect to the loss forecasts estimated and accounted for during the course of 2020 on the basis of the scenarios developed in the most acute period of the pandemic (published in June 2020), which included a foreseeable deterioration in the credit quality of customers which is thought not to have been fully manifest so far, thanks to government support measures.
Considering it appropriate to monitor the probable deterioration in credit quality, which is expected to start revealing itself once the support measures have expired, when progressively less robust customers will begin to show signs of insolvency, the BPER Banca Group has decided to intervene with a "top-down corrective", essentially designed to build into the model specific monitoring of the probable deterioration in credit quality; this intervention was made on the basis of the June 2020 macroeconomic scenario mentioned above, applied to a database that was in any case updated following the interventions carried out on the IFRS 9 staging criteria, as explained in the previous section.

Non-performing

As regards the analytical assessments applied to the non-performing portfolio, specifically to the category of bad and unlikely to pay loans, to take into account the substantial inactivity of the courts during the lock-down period and consequent lengthening of judicial recovery times of its credit exposures, the Group decided to intervene by reviewing the business plans formulated before the pandemic. This review led to a general increase in analytical adjustments on bad loans (particularly positions with judicial execution already underway) and on unlikely to pay loans (assessed as a "gone concern").

These interventions led to a final cost of credit of 101 bps on total loans to customers, which compares with a 2020 budget estimate, prior to the pandemic, of 77 bps.

Domestic tax group election

BPER Banca has elected to establish a Domestic Tax Group, which was introduced by Legislative Decree 344/2003 and subsequent amendments and is governed by arts. 117-129 of the Consolidated Income Tax Law.
Under this arrangement, which is binding for three years, the subordinate members transfer their results to the parent, for fiscal purposes only, which then calculates a single consolidated taxable income or tax loss.
Finitalia s.p.a., Arca Fondi Sgr s.p.a. and Arca Holding s.p.a. have been included from 1 January 2020.
The renewal of Emilia Romagna Factor s.p.a. for the three-year period 2020-2022 was properly carried out on 27 November 2020 at the time the consolidating company's income tax return was filed.
Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a. were absorbed by BPER Banca s.p.a. on 27 July 2020.

Consolidated companies	2018	2019	2020	2021	2022
Bibanca s.p.a.	x	x	x		
Banco di Sardegna s.p.a.		x	x	x	
Optima s.p.a. SIM		x	x	x	
Emilia Romagna Factor s.p.a.			x	x	x
Sardaleasing s.p.a.	x	x	x		
SIFA' - Società Italiana Flotte Aziendali	x	x	x		
BPER Trust Company s.p.a.		x	x	x	
Nadia s.p.a.		x	x	x	
Finitalia s.p.a.			x	x	x
Arca Fondi Sgr s.p.a.			x	x	x
Arca Holding s.p.a.			x	x	x

Information on public disbursements pursuant to art. 1, paragraph 125 of Law 124 of 4 August 2017 ("Annual market and competition law")

It has to be said by way of introduction that Law 124 of 4 August 2017 "Annual law for the market and competition" (hereafter Law 124/2017) introduced a series of measures designed to ensure transparency in the public disbursements system (art. 1, paragraphs 125[61] to 129). In particular, this law states that the companies must provide in the Explanatory Notes to the financial statements and in any consolidated Explanatory Notes, information relating to "grants, contributions, remunerated offices and economic advantages of any type" (hereinafter referred to as "public disbursements") received from public administrations and other subjects indicated by the said law. Non-compliance with the disclosure requirement results in an administrative penalty of 1% of the amount received, with a minimum of Euro 2,000. At a later stage, the law requires return of the public disbursement[62].

[61] *Paragraph expanded by art. 35 of Decree 34/2019. Paragraphs 126 to 129 not amended.*
[62] *As stated in Assonime Circular 32 dated 23 December 2019.*

In order to avoid the accumulation of insignificant information, the there is no disclosure requirement for public disbursements of less than Euro 10,000 received by the same party.

Since August 2017, the National State Aid Register has been active in the Executive Board for incentives to companies of the Ministry of Economic Development, in which State aid and de minimis aid payments to any company by subjects that grant or manage such aid have to be published. For individual aid for BPER Banca Group companies, please refer to the "Transparency of the Register" section, whose access is publicly available.

That said, in compliance with the provisions of art. 1, paragraph 125, of law 124 of 4 August 2017, the amounts collected during 2020 by the Parent Company and by the subsidiaries by way of "grants, contributions, remunerated offices and economic advantages of any type" are listed below.

BPER Banca Group companies	Type of grants	Amounts received in 2020
BPER Banca s.p.a.	Regulation for inter-professional funds for continuing education for the granting of exempted State aid pursuant to EC regulation 651/2014 and in a de minimis arrangement pursuant to EC regulation 1407/2013	586
BPER Banca s.p.a.	Cinematrographic productions	540
Banco di Sardegna s.p.a.	Regulation for inter-professional funds for continuing education for the granting of exempted State aid pursuant to EC regulation 651/2014 and in a de minimis arrangement pursuant to EC regulation 1407/2013	489
Bibanca s.p.a.	Regulation for inter-professional funds for continuing education for the granting of exempted State aid pursuant to EC regulation 651/2014 and in a de minimis arrangement pursuant to EC regulation 1407/2013	27

The amounts received by BPER Banca include Euro 368 thousand relating to plans presented by Unipol Banca and paid to BPER Banca after the merger which took place in November 2019; Euro 5 thousand relating to plans presented by CR Saluzzo and paid to BPER Banca after the merger which took place in July 2020.

Audit

The consolidated financial statements of BPER Banca S.p.A. have been audited by Deloitte & Touche s.p.a., which was appointed for the period 2017-2025 at the Shareholders' Meeting held on 26 November 2016, as required by Legislative Decree 39 of 27 January 2010.

A.2 – Main captions in the financial statements

Classification of Financial assets - Business Model and SPPI test (captions 20, 30 and 40)

IFRS 9 requires financial assets represented by loans and receivables and debt securities to be classified into three accounting categories, using the following criteria:

- the business model used to manage them;
- the contractual characteristics of the cash flows of financial assets (or SPPI tests).

The classification of financial assets depends on a combination of these two criteria, as indicated below:

- Financial assets measured at amortised cost (AC): assets that include the "Hold to collect" business model (HTC) and pass the SPPI test;
- Financial assets measured at fair value through other comprehensive income (FVTOCI): assets that include the “Hold to Collect & Sell” business model (HTCS) and pass the SPPI test;
- Financial assets measured at fair value through profit or loss (FVTPL): assets that provide for an "Other" business model or, on a residual basis, assets that cannot be classified in the previous categories due to the negative outcome of the SPPI test.

Business Model

The BPER Banca Group has identified its own Business Models taking into consideration the core business sectors in which it operates, the strategies adopted to date in order to realise the cash flows of the assets in portfolio, as well as the strategic forecasts of business development.
This analysis was carried out primarily at Group level and, consequently, at the level of the individual Group Bank/Company, including the product companies.

The Group's core business is related to the generation and management of credit relationships for the Retail and Corporate sectors (including Large Corporate) and, therefore, follows a logic of holding them presumably until they expire in order to collect the contractual cash flows. According to IFRS 9, this operation is attributable to a "Hold to Collect" type Business Model.

Another sector of activity for the BPER Banca Group, supporting the pursuit of banking objectives, is the Finance sector which includes the balance sheet and income statement items of the Group deriving from treasury activities, management of proprietary portfolios, access to financial markets and specialist operational support to the sales network.

For the purpose of identifying the Business Model in the Finance sector, the analysis linked the relevant activities carried on by the Group finance department to management of the Group's proprietary portfolios. It is therefore possible to identify the following proprietary portfolios:

- *Investment Banking Book,* consisting of the set of instruments managed collectively in order to reduce volatility on the interest margin. This type of portfolio mainly pursues a strategy of holding financial instruments to maturity, thereby sterilising market risk.
  The strategy of this portfolio therefore involves management of the principal risks such as credit risk, interest rate risk and sovereign risk.
  In application of IFRS 9, this portfolio has been included in the "Hold to Collect" Business Model.

- *Liquidity Banking Book,* consisting of a set of financial instruments whose strategy is aimed at holding them in order to manage liquidity and optimise the risk-return profile at Group level. This type of portfolio pursues investment strategies in order to:
  - optimise the interest margin;
  - increase the amount of assets that can be readily liquidated to mitigate the Group's exposure to liquidity risk;
  - diversify credit risk.

  The strategy of this portfolio therefore involves management of the principal risks such as credit risk, interest rate risk, market risk and sovereign risk.
  In application of IFRS 9, this portfolio has been included in the "Hold to Collect & Sell" Business Model.
- *Trading portfolio,* consisting of a set of financial instruments for trading purposes (government securities, ETFs, structured securities, UCITS units, ABS, etc.), guaranteeing the management of market risk. The profit purpose of this portfolio is mainly pursued through the change in the fair value of the instruments.
  The strategy of this portfolio therefore involves management of the principal risks such as credit risk, interest rate risk and sovereign risk.
  In application of IFRS 9, this portfolio has been included in the "Other" Business Model.
- *Customer Trading Portfolio*, consisting of financial assets repurchased from customers, or held to offer an investment service to them (residual portfolio).
  In application of IFRS 9, this portfolio has been included in the "Other" Business Model.
- *Capital Market, consisting of financial instruments held for market making on securities (government, supranational, corporate, covered bond and government guaranteed debt securities), guaranteeing the management of market risk.* The profit purpose of this portfolio is mainly pursued through the change in the fair value of the instruments. The strategy of this portfolio therefore involves management of the principal risks such as market risk, credit risk, interest rate risk and sovereign risk.
  In application of IFRS 9, this portfolio has been included in the "Other" Business Model.

IFRS 9 envisages the possibility of modifying the Business Model, highlighting that the situations that lead to this change are “very infrequent”, to be attributed to significant events (internal or external) that affect the management strategy (and therefore derive from decisions of Senior Management of the Entity); in addition, they must be adequately supported by resolutions and linked to events or objective facts evidenced also towards third parties.
The change in business model must also take place before the consequent reclassification of the assets affected by that change, which is possible only on the first day of the next reporting period.

Regarding the combination of frequency and significance thresholds, the BPER Banca Group has defined quantitative limits (both in relative terms with respect to the portfolio size, and in absolute terms) to be applied to sales made on the “Hold to Collect” portfolio.
It also defines the concepts of "proximity to maturity", identifying the 12 months prior to the repayment date, and "increasing credit risk" in line with the staging criteria described below (classification in Stage 2 allows the sale of instruments).

SPPI Test

In order to analyse the characteristics of the contractual cash flows deriving from financial assets (loans and receivables, and debt securities), the BPER Banca Group has defined an SPPI test based on 12 decision-making trees, so as to consider all the contractual characteristics relevant to the test.

The BPER Banca Group has also adopted some assumptions regarding both the loan portfolio and the debt securities portfolio. The main choices are shown below.

- in relation to the debt securities portfolio, the mutual fund units, both open and closed-end, fail the SPPI test. In relation to the securities issued as part of securitisation transactions, for the purposes of credit risk assessment it has been assumed that the mezzanine and junior tranches generally bear a higher credit risk than the average risk of the underlying portfolio of instruments and, consequently, fail the test.
- in relation to the Benchmark Cash Flow Test (BCFT) required in situations of mismatch between "tenor" and periodicity of the "refixing" of interest rates, it was agreed that the change in the "time value of money element" should be considered significant for instruments indexed to parameters with a tenor higher than a year and, consequently, these fail the SPPI test.

The following are references to the accounting policies applied for the main items in the financial statements or transactions, where applicable, in preparing the consolidated financial statements.

1. Financial assets measured at fair value through profit or loss

Recognition

Financial assets represented by debt or equity instruments are initially recognised on the settlement date, while derivative contracts are recognised on the date of signature.

In particular, any changes in the fair value of the asset to be received between the settlement date and the earlier arrangement date are recognised at the time of settlement, in the same way in which the asset acquired is recorded.

Financial assets measured at fair value through profit or loss are initially recorded at fair value; unless stated otherwise, this is represented by the consideration paid for the transaction, without considering any related costs or income attributable to them, which are recorded directly in the income statement.

Classification

a) financial assets held for trading

Financial assets held for trading comprise those whose business model is defined as "Other". This business model applies to financial assets whose cash flows will be generated from their sale.

This also includes equity securities held for trading, for which it is not possible to exercise the irrevocable choice to present subsequent changes in fair value in the statement of other comprehensive income.

Additionally, the model includes investments in mutual funds that are held for trading.

b) financial assets designated at fair value

This category comprises the financial assets for which the fair value option has been exercised.

c) other financial assets mandatorily measured at fair value

This category includes financial assets whose business model is defined as "Hold to Collect" or "Hold to Collect & Sell", but which fail the SPPI test and therefore do not satisfy the requirements for classification therein.
It also includes equity instruments not held for trading for which no irrevocable election was made to recognise subsequent changes in fair value in the statement of other comprehensive income.
Additionally, the category includes investments in mutual funds that are not held for trading.

Measurement

Subsequent to initial recognition, these assets continue to be measured at fair value. If the fair value of derivatives classified as "financial assets held for trading" becomes negative, this caption is recognised as a financial liability.
The methods used to determine the fair value are reported in part A4 "Information on fair value" of these Explanatory Notes.

Derecognition

Financial assets are derecognised when the contractual rights to the cash flows deriving from them expire, when substantially all the risks/benefits associated with them are assigned, or when substantial changes are made to them.
If the Group sells a financial asset classified among the "*Financial assets measured at fair value through profit or loss*", it is derecognised on the transfer date (settlement date).

Recognition of components affecting the income statement

The positive components of income, represented by the interest income deriving from financial assets classified as "Financial assets measured at fair value through profit or loss", are recognised on an accruals basis in the "interest" captions of the income statement.
Gains and losses deriving from changes in the fair value of "Financial assets measured at fair value through profit or loss – financial assets held for trading" are recognised in income statement caption "Net income from trading activities".
Gains and losses deriving from changes in the fair value of financial assets designated at fair value are recognised in income statement caption "Net income on financial assets and liabilities measured at fair value through profit or loss – assets and liabilities designated at fair value", while the other financial assets that must be measured at fair value are recognised in caption "Net income on other financial assets and liabilities measured at fair value through profit or loss – other financial assets that must be measured at fair value".

2. Financial assets measured at fair value through other comprehensive income

Recognition

Financial assets represented by debt or equity instruments are initially recognised on the settlement date, while loans are recognised on the pay-out date.
On initial recognition, these financial assets are recorded at their fair value, which usually corresponds to the consideration paid, inclusive of the transaction costs or income directly attributable to the instruments concerned.

Classification

This category comprises:

- financial assets whose defined business model is "Hold to Collect & Sell" (HTC&S) and whose contractual terms pass the SPPI test;
- investments in equity instruments, not held in the context of a trading business model, for which an irrevocable election was made on initial recognition to record subsequent changes in fair value in the statement of other comprehensive income.

Measurement

Subsequent to initial recognition, these financial assets continue to be measured at fair value. Changes in the fair value of financial assets included in the HTC&S business model (debt securities) are classified in a specific equity reserve, net of Expected Credit Losses and the related tax effect.

Changes in the fair value of investments in equity instruments for which the above irrevocable election was made are also classified in a specific equity reserve, net of the related tax effect.

Derecognition

Financial assets are derecognised when the contractual rights to the cash flows deriving from them expire, when substantially all the risks/benefits associated with them are assigned, or when substantial changes are made to them.

If the Group sells a financial asset classified among the "Financial assets measured at fair value through other comprehensive income", it is derecognised on the transfer date (settlement date).

Recognition of components affecting the income statement

The components of income deriving from "Financial assets measured at fair value through other comprehensive income", excluding investments in equity instruments for which the above irrevocable election has been made, are recognised as described below:

- interest is calculated using the effective interest rate, i.e. the rate that exactly discounts cash flows over the expected life of the instrument (IRR rate). The IRR is determined taking into account any discounts or premiums on the acquisition, costs or commissions that are an integral part of the carrying amount;
- Expected Credit Losses recognised during the period are recorded in the caption "Net impairment losses for credit risk relating to: b) financial assets measured at fair value through other comprehensive income";
- on derecognition, the amount accumulated in the specific equity reserve is released to the income statement caption "Gains/losses on disposal/repurchase of: b) financial assets measured at fair value through other comprehensive income".

With regard to investments in equity instruments for which the above irrevocable election has been made, only the related dividends are recognised in the income statement, in the caption "Dividends and similar income". Changes in fair value subsequent to initial recognition are recorded in a specific equity reserve; on derecognition, the amount accumulated in the above reserve is not released to the income statement, but is reclassified among the profit reserves.

3. Financial assets measured at amortised cost

Classification

Financial assets represented by debt instruments are initially recognised on the settlement date, while loans are recognised on the pay-out date; this caption includes:

- loans to banks;
- loans to customers.

The initial value reflects the fair value of the financial instrument, generally representing the amount of the loan granted inclusive of the costs/income directly attributable to each instrument, or the subscription price in the case of debt instruments.

Factoring operations give rise to exposures to assignors representing loans disbursed for with-recourse assignments and exposures to assigned debtors representing the fair value of the receivables purchased versus without-recourse assignments. The first registration of a loan takes place on the date of sale following the signing of the contract (in the case of without-recourse assignment) and coincides with the disbursement date for with-recourse assignments.

For the assignor and factor, this activity entails an assessment of the presence or not of the conditions required by IFRS 9 for derecognition (a company can cancel a financial asset from its financial statements only if, as the result of a sale, it has transferred the risks and benefits connected with the instrument sold, or if and only if: a) the financial asset is transferred and with it substantially all the contractual risks and rights to the cash flows deriving from the asset expire; b) the benefits connected to its ownership cease to apply and consequent recognition on the factor's side.

To assess effective transfer of risks and benefits, it is necessary to compare the assignor's exposure to the variability of the current value or of the cash flows generated by the financial asset transferred, before and after the sale. The assignor essentially maintains all the risks and benefits when its exposure to the 'variability' of the present value of the net future cash flows of the financial asset does not change significantly following its transfer. Instead, transfer occurs when the exposure to this 'variability' is no longer significant.

The most frequently used forms of transfer of a financial instrument may have profoundly different accounting effects:

- in the case of a without-recourse assignment (without any guarantee obligation), the assets transferred can be cancelled from the transferor's financial statements;
- in the case of a with-recourse transfer, it is to be assumed that in most cases the risk associated with the asset sold remains with the seller and therefore the sale does not meet the requirements for derecognition of the instrument in question; only the amounts paid to the assignor as an advance of the consideration will be recorded.

Verification of the derecognition criteria, in the context of the without-recourse assignments underlying the factoring activity, also takes into consideration the risk mitigation clauses adopted by the Group through specific contractual provisions agreed with the assignors. These are clauses aimed at defining the limits on the individual debtors transferred, absolute and relative deductibles, so-called "bonus-malus" clauses and late payment.

Loans to customers also include receivables for finance leases (as lessor), including finance lease transactions involving assets under construction and those waiting to "earn income" in the case of contracts with transfer of risks (or in the event that the risks are transferred to the lessee prior to the taking over of the asset and the start of the lease contract).

Classification

This category comprises the financial assets whose defined business model is "Hold to Collect" and whose contractual terms pass the SPPI test.

The "Financial assets measured at amortised cost" caption includes loans to customers and loans to banks.

These captions comprise commercial loans, repurchase agreements, loans originated by finance leases (recognised using the "financial method" pursuant to IFRS 16) and debt securities.

The Group has classified financial instruments (loans) purchased without recourse as "Financial assets measured at amortised cost", after checking that no contractual clauses prevent the transfer of substantially all risks and benefits. Advances paid to the assignor of portfolios purchased with recourse are also classified in that category.

Measurement

After initial recognition, loans are valued at their amortised cost, corresponding to the initially recognised amount less principal repayments, net adjustments and amortisation - calculated using the effective interest method – of the difference between the amount paid out and the amount repayable on maturity, which is generally attributable to the costs/income directly allocated to the individual loans.

The effective interest rate is the rate that discounts the flow of estimated payments over the expected duration of the loan back to its initial net book value, inclusive of directly-related costs and revenues. In financial terms, this method of recognition distributes the economic effect of these costs and revenues over the expected residual life of the loan.

The amortised cost method is not used in relation to short-term loans (up to 12 months), since the effect of discounting would be negligible. These loans are stated at historical cost.

Costs and revenues relating to loans without a fixed term or repayable on demand are recorded directly in the income statement.

At each reporting date, financial assets measured at amortised cost are adjusted for impairment by recognising any Expected Credit Losses. Any adjustments are recorded in the income statement.

The following items fall within this sphere, with specific assessment methods:

- Non-performing loans (in "Stage 3") which have been assigned the status of bad, unlikely to pay or past due loans in compliance with the current rules of the Bank of Italy's supervisory regulations, in line with IAS/IFRS and European supervisory regulations[63]. The amount of the adjustment of each balance is equal to the difference between its carrying value at the time of measurement (amortised cost) and the present value of expected future cash flows. The estimate of expected cash flows, also formulated in relation to possible recovery scenarios, comes from assessing analytically the position of bad loans and unlikely to pay loans with exposures above the thresholds set by internal procedures. The expected losses on UTP loans below the thresholds established by internal regulations and on past due loans are determined using statistical impairment methodologies. For further details on the models adopted by the

[63] *The scope of non-performing loans (or those in default) defined in art. 178 of EU Reg. 575/2013 (CRR) has been updated with reference to the EBA Guidelines for applying the definition of default and the subsequent EU Reg. 1845/2018. The BPER Banca Group has applied the "New Definition of Default – NDoD" using the "2-step approach" from October 2019. This has involved:*
necessary alignment of internal classifications within the Group;
application of the new materiality thresholds to credit obligations past due, without any offset between lines of credit;
application of the new concept of "unlikely to pay", in relation to which a change in NPV of more than 1% following contractual modifications is considered substantial;
application of the new "classification contagion" rules to counterparties that are associated with or belong to groups of connected customers;
application of rules for managing the cure period that, in addition to an observation period of 12 months for forborne positions, envisages a minimum period of 3 months for other UTP positions.

BPER Banca Group to estimate the Expected Credit Losses (ECL) on non-performing loans, please refer to paragraph 22 below, entitled "Methods for determining impairment losses - Impairment". Any adjustments are recorded in the income statement.
The original value of loans is reinstated in subsequent periods, to the extent that the reasons for the provisions made cease to apply, on condition that this assessment is objectively linked with events that took place subsequent to such impairment loss. Possible write-backs, also recognised in the income statement, may not exceed the amortised cost that the loan would have had if no impairment losses had been recognised previously.

- Ordinary loans, classified as performing loans, feed "Stage 1" and "Stage 2"; the measurement is carried out periodically in a differentiated manner, according to ECL model adopted by the BPER Banca Group, at 12 months or lifetime, respectively, the characteristics of which are summarised in paragraph 22 “Method for determining the extent of impairment”.

Forborne exposures, which by their nature can be classified as either non-performing or performing, are subject to the same valuation methods described above. If these are performing loans, the classification is in Stage 2. In the case of forborne exposures, contractual modifications made subsequent to initial recognition generally result in a change in the amount of the loan, with an impact on income statement caption 140. "Gains (Losses) from contractual modifications without derecognition".
With regard to the procedures for identifying forborne loans, please refer to the indications provided in Part E - Credit risk of the explanatory notes.
As stated by the EBA in the "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis" dated 4 April 2020, moratoria granted to customers pursuant to the law and sector agreements (ABI agreements), are not considered indicators of financial difficulty for the purpose of classifying the individual positions concerned as forborne exposures (with consequent inclusion in Stage 2). The internal moratoria, granted to customers on the initiative of the BPER Banca Group, were agreed in a "standardised" manner on simple receipt of their applications. In this sense, the characteristics of the internal moratoria are similar to those of the law and, therefore, are not deemed to represent the provision of assistance for financial difficulties.
In application of the BPER Banca Group policy, none of the Covid-19 moratoria qualify as forbearance measures and, therefore, have not been recognised in accordance with modification accounting.

Derecognition

Financial assets are derecognised when the contractual rights to the cash flows deriving from them expire, when they are assigned with transfer of substantially all the risks/benefits associated with them, or when substantial changes are made to them (including, for example, change of the debtor, modification of the reference currency, modification of the technical form of disbursement, or introduction of clauses that could modify the positive outcome of the SPPI test).
If the Group sells a financial asset classified among the "Financial assets measured at amortised cost", it is derecognised on the transfer date (settlement date).

Recognition of components affecting the income statement

The interest on instruments measured at amortised cost (loans to banks and loans to customers) is calculated using the effective interest method, i.e. using the rate (IRR) that discounts the related cash flows exactly over the expected life of the instrument concerned. The IRR and, therefore, the amortised cost are determined having regard for any acquisition discounts or premiums, costs or commissions that are an integral part of the discounted cost.

Interest on non-performing loans is calculated on the net exposure of the Expected Credit Losses.
Write-downs or write-backs deriving from the model of adopted Expected Credit Losses are recognised in the income statement in the caption "Net impairment losses for credit risks".
Amounts deriving from alignment of the carrying amounts of financial assets to reflect changes in their contractual cash flows that do not result in accounting derecognition are recognised in income statement caption "140. Gains (Losses) from contractual modifications without derecognition".

4. Hedging operations

The BPER Banca Group has adopted Chapter 6 Hedge Accounting of IFRS 9 since 1 July 2020.

Recognition

Hedges are arranged to neutralise losses that may be incurred in relation to a given element or group of elements, as a consequence of a given risk, via profits that would be earned on another element or group of elements should that particular risk crystallise. There are two types of hedge:

- fair value hedges: arranged to hedge the exposure to changes in the fair value of a balance sheet caption;
- cash flow hedges: arranged to hedge the exposure to changes in future cash flows attributable to specific balance sheet captions.

Classification

Financial instruments are designated as hedges when the relationship between the hedged and the hedging instrument is adequately documented and formalised, if the hedge is effective both at the start and prospectively throughout its life.

Measurement

Hedging derivatives are measured at their fair value.
The method of accounting for the gains and losses deriving from changes in fair value depends on the type of hedge:

- fair value hedge: the change in the fair value of the hedged element representing the hedged risk is recognised in the income statement, together with the change in the fair value of the derivative instrument; any difference, which represents the ineffective portion of the hedge, determines the consequent net economic effect.
- cash-flow hedge: to the extent that the hedge is effective, changes in the fair value of the derivative are recognised in shareholders' equity; they are only recognised in the income statement when changes in the cash flows from the hedged item need to be offset, or when the hedge becomes ineffective.

In application of the standard, hedging relationships must satisfy the following requirements:

- there has to be an economic relationship between the hedged item and the hedging instrument;
- there must not be a predominance of credit risk within the fair value changes relating to this economic relationship;
- the definition of a hedge ratio that identifies the quantities of hedged items and hedging instruments considered in the hedging relationship, so as not to create a mismatch that generates an element of ineffectiveness that does not correctly reflect the objectives of the hedge.

The BPER Banca Group monitors compliance with these requirements when defining the hedging strategy and throughout its duration; in particular, the presence of an economic relationship between the hedged item and the hedging instrument is identified in the first instance through a qualitative analysis of the characteristics of the two instruments and, in the event that they are imperfectly matched, a further quantitative analysis is carried out to verify the presence of a high degree of prospective correlation between the two (so-called "prospective hedge effectiveness testing" as explained below).

Even if not required by IFRS 9, for the sole purpose of further confirming the qualitative verification that there is an economic relationship between the hedged item and the hedging instrument, the BPER Banca Group has chosen to maintain the pre-existing system of quantitative tests to verify the effectiveness of hedging relationships (adapted to the new characteristics of the relationships) according to the so-called "Dollar Offset Method". This method involves comparing the change in fair value of the hedging instrument with that of the hedged instrument within a given time frame. The two changes must be attributable only to the type of risk being hedged.

The BPER Banca Group confirms the existence of the economic relationship when changes in the fair value of (or cash flows from) the hedging instrument, caused by the hedged risk factor, almost entirely offset those of the hedged instrument (the percentage limits fall into the range between 80% to 125%). This monitoring is carried out on a quarterly basis, using:

- prospective tests that justify the application of hedge accounting, by demonstrating the expected effectiveness of the hedge, especially in situations of imperfect matching between the characteristics of the hedging instrument and the hedged item;
- retrospective tests that show the effectiveness of the hedge during the period under review. In other words, they measure by how much the actual results differ from the perfect hedge, even if they no longer provide binding elements with respect to maintaining the relationship.

Derecognition

If transactions do not meet the effectiveness test, hedge accounting - as described above - is terminated and the derivative contract is reclassified as an instrument held for trading, with recognition of the related impacts in the income statement. Hedge accounting is also terminated in the following situations:

- the hedged item is sold and redeemed;
- the hedging instrument expires, is sold, terminated or exercised.

Recognition of components affecting the income statement

Income elements are allocated to the relevant income statement captions on the following basis:

- differentials earned on derivatives that hedge interest-rate risk (and the interest on the hedged positions) are allocated to the "Interest and similar income" or "Interest and similar expense" captions;
- capital gains and losses deriving from the measurement of hedging instruments and the positions covered by fair value hedges are allocated to the "Net income from hedging activities" caption;
- capital gains and losses deriving from measurement of the effective part of cash flow hedges are allocated to a specific valuation reserve in equity called "Reserve for cash flow hedges", net of

the related deferred tax effect. Gains and losses relating to the ineffective part of such hedges are recorded in "Net income from hedging activities" in the income statement.

In the case of hedging equity instruments for which the option for recognition in the statement of other comprehensive income of subsequent fair value changes has been irrevocably exercised, the capital gains and losses deriving from the measurement of hedging derivatives, relating to the hedged component, are allocated to the same equity caption.

5. Equity investments

Recognition

Equity investments are recognised on the settlement date. Equity investments are recorded at cost on initial recognition, including any costs and revenues directly attributable to the transaction.

Classification

This caption includes:

- subsidiaries not consolidated on a line-by-line basis and associates carried under the equity method, adjusting the initial cost of recognition for changes in net equity, including gains and losses realised by the company; companies in which at least 20% of the voting rights are held and those where the size of the investment guarantees influence over governance are considered associates;
- jointly controlled companies, which are also accounted for under the equity method;
- other investments with a low value, which are carried at cost.

Measurement

In the consolidated financial statements of the BPER Banca Group, companies not consolidated line-by-line, those subject to joint control and associated companies are valued according to the equity method.
If there is evidence that an investment in an associate may be impaired, its recoverable amount is estimated with reference to the present value of future cash flows, including the expected proceeds from the future sale of the investment.
If the recoverable amount is lower than the carrying amount, the difference is charged to the income statement under caption “Gains (Losses) of equity investments", as described in paragraph 22 “Method for determining the extent of impairment” below”.
If the reasons for making the impairment loss cease to apply as a result of an event subsequent to recognition of the impairment loss, the related write-back is credited to the income statement without exceeding the amount of the impairment loss previously recorded.
The Parent Company's share of any losses of the investee, exceeding the book value of the investment, is recorded in a specific reserve to the extent that the company is required to fulfil legal or implicit obligations of the investee, or, in any case, to cover its losses.

Derecognition

Equity investments are derecognised when the contractual rights to the cash flows deriving from them expire, or when they are assigned with transfer of substantially all the risks/benefits associated with them.

Recognition of components affecting the income statement

Dividends are recorded in the "Dividends and similar income" caption when the right to collection is established.
Any impairment losses/write-backs relating to the impairment of equity investments and gains or losses on the disposal of equity investments are recorded in the "Gains (Losses) of equity investments" caption.

6. Property, plant and equipment

Recognition
Property, plant and equipment are initially recorded at purchase price, including all directly attributable costs of purchasing and bringing the asset to working condition.
Expenditure on improvements that will generate future economic benefits is added to the value of the assets concerned, while routine maintenance costs are charged to the income statement.
Leases (in which the Bank is the lessee) are recognised (pursuant to IFRS 16) using the "right of use" model. At the initial recognition date, the value of the right of use is equal to the initial recognition value of the lease liability (see the paragraph on Financial liabilities measured at amortised cost), adjusted for the following components:

- payments due for leases made on or before the effective date, net of lease incentives received;
- direct initial costs incurred by the lessee;
- an estimate of the costs that the lessee will incur for the dismantling and removal of the underlying asset and for the restoration of the site on which it is located or for the restoration of the underlying asset under the conditions set by the terms and conditions of the lease.

When the asset is made available to the BPER Banca Group for its use (initial recognition date), the related right of use is recognised.
In identifying the rights of use, the BPER Banca Group applies the "simplifications" permitted by IFRS 16; contracts with the following characteristics are therefore not considered:

- "Short-term", i.e. with a residual life of less than 12 months;
- "Low-value", i.e. with an estimated value of the asset of less than Euro 5,000.

As regards the other application choices adopted by the BPER Banca Group, it should be noted that:

- with reference to the duration of the "property" leases, the Group considers as "reasonably certain" only the first renewal period, subject to contractual clauses and specific circumstances that involve considering different contractual durations;
- as regards "Cars" and "Other contracts", the Group makes use of the practical expedient by which the lessee is allowed to not separate the lease components from the other components, treating them as a single lease component. As regards property leases, the Group considers the non-lease component as not material.

Classification
Property, plant and equipment comprise land, property used for operating purposes, installations, furniture, furnishings and all types of equipment.
These are tangible assets that will be used for more than one accounting period and which are held for use in the production of business or the supply of goods and services, for rental to third parties or for administrative purposes.

Rights of use acquired under leases (in the capacity of lessee) are included, if these rights relate to assets classified as property, plant and equipment.
This caption also includes assets awaiting finance lease and assets under construction intended for finance leasing (in the capacity of lessor), in the case of contracts "with retention of risks", as well as assets granted under operating leases (again as lessor).
This caption also includes certain real estate assets classified in accordance with IAS 2 "Inventories" within the portfolios of the Group's real estate companies, including construction land, buildings under construction, completed buildings and property development initiatives held for sale.
This caption also includes leasehold improvements, relating to identifiable and separable property, plant and equipment.

Measurement

Property, plant and equipment, including investment property and rights of use, are carried at cost less accumulated depreciation and any accumulated impairment losses.
Property, plant and equipment are systematically depreciated over their useful lives, identified building by building on initial recognition, on a straight-line basis, except for:

- land acquired separately or included in the value of property (excluding value in use on buildings), since it has an indefinite useful life. The value of land included in property is deemed to be separable from the value of buildings; the allocation of value between land and buildings is based on independent appraisals carried out solely in relating to free-standing buildings;
- works of art, since the useful life of a work of art cannot be estimated and its value normally appreciates over time;
- inventories classified in accordance with IAS 2.

If there is any evidence at a reporting date that the value of an asset may be impaired, its carrying value is compared with its recoverable value, being the higher of its fair value net of any selling costs or its value in use, as represented by the present value of the cash flows generated by the asset, as explained in paragraph 22 "Method for determining the extent of impairment". Any adjustments are recorded in the income statement.
If the reasons for recognising an impairment loss cease to apply, the loss can be written back but without exceeding the carrying value that the asset would have had (net of depreciation) if no impairment losses had been recognised in prior years.
Assets recognised pursuant to IAS 2 are measured at the lower of cost or net realisable value. Any adjustments are recognised in the income statement.

Derecognition

Property, plant and equipment are derecognised on disposal, or when the assets concerned are permanently taken out of use and no further economic benefits are expected from their disposal.

Recognition of components affecting the income statement

Both the depreciation determined on a straight-line basis and any net adjustments are recorded in caption "Net adjustments to property, plant and equipment" of the income statement.
Disposal gains and losses are however recorded in caption 250 "Gains (Losses) on disposal of investments" of the income statement.

7. Intangible Assets

Recognition

Intangible assets other than goodwill are initially recognised at cost, as represented by the purchase price paid plus any directly-related costs incurred to obtain use of the assets concerned.

Goodwill may be recognised as an intangible asset when the positive difference between the acquisition cost of an equity interest (including related charges) and the fair value of the net assets acquired, including those identified as part of the Purchase Price Allocation (PPA), is representative of the investee's ability to generate income in the future (goodwill).

If the difference is negative (badwill) or the goodwill is not justified by the investee's ability to generate income in the future, the difference is recognised in the income statement.

Classification

Intangible assets are identifiable, non-monetary assets without physical form that are expected to generate economic benefits.

The qualifying characteristics of intangible assets are:

- identifiability;
- control over the resources concerned;
- expectation of economic benefits.

In the absence of any one of the above characteristics, the acquisition or internal production costs are expensed in the year incurred.

Goodwill is represented by the difference between the acquisition cost of an equity investment and the fair value, at the acquisition date, of the assets and liabilities acquired.

Other intangible assets are recognised if they are identifiable and reflect legal or contractual rights. Among these, rights of use acquired under operating leases (in the capacity of lessee) and relating to the use of an intangible asset are not included since the BPER Banca Group, with respect to the faculty given by IFRS 16.4, has decided not to apply IFRS 16 to any operating leases on intangible assets other than those that can be acquired under licence.

Intangible assets include licensed software that satisfies the conditions specified in IAS 38. More specifically, with reference to the indications provided in the IFRIC Staff Paper dated November 2018 (Agenda ref 5 – Customer’s right to access the supplier’s software hosted on the cloud (IAS 38)), the BPER Banca Group has identified the following conditions as significant for the recognition of purchased software as an intangible asset:

- existence of an exclusive right of use (linked to the user licence acquired);
- right and ability to obtain copies of the software (“download right”);
- possession and real ability to use the copy of the software acquired, recognised if installed on its servers.

If these three conditions are satisfied in relation to purchased software, the BPER Banca Group recognises it an intangible asset to be amortised over its estimated useful life. The initial expenses incurred (even in the form of external services) to set-up, customise and implement the software can also be considered part of the initial carrying amount of the intangible asset, if linked to the functional analyses and subsequent implementation phases.

By contrast, if the above conditions for the recognition of an intangible asset are not satisfied, the purchase will relate to services giving access to software that, in substance, remains in the possession of the provider (these situations generally arise in relation to Cloud software). These purchased services are recognised as Other administrative expenses on an accruals basis; when the initial cost incurred refers to a long-term time horizon it can be deferred (prepaid expenses – Other assets) and released to the income statement over the duration of the entire contract. If the total fee paid to the supplier for access to the software covers a variety of services, the cost will be allocated and recognised on an accruals basis with reference to each specific service.

Measurement

An intangible asset with an indefinite useful life, such as goodwill, is not amortised, but is tested periodically for impairment. An impairment test is performed annually, or whenever there is an indication of impairment, as explained in paragraph 22 "Method for determining the extent of impairment”. Any impairment loss is recognised in the income statement and the reversal thereof is prohibited.

In contrast to the treatment of goodwill, the cost of intangible assets with a finite useful life is amortised on a straight-line basis or by use of the reducing balance method based on the flow of economic benefits expected from the asset. If there is any evidence of impairment, it is envisaged that an asset would be assessed for impairment by comparing its fair value to its carrying amount.

An estimate of recoverable value is made if there is any evidence of asset impairment at the reporting date. The impairment loss, expensed to income statement, is the difference between the carrying value of an asset and its recoverable amount, if the latter is lower, as explained in paragraph 22 "Method for determining the extent of impairment”.

Derecognition

Intangible assets are derecognised on disposal and when no further economic benefits are expected.

Recognition of components affecting the income statement

Both the amortisation charge and any net adjustments to intangible assets other than goodwill are recorded in the "Net adjustments to intangible assets" caption of the income statement.

Disposal gains and losses are however recorded in the "Gains (Losses) on disposal of investments" caption.

Any impairment losses to the value of goodwill are recorded in the caption "Impairment losses on goodwill".

8. Non-current assets and disposal groups classified as held for sale

Recognition and classification

Non-current assets and groups of assets/liabilities subject to a disposal process (tangible, intangible and financial assets) are classified in the asset caption "Non-current assets and disposal groups classified as held for sale" and the liability caption "Liabilities associated with assets classified as held for sale", when such sale is deemed to be highly likely.

Measurement

These assets and liabilities are measured at the lower of their carrying value, determined in accordance with IFRS, or their fair value, less costs to sell.

Recognition of components affecting the income statement

Income and charges (net of tax effect) relating to discontinued operations are classified in the"Gains (Losses) of ceased operating activities net of taxes" caption of the income statement.

9. Current and deferred taxation

Taxes for the year were calculated by applying the regulations in force at 31 December 2020, also taking into account the changes introduced by the latest Finance Act.

Deferred tax assets and liabilities are recorded following the positive outcome of the probability test required by IAS 12 relating to temporary changes and tax losses. The BPER Banca Group has adopted a time horizon of 5 years (2021-2025) when forecasting recoveries, consistent with other types of estimate made by projecting future results.

Recognition and classification

Current taxation comprises the net balance of income tax payable for the year and the current tax receivable due from the tax authorities consisting of advances and other withholding tax credits or other tax credits recoverable by future offset.

Current tax assets also include tax credits for which a request for reimbursement has been made to the tax authorities.

Deferred taxes represent the income taxes recoverable in future periods as a result of deductible temporary differences and past tax losses (deferred tax assets), and the income taxes payable in future periods as a result of taxable temporary differences (deferred tax liabilities).

Measurement

Deferred tax assets, representing the future tax benefit deriving from deductible temporary differences and tax losses carried forward, are recognised to the extent that their recovery is highly likely. The estimate is made by performing the "probability test", as required by IAS 12. This test is based on an economic forecast developed over a prospective 5-year horizon, adjusting the pre-tax profit to consider future temporary and permanent changes in accordance with the tax legislation in force at the measurement date, so as to arrive at an estimate of the future tax profits able to reabsorb the deferred tax assets.

Recognition of components affecting the income statement

Changes in tax assets and liabilities are normally recorded in the "Income taxes on current operations" caption.

As an exception, those deriving from transactions recognised directly in equity are treated in the same way, and those deriving from business combinations are included in the calculation of goodwill (or badwill).

10. Provisions for risks and charges

Recognition

The provisions for risks and charges cover liabilities whose timing and extent are uncertain, when all the following conditions are met:

- a current obligation exists at the balance sheet date, deriving from a past event. The origin of the obligation must either be legal (deriving from a contract, regulation or the provisions of law) or implicit (arising when the business causes third parties to expect that commitments will be met, even if these do not fall into the category of legal obligations);
- a financial outflow is likely;
- the extent of the obligation can be estimated reliably.

No provision is recognised for liabilities that are only possible and not probable, but information on the related contingencies is provided in the Explanatory notes.

Classification

This caption includes the provisions relating to long-term benefits and post-employment benefits governed by IAS 19, discussed in paragraph "Employee benefits” below, and the provisions for risks and charges governed by IAS 37.
Sub-caption "commitments and guarantees granted" comprises the credit risk provisions for funding commitments and financial guarantees given that are subject to the impairment rules of IFRS 9 (see para. 2.1, letter e); para. 5.5; appendix A), as well as the provisions for other commitments and guarantees not subject to those impairment rules.

Measurement

Where the time element is significant, the provisions are discounted using current market rates. Provisions are charged to the income statement. The measurement of "commitments and guarantees granted" is described in section 22. Method for determining the extent of impairment.

Recognition of components affecting the income statement

Impairment losses and write-backs of commitments and guarantees granted are recorded in caption 200. a) "Net provisions for risks and charges – commitments and guarantees granted”.
Provisions for risks and charges and the related write-backs, including the effects of the passage of time, are classified in caption 200. b) "Net provisions for risks and charges – Other net provisions" of the income statement. The provisions for employee remuneration recognised pursuant to IAS 19 are classified in income statement caption 190. a) Administrative expenses - Staff costs.
Provisions are made on the basis of the best estimate of the amount that the company would reasonably pay to settle the obligation or to transfer it to third parties at 31 December 2020. When the financial effect of time is significant and the payment dates of obligations can be reliably estimated, the provision is calculated by discounting the expected future cash flows taking into account the risks associated with the obligation; the increase in the provision due to the passage of time is recognised in the income statement.

11. Financial liabilities measured at amortised cost

Recognition

These liabilities are initially recognised at their fair value, usually corresponding to the amount collected or the issue price, plus any additional costs/proceeds directly attributable to the individual funding transaction or issue.
This caption includes:

- due to banks;

- due to customers;
- debt securities issued;
- lease payables.

On the start date, the lessee measures the lease payable at the present value of the related payments not already paid at that date. Lease payables are discounted using the interest rate implicit in the lease contract, if readily determinable, or at the marginal financing rate that, for the BPER Banca Group, is the Internal Transfer Rate (ITR) of funding.

The future payments to be considered in determining the lease payable are:

- fixed payments, net of any lease incentives to be received;
- variable payments due for leasing that depend on an index or a rate;
- amounts that are expected to be paid by the lessee as guarantees of the residual value;
- the exercise price of the purchase option, if the lessee has the reasonable certainty of exercising the option;
- lease penalty payments, if the lease term takes into account the exercise of the lease termination option by the lessee.

Classification

"Due to banks", "Due to customers" and "Debt securities issued" comprise the various forms of interbank and customer funding. These captions also include liabilities recognised by the lessee under leases, as well as funding through certificates of deposit and debt securities in issue, net of any repurchases.

Following initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for current liabilities given the negligible effect of the time factor.
Modifications to the contractual conditions of the medium-long term items (also including lease payables) will entail the adjustment of the book value based on discounting the flows envisaged by the contract modified to the original effective interest rate, without prejudice to the changes made to lease payables which, as indicated by IFRS 16, involve the use of the updated rate (for example: a modification of the lease term or of the lease instalments).
Debt securities issued are recorded net of the repurchased amount.

Derecognition

Financial liabilities are derecognised when they expire or are settled. The repurchase of debt securities in issue in prior periods results in their derecognition.
In the event of a change in the contractual conditions, if the discounting of the new flows would lead to a change in the carrying amount of the liability greater than 10%, the change is deemed by the BPER Banca Group to be "substantial" and relevant for the purpose of derecognition of the original liability.
The difference between the carrying amount of the liability and the amount paid to repurchase it is recorded in the income statement.

Recognition of components affecting the income statement

The negative elements of income represented by interest and similar expense are recorded in the interest captions of the income statement on an accruals basis, using the effective interest method.
Costs/revenues relating to short-term payables are recorded directly in the income statement.
The difference between the carrying amount of a liability and the amount paid to acquire it is recorded in income statement caption "Gains (Losses) on disposal or repurchase of financial liabilities".

12. Financial liabilities held for trading

Recognition

These financial instruments are recognised at their fair value on the subscription or issue date, without considering any transaction costs or income directly attributable to them.

Classification

This category of liabilities includes trading derivatives with a negative fair value, as well as derivatives with negative fair value that are embedded in complex contracts - in which the primary contract is a financial liability - but not closely correlated with them and therefore they are represented separately in the financial statements.

Measurement

All financial liabilities held for trading are measured at fair value.

Derecognition

Financial liabilities held for trading are derecognised on expiry of the contractual rights over the related cash flows, or when the financial liability is assigned with the transfer of substantially all the risks and benefits deriving from its ownership.

Recognition of components affecting the income statement

The criteria applied for the recognition of income components of financial assets held for trading are adopted with suitable modifications.

13. Financial liabilities designated at fair value

Recognition

These liabilities are initially recognised at fair value, net of transaction costs or revenues.

Classification

A financial liability is designated at fair value if one of the following conditions applies:

- classification in this category eliminates "accounting asymmetries";
- they are part of groups of liabilities, or of assets and liabilities, managed together whose performance is measured at fair value, according to a documented risk-management strategy.

Measurement

Subsequent to initial recognition, these assets continue to be measured at fair value: the methodologies used in this regard are described in Part A.4 of these Explanatory notes.

The accounting treatment required by IFRS 9 for such liabilities requires that changes in fair value associated with the creditworthiness of the issuer must be recognised as a contra-entry to a specific equity reserve. The standard also establishes that the amount recognised in the specific equity reserve must not be "released" to the income statement, even if the liability is settled or expires.

Derecognition

Financial liabilities designated at fair value are derecognised when they expire or are settled.

The repurchase of debt securities in issue in prior periods results in their derecognition.

The renewed placement of treasury securities subsequent to their repurchase is deemed to represent a new issue, with the recognition of a new placement price, without any effect on the income statement.

Recognition of components affecting the income statement

The negative elements of income represented by interest are recorded in the interest captions of the income statement on an accruals basis.

The results of the assessment (for components other than the creditworthiness of the issuer) are booked to the caption "Net income on financial assets and liabilities measured at fair value through profit or loss - financial assets and liabilities designated at fair value", as are the gains or losses arising on their settlement.

14. Currency transactions

Recognition

On initial recognition, foreign currency transactions are recorded in the reporting currency, by translating the foreign currency amounts using the exchange rates prevailing on the transaction dates.

Measurement

At each reporting date, the amounts originally denominated in a foreign currency are measured as follows:

- monetary items are translated using the closing rate for the period;
- non-monetary items carried at historical cost are translated using the exchange rate on the date of the transaction;
- non-monetary items carried at fair value are translated at the rates at the end of the reporting period.

Classification

These comprise all assets and liabilities not denominated in euro.

Derecognition

The criteria applying to the balance sheet captions concerned are used. The exchange rate applying on the settlement date is used.

Recognition of components affecting the income statement

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period in which they arise.

When gains or losses relating to a non-monetary item are recorded in shareholders' equity, the related exchange differences are also recorded in shareholders' equity. Conversely, when gains or losses are recorded in the income statement, the related exchange differences are also recorded in the income statement.

15. Other information

Treasury shares

Treasury shares held following repurchase are stated at purchase cost and shown with a negative sign in "Treasury shares" under liabilities in the balance sheet. Profits or losses deriving from their subsequent sale are recorded as changes in shareholders' equity in the "Share premium reserve" caption.

Leasehold improvement expenditures

These costs have been classified as "Other assets", since they cannot be recorded as part of "Property, plant and equipment", as required by Bank of Italy instructions.
The related amortisation is recorded in the "Other operating expenses (income)" caption.

16. Income statement: Revenues

In addition to the information about the principal balance sheet captions provided above in the sections on the "Recognition of components affecting the income statement", revenue from contracts with customers is recognised, as required by IFRS 15, at an amount equal to the consideration that the BPER Banca Group is entitled to collect in exchange for the transfer of goods or services to the customer. Revenues may be recognised:

- at a specific point-in-time, when the entity fulfils the obligation to transfer the promised goods or services to the customer, or
- over time, as the entity fulfils the obligation to transfer the promised goods or services to the customer.

In this context, goods are transferred when, or over the period in which, the customer obtains control over them.
The price of the transaction is the amount of consideration that the entity is entitled to receive in exchange for the transfer to the customer of the promised goods or services, excluding any amounts collected on behalf of third parties (e.g. sales taxes). In order to determine the price of the transaction, the BPER Banca Group considers the contract terms and conditions and its normal business practices, including all the following elements to the extent applicable:

- variable consideration, if it is highly likely that the amount will not be adjusted in future;
- restrictions on the estimates of variable consideration;
- existence in the contract of a significant financial component;
- non-monetary consideration;
- consideration payable to the customer.

The BPER Banca Group has identified types of revenue linked to services provided to customers only as regards the content of "Commissions income"; the breakdown of revenue, information on execution of the performance obligation, the possible existence of variable fees and the related assessment methods, as well as the additional disclosure required by IFRS 15 are contained in the Explanatory notes to these consolidated financial statements.
The BPER Banca Group has not identified significant situations in this regard:

- to fees relating to various performance obligations given to customers;
- costs incurred and suspended to obtain and fulfil contracts with customers.

Other types of revenue, such as interest and dividends, are recognised applying the following criteria:

- interest on instruments measured at amortised cost is calculated using the effective interest method;
- dividends are recognised when the shareholders' right to receive payment is determined.

17. Income statement: Costs

In addition to the information about the principal balance sheet captions provided above in the sections on the "Recognition of components affecting the income statement", costs are recognised in the income statement on an accruals basis; as already highlighted, no costs were identified for obtaining and fulfilling contracts with customers to be recognised in the income statement in a manner correlated with the related revenue.
Marginal costs and revenues directly attributable to the acquisition of an asset or issue of a financial liability measured at amortised cost are recognised in the income statement together with the interest on the financial asset or liability using the effective interest method.

18. Employee benefits

Classification
Employee benefits, excluding short-term amounts such as wages and salaries, comprise:

- post - employment benefits;
- other long-term benefits.

Post-employment benefits are, in turn, divided into defined-contribution plans and defined benefit plans, depending on the nature of the benefits envisaged:

- under defined contribution plans, the employer makes fixed contributions and has no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employee benefits;
- defined benefit plans are all post-employment benefit plans other than defined contribution plans.

Pursuant to Law 296 dated 27 December 2006 (2007 Finance Law):

- the employee termination indemnities earned from 1 January 2007 are deemed to be a defined contributions plan for which no actuarial calculations are required;
- the employee termination indemnities already earned up to the date indicated above, on the other hand, continue to be treated as a defined benefits plan, even though such benefits have already been fully earned. As a consequence, the actuarial value of the liability must be restated at every accounting date subsequent to 31 December 2006.

Other long-term benefits comprise employee benefits that are not due entirely within twelve months of the end of the year in which employees accumulated their right to them.

Recognition and measurement
The value of a defined-benefit obligation is represented by the present value of the future payments necessary to settle the obligations deriving from work performed by employees in the current and prior years.
This present value is determined using the "Projected Unit Credit Method".

The employee benefits included as other long-term benefits, such as long-service bonuses that are paid on reaching a pre-determined level of seniority, are recorded for an amount determined at the reporting date using the "Projected Unit Credit Method".
Employee termination indemnities are recorded as a separate liability, while the other post-employment benefits and long-term benefits are recorded among the "Provisions for risks and charges".

Recognition of components affecting the income statement

Service costs are recorded as staff costs, together with the related accrued interest.
Actuarial gains and losses (remeasurements) relating to post-employment, defined benefit plans are recorded in shareholders' equity in the year they are identified. These actuarial gains and losses are reported in the "Consolidated statement of other comprehensive income", as required by IAS 1.

The actuarial gains and losses (remeasurements) relating to other long-term benefits are recognised in full as part of staff costs in the year in which they arise. On this last point, in 2012 the BPER Banca Group has standardised the orientation expressed by the National Institute of Actuaries in Circular 35 dated 21 December 2012, valid with effect from the measurements carried out at 31 December 2012. This document confirmed the guidelines already issued with the previous Circular dated 22 May 2012, in which it was expected that the component represented by interest cost had to be calculated using the rate of the curve corresponding to the duration of the liability, instead of the 1-year rate of the same curve used up to 31 December 2011.

19. Share-based payment plans

In general, share-based payments to employees (or other equivalent parties) represent consideration for services received.
In 2019, the BPER Banca Group approved its first share-based payment plan. This plan envisages granting without charge a certain number of ordinary shares in the Parent Company to beneficiaries who are considered Material Risk Takers at Group level, without any increase in capital and therefore by using outstanding shares temporarily purchased by the Parent Company for this purpose (by contrast, no stock option plans have been activated at Group level).
In accordance with IFRS 2 - Share-based payments, the cost of employee compensation plans based on own equity instruments is recognised in the income statement with reference to their fair value on the grant date, spreading the related charge over the vesting period.
Since it is difficult to measure reliably the fair value of the services received in exchange for the equity instruments, reference is made to the fair value of the latter, determined on the grant date. Based on the instructions contained in IFRS 2, this date corresponds to the moment in which the parties to the agreement become aware of its existence.
The charges relating to share-based compensation plans are recognised on an accruals basis as a cost in income statement caption 190. a) “Administrative expenses: staff costs”, with a matching entry to equity caption 150. “Reserves”.

Long-Term Incentive Plan – LTI of BPER Banca Group

The 2019-2021 LTI Plan approved at the Ordinary Shareholders' Meeting held on 17 April 2019 is a share-based incentive plan for the key personnel of the Parent Company and other Group companies.
This Plan is designed to award beneficiaries an incentive that will be paid exclusively in BPER ordinary shares, in compliance with the relevant regulations and consistent with the 2019-2021 Business Plan.

In the context of the compensation policies adopted by the Group for 2019, the Plan was approved with the following objectives:

- align management's interests with the creation of long-term shareholder value;
- motivate management to achieve the objectives of the Business Plan 2019-2021, within a framework of healthy, prudent risk management and ESG sustainability;
- strengthen key persons' sense of belonging in order to implement the Group's medium-long term strategy.

Implementation of the Plan is subject to achieving predetermined access conditions that guarantee not only profitability, but also the Group's capital stability and liquidity.
The bonus recognised at the end of the performance period - the size of which also depends on the achievement of specific objectives in terms of results, stock performance and sustainability - is paid by means of a free allocation of BPER Banca ordinary shares, subject to deferral and retention clauses.
Between 55% and 60% of the bonus is deferred, depending on the amount awarded at the end of the three-year period 2019-2021 (whether or not less than the "particularly high variable amount" defined in the compensation policies for 2021). Deferral lasts for five years (2022-2026), during which the deferred portion is allocated in five annual instalments of the same amount, subject to verification of the malus conditions. Each portion that is allocated, whether up-front or deferred, is then subjected to a retention period of one year. Including the retention period, the Plan will end in 2027.

The LTI Plan of the BPER Banca Group is an operation with payment settled using equity instruments and, therefore, is governed by IFRS 2.
The overall cost of the plan is equal to the sum of the cost of each tranche, calculated with reference to the fair value of BPER Banca shares at the grant date (considering in each case the period until the expected vesting date), multiplied by the number of shares that may vest in relation to the performance condition, the probability of satisfying the service condition and achievement of the entry gate condition.
This cost is allocated over the vesting period of 8 years, starting from the date on which the parties become aware of its existence or, in the specific case of the BPER Banca plan, the date on which the individual plan beneficiaries were informed about their participation. The cost of the services (work) provided by the employees/recipients only includes the costs associated with the LTI Plan from that date.
The costs recognised are matched by a specific equity reserve.

20. Targeted Longer-Term Refinancing Operation – TLTRO-III

Generally speaking, Targeted Longer-Term Refinancing Operations (TLTRO) have since their introduction offered banks in the Eurozone loans with multi-year maturities designed to improve the functioning of the monetary policy transmission mechanism, supporting the provision of bank credit to the real economy.
In March 2019 the Governing Council of the ECB announced a third series of Targeted Longer-Term Refinancing Operations (TLTRO-III) to be carried out on a quarterly basis from September 2019 to December 2021 (with the ECB's decision of 10 December 2020, three new operations were scheduled between June and December 2021) .
During the course of 2020, starting from March, the Governing Council of the ECB, faced by the Covid-19 emergency, introduced more favourable conditions for the operations in question, which were first expected to be applied from 24 June 2020 to 23 June 2021 and then extended from December 2020 until June 2022.

Each of these operations has a duration of three years; counterparties whose net eligible loans, between 1 March 2020 and 31 March 2021, are at least equal to their benchmark net lending will be granted a reduction in the rate to the same level as that on deposits with the central bank during the respective operation, except for the period between 24 June 2020 and 23 June 2021 when a reduction of 50 bps will apply. With the ECB's decision of December 2020, this reduction will also be extended to the period between 24 June 2021 and 23 June 2022 for counterparties whose net eligible loans between 1 October 2020 and 31 December 2021 are at least equal to their benchmark net lending.

The characteristics of the TLTRO-III operations are such that it is impossible to equate them easily to cases specifically dealt with in IAS/IFRS; to identify the accounting treatment of the following situations in particular:

- change in the estimates of achievement of the objectives,
- recording of economic effects, "special interests" in particular,
- management of early repayments,

it is thought that reference can be made by analogy to "IAS 20 - Accounting for government grants and disclosure of public assistance" or to "IFRS 9 - Financial instruments".
The choice made by the BPER Banca Group in accounting for such transactions is to refer to IFRS 9, given that the funding to which banks have access through the ECB's TLTRO is at market conditions. In our opinion, in fact, the ECB rates can be considered as "market rates" since it is the ECB itself that establishes the level, keeping this level in line with the lending objectives to be achieved (monetary policy operations). The ECB also has the power to change the TLTRO III interest rate at any time. This right of modification by the ECB has to be traced back to what is indicated in para. B5 4.5 of IFRS 9 (floating rate loans), resulting in a change in the Internal Rate of Return (IRR) of the loan to reflect changes in the benchmark rate. On the other hand, the situation is different where the lending rate gets changed because of a modification of the forecasts of whether the benchmark will be reached in terms of net lending; in this situation, with the same IRR, a modification in the future flows can only lead to measurement of the loan at amortised cost.
In relation to the methods of determining the IRR, likening the refinancing operations to loans at variable rates has led the BPER Banca Group to apply different rates over the life of the operation, depending on the economic conditions expected from time to time.
Moreover, the conditions under which the interest develops depend on the likelihood of the net lending benchmark being achieved[64].

21. Purchase of tax credits originated from benefits mentioned in the "Cura Italia" and "Rilancio" Decree Laws (the so-called "Ecobonus" and "Sismabonus")

In order to counter the negative effects of the pandemic, with Law 77 of 17 July 2020 which converted with amendments Decree Law 34 of 19 May 2020 (the so-called "Relaunch" Decree) containing urgent measures in the field of health, support for work and the economy, as well as social policies related to the Covid-19 emergency, Parliament issued a series of measures which, among other things, make it possible under certain conditions to benefit from a deduction of the expenses incurred for specific interventions (e.g. interventions to increase the level of energy efficiency of existing buildings or reduce their seismic risk can attract a deduction of 110% of the costs incurred).

[64] *This accounting choice is consistent with the Public Statement issued by ESMA on 6 January 2021 dedicated to "[...] the third series of the ECB's Targeted Longer-Term Refinancing Operations (TLTRO III)"*

The law also introduces the possibility for taxpayers to opt, instead of direct use of the deduction, for an advance contribution in the form of a discount from the suppliers of goods or services (so-called "discount in invoice") or, alternatively, to sell the credit corresponding to the deduction to other subjects, including banks and other financial intermediaries; as part of its commercial policies, the BPER Banca Group has decided to offer itself as a buyer of tax credits from its customers.
The buying bank can, in turn, sell the tax credit, whereas credits that cannot be sold on can be used to offset tax payments through the F24 form. The tax credit can be used with the same breakdown into annual instalments with which the deduction would have been used by the seller (for example in five annual instalments of the same amount). The portion of the tax credit not used during the year cannot be used in subsequent years and cannot be requested as a refund.
As regards the responsibilities as to the existence of the credit, the law provides that:

- suppliers and buyers of credits are liable only for any use of the tax credit that is irregular or for a larger amount than the tax credit received;
- if the Revenue Agency finds out that one does not have all or some of the requisites that give the right to a tax deduction, it will recover the amount of the deduction not due from those to whom the bonus was granted (i.e. the seller).

The buying bank is therefore not exposed to any risk that the credit does not exist and will be able to offset it without limits in annual instalments against its tax payables in the F24 form. On the other hand, it is still exposed to the risk of not calculating correctly the amount of credits that it will be able to offset in any one year, i.e. the risk of buying more credits than it could absorb during the year. In this case, it is exposed to the risk of making a loss (not due to counterparty risk, but because it would be impossible to recover all of the credits due to the rules on tax compensation); a loss equal to the amount of the credit purchased and not offset during the year or, in the event of a subsequent sale, for an amount equal to the additional discount that might have to be conceded to the next buyer.
With reference to the accounting treatment to be adopted in the financial statements of the buying bank, since the case in question is not subject to clear instructions in the IAS/IFRS, in application of the provisions of IAS 8, paras. 10 and 11, various possible scenarios were assessed concerning the applicability of the following international accounting standards by analogy:

a. IAS 20 “Accounting for government grants and disclosure of government assistance”;
b. IAS 12 “Income Taxes”;
c. IAS 38 “Intangible Assets”;
d. IFRS 9 “Financial Instruments”.

The choice made by the BPER Banca Group is to refer by analogy to the indications of IFRS 9[65], considering that these tax credits are in essence financial assets, as they can be:

- used to pay off a debt (e.g. a tax debt);
- exchanged for other financial assets at conditions that could be potentially favourable to the entity;
- classified in an HTC business model, or with a hold-to-maturity strategy, even if considered as Other assets.

Furthermore, the tax credits are bought by the bank at a price that discounts both the time value of money and the ability to use them within a certain time limit. So at the time of initial recognition the tax

[65] *The approach adopted is consistent with what is indicated in the Bank of Italy/Consob/Ivass Document no. 9 - Coordination table between the Bank of Italy, Consob and Ivass on the application of IAS/IFRS.*

credit is recognised at the price of the individual transaction - equating it to the fair value of a Level 3 instrument, as there are no official markets or comparable transactions - and thereby satisfy the condition set by IFRS 9 according to which financial assets and liabilities are to be initially recognised at fair value.

Subsequent valuation (or remeasurement) of this asset, again in line with IFRS 9, is envisaged at amortised cost, considering: i) the time value of money; ii) the use of a correct effective interest rate; and iii) the uses made of the tax credit through offsets.

The effective interest rate is originally set so that the discounted cash flows of the estimated future offsets over the expected duration of the tax credit equal the purchase price of the tax credits.

In addition, if the Bank were to revise its estimates of the use of the tax credit through offsets, it would have to adjust the gross carrying amount of the tax credit to reflect the estimated, actual and restated uses of the tax credit through offsets. In such situations, the Bank would recalculate the gross carrying amount of the tax credit as the present value of the new estimated uses of the tax credit through offsets discounted back to the original effective interest rate. In this restatement, taking into account that there is no chance of reimbursement by the counterparty (i.e. the Treasury), an impairment loss due to any failure to use the tax credits bought would be included. Moreover, as part of the remeasurement at amortised cost, not finding a counterparty credit risk as realising the instrument takes place exclusively through offsetting against tax payables and not by receiving money from the counterparty, the IFRS 9 rules on Expected Credit Losses are not applicable.

The treatment described is consistent with paragraph B5.4.6 of IFRS 9[66], which requires the entity to review its cash flow estimates periodically and adjust the gross carrying amount of the financial asset to reflect the actual and restated cash flows. This accounting treatment also makes it possible to allocate income (in the form of interest income) on an accrual basis during the life of the tax credit, as well as to recognise any losses from the transaction immediately.

22. Method for determining the extent of impairment[67]

A. Financial assets

Impairment models

The calculation of adjustments of financial assets according to the Expected Credit Losses (ECL model envisaged by IFRS 9 is the result of a complex process of estimates that includes numerous subjective variables regarding the criteria used to identify a significant increase in credit risk, for the purpose of allocating financial assets to the stages provided for in the Standard; it also involves defining models for measuring expected losses, with the use of assumptions and parameters, which take into account current and future (or "forward-looking") macroeconomic information including, for non-performing exposures, possible sale scenarios where the Bank's strategy envisages recovery of the loans by selling them.

[66] *If the entity revises its payment or collection estimates (excluding modifications in accordance with paragraph 5.4.3 and changes in ECL estimates), the entity has to adjust the gross carrying amount of the financial asset or the amortised cost of the financial liability (or group of financial instruments) to reflect the actual and restated estimated contractual cash flows. The entity recalculates the gross carrying amount of the financial asset or the amortised cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate (or at the adjusted effective interest rate for the credit for non-performing financial assets purchased or originated) or, where applicable, at the revised effective interest rate calculated in accordance with paragraph 6.5.10. The adjustment is recognised as income or expense in profit or loss for the year.*

[67] *As required by document No. 2 issued with joint signature by the Bank of Italy, CONSOB and ISVAP (now IVASS) on 6 February 2009.*

In accordance with the instructions contained in the standard, the impairment model adopted by the BPER Banca Group is based on the concept of "forward-looking" evaluation, i.e. on the concept of expected loss, whether calculated for the next 12 months (Stage 1) or for the residual life of the instrument (Stage 2 and Stage 3), based on the concept of a Significant Increase in Credit Risk (SICR) with respect to the date of origin of the instrument. According to the Expected Credit Loss model, the losses must be recorded not only on the basis of objective evidence of impairment losses already manifest as of the reporting date, but also on the basis of the expectation of future losses in value not yet manifest as of the reporting date, and must reflect:

- the probability of occurrence of the various system scenarios;
- the discounting effect using the effective interest rate;
- historical experiences and current and future assessments.

To this end, the BPER Banca Group has adopted a model for calculating the expected lifetime loss of the financial instrument, applied to instruments classified in Stage 2, which takes into consideration the following multi-period parameters:

$$LtEL_t = \sum_{t=1}^{T} PDF_t \text{ x } LGD_t \text{ x } EaD_t \text{ x } D_t$$

where,

- PDF_t is the Probability of Default between 1 and t,
- LGD_t is the Loss Given Default at a forward default event between 1 and t,
- EaD_t is the Exposure at Default at time t,
- D_t is the discounting factor for the expected loss at time t, up to the current reporting date, determined using the effective interest rate,
- T is the contract maturity date.

The calculation parameters contained in the Lifetime Expected Loss formula, as they are multi-period, they evolve over time, or in the time frame coinciding with the expected life of the exposure that must be evaluated. In particular, the criteria adopted by the BPER Group envisage that:

- the EaD evolves in accordance with the amortisation plans, if they exist, and with the contractual repayment plans in general, possibly amended by "behavioural" hypotheses (e.g. loans with pre-payment options);
- the PD and LGD parameters evolve as a result of the changes in the credit quality observed over time and represented by the transition or migration matrices (e.g. migrations between rating classes or for situations such as Danger Rate).

The calculation of the expected 12-month loss (applied to instruments classified in Stage 1) can therefore be considered as the sum of expected multi-period losses for the first prospective year, or less if the deadline is within 12 months, of the Lifetime Expected Loss:

$$EL = EaD \text{ x } LGD \text{ x } PD \text{ x } D$$

where,

- EaD is Exposure at Default,
- LGD is the Loss Given Default,

- PD is the 12-month Probability of Default,
- D is the discounting factor for the expected loss, discounted for 12 months from the first period subsequent to the reporting date.

Lastly, for loans already classified in Stage 3 whose amount is lower than the threshold set in the Group's internal regulations for analytical assessment, a statistical write-down is applied using the following formula:

$$LtEL_t = EaD \times LGD$$

where,

- EaD is Exposure at Default,
- LGD is the loss resulting from a default event, which can differ according to the administrative status at the calculation date.

For the purposes of a homogeneous application of the impairment model described to the financial asset portfolios of the BPER Group, the same methods of calculating the value adjustments described above are applied, in addition to the on- and off-balance sheet scope of the loans, also to the portfolio of debt securities. With regard to the latter portfolio, it should be noted that, where the risk information deriving from internal models (PD and LGD) is missing, external information from qualified info providers was used.

The Expected Credit Loss (ECL) model adopted by the BPER Banca Group is based on the use of risk parameters estimated for regulatory purposes (the disclosure of which is given in Part E of the Explanatory Notes, to which reference should be made), appropriately amended to guarantee complete consistency with the requirements of IFRS 9. The main changes concerned the following aspects:

- introduction of "point-in-time" elements in the regulatory parameters estimated according to "through-the-cycle" logic;
- implementation of components based on forecast information (scenario analysis);
- extension of the time horizon (multi-year) of the credit risk parameters.

Estimate of the PD parameter

The introduction of a Lifetime Expected Loss model implies the need to estimate the probability of default not only in the twelve months following the reporting date, but also in subsequent years.

For this purpose, multi-year PD dynamics accumulated by rating class based on the product among the matrices of Point-In-Time (PIT) migrations conditioned to the expected economic cycle were defined for each model of the internal rating system.

More specifically, the cumulative PD curves are determined, for the first three years from the reporting date, by multiplying future PIT matrices derived from the conditioning of PIT matrices, according to the application of satellite models, to different weighted macro-economic scenarios with the relative probabilities of occurrence. From the fourth year onwards, long-term matrices Through-The-Cycle (TTC) are used, obtained as the average of historical PIT migration matrices.

Furthermore, specific PD curves are defined for the mortgage loan component.

Estimate of the LGD parameter

The need to implement a long-term approach, also through the inclusion of “forward looking” factors has involved the removal of the corrective components required for regulatory purposes (“down turn” and indirect costs) and the conditioning to the economic cycle of elements such as the value of the property guarantees and, via satellite models ("Merton method"), the loss rate of unsecured bad positions and migrations between default states.

EAD Estimate

The concept of exposure (EAD) considered in the various future payment moments foreseen in the amortisation plan is based on the residual debt, increased by any unpaid or overdue instalments.
With reference to off-balance sheet exposures (guarantees and margins), EAD is determined by applying a credit conversion factor (CCF) to the nominal value of the exposure.
As required by IFRS 9, the BPER Banca Group's impairment model is reflected in the risk parameters used to calculate the ECL (and the stage assignment explained below):

- current conditions in the economic cycle (Point-in-Time risk measures);
- forward-looking information about risks, considering the dynamics of the (external) macroeconomic factors that affect the lifetime expected loss;
- the probability that three possible scenarios might occur (Probability weighted).

Therefore, all the risk parameters (with the exception of Exposure at Default, for which no significant relationship with macro-economic variables has been found) are conditioned by macro economic scenarios.

With reference to the multiple prospective scenarios similar to those used to estimate the ECL, the BPER Banca Group has decided to use the same scenarios used by the Bank's main processes such as Planning and Budget, Risk Appetite Framework (RAF) and Lending Policies, limiting the forward-looking time horizon to a maximum of 3 years following the date of each assessment[68].

In the context of the performing loan portfolio and the related impairment model adopted by the Group, the risk parameters for certain technical forms, including finance leases, factoring loans and consumer credit, are determined differently.

As described in the ITG "Inclusion of cash flows expected from the sale on default of loans" from the staff of the IFRS Foundation and in the "Guidelines for banks on non-performing loans (NPL)" published by the ECB in March 2017 to encourage their pro-active management, the BPER Banca Group has included forward-looking factors in the assessment of non-performing loans (classified in particular as bad and UTP loans) by forecasting recoveries on a multi-scenario basis. More specifically, in line with the current recovery processes of non-performing assets which also envisage realisation through sale on the market, the impairment model has integrated a sales scenario (the so-called "Disposal Scenario), as defined in its "2019-2021 NPE Strategy" as a possible way to recover exposures and as an alternative to internal recovery (so-called "Workout Scenario").

When envisaged, loans classified in Stage 3 are therefore measured by weighting their estimated realisable value determined under the two possible scenarios (“workout” and “disposal”) by applying a probability of occurrence to each. To this end, the BPER Banca Group has adopted a model for calculating the multi-scenario net value of impaired financial assets, which considers the following parameters:

$$\mathrm{NBV}_{\mathrm{Multiscenario}} = FMV \times Disposal\ Scenario\ \% + \mathrm{NBV}_{\mathrm{Workout}} \times (1 - Disposal\ Scenario\ \%)$$

[68] Please refer to what was said above in Section 5 - Other aspects of the Explanatory Notes for more details on the approach taken when preparing the consolidated financial statements as at 31 December 2020 (application of the overlay approach following the situation caused by the Covid-19 pandemic).

where,

- FMV is the best estimate of the "disposal" price;
- $\mathrm{NBV}_{\mathrm{Workout}}$ is the net book value of the loan according to internal management logic ("workout");
- Disposal Scenario% is the probability of occurrence of the disposal scenario;
- (1 – Disposal Scenario %) is the probability of occurrence of the workout scenario.

This methodology for measuring Stage 3 exposures provides the best representation of possible recoveries from, on the one hand, the application of routine internal procedures and, on the other, market disposals in implementation of the specific strategies (NPE Strategy 2019-2021) and targets that the Group has committed to achieve in communications with the financial community.
The measurement process therefore retains unchanged the methodology for identifying recoverable value under the workout scenario, but is supplemented by an assessment based on market parameters under the disposal scenario. The two measurement processes are carried out in parallel and their results are summarised by determining a weighted average based on the relative probabilities of occurrence.
The resulting impairment model requires the parameters used for both scenarios to be updated constantly. Specifically with regard to the workout scenario, the internal assessment of the recoverability of the exposure is revised constantly,based on the strategies/rescheduling/recovery actions implemented in application of a methodology that is both customised and "expert"; with reference to the disposal scenario, the FMV is updated regularly (every quarter) with reference to the information available about disposal conditions until the selling prices are matched by a "welcome" binding offer from a potential purchaser (probability of disposal close to 100%). The best estimate of the disposal price of the individual positions is determined by considering, where available, the potential market value of the portfolio concerned and, where unavailable, the likely disposal value of each position under a mark-to-model approach.
The probability of disposal is determined with reference to the estimated disposal date (probability decreases as the estimated time to complete the operation increases), the type of operation envisaged (distinguishing, in particular, the securitisations assisted by "GACS" guarantees from other type of market disposal) and the administrative status of the positions concerned (probability of disposal greater for those classified as bad loans, than for UTP positions).
The probabilities associated with the workout and disposal scenarios for each position are not fixed over time, but in turn are subject to amendments and changes due, principally, to conditions in the NPE market and cumulative achievement of the objectives established in the current Group NPE Strategy. Dynamic management of the Group's non-performing portfolio in fact requires the addition of new positions and the exclusion of others initially identified for disposal, depending on the interest of operators in the NPE market and the internal assessments carried out by Group management; these circumstances must be recognised as entirely physiological and unavoidable in such a dynamic context, with accounting consequences in terms of loan impairment losses and write-backs.
Notably, during the time dedicated to the selection of disposal opportunities and completion of the operation, the positions concerned are still managed in accordance with the normal workout procedures that, understandably, often result in resolution of the problem before the positions are actually sold. It follows that the ideal disposal perimeter identified originally must be updated constantly, in terms of quality, quantity and provisions, to keep it aligned with the objectives established in the NPE Strategy.

Criteria for the classification of financial instruments in Stages

The Stage Assignment Framework adopted by the BPER Banca Group establishes the requirements for classifying financial instruments with reference to the actual "deterioration" of credit risk, consistent with the requirements of IFRS 9, applying an approach that is consistent among the various portfolios and within the Banking Group. This classification in stages of increasing risk is determined using all the significant information contained in Group processes, as supported where applicable by updates and the credit monitoring processes.

Specifically, financial assets are classified into three stages of risk, each of which applies a different method to calculate the related impairment adjustments, while consistently applying the "Expected Loss" or "Expected Credit Losses" (ECL) concept:

- Stage 1: comprises all performing loans (originated or acquired) without any "significant increase in credit risk" (SICR) since initial recognition; the impairment adjustments reflect the expected losses that might arise on default within the next 12 months *(12-month ECL*);
- Stage 2: comprises all performing loans with a "SICR" since initial recognition; the impairment adjustments reflect the expected losses that might arise on default at any time in the life of the financial instrument *(lifetime ECL*);
- Stage 3: comprises all accounts in default at the reporting date, the impairment adjustments for which consider the lifetime ECL.

In particular, regarding the classification of loans in Stage 2, it is essential to identify correctly the SICR criteria used in the stage assignment process. For this purpose, the BPER Banca Group has structured a framework designed to identify the increase in credit risk before the credit lines granted show clear signs of impending default.

While the distinction between performing and non-performing is made at counterparty level, classification into stages of risk is carried out at account level. In order to distinguish loans within the performing portfolio that do not show SICR (Stage 1) from those that do (Stage 2), the BPER Banca Group has decided to use all the following available significant factors as criteria for the analysis of credit quality:

- Relative quantitative criteria, such as the definition of internal thresholds of change between the PD identified on originating the contractual relationship and the PD at the measurement date, that identify a significant increase in credit risk. In this context, in order to identify the changes in PD and the related thresholds, the framework adopted by the BPER Banca Group makes reference to the Lifetime PD curves, which contain forward-looking information, so that due consideration is given to macroeconomic factors and other elements, such as market type, sector of activity, type of financial instrument and the residual duration of the instrument concerned. The PD deltas defined and the related SICR thresholds have been reduced to a downgrade rating system based on comparison, differentiated by ageing clusters, between rating classes originating with respect to rating classes with a given valuation ("notching" between rating classes) ;
- Absolute qualitative criteria that, via the identification of a risk threshold, identify the transactions to be classified in Stage 2 based on the specific risk information available. This category includes the adverse events impacting credit risk that are identified by the Early Warning credit performance monitoring system ("watchlist"). In order to avoid overlapping, some qualitative counterparty information has not been included among the staging criteria, as it is already considered in the rating models;
- backstop indicators, including:

- the presence of exposures with a significant past due balance for more than 30 days;
- the presence of a regulatory probation period of 24 months for forbearance measures;
- the absence of a rating or the presence of a default status at the credit origination date.

To date, the BPER Banca Group has not envisaged the possibility of a manual override of the classification resulting from application of the staging rules (except as indicated in the paragraph dedicated to the Overlay Approach in response to the situation caused by the Covid-19 pandemic).
For a homogeneous application of the impairment model between portfolios of the BPER Banca Group, the classification criteria in stages for the portfolio of debt securities were taken, where possible, from the staging logic applied to the loan portfolio. Specifically, the BPER Banca Group has defined a staging model for debt securities based on the following criteria:

- management of an "inventory" of debit securities for staging purposes, applying the FIFO method to relieve sold tranches from the portfolio;
- model for identifying significant increases in credit risk, in order to classify debt securities in Stage 1 or Stage 2, based on the following criteria:
  - primary use of the internal rating model and, if unavailable, reference to an external rating agency;
  - the determination of the rating downgrade threshold based on a comparison of rating classes at origination with rating classes at the measurement date (notching between rating classes);
- classification in Stage 3 of all debt securities in default at the reporting date, applying the definition of default contained in the ISDA document entitled "Credit Derivatives Definition" of 2003.

The standard also envisages the possible use of a practical expedient, intended to reduce the implementation burden for transactions that, at the measurement date, have a *low credit risk* and can be classified in Stage 1 without first carrying out the SICR test. The standard considers an asset to have a low credit risk if the debtor is well able to meet the short-term cash flow requirements deriving from its contractual obligations and adverse changes in the long-term economic situation might reduce that ability, but not necessarily.
The BPER Banca Group has decided not to adopt this practical expedient.

Should the conditions giving rise to the SICR cease to apply at a subsequent measurement date, the financial instrument is once again measured with reference to the 12-month ECL, which might result in a write-back to the income statement.
It should be noted, however, that in the event of reclassification of a loan from non-performing (Stage 3) to performing, the BPER Banca Group does not deem necessary a forced classification in Stage 2 with the application of a Lifetime ECL, since no probation period has been set for the return from Stage 3 to Stage 1. In this case, the stage assignment approach mentioned previously will be valid. In line with this approach and with the regulatory requirements, also in the event of a return from Stage 2 to Stage 1, probation periods are not envisaged as the combination of the various SICR rules implemented already permits an adequate level of prudence in the case of a return to Stage 1.
The only exception to this relates to any contractual modifications and/or renegotiations of financial instruments, for which the BPER Group envisages classification as "forborne", which acts as a Stage 2 trigger and therefore requires the application of Lifetime ECL to the credit line. Furthermore, the official rating valid on the day that a loan is classified as forborne cannot be changed until twelve months have elapsed.

B. Purchased or Originated Credit Impaired - POCI - financial assets

If a credit exposure (including those acquired through business combinations) classified at the time of initial recognition in the balance sheet caption 30 *"Financial assets measured at fair value through other comprehensive income"* or in caption 40 *"Financial assets measured at amortised cost"* becomes impaired, it is identified as "Purchased or Originated Credit Impaired - POCI".
By convention, POCI financial assets are classified in Stage 3 on initial recognition.
Should these assets become performing, following an improvement in the creditworthiness of the counterparty, they are reclassified to Stage 2.
They can never be classified in Stage 1, as the expected credit loss must always be calculated over the residual duration.

In addition to what was said above, the BPER Banca Group identifies as POCI financial assets any credit exposures originating from the restructuring of impaired exposures that resulted in the granting of significant new funds, either in absolute terms or in proportion to the amount of the original exposure.

C. Intangible assets with an undefined useful life

As regards testing goodwill for impairment, when preparing the separate and consolidated financial statements, the Group carries out specific impairment tests on an annual basis as required by the accounting standards, normally at 31 December of each year, unless there have been changes or there are completely new situations that are likely to have had a material impact on the carrying amounts of assets and on the assumptions used the previous time the assets were measured (particularly the assumptions used to calculate the discount rate (*Ke*) and profit forecast (budget and business plans) of the Companies or CGUs whose goodwill is to be tested, i.e. subsidiaries and associates).
Para. 9 of IAS 36 requires an assessment to be made on each accounting reference date about whether or not an asset may be impaired; in addition, paras. 12 to 14 of IAS 36 describe certain situations that might be evidence of impairment.
In the case of goodwill, the cash generating unit (CGU) to which it has been allocated is tested for impairment. Any reduction in the value of goodwill is based on the difference between the recovery amount of the CGU and its carrying amount if the latter is higher, up to the amount of goodwill on the books. The recoverable amount is the higher of the cash-generating unit's fair value, net of any selling costs, or its related value in use. The difference between the book value and the value in use is recognised in the income statement as "Net adjustments to intangible assets".

D. Equity investments

The Bank's equity investments are also subjected to impairment testing. In particular, the impairment test is carried out on an annual basis as required by the accounting standards, normally as of 31 December each year, unless there are changes or situations of discontinuity of particular importance with respect to the values and assumptions taken as a point of reference in the previous test (in particular as regards the assumptions used to calculate the discount rate -*Ke* and income prospects -budgets and business plans - of the investee companies); it provides for calculation of the recoverable amount, represented by the greater of the fair value net of selling costs and the value in use. The measurement methodologies used to calculate fair value less selling costs are described in part A.4 of these Explanatory Notes.
Value in use represents the present value of the cash flows expected to derive from the assets subject to impairment testing; this involves estimating the cash flows expected from the asset, possible changes in the timing and/or extent of such flows, the time value of money, and the price that remunerates the

specific risks associated with the asset, together with such other factors as the size of the market for the asset, which might affect operators' assessments of the quality of the expected cash flows.
The estimate of value in use, being the present value of the cash flows expected to derive from the asset determined using a Discounted Cash Flow (DCF) method such as the DDM configured for banks, Excess Capital Method, identifies the value of a business in relation to its ability to generate cash flow and thus its financial solidity.
Value in use is therefore determined by discounting the cash flows identified in the business plan, the time horizon for which must be sufficiently long for "fair" forecasts to be made; in financial practice, the time period covered by the forecast flows is at least three years. Where business plans are not prepared directly by the investees, long-term inertia-based plans are developed based on the companies' results and financial position, as well as market projections.
Shareholders' equity and earnings performance are only referred to on a residual basis, for the measurement of minority equity investments.

E. Property, plant and equipment and intangible assets with a defined useful life

Property, plant, equipment and intangible assets with a finite useful life are subjected to impairment testing if there is evidence that their carrying amounts may no longer be recoverable. Recoverable value is determined with reference to the fair value of the property, plant and equipment or intangible asset, net of disposal costs, or to its value in use if this can be determined and exceeds fair value.
As regards property, plant and equipment, impairment is only recognised if their carrying amount exceeds their fair value less selling costs or, if greater, their value in use.
The full value of individual property is determined using the market value criterion and comprises the market value of both the asset and the related land on which it is built. To determine the market value, in relation to the characteristics, intended uses and potential, one or more of the following approaches are adopted:

- comparative method;
- capitalization method;
- cash flow discounting method.

If valuations are negative, showing impairment losses with respect to the carrying amount, the assets are written down as a result.
In order to identify a single way to identify the circumstances that trigger impairment when market value is lower than the net carrying amount, reference thresholds have been identified (distinguishing type of property and use and considering adverse changes in market value compared with the net carrying amount) to flag potentially critical situations; if exceeded, these lead to a supplementary investigation, which could result in the assets being written down.
Any write-down must be carried out up to the total market value and attributed primarily to the property element.
As with property owned by the Bank, the right-of-use assets recognised in relation to leased buildings (IFRS 16) are also subjected to periodic impairment tests that consider their expected use (decisions to close branches and related contract amendments already carried out) and suitable market indications regarding the costs to be incurred in order to rent them out.

23. Business combinations: purchase price allocation

Introduction

The following description covers the general process required by IFRS 3 for the recognition of business combinations, being transactions or other events in which a company acquires control over one or more business activities and expects to consolidate the assets, liabilities and contingent liabilities acquired at their respective fair values, including any identifiable intangible assets not already recorded in the financial statements of the acquired business.
According to IFRS 3[69], a specific analysis to identify the characteristics of "Company's Business", has to be carried out with respect to the acquired entity, in order to identify a business combination to be accounted for according to the Acquisition Method.
The BPER Banca Group then proceeds with a qualitative analysis of the characteristics of what has been acquired to verify the simultaneous presence of i) Factors of production, ii) Processes, iii) Production as defined in IFRS 3, especially with respect to the concept of substantial process.
Subsequently, on the basis of the Acquisition Method and on the date of acquisition of control, the Group allocates the price of the combination (Purchase Price Allocation - PPA) by recognising the assets acquired, liabilities assumed (including contingent liabilities) and minority interests to the related fair value, in addition to identifying the implicit intangible assets previously not accounted for in the accounts of the acquiree. Any differences that emerge between the price paid for the acquisition (also measured at fair value and considering any "potential consideration") and the fair value (net of tax effect) of the assets and liabilities acquired are, if positive, recognised as goodwill in the balance sheet and, if negative, credited to the income statement as badwill (or "gain on a bargain purchase").
IFRS 3 allows for the final allocation of the cost of the business combination to be made within twelve months of the acquisition date.

Fair value of purchased assets and liabilities

When accounting for a business combination, the Bank determines the fair value of the assets, liabilities and contingent liabilities acquired. Such amount is only identified separately if, at the acquisition date, the following criteria are met:

- in the case of assets other than intangible assets, it is likely that the purchaser will obtain any future economic benefits;
- in the case of liabilities other than contingent liabilities, it is likely that their settlement will require the use of resources capable of producing economic benefits;
- in the case of an intangible asset (IAS 38) or a contingent liability (IAS 37), the related fair value can be measured in a reliable manner.

Financial assets and liabilities must be measured at their fair value on the date of the business combination, even if they are measured using other criteria in the financial statements of the acquired company. The fair value of financial instruments not listed in active markets is determined in the manner described in Part A.4 below, applying the internal measurement model that is most appropriate for the instrument concerned.

[69] *The amendments made to IFRS 3 with Endorsement Regulation 2020/551 have i) modified para. 3 and ii) introduced paras. B7 - B12D, substantially revising the definition of "business" for the purpose of identifying transactions that can be classified as "business combinations".*

Identification of intangible assets

Depending on the characteristics of the business acquired, an analysis is performed to identify any unrecorded assets that should be recognised separately, for example customer-related intangibles or client relationship, and marketing-related intangibles (brand name).

Customer-related intangible assets: these are recognised as intangible assets when they are separable and can be measured reliably, even though they may not always derive from contractual rights such as marketing-related intangibles.
This category includes:

- client lists: these comprise all the information held about clients (database containing: names, addresses, transaction history, demographic information etc.) that has a recognised market value, on condition that it can be rented or exchanged; such information cannot be treated as an intangible asset if it is considered so confidential that the combination agreement forbids its sale, rental or exchange in other forms;
- contracts with clients and the client relationships established as a consequence: contracts with clients satisfy the contractual/legal requirement for the recognition of an intangible asset, even if the combination contract forbids their sale or transfer separately from the business acquired; this category also includes long-established contacts with clients, even if there is no formal contract, and all other non-contractual relationships that can be separated and measured on their own;
- non-contractual relations with clients: this category includes all intangible assets that, being separable and transferable independently of the business acquired, may be valued individually and recognised as intangibles.

Marketing-related intangible assets: trademarks, commercial names, service brands, collective names and quality marks that derive from contractual rights or which are usually separable. Such assets reflect the collection of productive conditions that are economically correlated with the commercial name, the relationship with the market, and the reach of distribution.
An intangible asset must be measured initially at cost. If acquired as part of a business combination, its cost is its fair value at the time control is obtained. Fair value, in this context, reflects market expectations about the likelihood that the owner will obtain the future economic benefits deriving from the asset. The entity must assess the probability of obtaining future economic benefits using reasonable and justifiable assumptions that reflect Management's best estimate of the economic conditions that will apply over the useful life of the asset.
The accounting standards do not specify the methodology to be used to measure the fair value of such assets but, among the possible alternatives, preference is given to those making reference to observable market prices. Failing this, the accounting standards allow the use of valuation models that include assumptions which are generally used and recognised by the market. The fair value of customer-related intangible assets is determined by discounting the profit flows generated by deposits over the expected residual period of the relationships outstanding at the time of acquisition. In general, brands are valued using market methods as well as methods based on the flows deriving from their management or a royalty recognised by the market.

Determination of goodwill (Gain on a bargain purchase or "Badwill")

Goodwill represents the unallocated amount of purchase cost, being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities

acquired (including those intangibles and contingent liabilities that satisfy the requirements for recognition in the financial statements).
This represents the consideration recognised by the purchaser in exchange for the future economic benefits deriving from assets that cannot be identified individually and recognised separately. In substance, this includes the value of the expected synergies, the corporate image of the company acquired, its know how, its professionalism, its procedures and other non-specific factors.
The goodwill acquired as a result of a business combination is not amortised. The BPER Banca Group verifies each year, or at the end of the period in which a business combination was carried out and whenever there is evidence of possible impairment, that the recorded value of goodwill has not been impaired (impairment test).
If the residual amount allocated to the purchase value is negative, it is recognised as a benefit in the income statement under caption 275 *"Gain on a bargain purchase"*.

A.3 – Information on transfers of financial assets between portfolios

No financial assets were reclassified during the year.

A.4 – Information on fair value

Qualitative information

A.4.1 Fair value Levels 2 and 3: valuation techniques and inputs used

Techniques for the determination of fair value

Paragraph 9 of IFRS 13 defines fair value as *"the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date"*.
When determining whether the fair value at initial recognition equals the transaction price, it is necessary to take into account factors specific to the transaction and to the asset and liability. It follows that, if the transaction price (consideration) differs from fair value, the difference should be recognised in the income statement.
It is also established that fair value includes transport costs, but excludes transaction costs.
In addition to the measurement of stand-alone financial instruments at fair value, the Group may also measure groups of similar assets and liabilities at fair value, where it is permitted to do so.
Measurement at fair value assumes that the transaction to sell an asset or transfer a liability takes place in a principal market, defined as the market with the greatest volume and level of trading for the asset or liability to be measured. In the absence of a principal market, reference should be made to the most advantageous market, which is the market that maximises the amount that would be received to sell an

asset or minimises the amount that would be paid to transfer a liability, after taking into account transaction costs.

Identification of active markets

The process for measurement of fair value starts with determining whether there is an active market with regularly available quoted prices.

In order to consider a market as active, the Group takes account of the following factors:

- number of participants;
- frequency of price quotation or price update;
- the presence and size of a bid-ask spread;
- trading volume.

Whether a financial instrument qualifies as traded on an active market can only be determined through extensive research of all the existing markets in order to identify the principal or most advantageous market, taking into account "all information that is reasonably available" (IFRS 13 § 17). This needs to be done for each financial instrument for which the fair value has to be determined.

To determine whether, based on the information that is available, a market can be considered to be active, the Group assesses the importance and relevance of factors that include the following:

- low level of recent trading activity;
- available prices are not current;
- available prices vary significantly over time or between market-makers;
- it can be demonstrated that indices that previously had a close correlation with the fair value of an asset or a liability no longer have this correlation based on recent indications of fair value of that asset or liability;
- the presence of a significant increase in the embedded risk premiums (or default rates) of the transactions being considered or in quoted prices;
- the presence of a wide bid-ask spread or of a significant increase in it;
- a significant decline in the level of trading activity;
- a lack of publicly available information.

If compliance with the necessary requirements is verified periodically, a financial instrument can be considered to be traded on one or more active markets. Within the possible markets, a search is undertaken to identify the principal market or, in the absence of a principal market, the most advantageous market.

Fair value is determined with reference to:

- the closing bid price for assets held or liabilities to be issued;
- the closing ask price for liabilities already issued or assets to be purchased.

Closing bid and ask prices are the bid and ask prices referred to by the entity that regulates the market on which an instrument is traded.

In the absence of reference bid and ask prices, the last price set by the entity which regulates the market could be taken, provided that this price has the following features: advertising, liquidity, prompt adaptation to changing conditions and availability as envisaged by the standards.

For assets and liabilities with offsetting positions in market risks, the average of the bid and ask price can be used, provided that this is commonly used by market participants and is consistent with the objective of measuring fair value in accordance with IFRS 13.

In the case of open-ended mutual funds, the BPER Banca Group considers the Net Asset Value (NAV) as the best expression of the fair value of the instrument. No adjustments are made to the NAV to take into account the interval between the date redemption is requested and the actual redemption date (considered insignificant).
In the case of listed closed-end funds, the fair value is derived from the market quotation.
With regard to foreign shares, if these are listed on regulated stock exchanges, then they are considered to be traded in an active market. The price provided for this type of share, if the bid-ask spread is not available, is the last price. On the contrary, equity trading in OTC markets is not considered to take place in an active market.
Listed derivatives are measured using the last prices supplied by the clearing house.
Financial instruments listed on non-active markets are considered as "unlisted" instruments.
With regard to bonds not listed on regulated markets, in view of the role played by the Bank in the institutional market for financial instruments, the Bloomberg Professional system has been identified as an active market for front office operations, if the prices recorded therein have the appropriate features mentioned above.

Identification of the fair value of financial instruments not listed on active markets

If the market for a financial instrument does not meet the conditions required to qualify as an active market, the fair value of the instrument is determined through the use of valuation techniques.
Valuation techniques indicated by international accounting standards are:

- market approach: this uses prices and other relevant information generated by market transactions involving comparable assets;
- cost approach: this reflects the amount that would be required currently to replace the service capacity of an asset ("current replacement cost");
- income approach: this converts future cash flows or income and expenses to a single current amount.

For BPER Banca Group purposes, the following valuation techniques are valid:

- market approach for identical or comparable assets and liabilities;
- use of matrix pricing;
- present value techniques;
- option pricing models;
- the multi-period excess earnings method.

These techniques may be used if:

- they maximise the use of market data, while minimising the use of Group estimates and assumptions;
- they reasonably reflect how the market expects the price to be determined;
- the fair value measurement is determined on the basis of the value indicated by current market expectations and the risk and yield of the instrument being valued;
- they reflect the assumptions that market participants would use when pricing an asset or liability;
- they are consistent with commonly accepted methodologies;
- they are periodically subjected to verification and calibration to verify their capability to determine a fair value in line with actual trading prices for the instrument being valued.

In summary, the BPER Banca Group's preference is to adopt a market approach for the determination of fair value, even if an active market does not exist. Only in the event that it is not possible to apply the above valuation techniques, quantitative valuation methods may be used.

It is apparent that regulations governing valuation techniques do not authorise a neutral and objective use of quantitative methods. However, their use should be understood to be the development by the Group of an internal process that matches the fair value measurement with a price at which an instrument could be exchanged in a market transaction at current conditions.
As part of this process, it would thus appear necessary to give priority to the use of recent transaction prices (prices on non-active markets, prices provided by third-party participants), or the prices of similar instruments. In this context, quantitative methods can provide a benchmark to supplement, or correct, any differences between the instrument being valued and that observed in the market, or to reflect the impact of changes in the economic environment on market transactions.
Valuation techniques used to measure fair value are applied consistently. A change in a valuation technique or its application is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if any of the following events take place:

- new markets develop;
- new information becomes available;
- information previously used is no longer available;
- valuation techniques improve;
- market conditions change.

Valuation techniques
Specific techniques are applied in relation to particular types of financial instrument, in order to correctly identify their characteristics.

Equity instruments
For all unlisted shares, the valuation methodologies set out above apply. Failing this, they are measured at cost.
For unlisted shares, other than equity investments, the methods used the most for fair value measurement fall into the following categories:

- discounted cash flow;
- the use of multiples.

These methods require the availability of a significant amount of data to estimate future cash flows generated by a company or to identify the correct market multiples. They use uncertain estimates of various parameters (cash flows, dividends, beta, risk premium, cost of capital, asset values, etc.), the measurement of which is subjective and which do not always reflect market conditions. This leads to a valuation of a distribution of theoretical fair values. Where it is not possible to reliably determine the fair value with the above methods, securities and instruments are measured at cost.
As an alternative to the valuation techniques above, the value of the share may be based on book value, computed as the ratio between equity and the number of issued ordinary shares.

Plain vanilla debt securities
With regard to plain vanilla debt securities, the valuation technique applied is discounted cash flow analysis. There are three steps:

- mapping of cash flows: recognition of the cash flows expected from the instrument and their distribution of the duration of the contract;
- selection of the discounting curve, having regard for the risk factors affecting the cash flows;
- calculation of the present value of the instrument at the measurement date.

Having identified the cash flows, the appropriate discounting curve is calculated using the discount rate adjustment approach, which takes account of both rate risk and credit risk. This information is used to calculate the instrument's fair value, as the sum of the present values of its cash flows.

Structured debt securities

Given the non-determinant nature of the future cash flows from structured securities, their fair value is calculated by breaking them down into a portfolio of elementary instruments using the replica portfolio technique. The fair value of the structured product is obtained by summing the individual values obtained for elementary instruments comprising the product.

The Group started issuing protection certificates in 2013. They combine two financial instruments:

- a zero coupon bond;
- an option which seeks to replicate the performance of an underlying asset and to protect, partially or completely, the amount invested.

The methods used for the calculation of fair value are similar to those described above for structured debt securities.

Closed-end funds

In order to take into account certain specific problems of unlisted closed-end real estate funds, such as the underlying's lack of liquidity, the absence of a liquid market and the specificity of the underlying, the most up-to-date NAV available may be corrected by a difference that takes account of credit risk, non-disposal risk and market risk.

Private equity funds

Closed-end private equity funds are first measured at the NAV determined from time to time by the SGR concerned. In addition, the NAV determined using the principles envisaged by the Bank of Italy for the preparation of management reports is compared periodically with the NAV determined by calculating the fair market value of the initiatives underlying[70] the fund, in order to identify any differences that might be reflected immediately in market value, but not in the NAV calculated in the normal way. Should the market value of a fund be lower than the official NAV, further analyses are required in order to correct the NAV and determine the fair value to be recognised in the financial statements.

Funds that specialise in managing NPLs

In order to take into consideration some specific problems of unlisted closed-end funds that invest in non-performing loans (NPLs), such as the fair value measurement of the underlying and the absence of a liquid market, the most up-to-date NAV available is used as input, together with the other market parameters generally used in measuring this type of asset at fair value (mainly the expected rate of return), in a model that is able to simulate the perspective of an operator in the NPL market, considering its limited liquidity.

Asset-Backed Securities (ABS)

With regard to the Asset-Backed Securities (ABS) held in the portfolio, the Group has defined specific measurement criteria that maximise the use of market information, applying the following hierarchy:

[70] *Fair market value included, for example, in the EVCA reports.*

- "qualified" contributions (contribution approach);
- method based on market information (comparable approach);
- internal measurement model (waterfall).

Derivatives

The fair value of derivatives is determined using quantitative models that differ depending on the type of instrument concerned. In particular, a distinction is made between:

- Over-The-Counter (OTC) options represented by either stand-alone options or options embedded in complex financial instruments. Pricing techniques include:
  - options with pay-off that can be calculated precisely, priced using models generally accepted by the market (e.g. Black & Scholes and variants);
  - options with pay-off that cannot be calculated precisely, usually priced using "Montecarlo" simulation techniques;
- Interest Rate Swaps (IRS): the fair value of IRS is determined using net discounted cash flow analysis. In the case of a structured IRS, the instrument is decomposed into a plain component and an optional component ("building blocks"), so that their separate values can be determined and summed;
- Forward Outright contracts: the fair value measurement of FX Forward Outrights is given by the amount to be traded forward times the strike price, adjusted for the current difference between the spot exchange rate and the forward exchange rate.
- Credit default swaps (CDS): for the fair value measurement of CDS, the Standard ISDA model (v1) developed by Markit Group Ltd. is used

Forward currency transactions

These transactions are measured with reference to the forward rates at period end for maturities corresponding to those of the contracts to be priced.

Balance sheet items measured at amortised cost

For financial instruments measured at amortised cost, the fair value is determined for the sole purpose of providing appropriate information in the financial statements.

The fair value of loans with a contractual duration of less than twelve months is estimated to be their book value; the fair value of other loans is obtained by discounting the contract cash flows, net of the expected losses determined with reference to the credit rating of the borrower, using the corresponding rate curve for their maturities.

Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA)

Current regulations state that the pricing of a derivative, in addition to being based on market factors, should also reflect the Credit risk of the counterparty determined by a Credit Valuation Adjustment (CVA) and a Debit Valuation Adjustment (DVA).

To assess the credit risk of the counterparty, the BPER Banca Group adopts the following methodology.

The term Credit Valuation Adjustment (CVA) refers to an adjustment in order to properly reflect the credit risk of the derivative counterparty made on the valuation of an OTC derivative (on positions with a positive fair value) transaction entered into by the Bank with an external counterparty and may be considered to be the market value of a potential loss amount derived from changes in market prices, due to a worsening of the credit or default risk of the counterparty.

Conversely, the term Debit Valuation Adjustment (DVA) refers to an adjustment in order to properly reflect the Bank's own default risk made on the valuation of an OTC derivative (on positions with a negative fair value) entered into by Group Banks and Companies with an external counterparty, i.e. the market value of a potential gain derived from changes in market prices, due to a worsening of the BPER Banca Group's credit or default risk.
For the quantification of a CVA and a DVA, under certain conditions, IFRS 13 refers to a calculation that must be made by netting set or by counterparty and, thus, based on net exposure and not at individual contract level. In addition, it is necessary to consider whether any collateral has been provided or if there are any netting agreements.
BPER Banca Group currently makes use of bilateral agreements for the netting of derivative contracts, in accordance with which the reciprocal mark to market receivable and payable positions are offset automatically on a daily basis, leading to a single net balance, without any novation: this results in margin settlement being made solely by the net creditor. The foregoing has led to a considerable reduction in exposure to credit risk and, consequently, the impact of CVAs and DVAs on fair value.
IFRS 13 does not indicate a specific methodology for the calculation of CVAs and DVAs, but it requires the use of valuation techniques that, on the one hand, must be appropriate for the data available and, on the other hand, maximise the use of observable market data.
In order to align with best market practices, it was decided to use bilateral CVA methodology that considers the presence of two components to the calculation, with the aim of including the potential loss/gain arising from changes in the credit risk of the counterparty/Bank, but taking into account the joint probability of default by counterparties.

Market parameters

The following types of yield curve are used:

- "par swap" curves;
- bond curves derived from baskets of bonds;
- corporate curves by issuer, rating, and sector.

The following are derived from the "par swap" curves:

- zero coupon curves;
- forward rate curves;
- discount factor curves.

The zero coupon rate curves are obtained using the bootstrapping technique. These are used to extrapolate the discount factors used to determine the present value of the cash flows generated by the financial instruments to be priced. The forward rates are implicit in the zero coupon curve are determined with reference to the non-arbitrage theory.
The issuer curves are obtained by adding to the par swap rates the spreads that reflect the credit rating of the instrument's issuer. These are used to price unlisted bonds.
The credit rating curve of the BPER Banca Group is obtained by creating a basket of issues by banking issuers that have similar characteristics and ratings. This is used to price all issued bonds.
The prices thus obtained are applied daily to organised systems of trading for the bonds issued by the Group Banks (HI-MTF) that are reflected in the fair value valuation in the financial statements.

Volatility and other parameters

Volatilities and correlations are used principally to price unlisted derivatives. The volatilities are classified as follows:

- historical volatilities, estimated as the standard deviation of a time series of daily observations of the logarithm of the yields of the underlying concerned;
- contributed volatilities, obtained from information providers;
- implicit volatilities, obtained from the market prices of listed options.

With regard to the correlations, multi-variant derivatives are priced using historical correlations.

A.4.2 Measurement process and sensitivity

Financial assets and liabilities measured at fair value and classified in Level 3 of the fair value hierarchy mainly consist of:

- minority equity investments (unlisted Equity instruments), often held in order to preserve local roots, or for the development of commercial relationships (measured at fair value mainly on the basis of equity methods);
- investments in asset-backed securities (ABS) classified as "Financial assets measured at fair value through profit or loss - other financial assets mandatorily measured at fair value"[71];
- investments in closed-end real estate investment funds, classified as "Financial assets measured at fair value through profit or loss - other financial assets mandatorily measured at fair value" and acquired in exchange for real estate sales;
- investments in closed-end real estate investment funds, classified as "Financial assets measured at fair value through profit or loss - other financial assets mandatorily measured at fair value" and acquired in exchange for sales of UTP loans.

IFRS 13 requires that an analysis of the sensitivity of the fair value measurement to changes in unobservable inputs be provided for instruments measured at fair value on a recurring basis and classified in Level 3 of the fair value hierarchy. The following analysis is provided for ABS instruments, real estate funds and non-Performing loans funds measured at fair value:

Financial asset/liability	Non-observable parameter	Change in parameter	Sensitivity (in thousands)	Change in parameter	Sensitivity (in thousands)
Investments in Asset Backed Securities	Credit Spread*	+50 bps	(232)	-50 bps	42
Investmensts in Real Estate Founds	Financial charges**	+50 bps	(1,137)	-50 bps	1,137
Investmensts in Non-performing Loans Founds	Financial charges**	+50 bps	(422)	-50 bps	422

* Asset-Backed Securities: the unobservable parameter used to construct the sensitivity is the credit spread used in the construction of the rate used to discount future cash flows;

** Real Estate Funds and Non-performing Loans Funds: the unobservable parameter used to construct the sensitivity is the opportunity cost considered in the construction of the NAV adjustment component dedicated to the appreciation of the liquidity risk of the instruments.

[71] *For the sake of completeness, it should be noted that the portfolio contains ABS securities measured at amortised cost as they are part of the Hold To Collect (HTC) business model and with technical-financial characteristics such as to have passed the SPPI test required by IFRS 9. The fair value is also calculated for these instruments and provided for disclosure purposes only.*

For the other instruments in portfolio (derivatives and equity instruments, in particular), no quantitative sensitivity analysis of the fair value was carried out with respect to the change in unobservable inputs, as either the fair value was drawn from third-party sources without making any adjustment, or it is the result of a model whose inputs are specific to the entity being valued (for example, the company's equity figures) and for which it is not reasonably conceivable to provide alternative amounts.

A.4.3 Fair value hierarchy

The BPER Banca Group classifies its financial assets and liabilities by decreasing degree of fair value quality on the basis of the following principles:

- Fair value Level 1. Measurement is based on the price of the financial instrument concerned, being a quoted price in an active market.
- Fair value level 2. Measurement is not based on quoted prices in active markets for the financial instrument concerned, but on meaningful prices obtained from non-active markets or reliable info-providers, or on prices determined using an appropriate valuation technique largely based on observable market parameters, including credit spreads, derived from quotations of instruments that are substantially similar in terms of risk factors considered. The objective of the use of valuation techniques is to reaffirm the aim of obtaining a closing price at the valuation date from the point of view of a market participant that holds the financial instrument.
- Fair value level 3. Measurement is based on various inputs that include subjective parameters, that is, parameters whose value cannot be derived from quoted prices observable in active markets. Since the parameters are not observable directly in the market, it follows that the value is required to make estimates and assumptions.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorised within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The BPER Banca Group has set out[72]:

- the analyses to be performed in the event of changes in valuation techniques used to measure fair value;
- the policy for determining when transfers between fair value hierarchy levels are deemed to have occurred and which is constantly adhered to.

As a general principle, to be allocated to Level 1 of the fair value hierarchy, if there is a quoted price in an active market for an asset or a liability, that price should be used without adjustment when measuring fair value. In fact, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

An allocation to Levels 2 and 3 depends on how the inputs used for the fair value measurement of an asset or liability are categorised within different levels of the fair value hierarchy: in those cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Assessing the significance of a particular input to the entire measurement requires judgement, taking into account factors specific to the asset or liability.

[72] *Please refer to the set of regulations that the Group has adopted: Group Guidelines for the application of the Fair Value Option, Group Guidelines for fair value measurement of financial instruments, Group Regulation for determining the fair value of financial instruments and Manual of valuation techniques for financial instruments of the BPER Banca Group.*

The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate valuation techniques.

A.4.4 Other information

IFRS 13 requires an entity to "disclose information that helps users of its financial statements to assess the following:

- for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements;
- for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period."

The BPER Banca Group has a procedure in place to:

- identify transfers between levels;
- analyse and document the reasons for such transfers;
- monitor and control the reliability of the fair value of financial instruments.

In particular, for assets and liabilities measured at fair value on a recurring and non-recurring basis, adequate disclosure is made of the following aspects:

- the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement;
- the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3);
- for assets and liabilities categorised within Level 2 or 3, a description of the valuation techniques and inputs used and the reasons for any changes in valuation techniques used.

The BPER Banca Group provides, for assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the policy for determining when transfers between levels are deemed to have occurred, while, for those categorised on a recurring basis within Level 3 of the fair value hierarchy, a reconciliation is provided from the opening balances to the closing balances.

Information is also provided on the policy for determining when transfers between fair value hierarchy levels are deemed to have occurred.

For assets or liabilities categorised within Level 3 of the fair value hierarchy, the following disclosures are provided:

- quantitative information about the significant unobservable inputs used in the fair value measurement;
- for recurring fair value measurements, the amount of the total gains or losses for the period included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period, and the caption(s) in profit or loss in which those unrealised gains or losses are recognised;
- a description of the valuation processes used for recurring and non-recurring fair value measurements;

- a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement.

For financial assets and liabilities measured at amortised cost (not thus measured at fair value, but with fair value disclosure obligations) the following information is provided:

- the fair value hierarchy level;
- a description of the valuation techniques adopted for Levels 2 and 3, as well as the inputs used;
- if there has been any change in the valuation technique, a description of the change and the reason for it.

For own financial liabilities measured at fair value with credit enhancement (e.g. inseparable guarantees), information is provided on the existence of credit enhancement and the impact thereof on the determination of the fair value of the liability.

The application of the fair value option to loans and receivables and financial liabilities requires disclosure of the change in fair value attributable solely to changes in the credit risk associated with the instrument.
As mentioned, the risk factors are included in the discount curve using the discount rate adjustment approach.
This approach involves making separate and independent estimates of the various risk components (rate risk and credit risk), so that the partial fair value can be determined considering the changes in just one risk factor.

The following factors are considered in relation to credit risk:

- the risk-free market rate observed at the valuation date;
- the credit spread observed at the initial recording date or the previous valuation date;
- the credit spread observed at the valuation date.

The market fair value at the measurement date is compared with the fair value calculated using the credit risk observed at the initial recording date (or, alternatively, at the previous valuation date). This makes it possible to determine the changes in fair value due solely to changes in credit risk on a cumulative or periodic basis.

Quantitative information

A.4.5 Fair value hierarchy

A. 4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value levels

Assets/Liabilities measured at fair value	31.12.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	385,973	364,918	447,710	354,867	381,195	384,049
a) Financial assets held for trading	127,739	124,277	26,993	103,514	152,091	14,769
b) Financial assets designated at fair value	-	126,700	668	-	129,872	1,083
c) Other financial assets mandatorily measured at fair value	258,234	113,941	420,049	251,353	99,232	368,197
2. Financial assets measured at amortised cost	5,605,630	412,227	251,961	5,824,868	487,613	243,721
3. Hedging derivatives	-	57,776	-	-	82,185	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**5,991,603**	**834,921**	**699,671**	**6,179,735**	**950,993**	**627,770**
1. Financial liabilities held for trading	9	161,640	8,445	1,137	158,357	6,476
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	469,240	-	-	294,114	-
Total	**9**	**630,880**	**8,445**	**1,137**	**452,471**	**6,476**

Transfers of assets from Level 2 to Level 1 of the fair value hierarchy during the period amounted to € 10,782 thousand and those from Level 1 to Level 2 amounted to € 65,083 thousand.
The former were marked by an improvement in the market negotiability of the instruments in terms of the volume, breadth and depth of the prices quoted and the number of contributors. The latter are due to a loss of the meaningfulness of the price quoted in the principal market and a reduction in the number of contributors below the minimum threshold.

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	**384,049**	**14,769**	**1,083**	**368,197**	**243,721**	**-**	**-**	**-**
2. Increases	**120,461**	**12,563**	**-**	**107,898**	**50,660**	**-**	**-**	**-**
2.1. Purchases	79,984	274	-	79,710	8,572	-	-	-
2.2. Gains recognised to:	39,812	12,288	-	27,524	42,049	-	-	-
2.2.1. Income statement	39,812	12,288	-	27,524	-	-	-	-
- of which capital gains	37,309	12,288	-	25,021	-	-	-	-
2.2.2. Shareholders'equity	-	X	X	X	42,049	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	665	1	-	664	39	-	-	-
3. Decreases	**56,800**	**339**	**415**	**56,046**	**42,420**	**-**	**-**	**-**
3.1. Sales	14,838	12	-	14,826	824	-	-	-
3.2. Refunds	13,690	1	-	13,689	13,877	-	-	-
3.3. Losses recognised to:	27,872	-	415	27,457	27,697	-	-	-
3.3.1. Income statement	27,872	-	415	27,457	-	-	-	-
- of which capital losses	10,895	-	415	10,480	-	-	-	-
3.3.2. Shareholders'equity	-	X	X	X	27,697	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	400	326	-	74	22	-	-	-
4. Closing balance	**447,710**	**26,993**	**668**	**420,049**	**251,961**	**-**	**-**	**-**

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Opening balance	**6,476**	**-**	**-**
2. Increases	**1,969**	**-**	**-**
2.1 Issues	-	-	-
2.2. Losses recognised to:	1,969	-	-
2.2.1. Income statement	1,969	-	-
- of which capital losses	1,969	-	-
2.2.2. Shareholders' equity	X	-	-
2.3. Trasferts from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**-**	**-**	**-**
3.1. Refunds	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits recognised to:	-	-	-
3.3.1. Income statement	-	-	-
- of which capital gains	-	-	-
3.3.2. Shareholders' equity	X	-	-
3.4. Trasferts from other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**8,445**	**-**	**-**

A.4.5.4 Assets and liabilities not measured at fair value or at fair value on a non-recurring basis: breakdown by fair value levels

Assets/Liabilities not measured at fair value or at fair value on a non-recurring basis	31.12.2020				31.12.2019			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets at amortised cost	79,991,505	16,540,627	284,046	67,677,671	65,541,246	10,569,512	251,446	57,072,313
2. Investment property, plant and equipment	258,139	-	-	282,622	271,556	-	-	304,372
3. Non-current assets and disposal groups held for sale	98,714	-	-	98,714	97,142	-	-	97,142
Total	**80,348,358**	**16,540,627**	**284,046**	**68,059,007**	**65,909,944**	**10,569,512**	**251,446**	**57,473,827**
1. Financial liabilities at amortised cost	83,177,191	3,410,099	1,095,373	78,789,206	70,135,262	3,231,215	2,026,474	65,009,259
2. Liabilities associated with non-current assets held for sale	144,809	-	-	144,809	134,077	-	-	134,077
Total	**83,322,000**	**3,410,099**	**1,095,373**	**78,934,015**	**70,269,339**	**3,231,215**	**2,026,474**	**65,143,336**

Key:
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.5 – Information on "day one profit/loss"

In the case of Level 3 transactions, the fair value according to the model may differ from the transaction price: in the case of a positive difference (day-one profit), this is amortised over the residual life of the instrument; in case of a negative difference (day-one loss), it is charged to the income statement for prudence sake.

There were no differences at 31 December 2020 between the value of transactions and their corresponding fair values.

Part B – Information on the consolidated balance sheet

Assets

Section 1 – Cash and cash equivalents Caption 10

1.1 Cash and cash equivalents: breakdown

	Total 31.12.2020	Total 31.12.2019
a) Cash	482,192	566,924
b) On demand deposits with Central banks	-	-
Total	**482,192**	**566,924**

Section 2 – Financial assets measured at fair value through profit or loss
Caption 20

2.1 Financial assets held for trading: breakdown by product

Description/Amounts	Total 31.12.2020			Total 31.12.2019		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	66,753	9,884	8	41,823	20,749	8
1.1 Structured securities	37,763	1,562	-	27,060	1,571	-
1.2 Other debt securities	28,990	8,322	8	14,763	19,178	8
2. Equity instruments	60,974	1,315	32	61,684	3,416	32
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	**127,727**	**11,199**	**40**	**103,507**	**24,165**	**40**
B. Derivative instruments						
1. Financial derivatives	12	113,078	26,953	7	127,926	14,729
1.1 trading	12	113,078	26,953	7	127,926	14,729
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 others	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total (B)	**12**	**113,078**	**26,953**	**7**	**127,926**	**14,729**
Total (A+B)	**127,739**	**124,277**	**26,993**	**103,514**	**152,091**	**14,769**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of the Explanatory Notes in the chapter "Techniques for the determination of fair value".

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

2.2 Financial assets held for trading: breakdown by borrowers/issuers/counterparties

Description/Amounts	Total 31.12.2020	Total 31.12.2019
A. Cash assets		
1. Debt securities	76,645	62,580
a) Central Banks	-	-
b) Public Administrations	4,134	16,221
c) Banks	13,532	11,706
d) Other financial companies	52,660	31,389
of which: insurance companies	481	1,327
e) Non financial companies	6,319	3,264
2. Equity instruments	62,321	65,132
a) Banks	14,414	16,102
b) Other financial companies	4,659	5,319
of which: Insurance companies	1,078	2,570
c) Non financial companies	43,248	43,711
d) Other issuers	-	-
3. UCITS units	-	-
4. Loans	-	-
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non financial companies	-	-
f) Households	-	-
Total (A)	**138,966**	**127,712**
B. Derivative instruments		
a) Central counterparties	-	-
b) Others	140,043	142,662
Total (B)	**140,043**	**142,662**
Total (A+B)	**279,009**	**270,374**

2.3 Financial assets designed at fair value: breakdown by product

Description/Amounts	Total 31.12.2020			Total 31.12.2019		
	L1	L2	L3	L1	L2	L3
1.Debt securities	**-**	**126,700**	**668**	**-**	**129,872**	**1,083**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	126,700	668	-	129,872	1,083
2. Loans	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	-	-
2.2 Others	-	-	-	-	-	-
Total	**-**	**126,700**	**668**	**-**	**129,872**	**1,083**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of the Explanatory Notes in the chapter "Techniques for the determination of fair value".

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

2.4 Financial assets designated at fair value: breakdown by borrowers/issuers

Description/Amounts	Total 31.12.2020	Total 31.12.2019
1. Debt securities	**127,368**	**130,955**
a) Central Banks	-	-
b) Public Administrations	120,711	123,901
c) Banks	1,991	1,963
d) Other financial companies	3,998	4,008
of which: Insurance companies	3,998	4,008
e) Non financial companies	668	1,083
2. Loans	**-**	**-**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: Insurance companies	-	-
e) Non financial companies	-	-
f) Households	-	-
Total	**127,368**	**130,955**

2.5 Other financial assets mandatorily measured at fair value: breakdown by product

Description/Amounts	Total 31.12.2020			Total 31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**112,937**	**57,930**	**-**	**99,232**	**63,117**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	112,937	57,930	-	99,232	63,117
2. Equity instruments	**1,808**	**-**	**81,857**	**2,301**	**-**	**64,149**
3. UCITS units	**256,426**	**1,004**	**253,955**	**249,052**	**-**	**215,144**
4. Loans	**-**	**-**	**26,307**	**-**	**-**	**25,787**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	26,307	-	-	25,787
Total	**258,234**	**113,941**	**420,049**	**251,353**	**99,232**	**368,197**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of the Explanatory Notes in the chapter "Techniques for the determination of fair value".

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

2.6 Other financial assets mandatorily measured at fair value: breakdown by borrowers/issuer

	Total 31.12.2020	Total 31.12.2019
1. Equity instruments	**83,665**	**66,450**
of which: banks	22,020	22,017
of which: other financial companies	7,715	8,999
of which: non-financial companies	53,930	35,434
2. Debts securities	**170,867**	**162,349**
a) Central Banks	-	-
b) Public Administrations	65,816	51,859
c) Banks	29,792	29,720
d) Other financial companies	74,239	78,516
of which: insurance companies	-	-
e) Non financial companies	1,020	2,254
3. UCITS Units	**511,385**	**464,196**
4. Loans	**26,307**	**25,787**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	26,307	25,787
of which: insurance companies	26,307	25,787
e) Non financial companies	-	-
f) Households	-	-
Total	**792,224**	**718,782**

2.6 bis UCITS units breakdown

Description	31.12.2020	31.12.2019
1. Equities	23,246	25,154
2. Property - closed end	106,758	114,109
3. Equities - open end	23,462	25,975
4. Balanced - open end	12,556	4,666
5. Bonds - open end	24,242	12,811
6. Equities closed end	33,112	37,572
7. Speculative securities	3,120	6,611
8. Bonds - short term	5,781	-
9. Bonds - long term	13,067	10,643
10. Other	266,041	226,655
Total	**511,385**	**464,196**

Section 3 – Financial assets measured at fair value through other comprehensive income
Caption 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by product

Description/Amounts	Total 31.12.2020			Total 31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Debts securities	**5,603,929**	**409,984**	**7,695**	**5,824,852**	**485,236**	**21,156**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	5,603,929	409,984	7,695	5,824,852	485,236	21,156
2. Equity instruments	**1,701**	**2,243**	**244,266**	**16**	**2,377**	**222,565**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**5,605,630**	**412,227**	**251,961**	**5,824,868**	**487,613**	**243,721**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of the Explanatory Notes in the chapter "Techniques for the determination of fair value".

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by borrowers/issuers

Description/Amounts	Total 31.12.2020	Total 31.12.2019
1. Debt securities	**6,021,608**	**6,331,244**
a) Central Banks	-	-
b) Public Administrations	688,348	714,793
c) Banks	3,586,774	4,086,582
d) Other financial companies	1,085,290	1,030,167
of which: insurance companies	42,580	41,878
e) Non financial companies	661,196	499,702
2. Equity instruments	**248,210**	**224,958**
a) Banks	31,429	32,166
b) Other issuers:	216,781	192,792
- other financial companies	179,570	163,826
of which: insurance companies	143,900	104,330
- non financial companies	37,168	28,924
- others	43	42
3. Loans	**-**	**-**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non financial companies	-	-
f) Households	-	-
Total	**6,269,818**	**6,556,202**

3.3 Financial assets measured at fair value through other comprehensive income: gross value and total impairment provisions

	Gross value				Total impairment provisions			Total partial write-off
	First stage	of which: low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	5,678,055	-	348,408	26	3,427	1,446	8	-
Loans	-	-	-	-	-	-	-	-
Total 31.12.2020	**5,678,055**	**-**	**348,408**	**26**	**3,427**	**1,446**	**8**	**-**
Total 31.12.2019	**6,031,315**	**-**	**304,428**	**26**	**3,458**	**1,059**	**8**	**-**
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

At 31 December 2020 none of the debt securities classified in Stage 3 has been written off.
For the approach used in the presentation of the gross value and total impairment provisions of impaired financial assets, reference should be made to Part A of these Explanatory Notes.

3.3a Loans measured at fair value through other comprehensive income subject to Covid-19 support measures: gross value and total impairment provisions

No table is provided in these consolidated financial statements as the circumstances do not apply.

Section 4 - Financial assets measured at amortised cost Caption 40

4.1 Financial assets measured at amortised cost: breakdown by product of loans to banks

Type of transaction/Amounts	Total 31.12.2020						Total 31.12.2019					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: purchased or originated impaired financial assets	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated impaired financial assets	L1	L2	L3
A.Loans to Central Banks	**8,409,330**	**-**	**-**	**-**	**-**	**8,409,330**	**1,142,900**	**-**	**-**	**-**	**-**	**1,142,900**
1. Time deposits	56,087	-	-	X	X	X	63,322	-	-	X	X	X
2. Reserve requirement	8,353,243	-	-	X	X	X	1,068,684	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Others	-	-	-	X	X	X	10,894	-	-	X	X	X
B.Loans to banks	**5,943,401**	**-**	**-**	**4,460,005**	**136,774**	**1,447,268**	**3,923,479**	**-**	**-**	**2,628,345**	**159,248**	**1,178,909**
1. Loans	1,447,268	-	-	-	-	1,447,268	1,178,909	-	-	-	-	1,178,909
1.1 Current accounts and demand deposits	366,910	-	-	X	X	X	372,822	-	-	X	X	X
1.2. Time deposits	71,343	-	-	X	X	X	69,091	-	-	X	X	X
1.3 Other loans:	1,009,015	-	-	X	X	X	736,996	-	-	X	X	X
- Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Others	1,009,015	-	-	X	X	X	736,996	-	-	X	X	X
2. Debts securities	4,496,133	-	-	4,460,005	136,774	-	2,744,570	-	-	2,628,345	159,248	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	4,496,133	-	-	4,460,005	136,774	-	2,744,570	-	-	2,628,345	159,248	-
Total	**14,352,731**	**-**	**-**	**4,460,005**	**136,774**	**9,856,598**	**5,066,379**	**-**	**-**	**2,628,345**	**159,248**	**2,321,809**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of the Explanatory Notes in the chapter "Techniques for the determination of fair value".

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Financial assets measured at amortised cost: breakdown by product of loans to customers

Type of transaction/Amounts	Total 31.12.2020						Total 31.12.2019					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: purchased or originated impaired financial assets	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated impaired financial assets	L1	L2	L3
1. Loans	**50,787,230**	**2,127,874**	**1,059,274**	**-**	**-**	**56,889,931**	**48,917,173**	**2,995,884**	**1,209,236**	**-**	**-**	**54,055,240**
1.1.Current accounts	3,383,735	281,942	136,019	X	X	X	4,356,780	480,226	188,651	X	X	X
1.2. Repurchase agreements	83,949	-	-	X	X	X	591,175	-	-	X	X	X
1.3. Mortgages	34,062,368	1,208,508	758,040	X	X	X	30,781,966	1,676,662	860,236	X	X	X
1.4. Credit cards, personal loans and assignments of one-fifth of salary	2,848,863	45,647	12,161	X	X	X	2,773,256	46,842	15,693	X	X	X
1.5. Financial leasing	2,646,669	280,753	20,373	X	X	X	2,404,847	353,379	14,539	X	X	X
1.6. Factoring	1,032,494	6,114	8,552	X	X	X	1,068,044	7,620	587	X	X	X
1.7. Other loans	6,729,152	304,910	124,129	X	X	X	6,941,105	431,155	129,530	X	X	X
2. Debt securities	**12,723,670**	**-**	**-**	**12,080,622**	**147,272**	**931,142**	**8,561,810**	**-**	**-**	**7,941,167**	**92,198**	**695,264**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	12,723,670	-	-	12,080,622	147,272	931,142	8,561,810	-	-	7,941,167	92,198	695,264
Total	**63,510,900**	**2,127,874**	**1,059,274**	**12,080,622**	**147,272**	**57,821,073**	**57,478,983**	**2,995,884**	**1,209,236**	**7,941,167**	**92,198**	**54,750,504**

The sub-caption "Other loans" of performing loans includes: € 3,789 million of bullet loans (+24.80%), € 1,763 million of advances on invoices and bills subject to collection (-23.18%), € 622 thousand of import/export advances (-29.08%), € 30 thousand of credit assignments (-42.31%) and € 525 thousand of other miscellaneous items (-22.91%).
An explanation of the fair value hierarchy used for classification has been given in Part A.4 of the Explanatory Notes in the chapter "Techniques for the determination of fair value".

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.3 Financial assets measured at amortised cost: breakdown by borrowers/issuers of loans to customers

Type of transaction/Amounts	Total 31.12.2020			Total 31.12.2019		
	First and second stage	Third stage	of which: purchased or originated impaired financial assets	First and second stage	Third stage	of which: purchased or originated impaired financial assets
1. Debt securities	**12,723,670**	**-**	**-**	**8,561,810**	**-**	**-**
a) Public Administration	10,826,424	-	-	7,400,406	-	-
b) Other financial companies	1,586,485	-	-	1,042,760	-	-
of which: insurance companies	15,016	-	-	4,990	-	-
c) Non financial companies	310,761	-	-	118,644	-	-
2. Loans:	**50,787,230**	**2,127,874**	**1,059,274**	**48,917,173**	**2,995,884**	**1,209,236**
a) Public Administration	2,244,215	15,824	2,747	2,332,522	19,520	4,855
b) Other financial companies	3,107,295	91,135	70,555	3,526,215	116,165	75,666
of which: insurance companies	54,120	-	-	42,900	-	-
c) Non financial companies	24,011,734	1,546,295	719,451	22,591,200	2,211,484	807,671
d) Households	21,423,986	474,620	266,521	20,467,236	648,715	321,044
Total	**63,510,900**	**2,127,874**	**1,059,274**	**57,478,983**	**2,995,884**	**1,209,236**

The classification of loans to customers between Stage 1 and Stage 2 and Stage 3 is shown below, analysed by type of product and counterparty.

4.3 bis - Financial assets measured at amortised cost: - details of loans to customers: breakdown by type of product, by stage and type of counterparty

Type of Product/Counterparty	Public Administration			Other financial companies		
	Gross exposure	Total impairment provisions	Net exposure	Gross exposure	Total impairment provisions	Net exposure
Loans						
Current accounts	**55,362**	**(5,137)**	**50,225**	**989,028**	**(12,585)**	**976,443**
of which First stage	26,387	(160)	26,227	963,302	(2,041)	961,261
of which Second stage	22,763	(276)	22,487	8,946	(466)	8,480
of which Third stage	6,212	(4,701)	1,511	16,780	(10,078)	6,702
Repurchase agreements	-	-	-	**84,053**	**(104)**	**83,949**
of which First stage	-	-	-	84,053	(104)	83,949
of which Second stage	-	-	-	-	-	-
of which Third stage	-	-	-	-	-	-
Mortgages	**2,049,827**	**(3,827)**	**2,046,000**	**733,480**	**(47,473)**	**686,007**
of which First stage	1,970,792	(1,570)	1,969,222	621,557	(6,551)	615,006
of which Second stage	76,402	(1,626)	74,776	40,240	(664)	39,576
of which Third stage	2,633	(631)	2,002	71,683	(40,258)	31,425
Other loans	169,143	(5,329)	163,814	1,527,833	(75,802)	1,452,031
of which First stage	147,289	(221)	147,068	1,376,705	(2,104)	1,374,601
of which Second stage	6,282	(1,847)	4,435	25,121	(699)	24,422
of which Third stage	15,572	(3,261)	12,311	126,007	(72,999)	53,008
Total	**2,274,332**	**(14,293)**	**2,260,039**	**3,334,394**	**(135,964)**	**3,198,430**

(cont.)

Type of Product/Counterparty	Non-financial companies			Households			Total net exposure
	Gross exposure	Total impairment provisions	Net exposure	Gross exposure	Total impairment provisions	Net exposure	
Loans							
Current accounts	**2,609,858**	**(470,681)**	**2,139,177**	**577,242**	**(77,410)**	**499,832**	**3,665,677**
of which First stage	1,658,937	(4,878)	1,654,059	317,958	(1,135)	316,823	2,958,370
of which Second stage	271,004	(8,021)	262,983	135,252	(3,837)	131,415	425,365
of which Third stage	679,917	(457,782)	222,135	124,032	(72,438)	51,594	281,942
Repurchase agreements	-	-	-	-	-	-	**83,949**
of which First stage	-	-	-	-	-	-	83,949
of which Second stage	-	-	-	-	-	-	-
of which Third stage	-	-	-	-	-	-	-
Mortgages	**15,240,871**	**(694,148)**	**14,546,723**	**18,189,981**	**(197,835)**	**17,992,146**	**35,270,876**
of which First stage	12,107,233	(12,266)	12,094,967	14,921,814	(7,143)	14,914,671	29,593,866
of which Second stage	1,665,683	(39,832)	1,625,851	2,753,398	(25,099)	2,728,299	4,468,502
of which Third stage	1,467,955	(642,050)	825,905	514,769	(165,593)	349,176	1,208,508
Other loans	9,565,023	(692,894)	8,872,129	3,500,514	(93,886)	3,406,628	13,894,602
of which First stage	7,515,550	(11,813)	7,503,737	3,040,301	(6,461)	3,033,840	12,059,246
of which Second stage	894,136	(23,999)	870,137	308,156	(9,218)	298,938	1,197,932
of which Third stage	1,155,337	(657,082)	498,255	152,057	(78,207)	73,850	637,424
Total	**27,415,752**	**(1,857,723)**	**25,558,029**	**22,267,737**	**(369,131)**	**21,898,606**	**52,915,104**

4.4 Financial assets measured at amortised cost: gross value and total impairment provisions

		Gross value				Total impairment provisions			Total partial write-off
		First stage	of which: low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities		17,199,998	-	27,467	-	7,570	92	-	-
Loans		54,617,774	-	6,207,404	4,339,127	65,766	115,584	2,211,253	302,788
Total	**31.12.2020**	**71,817,772**	**-**	**6,234,871**	**4,339,127**	**73,336**	**115,676**	**2,211,253**	**302,788**
Total	**31.12.2019**	**58,045,183**	**-**	**4,671,520**	**6,118,985**	**70,451**	**100,890**	**3,123,101**	**443,912**
of which: purchased or originated credit-impaired financial assets		X	X	279,097	1,407,132	X	3,322	623,633	2,465

For the approach used in the presentation of the gross value and total impairment provisions of impaired financial assets, reference should be made to Part A of these Explanatory Notes. Note that default interest is only recorded at the time of actual collection.

4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross value and total impairment provisions

	Gross value				Total impairment provisions			Total partial write-off
	First stage	of which: low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
1. Loans subject to forbearance measures compliant with GL	5,654,528	-	1,530,957	47,748	6,446	25,115	11,159	-
2. Loans subject to other forbearance measures	5,799	-	2,939	4,774	11	30	970	-
3. New loans	3,194,383	-	304,428	8,385	1,310	1,211	280	-
Total	**8,854,710**	**-**	**1,838,324**	**60,907**	**7,767**	**26,356**	**12,409**	**-**

Section 5 – Hedging derivatives
Caption 50

5.1 Hedging derivatives: breakdown by type of hedge and level

	FV 31.12.2020			NV	FV 31.12.2019			NV
	L1	L2	L3	31.12.2020	L1	L2	L3	31.12.2019
A. Financial derivatives								
1. Fair Value	-	53,795	-	1,934,322	-	80,964	-	2,675,330
2. Cash flows	-	3,981	-	54,446	-	1,221	-	54,446
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair Value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**57,776**	**-**	**1,988,768**	**-**	**82,185**	**-**	**2,729,776**

Key:
NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

5.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transactions/Type of hedge	Fair Value							Cash-flow hedges		Foreign investments
	Specific						General	Specific	General	
	debt securities and interest rates	equity instruments and stock indexes	currencies and gold	credit	goods	others				
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	335	X	-	-	X	X	X	3,981	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other operations	-	-	-	-	-	-	X	-	X	-
Total assets	335	-	-	-	-	-	-	3,981	-	-
1. Financial Liabilities	53,460	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	53,460	-	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 6 – Change in value of macro-hedged financial assets
Caption 60

There are no amounts to be disclosed in this section.

Section 7 – Equity investments
Caption 70

7.1 Equity investments: information on shareholdings

Company name	Registered head office	Operational head office	Type of relationship	Currency	Share capital	Nature of holding		% Available votes
						Parent company	% holding	
A. Companies subject to joint control								
B. Companies subject to significant influence								
1 Alba Leasing	Milan	Milan	8	eur	357,953,058	BPER Banca	33.498	
2 Atriké s.p.a.	Modena	Modena	8	eur	120,000	BPER Banca	45.000	
3 Cassa di Risparmio di Fossano s.p.a.	Fossano	Fossano	8	eur	31,200,000	BPER Banca	23.077	
4 Cassa di Risparmio di Savigliano s.p.a.	Savigliano	Savigliano	8	eur	33,085,179	BPER Banca	31.006	
5 CAT Progetto Impresa Modena s.c.r.l.	Modena	Modena	8	eur	90,000	BPER Banca	20.000	
6 CO.BA.PO Consorzio Banche Popolari dell'Emilia Romagna	Bologna	Bologna	8	eur	29,279	BPER Banca	23.587	
7 Emil-Ro Service s.r.l.	Bologna	Bologna	8	eur	93,600	BPER Banca	16.667	
			8			Emil-Ro Factor	8.333	
8 Immobiliare Oasi nel Parco s.r.l.	Milan	Milan	8	eur	1,000,000	BPER Banca	36.800	
9 Lanciano Fiera - Polo Fieristico d'Abruzzo Consorzio	Lanciano	Lanciano	8	eur	250,000	BPER Banca	25.000	
10 Resiban s.p.a.	Modena	Modena	8	eur	165,000	BPER Banca	20.000	
11 Sarda Factoring s.p.a.	Cagliari	Cagliari	8	eur	9,027,079	B. Sard.	13.401	
			8			BPER Banca	8.083	
12 Sofipo s.a. in liquidation	Lugano	Lugano	8	chf	2,000,000	B.P.E.R. Europe	30.000	
13 Unione Fiduciaria s.p.a.	Milan	Milan	8	eur	5,940,000	BPER Banca	24.000	

The figure for share capital is provided as extra information as required by CONSOB Communication DEM/6064293 dated 28 July 2006.
The "% Available votes" column is only used if the actual share of votes exercisable at the Ordinary Shareholders' Meeting is different from the interest held in the company's share capital.

Key
Type of relationship
8 = associated company

7.2 Significant equity investments: book value, fair value and dividends received

Company name	Book value	Fair value	Dividends received
A. Companies subject to joint control			
B. Companies subject to significant influence			
1. Alba Leasing s.p.a.	136,401	-	-
2. Cassa di Risparmio di Fossano s.p.a.	33,041	-	-
3. Cassa di Risparmio di Savigliano s.p.a.	26,826	-	-
4. Immobiliare Oasi nel Parco s.r.l.	4,667	-	-
5. Sarda Factoring s.p.a.	1,993	-	-
6. Unione Fiduciaria s.p.a.	8,557	-	-
Total	**211,485**	**-**	**-**

Please refer to Part A of the Explanatory Notes for an explanation of how these figures were calculated.

Equity investments are considered significant based on the materiality of total assets compared with the equivalent consolidated figure. Other investments, which are not considered significant, are reported in Table 7.4; the controlling interests measured using the equity method are reported in table 7.10.

7.3 Significant equity investments: accounting information

Company name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income
A. Companies subject to joint control							
B. Companies subject to significant influence							
1. Alba Leasing s.p.a.	#	5,238,848	103,497	4,789,653	145,637	67,163	#
2. Cassa di Risparmio di Fossano s.p.a.	#	2,174,696	53,811	2,036,888	56,908	45,426	#
3. Cassa di Risparmio di Savigliano s.p.a.	#	1,580,207	46,864	1,496,759	53,226	35,473	#
4. Immobiliare Oasi nel Parco s.r.l.	#	167	11,918	213	10	5,233	#
5. Sarda Factoring s.p.a.	#	44,010	2,154	36,367	521	1,130	#
6. Unione Fiduciaria s.p.a.	#	39,975	18,382	18,311	11,454	10,513	#

(cont.)

Company name		Net adjustments to property, plant and equipment and intangible assets	Profit (Loss) from current operations before tax	Profit (Loss) from current operations after tax	Profit (Loss) after tax on non-current assets held for sale	Profit (Loss) for the year (1)	Other Compre-hensive income after taxes (2)	Compre-hensive income (3)=(1)+(2)
A. Companies subject to joint control								
B. Companies subject to significant influence								
1. Alba Leasing s.p.a.	#	119	(399)	-	(399)	16	(383)	
2. Cassa di Risparmio di Fossano s.p.a.	#	12,654	7,340	-	7,340	-	7,340	
3. Cassa di Risparmio di Savigliano s.p.a.	#	7,188	4,472	-	4,802	403	5,205	
4. Immobiliare Oasi nel Parco s.r.l.	#	197	197	-	197	-	197	
5. Sarda Factoring s.p.a.	#	129	91	-	91	1	92	
6. Unione Fiduciaria s.p.a.	#	(815)	(570)	-	(570)	-	(570)	

Reconciliation of accounting information with the book value of significant equity investments pursuant to paragraph B14 b) IFRS 12

Company name	Shareholders' equity	Attributable share	Goodwill (positive/negative differences in shareholders' equity previously)
A. Companies subject to joint control			
B. Companies subject to significant influence			
1. Alba Leasing s.p.a.	407,195	136,401	-
2. Cassa di Risparmio di Fossano s.p.a.	143,175	33,041	-
3. Cassa di Risparmio di Savigliano s.p.a.	86,520	26,826	-
4. Immobiliare Oasi nel Parco s.r.l.	12,683	4,667	-
5. Sarda Factoring s.p.a.	9,276	1,993	-
6. Unione Fiduciaria s.p.a.	41,192	9,886	(1,329)

For the values and parameters, please refer to Part A.1 of these Explanatory notes.

Alba Leasing s.p.a. was founded in 2010 on the initiative of some of the major Italian cooperative banks. It is a company that specialises in finance leases, which are distributed by the BPER Banca Group through its branch network.

Cassa di Risparmio di Fossano s.p.a. is a Piedmontese bank which offers a wide range of banking services, created with the aim of favouring the commercial, agricultural and industrial development of the Fossano area.

Cassa di Risparmio di Savigliano s.p.a. is an independent local bank at the service of that area, which dedicates resources and services to households, small/medium-sized enterprises, local institutions and associations.

Sarda Factoring s.p.a. offers financing and risk hedging services for businesses. It is the leader in Sardinia in factoring with recourse and has operations that are growing also at a national level.

Unione Fiduciaria s.p.a. was founded by a group of cooperative banks and offers organisational, administrative and tax services for companies, intermediaries and wealthy individuals, including complex situations.

Immobiliare Oasi nel Parco s.r.l. purchases, develops and sells land and buildings.

Impairment test on goodwill embedded in equity investments into companies subject to significant influence

In line with IAS/IFRS, an impairment test was carried out on the equity investments to verify whether there was any objective evidence that the carrying amount of these assets was not fully recoverable; the carrying amount of the most significant equity investments also includes the related positive consolidation difference.
With respect to the method for the determination of impairment of investments in associates, the applicable accounting standards require that this be applied by comparing the recoverable amount with the carrying amount of the investment. If the recoverable value, represented by the greater of the fair value net of disposal costs and the value in use, is lower than the carrying amount, a write-down is recognised.
This test is carried out at least once a year and any time there is an indication that the carrying amount may have suffered lasting impairment; given the current situation linked to the spread of the Covid-19 health emergency and the related impacts on the national economy and financial system, in 2020 the sustainability test on the carrying amounts and implicit goodwill was carried out when preparing the interim report as at 30 June 2020, as well as at 31 December 2020.

Casse Cuneesi

The recoverable amount was determined on a value in use basis, estimated by discounting any future cash flows that are potentially distributable. The Excess Capital Method version of the Dividend Discount Model, explained in greater detail in Section 10 of these Explanatory Notes, was used in these calculations. The same cost of capital and long-term growth rate "g" identified for the impairment testing of goodwill were used for testing the goodwill of the CGUs, while the target minimum regulatory requirement was aligned with the Supervisory instructions applicable to the individual banks (Cassa di Risparmio di Savigliano and Cassa di Risparmio di Fossano), which maintain a satisfactory level of capitalisation consistent with the expected growth in activities.
The value in use was estimated by discounting the future cash flows considered potentially distributable over an explicit forecast period of five years, up to 2025. The calculations for a period of five years used in estimating cash flows were developed with a view to identifying a level of normalised income that is sustainable in the long term using the information available at the time of the test, including any forecasts provided by the two savings banks, up-to-date figures from the banking system and other information that the management of BPER Banca took into consideration when developing these forecasts.
The fairness check carried out at 30 June 2020, using parameters in force at the time, revealed impairment of both investments held in the two Casse Cuneesi, which led to total cancellation of the goodwill attributed to them, namely Euro 1.3 million for Cassa di Risparmio di Savigliano and Euro 6.8 million for Cassa di Risparmio di Fossano.The annual check carried out at 31 December 2020 confirmed the post-impairment amounts calculated at 30 June 2020.

The Parent Company acquired a fairness opinion on the impairment testing process used, which was issued by an independent external expert.

7.4 Non-significant equity investments: accounting information

Company name	Book value of equity investments	Total assets	Total liabilities	Total revenues	Profit (Loss) from current operations after tax	Profit (Loss) after tax on non-current assets held for sale	Profit (Loss) for the year (1)	Other Comprehensive income after taxes (2)	Comprehensive income (3)= (1)+(2)
Investments in companies under joint control									
Companies subject to significant influence	316	2,298	2,122	1,123	16	-	16	-	16

7.5 Equity investments: annual changes

	Total 31.12.2020	Total 31.12.2019
A. Opening balance	**225,869**	**446,049**
B. Increases	**15,025**	**26,590**
B.1 Purchases	8,250	6,706
of which: business combinations	-	6,706
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	6,775	19,884
C. Decreases	**15,336**	**246,770**
C.1 Sales	290	209,768
of which: business combinations	-	203,062
C.2 Impairment losses	8,172	8,436
C.3 Depreciations	-	-
C.4 Other changes	6,874	28,566
D. Closing balance	**225,558**	**225,869**
E. Total revaluations	**-**	**-**
F. Total adjustments	**188,640**	**180,468**

"Purchases" refer to the increase in the investment held in SIFA' Società Italiana Flotte Aziendali spa, by purchasing the residual 49%.
“Sales” refer to BPER Banca and Banco di Sardegna's withdrawal as members of CONFORM - Consulenza Formazione e Management s.c.a.r.l.
"Impairment losses" refer to the impairment accounted for on the following companies subject to significant influence: Cassa di Risparmio di Fossano s.p.a. (€ 6,842 thousand), Cassa di Risparmio di Savigliano s.p.a. (€ 1,329 thousand) and Atrikè s.p.a. (€ 1 thousand).
"Other changes" mainly include the Group's share of the positive or negative results of affiliates and the accounting entries required for consolidation under the equity method.

7.6. Significant assessments and assumptions to establish the existence of joint control or significant influence

Please refer to the explanations in Section 3 of Part A of these Explanatory Notes.

7.7 Commitments referred to equity investments in companies subject to joint control

The BPER Banca Group does not include any companies under joint control at 31 December 2020.

7.8 Commitments related to equity investments in companies subject to significant influence

At 31 December 2020 there are no commitments related to companies subject to significant influence.

7.9 Significant restrictions

Among Banks and Companies included in BPER Banca Group's scope of consolidation, there are no significant restrictions as foreseen by IFRS 12 § 13.

7.10 Other information

Companies subject to control valued with the application of the equity method

Company name	Book value of equity investments	Total assets	Total liabilities	Total revenues	Profit (Loss) from current operations after tax	Profit (Loss) after tax on non-current assets held for sale	Profit (Loss) for the year (1)	Other Compre-hensive income after taxes (2)	Comprehensive income (3)= (1)+(2)
Companies subject to control measured with the application of the equity method	13,757	527,287	513,488	178,144	4,972	-	4,972	-	4,972

For the application of the equity method, reference is made to the last available financial statements.
Relating to group companies valued with the application of the equity method, subsidiaries companies, the valuation has been carried out with reference to their financial statement prepared and approved at 31 December 2020.
Relating to the other companies valued with the application of the equity method, the valuation has been carried out with reference to their latest available financial statements, being those prepared and approved at 30 September 2020 for Cassa di Risparmio di Fossano s.p.a., Cassa di Risparmio di Savigliano s.p.a. and Alba Leasing s.p.a.

Section 8 – Technical reserves carried by reinsurers Caption 80

There are no amounts to be disclosed in this section.

Section 9 – Property, plant and equipment Caption 90

9.1 Property, plant and equipment used in operations: breakdown of assets measured at cost

Description/Amounts	Total 31.12.2020	Total 31.12.2019
1. Assets owned	**822,519**	**778,747**
a) lands	189,546	185,693
b) buildings	457,577	459,522
c) furniture	34,128	35,129
d) electronic system	63,585	29,053
e) other	77,683	69,350
2. Rights of use acquired through leases	**254,439**	**301,545**
a) lands	-	-
b) buildings	218,119	265,213
c) furniture	-	-
d) electronic system	29,582	31,450
e) other	6,738	4,882
Total	**1,076,958**	**1,080,292**
of which: arising from the recovery of guarantees received	-	-

9.2 Property, plant and equipment held for investment: breakdown of assets measured at cost

Description/Amounts	Total 31.12.2020				Total 31.12.2019			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Assets owned	**258,139**	**-**	**-**	**282,622**	**271,556**	**-**	**-**	**304,372**
a) lands	98,140	-	-	84,661	89,777	-	-	75,944
b) buildings	159,999	-	-	197,961	181,779	-	-	228,428
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) lands	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**258,139**	**-**	**-**	**282,622**	**271,556**	**-**	**-**	**304,372**
of which: arising from the recovery of guarantees received	39,164	-	-	51,164	30,320	-	-	43,466

The BPER Banca Group has opted to measure at cost both property, plant and equipment used in operations and property, plant and equipment held for investment.
An explanation of the fair value hierarchy used for classification has been given in Part A.4 of Explanatory Notes in chapter "Techniques for the determination of fair value".

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

9.3 Property, plant and equipment used in operations: breakdown of revalued assets

These Consolidated financial statements do not include revalued assets.

9.4 Property, plant and equipment held for investments: breakdown of assets measured at fair value

These Consolidated inancial statements do not include any property, plant and equipment measured at fair value.

9.5 Inventories of property, plant and equipment governed by IAS 2: breakdown

Description/Amounts	Total 31.12.2020	Total 31.12.2019
1. Inventories of property, plant and equipment arising from the recovery of guarantees received	**-**	**-**
a) lands	-	-
b) buildings	-	-
c) furnitures	-	-
d) electronic systems	-	-
e) others	-	-
2. Other inventories of property, plant and equipment	**16,383**	**16,848**
Total	**16,383**	**16,848**
of which: measured at fair value less costs to sell	-	-

This caption mainly refers to properties held by the Group's real estate company.

9.6 Property, plant and equipment used in operations: annual changes

	Lands	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**187,301**	**1,091,680**	**244,177**	**250,180**	**363,911**	**2,137,249**
A.1 Total net value adjustments	1,608	366,945	209,048	189,677	289,679	1,056,957
A.2 Net opening balance	**185,693**	**724,735**	**35,129**	**60,503**	**74,232**	**1,080,292**
B. Increases:	**4,279**	**52,671**	**4,023**	**57,605**	**43,875**	**162,453**
B.1 Purchases	-	20,777	3,547	54,247	25,507	104,078
B.2 Capitalised expenditure on improvements	-	8,932	-	-	3,119	12,051
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value allocated to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfer from property, plant and equipment held for investment	4,279	8,304	-	-	-	12,583
B.7 Other changes	-	14,658	476	3,358	15,249	33,741
C. Decreases:	**426**	**101,710**	**5,024**	**24,941**	**33,686**	**165,787**
C.1 Sales	3	15,006	44	1,536	257	16,846
C.2 Depreciations	-	61,974	4,503	20,161	15,223	101,861
C.3 Impairment losses allocated to	-	5,654	-	-	-	5,654
a) shareholders' equity	-	-	-	-	-	-
b) profit or loss	-	5,654	-	-	-	5,654
C.4 Negative chages in fair value allocated to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	419	2,679	-	-	-	3,098
a) transfer to property, plant and equipment held for investment	419	2,640	-	-	-	3,059
b) non-current assets and groups of assets held for sale	-	39	-	-	-	39
C.7 Other changes	4	16,397	477	3,244	18,206	38,328
D. Net closing balance	**189,546**	**675,696**	**34,128**	**93,167**	**84,421**	**1,076,958**
D.1 Total net value adjustments	96	420,351	209,498	202,801	308,472	1,141,218
D.2 Gross closing balance	**189,642**	**1,096,047**	**243,626**	**295,968**	**392,893**	**2,218,176**

The determination of the fair value of property, held for whatever purpose, which is also useful to highlight any need for impairment, is usually done based on generally accepted valuation methods and principles. At 31 December 2020, the valuation of the Group's real estate holdings was subjected to update by an independent expert. The appraisals identified the need to adjust certain properties, resulting in the recognition of an impairment adjustment totalling € 3,725 thousand. Impairment losses included € 1,929 thousand refer to rights of use acquired through leases following the early closure of certain branches.

9.7 Property, plant and equipment held for investments: annual changes

	Total	
	Lands	Buildings
A. Opening balance	**89,792**	**265,728**
A.1 Total net reduction value	15	83,949
A.2 Net opening balance	**89,777**	**181,779**
B. Increases	**16,877**	**27,842**
B.1 Purchases	5,740	21,342
B.2 Capitalised expenditure on improvements	-	2,132
B.3 Positive changes in fair value	-	-
B.4 Write-backs	-	-
B.5 Positive exchange differences	-	-
B.6 Transfer from property, plant and equipment held for investment	419	2,640
B.7 Other adjustments	10,718	1,728
C. Decreases	**8,514**	**49,622**
C.1 Sales	136	3,638
C.2 Amortizations	-	4,394
C.3 Negative changes in fair value	-	-
C.4 Impairment losses	1,408	5,286
C.5 Negative exchange difference	-	-
C.6 Transfer to:	5,788	11,957
a) transfer to property, plant and equipment held for investment	4,279	8,304
b) non-current assets and group of assets held for sale;	1,509	3,653
C.7 Other adjustments	1,182	24,347
D. Net closing balance	**98,140**	**159,999**
D.1 Total net write-down	8,074	85,757
D.2 Closing gross balance	**106,214**	**245,756**
E. Measured at fair value	84,661	197,961

The updated valuation at fair value of the real estate holdings resulted in the recognition of an impairment losses totalling € 6,694 thousand.

9.8 Inventories of property, plant and equipment governed by IAS 2: annual changes

	Inventories of property, plant and equipment arising from the recovery of guarantees received					Other inventories of property, plant and equipment	Total
	Lands	Buildings	Furniture	Electronic systems	Other		
A. Opening balance	**-**	**-**	**-**	**-**	**-**	**16,848**	**16,848**
B. Increases	**-**	**-**	**-**	**-**	**-**	**348**	**348**
B.1 Purchases	-	-	-	-	-	335	335
B.2 Write-backs	-	-	-	-	-	-	-
B.3 Positive exchange differences	-	-	-	-	-	-	-
B.4 Other changes	-	-	-	-	-	13	13
C. Decreases	**-**	**-**	**-**	**-**	**-**	**813**	**813**
C.1 Sales	-	-	-	-	-	600	600
C.2 Impairment losses	-	-	-	-	-	213	213
C.3 Negative exchange differences	-	-	-	-	-	-	-
C.4 Other changes	-	-	-	-	-	-	-
D. Closing balance	**-**	**-**	**-**	**-**	**-**	**16,383**	**16,383**

Useful life of the main fixed asset categories

Category	Useful life
Land	not depreciated
Property	based on the useful lives identified from specific appraisals
Office furniture and machines	100 months
Furnishings	80 months
Lifting equipment	160 months
Motor vehicles	48 months
Alarm systems	40 months
IT hardware	60 months

Depreciation is calculated with reference to the estimated useful lives of the assets concerned, commencing from when they enter into service.

9.9 Commitments to purchase property, plant and equipment

There are no cases of commitments to purchase property, plant and equipment into the Consolidated financial statements.

Section 10 – Intangible assets
Caption 100

10.1 Intangible assets: breakdown by asset type

Description/Amounts	Total 31.12.2020		Total 31.12.2019	
	Finite duration	Undefinite duration	Finite duration	Undefinite duration
A.1 Goodwill	**X**	**434,758**	**X**	**434,758**
A.1.1 pertaining to group	X	434,758	X	434,758
A.1.2 pertaining to minority interests	X	-	X	-
A.2 Other intangible assets	**267,965**	**-**	**235,089**	**-**
A.2.1 Assets measured at cost	267,965	-	235,089	-
a) intangible assets generated internally	-	-	-	-
b) other assets	267,965	-	235,089	-
A.2.2 Assets measured at fair value	-	-	-	-
a) intangible assets generated internally	-	-	-	-
b) other assets	-	-	-	-
Total	**267,965**	**434,758**	**235,089**	**434,758**

"Other intangible assets" caption mainly comprise applications software measured at cost and amortised on a straight-line basis over a period, not exceeding five years, that depends on the degree of obsolescence involved.
The remaining "Other intangible assets" mainly consist of intangibles recognised in previous Purchase Price Allocation for € 36.3 million, of which € 24.9 million relating to the acquisition of Unipol Banca.
Verification of the residual recoverability of these intangibles did not show any need for a write-off.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		FIN	UNDEFIN	FIN	UNDEFIN	
A. Opening balance	**641,948**	**51**	**-**	**355,628**	**-**	**997,627**
A.1 Total net value adjustments	207,190	51	-	120,539	-	327,780
A.2 Net opening balance	**434,758**	**-**	**-**	**235,089**	**-**	**669,847**
B. Increases	**-**	**-**	**-**	**92,917**	**-**	**92,917**
B.1 Purchases	-	-	-	92,581	-	92,581
B.2 Increases in internal intagible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- profit or loss	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	336	-	336
C. Decreases	**-**	**-**	**-**	**60,041**	**-**	**60,041**
C.1 Sales	-	-	-	-	-	-
C.2 Adjustments	-	-	-	59,702	-	59,702
- Depreciations	X	-	-	59,702	-	59,702
- Impairment losses	-	-	-	-	-	-
+ shareholders' equity	X	-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.3 Positive changes in fair value	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- profit or loss	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differrences	-	-	-	-	-	-
C.6 Other changes	-	-	-	339	-	339
D. Net closing balance	**434,758**	**-**	**-**	**267,965**	**-**	**702,723**
D.1 Total net value adjustments	207,190	-	-	177,979	-	385,169
E. Gross closing balance	**641,948**	**-**	**-**	**445,944**	**-**	**1,087,892**

All intangible assets are mesured at cost.
As better described in the following paragraph, the impairment test activity, carried out in accordance with IAS 36, did not show any need for a write-off.

Key:
FIN: finite useful life
INDEFIN: indefinite useful life

10.3 Other information

10.3.1 Goodwill

The goodwill shown in the consolidated financial statements is summarised in the following table:

(in thousands)

Goodwill	31.12.2020	31.12.2019
1. Group companies	**230,366**	**230,366**
1.1 Banks/Other companies	**204,392**	**204,392**
- Banco di Sardegna s.p.a.	*27,606*	*27,606*
- Emilia Romagna Factor s.p.a.	*6,768*	*6,768*
- Arca Holding s.p.a.	*170,018*	*170,018*
Total	**434,758**	**434,758**

The BPER Banca CGU includes goodwill arising from bank acquisitions and subsequent mergers by absorption (including the recent mergers of the Cassa di Risparmio di Bra and the Cassa di Risparmio di Saluzzo), as well as goodwill relating to purchases of bank branches from the Unicredit Group.
The impairment test, carried out in accordance with IAS 36, did not identify any need to recognise an impairment loss on goodwill.

Impairment tests on goodwill

When accounting for business combinations, IFRS 3 requires that the recognition of any intangible assets and goodwill arising from the transaction; goodwill is measured as the difference between the value of the consideration paid and (i) the fair value at the transaction date of the assets and liabilities of the acquired company, (ii) any specific intangible assets identified and (iii) any contingent liabilities recognised.
In accordance with IAS 36, intangible assets with an indefinite useful life, such as goodwill, are not amortised, but must be tested for impairment annually (or in any case whenever there is evidence of impairment) to verify the actual recoverability of the recorded value.
As a first step, impairment testing requires identification of the Cash Generating Units (CGUs) that will benefit from the goodwill deriving from the business combination and allocation of that goodwill to them. A CGU is the smallest group of assets that generates cash inflows in an autonomous manner.
An impairment test is performed by comparing the carrying amount of the CGU with its recoverable value, where "recoverable value" means the higher of its fair value less selling costs and its value in use. Any adjustments are recorded in the income statement.

The current market context continues to be significantly influenced by the evolution of the Covid-19 health emergency. The pandemic, declared officially in Italy from 31 January 2020, continues to have a significant impact on the various economic and financial systems and expectations about the future trend in the main economic variables are constantly updated in the light of - among other things - the decisions taken by Government bodies at national and international level according to the level of contagion. In addition, the first final data on the effects it has had in recent months are beginning to be published; basic data that can be used to make forecasts about future trends in the main macroeconomic parameters.
To date, a possible exit from the economic crisis is entrusted to the ability of individual countries to overcome the health emergency with a widespread vaccination campaign, in order to guarantee a level of immunity that will allow restrictive measures to be relaxed and then cancelled altogether. Together with

this, the huge resources envisaged at national and EU level should provide the support needed to revive the economy, laying the foundations for what probably could be a "V" recovery; however, there is still a certain level of uncertainty linked to the ability of the individual measures that will be adopted to amortise the permanent effects on the economic and social system caused by the health emergency.
The update of the macroeconomic estimates of various third-party infoproviders and international and EU organisations, such as the International Monetary Fund and the European Commission, show a significant contraction in Italy's GDP in 2020, even if it is not as bad as was previously feared, whereas for 2021 there should be an important recovery in the economy, even if lower than previously forecast. For example, after revising the 2020 figures assuming a negative change in GDP of -9.2% compared with the -10.6% expected in October, the International Monetary Fund now reckons that growth in the Italian economy in 2021 will be +3.0%, i.e. 2.2 percentage points lower than its previous forecasts. In 2022, on the other hand, expectations are better, with growth put at around 3.6%, i.e. 1.0 percentage point higher than was estimated in October. Analysing the estimates provided by the European Commission, growth of +4.1% is expected for 2021 (compared with a previous estimate of +6.5%) and +2.8% for 2022. These two years of growth follow a year, 2020, in which the contraction is put at -9.9%, versus a previous forecast of -9.5%. The 2020 GDP figures were published recently. Adjusted for calendar effects, they show a reduction of -8.9%, whereas GDP estimated on the basis of the raw quarterly data showed a reduction of -8.8%.

Identification of a Cash Generating Unit

According to IAS 36, the level at which goodwill is tested has to be correlated with the level of internal reporting of business performance and planning of future trends used by management to monitor the dynamics. In this regard, identifying this level depends considerably on the organisational models and the attribution of management responsibilities for the definition of operating activities and subsequent monitoring.
Given the characteristics of the individual entities and the consolidated operational and organisational model of the BPER Banca Group which governs the segment reporting system, which has not changed in terms of general framework compared with the end of the 2019, each CGU is identified with an individual Group bank or product company. Based on the above, the goodwill recognised in the consolidated financial statements at 31 December 2020 was allocated to the following CGUs:

- BPER Banca CGU;
- Banco di Sardegna CGU;
- Emilia Romagna Factor CGU;
- Arca Holding CGU.

The perimeters of the CGUs have undergone a slight change compared with the check carried out when preparing the financial statements as at 31 December 2019 because BPER Banca absorbed two entities that were previously controlled, namely the former Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo. The merger took effect for legal purposes on 27 July 2020 and led to the goodwill previously recognised on the former CR Bra CGU for Euro 4.6 million being included in the goodwill allocated to the BPER Banca CGU. The impairment test was carried out on the new configuration that emerged after the merger, reworking the BPER Banca CGU's forecasts to take into account the effects of the merger.

Carrying amount of the CGUs

The carrying amount of the CGUs is determined in a way that is consistent with the method used to estimate its recoverable value.
Given that it refers to banks, it is not possible to identify the cash flows generated by a CGU without considering the flows deriving from financial assets/liabilities, which represent its core business. In other words, the recoverable value of the CGU is influenced by these flows, which means that the carrying amount has to be determined in line with the estimated recoverable value and therefore also has to include the financial assets/liabilities (so-called "equity side" approach).
The carrying amount of each CGU corresponds to the total of: *(i)* the interest held in the shareholders' equity of the legal entity, including its results for the period; *(ii)* the goodwill allocated, net of any adjustments deriving from previous impairment tests, with respect to the amount that emerged from the original business combination; *(iii)* the residual net carrying amount of the specific intangible assets with a finite useful life that were identified in the context of the business combination by applying the acquisition method.

GROUP SUBSIDIARY COMPANIES AND BANKS

The following table summarises the carrying amounts, including intangible assets and goodwill recorded in the consolidated financial statements of the BPER Banca Group, with details, broken down by CGU; these are the level at which impairment tests have to be carried out on goodwill to verify its sustainability.

(in millions)

CGU	Book value	of which: goodwill	of which: "Core Deposits" (attributable to Group)
BPER Banca	5,667.5	*230.4*	*2.3*
Banco di Sardegna	958.4	*27.6*	-
Emilia Romagna Factor	137.2	*6.8*	-
Arca Holding	319.3	*170.0*	-

Details are provided below on the valuation parameters used to estimate the value in use of each CGU.

Criteria for estimation of value in use of CGUs

The value in use of the CGU is its fair value net of disposal costs or, if greater, its value in use. The standard says that is it not necessary to define both value in use and fair value when performing the impairment test, as it is sufficient for at least one of them to exceed the carrying amount in order to confirm that there is no impairment.
Generally speaking, for the purpose of identifying value in use, reference was made to the value in use estimated using the Dividend Discount Model (DDM). This method estimates the value in use of an asset by discounting the flows of potentially distributable dividends, determined by management on the basis of economic-financial projections linked to that asset.
The cash flow expected in the last year of the planning period is projected in perpetuity using an appropriate long-term growth rate "g" and the opportunity cost of capital in order to estimate the terminal value".

In the case of banks and financial institutions in general, the expected dividend flow is understood to mean the distributable cash flow, taking account of capital restrictions imposed by the Regulatory Authorities or considered reasonable in order to cover the typical risks of the business. Accordingly, future cash flows are identifiable as flows that could potentially be distributed after meeting the minimum capital allocation constraints; given this, the Excess Capital Method variant of the DDM is commonly used for appraisals in the banking sector, applying the following formula:

$$W = \sum_{i=0}^{n} CF_i(1+k_e)^{-i} + TV(1+k_e)^{-n}$$

Key:
W = value in use;
CF_i = potential cash flow available for distribution over time i;
i = reference year of cash flow;
n = period of time covered by the financial projections;
k_e = opportunity cost of capital, considering current assessments of the time value of money and specific business risks;
TV = terminal value; this corresponds to the present value of a perpetuity calculated based on long-term sustainable cash flow with a constant growth rate of "g".

The method was applied in estimating the value in use of the BPER Banca, Banco di Sardegna and Emilia Romagna Factor CGUs, given the availability of forecast cash flows processed recently by BPER Banca Group management.
In the case of Arca Holding, CGU's value in use was estimated using a valuation approach based on the sum of the parts, given by *(i)* the estimated value of the 100% investment held in Arca Fondi SGR, Arca Holding's main asset, and *(ii)* an estimate of the potential excess capital at holding company level (Arca Holding on its own). The value of Arca Fondi SGR was estimated considering its excess capital with respect to the current regulatory minimum for that company, plus a terminal value obtained by compounding the normalised flow at a rate that reflects the difference between the opportunity cost of capital and the nominal growth rate “g” as shown below. The use of a normalised distributable flow, being normalised profit net of the capital absorption needed to comply with Supervisory requirements, was possible given the essentially stable profitability of the company over time. Normalised profit was estimated with reference to the average performance achieved by Arca Fondi SGR, adjusted for any non-recurring items. The target supervisory requirement was estimated taking into account the regulations applicable to asset management companies. The excess capital at holding company level was estimated with reference to its latest available separate financial statements, appropriately adjusted to eliminate the investment held in Arca Fondi SGR, which was being valued separately.
Details are provided below regarding the estimate of cash flows and other valuation parameters used in applying the valuation methods described and applied to the case in question.

Estimation of future cash flows

The value in use of the CGUs was estimated by discounting the expected cash flows, as defined above, over an explicit forecasting period of five years, until 2025, in line with the requirements of IAS 36. The forecasts, approved by the administrative body, were prepared for each legal entity considering the most up-to-date information on the final results, on strategic actions limited to those already undertaken and related effects (i.e. excluding the effects of the acquisition of the business unit from Intesa Sanpaolo as it is still being finalised at the reporting date) and the most up-to-date system forecasts available close to the time that the figures are being verified. The projections are based on reasonable and consistent assumptions that represent the best estimate that can be made, at the date of the verification, on the possible evolution of economic conditions in the coming years.

In summary, the forecasts show the Group's ability to deal with the crisis by maintaining a level of profit (expressed as the "intermediation margin on volumes handled") that remained practically the same from the end of 2020 to the end of 2025, but showing a higher exposure on credit quality with an increase in the cost of credit over the next two to three years and a return to “normal” values at the end of the forecast period. The Group's exposure to the negative effects of the crisis are mitigated, however, by its considerable capital strength, with the CET 1 ratio at the end of 2020 well above that assigned by the European Central Bank.

Analysing in detail:

- the forecasts were prepared following a typical top-down approach by the Group's Planning and Control Department, with the support and information gathered by the various functions. The calculations developed at a consolidated level were then taken as a point of reference for the development of forecasts by the individual CGUs for the same time horizon;
- for 2020 the preliminary data presented at the respective board meetings of the individual legal entities were used, while for 2021 reference was made to the 2021 budgets presented at the board meetings in December 2020. The consolidated forecasts were drawn up from a stand-alone perspective;
- the forecasts referring to the years 2022-2025, also approved by the Boards of Directors of the individual legal entities, follow a typically inertial evolution, also given the Group's exposure to the crisis, with more direct effects in the next 12-24 months, which is mainly expressed in higher loan loss provisions. The development of inertial forecasts, as required by the accounting standard, aims to reach a normalised situation at the end of the period, calculating a long-term sustainable income that can be used in estimating the Terminal Value. The normalisation process aims to mitigate the effects of anomalous and extraordinary external economic and market conditions, as well as the effects of extraordinary and strategic transactions, already approved and being implemented, but which do not yet express their full effects at the time the impairment test was carried out, generating their effects on the structure once fully operational. Moreover, following an inertial logic, the last few years of forecasting do not reflect any extraordinary transactions which are not yet defined in detail, not approved by the administrative bodies or still not in an advanced phase of implementation;
- reference was made to forecasts based on the most up-to-date economic and market scenarios, available near the time in which the impairment test was carried out and which include the most probable effects on the short and medium-long term linked to the spread of Covid-19. In this case, forecast information from external infoproviders, some of which updated to December 2020, on the expected trend in both economic and financial macro-variables (such as the trend in GDP, the rate of unemployment, consumer prices, market interest rates, etc.) and at a system level (such as the growth in loans, deposits, etc.)[73];
- a prudent and gradual return to normal conditions is expected in the medium term, including: *(i)* in terms of how each CGU's balance sheet aggregates will evolve, the annual growth in loans is around +1.5%, with lower rates in the initial years and a more sustained recovery after that. This picture is in line with the expectations at System level: lower growth rates are expected in the coming years, after the important ones recorded in 2020, around +0.3% (CAGR in the years 2021-2025) for short-term loans and around +1.7% (CAGR in the years 2021-2025) for medium-long term loans; this effect will also be helped by consolidation of the economic recovery. For direct deposits, the expected trend is influenced by the need to repay the TLTRO

[73] In particular, it should be noted that the forecasts of the trend in Italy's GDP taken into consideration are +4.8% in 2021 and +4.1% in 2022.

III, starting in 2022; at System level, annual growth in short-term funding in the years 2021-2025 is expected to be around +0.2%; medium/long-term funding around +1.5%; *(ii)* an estimate of interest rates that takes into account the most up-to-date forecast of how interbank rates are likely to change in the coming years, with the 3-month Euribor coming close to positive values at the end of the forecast period; *(iii)* a return to "normal" conditions of the cost of risk in the last part of the forecast period after the strong increase that will characterise the next few years; *(iv)* a level of operating costs which, after the expected reduction in 2021, is expected to be flat or in slight inertial growth in the other years due to the measures affecting staff efficiency and the organised structure;

- in line with IAS 36, the expected flows from the former UBI Banca business unit acquired from Intesa SanPaolo were not taken into consideration as the acquisition was still being finalised at the balance sheet date.

The following table sets out the main assumptions underlying the economic-financial projections used to estimate the value in use of the BPER Banca and Banco di Sardegna CGUs and, in particular, those regarding the compound annual growth rates (CAGR) of loans and deposits and the profitability indicators in the last year of the forecast (2025).

CGU	CAGR 2020-2025			Profitability ratios at 2025		
	Loans	Direct deposits	Indirect deposits	Net interest and other banking income/VH	Net impairment losses on loans	Operating costs/VH
BPER Banca	1.4%	1.9%	1.4%	1.0%	0.5%	0.6%
Banco di Sardegna	1.7%	-0.1%	1.8%	1.6%	0.6%	1.1%

Key:
VH = Volumes handled (Loans+Total Deposits)

The forecasts referring to the Emilia Romagna Factor CGU up to 2025 were developed internally by management and approved by the Board. The forecasts were prepared with reference to the economic and financial position of the company expected at the end of 2020, considering the 2021 budget and assuming future growth in line with expected macroeconomic conditions.
With regard to Arca Holding, its value in use was estimated as the sum of the parts, estimating the value in use of Arca Fondi SGR, which is the Arca Holding Group's main asset. Given that Arca Fondi SGR's profitability is almost constant over time, a normalised distributable flow of earnings was estimated as being equal to the adjusted normalised profit, net of the capital absorption required to comply with the Supervisory requirements. The normalised profit was obtained by applying the average economic parameters estimated on the basis of the final figures of Arca Fondi SGR for 2015-2019 to the average volume of assets under management by the SGR in recent years, adjusting the items for any extraordinary items, wherever identified.
With regard to the stability of assets under management, the current health emergency does not seem to have had a structural impact on the asset management sector. The forecasts provided by external infoproviders indicate annual growth in assets under management over the period 2021-2025 of approximately 4%. The excess capital of Arca Holding (on its own) was added to the value of the SGR obtained on the basis of a flow in perpetuity and its excess capital at the valuation date compared with

that required to meet the Supervisory requirements, calculated on the basis of the company's latest individual accounts, after eliminating the investment in Arca Fondi SGR which is subject to a separate valuation.

The cash flows distributable by each CGU were estimated assuming a target minimum Supervisory requirement in line with the Supervisory provisions for the CGU in question, able to maintain a satisfactory level of capitalisation that is consistent with the expected growth in activities over the explicit forecasting period.

The estimate of value in use includes the estimated Terminal Value, which quantifies the present value of the cash flows potentially distributable to shareholders in the period subsequent to that covered by the explicit projections. This estimate was made with reference to a normalised flow based on the profit for the final year of the projection (2025), taking into account a long-term tax burden, net of physiological capital absorption and compounded at a rate that reflects the difference between the opportunity cost of capital (or "cost of equity") and the nominal growth rate “g” of 1.5%; this "g" rate is substantially in line with expected long-term inflation, estimated considering the analysis of several external forecasting sources and the actual trend, assuming an average real rate of growth of zero.

Estimate of the cost of capital

Value in use is determined by discounting the expected cash flows at an appropriate rate reflecting the estimated opportunity cost of capital, consistent with the requirements of IAS 36 and the guidelines of the impairment testing of goodwill, using the Capital Asset Pricing Model (CAPM). The following formula is applied:

$$k_e = R_f + \beta \times (R_m - R_f)$$

Key:
R_f = Risk free rate;
$(R_m - R_f)$ = Market Risk Premium;
β = Beta.

The CAPM expresses a linear relationship, under conditions of market equilibrium, between the yield on an investment and its systematic risk. In detail, the yield on an investment is calculated as the sum of the risk-free rate (expression of the time value of money) and the risk premium, which is the beta of the security multiplied by the market risk premium.
The discount rate used incorporates the risk-free component and risk premiums related to the equity component observed over a sufficiently long period of time to reflect different market conditions and economic cycles.
In the circumstances, the opportunity cost of capital was estimated to be 9.17%, considering the following CAPM parameters:

- the risk-free rate, being the time value of money corresponding to the yield on a risk-free investment usually represented by government bonds. The general structure of the CAPM refers to a risk-free rate, but makes no reference to the period of time to be considered. The approach that prevailed for the valuation process was to select a rate of return on long-term government bonds (generally 10-year bonds). An average value of the 10-year BTP yield rates of 1.14%, calculated over a one-year observation period, has been used here. This is lower than the rate used for the impairment test at 31 December 2019 (average of 1.93% calculated over a one-year observation period), and for the one carried out at 30 June 2020 (average of 1.35%

calculated over a one-year observation period), continuing to benefit from the declining trend that began in May 2020, after the significant increase at the beginning of the health emergency. In December 2020 alone, the average yield stood at around 0.54%, lower than the average annual figure considered on this occasion and obtained using the same approach as in the previous impairment tests;

- the market risk premium, being the difference between the yield on a diversified portfolio of risky investments available on the market and the yield on a risk-free bond. It should be borne in mind that the risk premium is generally associated with longer-term investments. Since this represents, in fact, the additional return over the risk-free rate that an investor requires to invest in a portfolio of risky assets, it cannot be linked to short-term market fluctuations. Specifically, a market risk premium of 5.70% was used, in line with that used for the impairment test at 30 June 2020, +20 bps higher than that used in estimating the cost of capital for the impairment test at 31 December 2019. This figure is the result of a qualitative and quantitative analysis using information issued periodically by infoproviders, which analyse the sector and macroeconomic trends or periodically record those used on average in practice by various operators when carrying out valuations;
- beta, being the specific investment risk. A beta expresses the correlation between the yield on a single risky investment and that on a market portfolio. A coefficient equal to one indicates that the investment being considered follows the exact trend of the market portfolio, while a beta greater than one identifies an "aggressive" investment, the yield of which may vary to a greater extent than that on the market return. A beta lower than one corresponds to a "defensive" investment; in this case variations in the investment yield are less sensitive. The beta used here is estimated at 1.41, equal to the beta of the BPER Banca Group estimated over a sufficiently long period of time to minimise the distorting effects of strong price volatility that characterised the stock market from the beginning of March. Specifically, in line with what was considered in the impairment test of 30 June 2020, the period considered is 5 years of observations, on a monthly basis and taking the Italian equity index as a point of reference; the decision to consider a longer observation period than that used in the 2019 year-end impairment test, in which it was 3 years, derives from a broader analysis that involved comparison with the betas of other Italian banks in different periods. The estimate of beta at 31 December 2020 (1.41), is higher than other surveys made on different observation periods, such as 3 years, or for the same period (5 years) but with a different frequency (daily or weekly) . The choice of beta estimate based on historical monthly returns at 5 years and using the same method as was used for the previous half-year impairment test, is therefore the most prudent.

Management believes that the rate estimated in this way reflects the BPER Banca Group's actual riskiness, which is substantially aligned with the system. It is also consistent with the riskiness implicit in the economic projections, so there is no need to add any further risk premium.

Results of impairment tests

An impairment tests requires a comparison between the recoverable amount of the CGU to which goodwill has been allocated and its carrying amount. In accordance with applicable accounting standards, goodwill must be adjusted when the carrying amount of the CGU to which it has been allocated exceeds the recoverable amount, which in this case is assumed to be equal to the value in use.

At the reporting date for these consolidated financial statements, the impairment test carried out at individual CGU level did not identify any need to write down goodwill. The Parent Company acquired an opinion from an independent external expert on the impairment testing process used by its internal organisations.

Sensitivity analysis

The principal parameters used in the measurement model, such as cash flows and the opportunity cost of capital, may be influenced, even significantly influenced, by changes in the overall economic picture. The effect that these changes might have on the cash flow projections and the main financial assumptions could render future results substantially different from those used to verify the sustainability of goodwill. For this reason, pursuant to IAS 36, sensitivity analyses were carried out to assess the impact on the estimates of value in use and, therefore, on the results of the impairment test, of changes in the key parameters underlying the valuation model. This analysis is all the more necessary in this period of uncertainty linked to the health emergency and the timing of its resolution; even though every attempt was made to take into account all of the variables known at the date of the verification, as well as the most up-to-date expectations at a macroeconomic and system level, there is always an implicit risk that the current health emergency could evolve in the near future in ways that are unpredictable at the moment.

In particular, the impact on value in use of a change in certain key variables was checked:

- +25 bps and +50 bps on the cost of "basic" capital (equal to 9.17%);
- -25 bps and -50 bps in the long-term "basic" growth rate "g" (equal to 1.5%);
- +50 bps and +100 bps maximum in the target minimum regulatory capital requirement in the period of the forecast, including the last year of the forecast (2025). In the case of the Arca Holding CGU, considering the valuation method applied and the different Supervisory requirement envisaged for its type of activity, developing the sensitivity analysis on this parameter was not particularly meaningful.

CGU	Change in Value in Use of CGU					
	k_e rate		"g" rate		CET 1 ratio target	
	+25 bps	+50 bps	-25 bps	-50 bps	+50 bps	+100 bps
BPER Banca	-1.7%	-3.3%	-0.5%	-1.0%	-2.7%	-5.4%
Banco di Sardegna	-1.4%	-2.8%	-0.6%	-1.2%	-1.7%	-3.4%
Emilia Romagna Factor	-1.6%	-3.1%	-0.5%	-1.0%	-4.0%	-8.1%
Arca Holding	-2.3%	-4.5%	-2.3%	-4.4%	n.s.	n.s.

These analyses identified a possible issue with the sustainability of the goodwill allocated to the BPER Banca CGU following a theoretical increase in the minimum regulatory requirement of +100 bps.

Again for stress testing purposes, alternative variations were considered for the opportunity cost of capital, for the profits expected in the analytical forecast period (including that used in the estimate of the normalised flow underlying the Terminal Value) and the normalised expected cash flow in the final period of the projections (used to estimate the Terminal Value), in order to reduce the value in use of the CGU to its carrying amount, or, in other words, the threshold value of the main inputs, beyond which impairment testing of the CGU would result in a loss.

CGU	Maximum k_e rate	Maximum reduction of profits in the forecasting period and of normalised profit	Maximum decrease in the normalised flow
BPER Banca	9.83%	-7.2%	-11.0%
Banco di Sardegna	13.69%	-32.0%	-49.8%
Emilia Romagna Factor	10.74%	-15.0%	-24.0%
Arca Holding	12.82%	-31.5%	-32.3%

This analysis shows how, for example, in relation to the BPER Banca CGU, an increase of 66 bps in the opportunity cost of capital, from 9.17% to 9.83%, a reduction of -7.2% in profits in each year (including the profit underlying the normalised cash flow) or a reduction of -11.0% in the cash flow underlying the Terminal Value, would bring the recoverable value substantially into line with its carrying amount.

Second level impairment test

When the market capitalisation is persistently lower than the carrying amount of equity, it is useful to perform a second level impairment test, even if there are no costs unallocated to the individual CGUs and corporate assets; this is also done to support the reasonableness of the results achieved with the impairment test carried out on the individual CGUs to which goodwill has been allocated.
Leaving to the end of this section the discussion on the main reasons for the difference between value in use and market capitalisation, second level impairment testing provides a check on overall reasonableness, by comparing the BPER Banca Group's estimated value in use with its carrying amount at 31 December 2020.
In line with the impairment tests carried out for each CGU, the excess capital method was used for the measurement, considering the Group as a single cash generating unit. This approach is preferable when there are consolidated economic projections and in the presence of a group with various lines of business that are reasonably similar in nature.
Potentially distributable cash flows were estimated starting from the consolidated income statement and balance sheet projections, based on the assumptions already discussed above with reference to the individual CGUs.

The same cost of capital and long-term growth rate “g” identified for the impairment testing of the CGUs were used for measurement purposes, while the target minimum regulatory requirement was aligned with the Supervisory instructions applicable to the BPER Banca Group, which was able to maintain a satisfactory level of capitalisation consistent with the expected growth in activities.

A large positive differential emerged from the comparison between the overall carrying amount of the BPER Banca Group and its recoverable value, thereby confirming the sustainability of the value of goodwill.
Also in this case, sensitivity analyses were carried out with respect to pejorative variations in the key parameters, such as the cost of capital, the long-term growth rate “g” and the minimum target regulatory requirement; in all cases, the estimated recoverable values exceeded the carrying amount of the BPER Banca Group.

CGU	Change in Value in Use of CGU					
	k_e rate		"g" rate		CET 1 ratio target	
	+25 bps	+50 bps	-25 bps	-50 bps	+75 bps	+150 bps
BPER Banca Group	-2.2%	-4.3%	-0.7%	-1.4%	-4.4%	-8.8%

Again for stress testing purposes, alternative variations were considered for the opportunity cost of capital, for the profits expected in the analytical forecast period (including that used in the estimate of the normalised flow underlying the Terminal Value) and the normalised expected cash flow in the final period of the projections (used to estimate the Terminal Value), in order to reduce the value in use of the BPER Banca Group to its carrying amount, or, in other words, the threshold value of the main inputs, beyond which impairment testing of the BPER Banca Group would result in a loss.

CGU	Maximum ke rate	Maximum reduction of profits in the forecasting period and of normalised profit	Maximum reduction in the normalised flow
BPER Banca Group	10.38%	-12.6%	-19.0%

In a macroeconomic context conditioned by the spread of a health emergency unprecedented in modern history, expectations on the performance of some market and system parameters could change substantially if currently unknown scenarios occur. The forecasts underlying the impairment test, as described above, take into account what is the most probable evolution of market parameters in the light of the information available at the date of the impairment test; however, the exceptional nature of the event means that one cannot completely exclude a more pessimistic scenario, just as, on the other hand, one cannot completely exclude the possibility of a more optimistic scenario. Given that the latter would only confirm the sustainability of the current level of goodwill, also following the indications of the Supervisory Authorities[74], forecasts have been prepared up to 2025 for the BPER Banca Group which take into account a deterioration in the economic and financial conditions compared with those underlying the impairment test described above (the latter carried out on the basis of the so-called "Baseline Scenario") and developing the so-called "Adverse Scenario".

The results obtained with the second level impairment test in the Adverse Scenario, on the other hand, show that the goodwill recorded at a consolidated level remains stable even if with a lower margin, around Euro 60 million, between the recoverable value and the carrying amount. However, this result has to be read taking into account that each scenario ought to be weighted for the relative probability of occurrence; and that the probability of occurrence associated with the Adverse Scenario is not that high because of the particular severity of the said scenario, so the sustainability of the goodwill recorded at a consolidated level is largely confirmed.

The value in use of the BPER Banca Group is higher than its stock market capitalisation. After a sharp decrease in the period from the end of February to the end of March, in line with the trend recorded by the stock market in general, the BPER Banca stock stood at around Euro 1.5 per share, an overall performance from the start of the year of approximately -50%. The share price moved during the first

[74] *ESMA public statement - European common enforcement priorities for 2020 annual financial reports of 28 October 2020.*

few months of the year (January-April) in line with the trend of the FTSE IT Banks sector index, recording a reduction in the higher value from the end of April.
In Italy, the prices of companies operating in the various sectors were influenced by the spread of the Covid-19 health emergency from the second half of February 2020; in particular, until mid-March 2020 all sector indices recorded a sudden and substantial decline, only to reverse the trend in the period immediately afterwards. In this latter phase, stock market prices have had a differentiated trend according to the sector in which the company operates, recovering, in whole or in part, what was lost in terms of capitalisation in the period February-March; from the beginning of 2020 until the end of December 2020, the banking sector index (FTSE IT Banks) recorded a loss of -21%, travel and leisure (FTSE Travel & Leisure) -38%, real estate (FTSE Real Estate) -32% and oil and gas (FTSE Oil & Gas) -31%. On the other hand, some sectors have "benefited" - or have been hit less - by the emergency; for example, the healthcare sector index (FTSE HealthCare) gained 32%, the pharmaceutical sector (FTSE Pharm & Bio) +21%, the chemical sector (FTSE Chemicals) +29% and technology (FTSE Technology) +30%.
The banking sector is one of those worst hit by the health emergency. It is a sector that for a long time has been suffering from a difficult recovery in stock market prices due to problems linked to credit quality, the slow recovery in the national economy, all the more so marked by the current situation, and by the high public debt-to-GDP ratio which requires greater attention and monitoring by the EU institutions.
BPER Banca's share price, like those of many other listed Italian banks, often do not fully reflect the policies underlying the strategic measures implemented or in the process of being implemented and which are summarised in the business plans drawn up and approved by many Italian banking groups. These measures generally provide for a containment of costs, an increase in margins by focusing on a different business mix, directing the activity towards areas with higher value added and better credit quality with important actions to write down and/or sell non-performing positions. The measures taken to date should lead the market in the medium term to revalue individual banks according to their individual fundamentals and performances.

Compared with the stock market capitalisation, which expresses the current trading value of an investment, the value in use expresses a configuration of value that refers more to a logic of long-term "strategic" investment. In fact, value in use is a direct expression of the financial flows that the asset is able to generate over the analytical forecast period and in the subsequent one in an "ongoing concern principle", i.e. the assumption that a generic company will remain in business indefinitely in the coming years. The value is, therefore, also based on the internal expectations of the company, unlike market valuations which are mostly based on short-term expectations of the market generally.
In light of the above, management is of the opinion that the impairment test must be carried out with the awareness that the current economic situation has an important impact on the financial flows expected from operating activities in the short and medium term, but without affecting the primary sources of income generation and the competitive advantages that the BPER Banca Group has acquired over time.
Considering these elements, in the current market context, value in use is a better expression of the recoverable value of the Group's operating activities. Moreover, in developing the valuation model, precautions were taken both in the estimate of forecast flows and in the choice of financial parameters, as summarised below:

- the forecast flows were estimated considering the most up-to-date system forecasts at the date of verification of the sustainability of goodwill;
- the expected cash flows do not include the benefits of future reorganisations, except for those related to measures already implemented or being implemented at the time;

- the cost of capital was determined analytically, on the basis of parameters updated at the time of the valuation. The sensitivity analyses carried out with increases of up to 50 bps still confirmed the sustainability of goodwill;
- the growth rate "g" for the purposes of estimating the Terminal Value was set at zero in real terms.

Section 11 – Tax assets and liabilities Asset caption 110 and liability caption 60

11.1 Deferred tax assets: breakdown

	IRES	IRAP	Total 31.12.2020	Total 31.12.2019
Impairment losses on loans to customers	668,506	60,508	729,014	840,612
Impairment losses on equity investments and securities	3,418	8,966	12,384	29,261
Goodwill convertible into tax credits	171,268	35,044	206,312	215,132
Non-convertible goodwill	51,488	10,525	62,013	7,172
Personnel provisions	89,324	6,600	95,924	118,118
Endorsement credits, revocatory action during bankruptcy	66,224	4,336	70,560	75,794
Impairment losses on loans to customers FTA IFRS 9	165,366	33,751	199,117	199,304
Non-convertible tax losses	22,397	-	22,397	4,581
Tax losses convertible into tax credits	97,835	9,533	107,368	-
ACE reportable	31,657	-	31,657	21,784
Other deferred tax assets	48,257	3,896	52,153	46,509
Total	**1,415,740**	**173,159**	**1,588,899**	**1,558,267**

"Deferred tax assets" are determined on the basis of IRES and IRAP tax rates which are expected to be in force at the time of their recovery.
The total includes tax assets under Law 214/2011 for an amount of € 1,042.7 million.
The "Other deferred tax assets", € 546.2 million, mainly relate to temporary differences, together with € 54.1 million relating to tax losses and ACE surpluses; these were recognised following the outcome of the probability test required by IAS 12. The time horizon used for the forecasts is 5 years; the future taxable income considered is consistent with the financial forecasts last updated in 2020.
The increase in "Non-convertible goodwill" reflects the recognition of deferred tax assets after stepping up the goodwill attributed to the Arca Holding CGU.
The caption in deferred tax assets for "Tax losses convertible into tax credits" refers to tax losses of the current year, as they derive from the reversal during the year of the deferred tax assets pursuant to Law 214/2011.
The position at 31 December 2020 also includes tax losses for which no deferred tax assets have been recognised. These include € 251.2 million subject to the full rate of 27.5%, that would result in DTA of € 69.1 million, and € 1.085,8 million to which the additional rate of 3.5% would apply, resulting in DTA of € 38 million. In addition, deferred tax assets have not been recognised on the portions of the impact of FTA of IFRS 9 recoverable beyond the time horizon for the probability test, amounting to € 354 million, that would result in DTA of € 117.1 million.

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	Total	-
			31.12.2020	-
Gains from equity instruments and securities	26,627	12,079	38,706	30,259
Equity investments	222	625	847	801
Staff costs	1,757	10	1,767	1,765
Gains from the sale of property, plant and equipment	2,466	432	2,898	487
Depreciation of property, plant and equipment and intangible assets	8,062	1,034	9,096	18,926
Goodwill	1,751	355	2,106	-
Other deferred taxes	13,298	1,233	14,531	18,094
Total	**54,183**	**15,768**	**69,951**	**70,332**

"Deferred tax liabilities" are determined on the basis of IRES and IRAP tax rates which are expected to be in force at the time of their recovery.
At 31 December 2020, there are no temporary differences relating to investments in subsidiaries, branches, associates and companies under joint control for which the related deferred tax liabilities have not be recognised.

11.3 Changes in deffered tax assets (through profit or loss)

	31.12.2020	31.12.2019
1. Initial amount	**1,494,831**	**1,358,509**
2. Increases	**275,078**	**280,922**
2.1 Defferred tax assets recognized in the year	275,078	134,302
a) related to previous years	40,763	38,543
b) due to changes in accounting criteria	-	-
c) value recoveries	-	-
d) others	234,315	95,759
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	146,620
- of which: business combinations	-	145,734
3. Decreases	**236,418**	**144,600**
3.1 Defferred tax assets derecognized in the year	226,791	139,658
a) reversals	219,810	94,177
b) write-offs	-	404
c) due to changes in accounting criteria	-	-
d) others	6,981	45,077
3.2 Decreases in tax rates	-	-
3.3 Other decreases:	9,627	4,942
a) changes into tax credits	9,002	-
b) others	625	4,942
4. Final amount	**1,533,491**	**1,494,831**

The amount reported in caption 2.1 a) "related to previous years" includes the adjustments made on the FTA of IFRS 9, recoverable in 2025 and recognised during the year after passing the probability test.
Still among the Increases, caption 2.1 d) "other" includes the deferred tax assets relating to provisions for employee benefits, € 10 million, provisions for legal disputes and guarantees granted, € 16.3 million, ACE surpluses, € 9.6 million, goodwill, € 56.2 million (on the step-up of Arca Holding's goodwill in 2020), and tax losses, € 129.7 million recognised in 2020 and convertible into tax credits.
The amount shown under Decreases at item 3.1 a) "reversals" includes deferred tax assets relating to impairment losses on loans on FTA of IFRS 9 of € 40.6 million, uses/releases of provisions for employee benefits of € 29.5 million, provisions for legal disputes and guarantees granted of € 20.2 million, loans to customers of € 102.9 million, utilisation of tax losses of € 4.6 million and goodwill of € 10.2 million.

11.4 Changes in deferred tax assets pursuant to Law 214/2011

	Total 31.12.2020	Total 31.12.2019
1. Initial amount	**1,055,744**	**928,460**
2. Increases	**107,669**	**127,284**
3. Decreases	**120,719**	**-**
3.1 Reversals	111,717	-
3.2 Changes into tax credits	9,002	-
a) from losses for the year	9,002	-
b) from fiscal losses	-	-
3.3 Other decreases	-	-
4. Final amount	**1,042,694**	**1,055,744**

With regard to the changes in 2020, the transformation mentioned in point 3.2 was made in light of the provisions of Decree Law 225/2010, converted with amendments into Law 10/2011. In particular, article 2, paragraphs 55-56, provides that in the event of a loss for the year, deferred tax assets recorded in the financial statements relating to impairment losses on loans as well as those relating to goodwill and other intangible assets (overall Deferred Tax Assets or DTAs) are transformed into a tax credit. The transformation runs from the date of approval of the financial statements of the company that converted the loss and takes place for an amount equal to the loss for the year multiplied by the ratio between the DTA and net equity before the loss for the year. With effect from the tax period of transformation, negative components corresponding to the DTA transformed into tax credits are not deductible. This conversion was carried out by Banco di Sardegna s.p.a. and Sardaleasing s.p.a.
Law 214/2011 also introduced the chance to transform into tax credits any DTAs recognised in the financial statements for the part of IRES tax losses arising from the deduction of impairment losses on loans and goodwill during the year.
Subsequently, Law 214/2013 (Stability Law 2014) extended the conversion of IRAP DTAs relating to impairment losses on loans, goodwill and other intangible assets, also in the case of "negative net value of production".
The increases reported in point 2. are mainly related to DTAs on convertible tax losses, as already mentioned above.

The details of DTAs for IRES and IRAP purposes are shown below:

	31.12.2020			31.12.2019		
	IRES	IRAP	Total	IRES	IRAP	Total
Impairment provisions for loans to customers	668,506	60,508	729,014	771,058	69,554	840,612
Goodwill	171,268	35,044	206,312	178,593	36,539	215,132
Tax losses	97,835	9,533	107,368	-	-	-
Total	**937,609**	**105,085**	**1,042,694**	**949,651**	**106,093**	**1,055,744**

11.5 Changes in deffered tax liabilities (through profit or loss)

	Total 31.12.2020	Total 31.12.2019
1. Initial amount	**46,846**	**15,206**
2. Increases	**5,752**	**44,134**
2.1 Defferred tax liabilities recognized in the year	5,752	374
a) related to previous years	595	2
b) due to changes in accounting criteria	-	-
c) others	5,157	372
2.2 New taxes or tax rates increases	-	-
2.3 Other increases	-	43,760
- of which: business combinations	-	26,903
3. Decreases	**15,952**	**12,494**
3.1 Defferred tax liabilities derecognized in the year	12,139	9,900
a) reversals	1,975	9,630
b) due to changes in accounting criteria	-	-
c) others	10,164	270
3.2 Decreases in tax rates	-	-
3.3 Other decreases	3,813	2,594
4. Final amount	**36,646**	**46,846**

The caption Increases 2.1 c) "others" mainly includes DTAs on goodwill for € 2.1 million.
The caption Decreases 3.1 c) "others", on the other hand, mainly refers to DTAs relating to the step-up of intangible assets deriving from Unipol's Customer Relationship recognized during the PPA for € 9.5 million which led to the alignment between tax and book values and € 1.7 million for misalignments on Properties.

11.6 Changes in deffered tax assets (through shareholders' equity)

	Total 31.12.2020	Total 31.12.2019
1. Initial amount	**63,436**	**69,269**
2. Increases	**5,205**	**33,138**
2.1 Defferred tax assets recognized in the year	4,843	20,976
b) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) others	4,843	20,976
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	362	12,162
- of which: business combinations	-	10,096
3. Decreases	**13,233**	**38,971**
3.1 Defferred tax assets derecognized in the year	13,233	38,971
a) reversals	11,971	38,753
b) write-offs	-	-
c) due to changes in accounting criteria	-	-
d) others	1,262	218
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
4. Final amount	**55,408**	**63,436**

Among the Increases, the caption 2.1 c) "others" mainly consists of DTAs on non-current securities for € 4.3 million.
Among Decreases, the caption 3.1 a) "reversals" is made up of DTAs referring mainly to the valuations of non-current securities for € 9 million and provisions for employee benefits for € 2.4 million.

11.7 Changes in deffered tax liabilities (through shareholders' equity)

	31.12.2020	31.12.2019
1. Initial amount	**23,486**	**43,472**
2. Increases	**20,822**	**13,477**
2.1 Defferred tax liabilities recognized in the year	16,793	9,880
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) others	16,793	9,880
2.2 New taxes or tax rates increases	-	-
2.3 Other increases	4,029	3,597
- of which: business combinations	-	670
3. Decreases	**11,003**	**33,463**
3.1 Defferred tax liabilities derecognized in the year	9,131	14,568
a) reversals	7,569	14,539
b) due to changes in accounting criteria	-	-
c) others	1,562	29
3.2 Decreases in tax rates	-	-
3.3 Other decreases	1,872	18,895
4. Final amount	**33,305**	**23,486**

Among the Increases, the caption 2.1 c) "others" mainly consists of DTAs on non-current securities for € 16.1 million.
Among the Decreases, the caption 3.1 c) "reversals" refers entirely to valuations of non-current securities.

11.8 Other information

There is no other information to be provided, apart from what has already been provided in this section.

Section 12 – Non-current assets and disposal groups classified as held for sale and related liabilities
Asset caption 120 and liability caption 70

12.1 Non-current assets and disposal groups classified as held for sale: breakdown by assets

	31.12.2020	31.12.2019
A. Assets held for sale		
A.1 Financial assets	90,775	92,981
A.2 Equity investments	-	-
A.3 Property, plant and equipment	7,939	4,155
of which: arising from the recovery of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	6
Total A	**98,714**	**97,142**
of which measured at cost	98,714	97,142
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortized cost	-	-
B.4 Equity investments	-	-
B.5 Property, plant and equipment	-	-
of which: arising from the recovery of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which measured at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-

(cont.)

		31.12.2020	31.12.2019
C. Liabilities related to assets classified as held for sale			
C.1 Deposits		144,476	133,479
C.2 Securities		-	-
C.3 Other liabilities		333	598
	Total C	**144,809**	**134,077**
	of which measured at cost	144,809	134,077
	of which measured at fair value level 1	-	-
	of which measured at fair value level 2	-	-
	of which measured at fair value level 3	-	-
D. Liabilities related to discontinued operations			
D.1 Financial liabilities measured at amortized cost		-	-
D.2 Financial liabilities held for trading		-	-
D.3 Financial liabilities designated at fair value		-	-
D.4 Provisions		-	-
D.5 Other liabilities		-	-
	Total D	**-**	**-**
	of which measured at cost	-	-
	of which measured at fair value level 1	-	-
	of which measured at fair value level 2	-	-
	of which measured at fair value level 3	-	-

Non-current assets and disposal groups held for sale and related liabilities principally refer to the loan and deposit accounts at the 5 former Unipol Banca branches in Sardinia that, by decision of the Competition Authority (AGCM), must be sold on the market due to "competition issues". This decision is still outstanding at the balance sheet date, despite the expiry of the maximum term envisaged by the decision to provide for the disposal and despite the fact that all of the procedures needed to sell the branches have been carried out; In fact, BPER Banca found itself objectively unable to proceed with the implementation of the prescribed measures, as communicated to the Authority in September 2020. Discussions are underway with the Authority in order to identify possible alternative measures in a climate of absolute collaboration and transparency, though the Authority's provision is still valid as of 31 December 2020.
The financial assets and liabilities include, in particular, the amounts due to and from customers; property, plant and equipment includes right-of-use assets of € 1.2 million, relating to properties used for banking activities.
Property, plant and equipment also includes buildings owned by the Group totalling € 6.7 million for which preliminary sale contracts have been signed at the reporting date.

Section 13 – Other assets
Caption 130

13.1 Other assets: breakdown

	31.12.2020	31.12.2019
Taxes withheld on interest, withholdings and tax credits on dividends, advance taxation	147,030	146,997
Amounts recoverable from the tax authorities for higher taxes paid for previous years and related accrued interest (different from income taxes)	5,415	6,338
Sundry amounts to be charged to customers	126,088	163,288
Bank charges to be debited to customers or banks	78,109	60,148
Cheques being processed	22	115
Cheques drawn on other banks	89,134	112,966
Items relating to securities transactions	86,200	137,480
Leasehold improvement expenditure	8,443	11,125
Gold, silver and precious metals	1,526	1,908
Accrued income and prepaid expenses	14,523	12,704
Other items for sundry purposes	108,908	127,628
Total	**665,398**	**780,697**

From the analysis carried out in the Group for the purposes of IFRS 15, no contract assets have been identified.

Liabilities

Section 1 – Financial liabilities measured at amortised cost
Caption 10

1.1 Financial liabilities measured at amortised cost: breakdown by product of due to banks

Type of transaction/Amounts	Total 31.12.2020				Total 31.12.2019			
	B V	Fair Value			B V	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to Central Banks	**16,873,779**	X	X	X	**9,542,136**	X	X	X
2. Due to banks	**3,307,220**	X	X	X	**2,670,997**	X	X	X
2.1 Other current accounts and demand deposits	192,442	X	X	X	158,545	X	X	X
2.2 Time deposits	3,034	X	X	X	5,799	X	X	X
2.3 Loans	3,108,927	X	X	X	2,502,711	X	X	X
2.3.1 Repurchase agreements	2,735,967	X	X	X	2,067,901	X	X	X
2.3.2 Others	372,960	X	X	X	434,810	X	X	X
2.4 Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease payables	1,520	X	X	X	1,901	X	X	X
2.6 Other payables	1,297	X	X	X	2,041	X	X	X
Total	**20,180,999**	**-**	**-**	**20,180,999**	**12,213,133**	**-**	**-**	**12,213,133**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of Explanatory Notes in chapter "Techniques for the determination of fair value".
The fair value is assumed to be the same as the book value since they are sight or short-term transactions, mainly at floating rates.

Key:
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

1.2 Financial liabilities measured at amortised cost: breakdown by product of due to customers

Type of transaction/Amounts	Total 31.12.2020				Total 31.12.2019			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	54,973,514	X	X	X	47,592,520	X	X	X
2. Time deposits	145,605	X	X	X	954,062	X	X	X
3. Loans	2,023,352	X	X	X	2,170,814	X	X	X
3.1 Repurchase agreements	149,286	X	X	X	238,736	X	X	X
3.2 Other	1,874,066	X	X	X	1,932,078	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease payables	256,073	X	X	X	305,008	X	X	X
6. Other payables	915,458	X	X	X	1,064,836	X	X	X
Total	**58,314,002**	**-**	**-**	**58,314,002**	**52,087,240**	**-**	**-**	**52,087,240**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of Explanatory Notes in chapter "Techniques for the determination of fair value".
The fair value is assumed to be the same as the book value since they are sight or short-term transactions, mainly at floating rates.

Key:
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

1.3 Financial liabilities measured at amortised cost: breakdown by product of debt securities issued

Type of transaction/Amounts	Total 31.12.2020				Total 31.12.2019			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	4,385,826	3,410,099	1,093,181	-	5,089,892	3,231,215	1,989,707	430
1.1 structured	-	-	-	-	-	-	-	-
1,2 others	4,385,826	3,410,099	1,093,181	-	5,089,892	3,231,215	1,989,707	430
2. other securities	296,364	-	2,192	294,205	744,997	-	36,767	708,456
2.1 structured	2,175	-	2,192	-	36,541	-	36,767	-
2.2 others	294,189	-	-	294,205	708,456	-	-	708,456
Total	**4,682,190**	**3,410,099**	**1,095,373**	**294,205**	**5,834,889**	**3,231,215**	**2,026,474**	**708,886**

"Bonds" include € 926,443 thousand of subordinated loans, none of which are convertible into shares.
In the "Level 3" column of point 2.2, the fair value is assumed to be the same as the book value as these are short-term transactions.
An explanation of the fair value hierarchy used for classification has been given in Part A.4 of Explanatory Notes in chapter "Techniques for the determination of fair value".

Key:
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

1.4 Breakdown of subordinated securities

	Book value 31.12.2020	Nominal value 31.12.2020	Book value 31.12.2019	Nominal value 31.12.2019
B.P.E.R. Lower Tier II subordinated non-convertible bond 5.81%, 2013-2020	-	-	2,513	2,389
B.P.E.R. Tier II subordinated non-convertible bond 4.25%, 2015-2025 callable	-	-	225,271	224,855
BPER Banca Tier II subordinated non-convertible bond 4.60%, 2016-2026 callable	12,024	12,000	12,023	12,000
BPER Banca EMTN Tier II subordinated non-convertible bond 5.125%, 2017-2027 callable	513,490	500,000	513,252	500,000
BPER Banca EMTN Tier II subordinated non-convertible bond 3.625%, 2020-2030 callable	399,513	400,000	-	-
Cassa di Risparmio di Bra s.p.a. Lower Tier II subordinated bond fixed-rate, 2011-2021 with amortising nom. 7,000,000	1,416	1,400	2,831	2,800
Cassa di Risparmio di Bra s.p.a. subordinated bond 5.25%, 2012-2020 with amortising	-	-	1,020	1,000
CARISPAQ Lower Tier II subordinated non-convertible bond floating rate, 2010-2020	-	-	4,267	4,250
Total non-convertible bonds	**926,443**	**913,400**	**761,177**	**747,294**
Total bonds	**926,443**	**913,400**	**761,177**	**747,294**

There are no convertible subordinated bonds outstanding at 31 December 2020 (as was the case in December 2019).

1.5 Breakdown of structured debts

There are no amounts to be disclosed in this section.

1.6 Lease payables

Time bands	Present value 31.12.2020	Present value 31.12.2019
Up to 3 months	14,116	16,144
Over 3 months up to 1 year	40,195	47,335
Over 1 year up to 5 years	159,391	184,422
Over 5 years	43,891	59,008
Total	**257,593**	**306,909**

Section 2 – Financial liabilities held for trading Caption 20

2.1 Financial liabilities held for trading: breakdown by product

Type of transactions/Amounts	Total 31.12.2020					Total 31.12.2019				
	NV	Fair Value			Fair Value *	NV	Fair Value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Other securities	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Others	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivative instruments										
1. Financial derivatives	X	9	161,028	8,445	X	X	1,137	156,674	6,476	X
1.1 Trading	X	9	142,612	8,445	X	X	1,137	134,491	6,476	X
1.2 Connected with the fair value option	X	-	18,333	-	X	X	-	21,017	-	X
1.3 Others	X	-	83	-	X	X	-	1,166	-	X
2. Credit derivatives	X	-	612	-	X	X	-	1,683	-	X
2.1 Trading	X	-	612	-	X	X	-	1,683	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Others	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**9**	**161,640**	**8,445**	**X**	**X**	**1,137**	**158,357**	**6,476**	**X**
Total (A+B)	**X**	**9**	**161,640**	**8,445**	**X**	**X**	**1,137**	**158,357**	**6,476**	**X**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of Explanatory Notes in chapter "Techniques for the determination of fair value".

Key:
NV = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3
Fair value: Fair value excluding variations due to changes in the creditworthiness of the issuer since the issue date*

2.2 Breakdown of "Financial liabilities held for trading": subordinated liabilities

There are no amounts to be disclosed in this section.

2.3 Breakdown of "Financial liabilities held for trading": structured debts

There are no amounts to be disclosed in this section.

Section 3- Financial liabilities designated at fair value through profit or loss
Caption 30

There are no amounts to be disclosed in this section.

Section 4 – Hedging derivatives
Caption 40

4.1 Hedging derivatives: breakdown by type of hedge and hierarchy levels

	Fair value 31.12.2020			NV	Fair value 31.12.2019			NV
	L1	L2	L3	31.12.2020	L1	L2	L3	31.12.2019
A. Financial derivatives	**-**	**469,240**	**-**	**6,340,719**	**-**	**294,114**	**-**	**5,101,684**
1) Fair value	-	463,255	-	6,290,719	-	288,369	-	5,051,684
2) Cash flows	-	5,985	-	50,000	-	5,745	-	50,000
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**469,240**	**-**	**6,340,719**	**-**	**294,114**	**-**	**5,101,684**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of Explanatory Notes in chapter "Techniques for the determination of fair value".

Key:
NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Operations/Type of hedge	Fair Value							Cash flow		Foreign investments
	Specific						General	Specifica	Generica	
	debt securities and interest rates	equity instruments and stock indexes	currencies and gold	credit	goods	others				
1. Financial assets measured at fair value through other comprehensive income	190,853	1,446	-	-	X	X	X	5,985	X	X
2. Financial assets measured at amortised cost	270,861	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other operations	95	-	-	-	-	-	X	-	X	-
Total assets	**461,809**	**1,446**	**-**	**-**	**-**	**-**	**-**	**5,985**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 5 – Change in value of macro-hedged financial liabilities Caption 50

There are no amounts to be disclosed in this section.

Section 6 – Tax liabilities Caption 60

Please refer to the information provided in section 11 of Assets in Part B.

Section 7 – Liabilities associated with assets classified as held for sale Caption 70

Please refer to information provided in section 12 of Assets in Part B about the Liabilities associated with assets classified as held for sale.

Section 8 – Other liabilities
Caption 80

8.1 Other liabilities: breakdown

	31.12.2020	31.12.2019
Amounts due to banks	44,570	214,677
Amounts due to customers	597,084	612,435
Net adjustments on collection of receivables for third parties	478,839	443,327
Staff emoluments and related social contributions	55,038	58,724
Amounts due to third parties for coupons, securities and dividends to be collected	5,854	42,162
Amounts due to the tax authorities on behalf of customers and personnel	148,667	161,412
Bank transfers for clearance	23,148	18,555
Advances for the purchase of securities	243	47
Due to suppliers	247,132	228,791
Third-part payments as surety for loans	195	126
Repayment to be made to INPS	500	474
Pension fund liabilities	1,639	1,935
Items in transit	50,683	51,049
Accrued expenses and deferred income	25,840	16,550
Other liabilities to third parties	266,390	219,247
Total	**1,945,822**	**2,069,511**

From the analysis carried out by the Group for the purposes of IFRS 15, a single type of contract liability has been identified, amounting to € 11.4 million classified under the caption "Accrued liabilities and deferred income", which refers to the portion of consideration paid in advance by customers for warranty services provided by Group banks for a period of time ("over time performance obligation"), relating to the portion not yet accrued at the end of the period.

Section 9 – Employee termination indemnities
Caption 90

9.1 Employee termination indemnities: annual changes

	31.12.2020	31.12.2019
A. Opening balance	**191,120**	**182,793**
B. Increases	**1,273**	**18,792**
B.1 Provisions for the year	658	1,160
B.2 Other changes	615	17,632
- of which: business combinations	-	10,592
C. Decreases	**44,194**	**10,465**
C.1 Benefits paid	34,602	10,172
C.2 Other changes	9,592	293
D. Closing balance	**148,199**	**191,120**
Total	**148,199**	**191,120**

The caption “Other changes” (C.2) includes the portion of termination indemnities transferred to supplementary pension funds (€ 8,979 thousand).
The caption "Other changes" (B.2) includes € 615 thousand of actuarial losses.

9.2 Other information

The following tables detail the changes in employee termination indemnities, as well as the principal demographic and financial assumptions made in order to quantify the provision using the Projected Unit Credit Method (pursuant to IAS 19R, § 65-67); lastly, table 9.2.3 presents the comparative information required by law.

9.2.1 Changes in employee termination indemnities during the year

Description/Amounts	31.12.2020	31.12.2019
A. Opening balance	**191,120**	**182,793**
B. Increases	**1,273**	**18,792**
1. Pension cost relating to current work	111	207
2. Financial charges	545	953
3. Contribution to the plan by employees	-	-
4. Actuarial losses	615	6,877
5. Exchange differences	-	-
6. Pension cost of prior work	-	-
7. Other changes	2	10,755
C. Decreases	**44,194**	**10,465**
1. Benefits paid	34,603	10,172
2. Pension cost of prior work	-	-
3. Actuarial gains	-	-
4. Exchange differences	-	-
5. Reductions	-	-
6. Positions closed	-	-
7. Other changes	9,591	293
D. Closing balance	**148,199**	**191,120**

The caption “Other changes” (C.7) includes the portion of termination indemnities transferred to complementary pension funds (€ 8,978 thousand).

9.2.2 Description of the main actuarial assumptions

Main actuarial assumptions/Percentages	31.12.2020	31.12.2019
Discount rates	0.00%	0.32%
Expected increase in remuneration	n/a	n/a
Turn Over	1.87%	1.84%
Inflation rate	0.80%	1.20%
Interest rate adopted for the calculation of interest cost	0.33%	0.54%

In addition to the average data included in the table, the approach taken to identify the principal actuarial assumptions is described below:

- Discount rates: the curve of "Euro Composite AA" rates for prime corporate bonds listed in the Euro market on the measurement date has been used.

- Turnover: time series analysis for the period 2014-2016 of the phenomena giving rise to the terminations and adjustments to take account of any "anomalies" that occurred in the past. The assumptions made about turnover took account of grade, seniority, age and gender.
- Inflation rate: a rate of 0.80% was used.
- Net interest cost: it was calculated at a rate that reflected the duration of the liability.

Demographic assumptions.

As regards the demographic bases, the analyses performed on the time series of staff of companies included in the scope of consolidation focused on monitoring the trend in the following reasons for elimination between 2014 and 2016:

- rate of employee mortality: except for the Section A pension fund, for which use was made of table A62, the ISTAT life table of resident population was used, broken down by age and gender, updated as of 2016;
- rate of employee disability: the tables used for the INPS model to generate "Initial prospects for 2010" were used;
- frequency and amount of advances on termination indemnities: in order to take into account the effects that these advances have on the timing of severance payments and, consequently on the discounting of the Company's liability, a probability table for the release of part of the accrued volumes was created. The frequency of advance payments and the average percentage of termination indemnities requested as an advance were taken from corporate data;
- probability of retirement, resignation, dismissal: this was taken from corporate data; in particular, a table showing the propensity of departure from the Company was created, based on age and gender. With regard to retirement, the calculation considered a 100% probability of satisfying the AGO requirements aligned with Decree 4/2019.

9.2.3 Comparative information: history of plan

Description/Amounts	31.12.2020	31.12.2019
1. Present value of provisions (+)	148,199	191,120
2. Fair value of assets servicing the plan (-)	-	-
3. Plan (surplus) deficit (+/-)	148,199	191,120
4. Adjustments to plan liabilities basedon historical experience - actuarial (gains)/losses	615	6,877
5. Adjustments to plan assets based on historical experience	-	-

The "Adjustments to plan assets based on historical experience" solely comprise actuarial gains and losses.

9.2.4 Sensitivity analysis on employee termination indemnities

As required by IAS 19 Revised, we carried out a sensitivity analysis on employee termination indemnities with respect to the more significant actuarial assumptions to show how the liability would change in relation to possible fluctuations in each of these assumptions. In particular, the following table shows how the provision would change in the event of a 50 basis point increase or decrease in the discount and inflation rates compared with the parameters actually used.

Employee termination indemnities	31.12.2020	+50 bps	-50 bps
	DBO	DBO	DBO
discount rates	148,199	144,235	150,033
inflation rate	148,199	151,314	144,629

Section 10 – Provisions for risks and charges Caption 100

10.1 Provisions for risk and charges: breakdown

Descriptions/Values	31.12.2020	31.12.2019
1. Impairment provisions for credit risk related to commitments and financial guarantees granted	41,108	45,844
2. Impairment provisions related to other commitments and guarantees granted	21,226	10,151
3. Provisions for pension benefits	148,357	161,619
4. Other provisions for risk and charges	379,290	458,546
4.1 legal and fiscal disputes	156,124	167,209
4.2 personnel charges	182,931	239,609
4.3 others	40,235	51,728
Total	**589,981**	**676,160**

10.2 Provisions for risks and charges: annual changes

	Impairment provisions related to other commitments and guaratees granted	Provisions for pension benefits	Other provisions for risk and charges	Total
A. Opening balance	**10,151**	**161,619**	**458,546**	**630,316**
B. Increases	**13,884**	**1,273**	**75,880**	**91,037**
B.1 Provisions for the year	13,756	1,273	52,509	67,538
B.2 Time value changes	-	-	176	176
B.3 Changes due to discount rate modifications	-	-	2,013	2,013
B.4 Other changes	128	-	21,182	21,310
C. Decreases	**2,809**	**14,535**	**155,136**	**172,480**
C.1 Uses for the year	2,475	6,894	111,368	120,737
C.2 Changes due to discount rate modifications	-	7,627	-	7,627
C.3 Other changes	334	14	43,768	44,116
D. Closing balance	**21,226**	**148,357**	**379,290**	**548,873**

The changes due to discount rate modifications also include actuarial gains and losses, considering not just interest rate movements, but also other demographic and financial factors, where applicable.

10.3 Impairment provisions for credit risk related to commitments and financial guaratees granted

	Impairment provisions for credit risk related to commitments and financial guaratees granted			
	First stage	Second stage	Third stage	Total
1. Commitments to distribute funds	8,336	1,130	1	9,467
2. Financial guaratees granted	1,148	1,200	29,293	31,641
Total	**9,484**	**2,330**	**29,294**	**41,108**

10.4 Provisions for other commitments and other guarantees granted

This section does not show significance requirements.

10.5 Provisions for pension with defined-benefits

10.5.1 Features of provisions and related risks

The companies contributing to the pension fund are BPER Banca S.p.A., for which reference should be made to the financial statements, and Arca Fondi SGR s.p.a., for which the required information is provided below.

Arca Fondi SGR s.p.a.

The fund recorded by Arca Fondi SGR relates to the guarantee given by the company to the members of the "Obiettivo TFR" section of the pension fund. This fund assures the guaranteed minimum represented by the net contributions paid in, having regard for the changes in yields and actuarial assumptions. The amount of the fund was determined by considering the expected yields on the investments made by the section and demographic assumptions about the death and invalidity of members, using a discounting rate - gross of taxation - that reflects the present value of money and the specific risks associated with the contingent liability.

10.5.2 Changes in the year of net liabilities (assets) with defined-benefits and redemption rights

Description/Amounts	31.12.2020	31.12.2019
Opening balance	**161,619**	**131,126**
A. Increases	**1,273**	**37,214**
1. Pension cost relating to current work	-	-
2. Financial charges	1,273	1,491
3. Contribution to the plan by employees	-	-
4. Actuarial losses	-	34,186
5. Exchange differences	-	-
6. Pension cost of prior work	-	-
7. Other changes	-	1,537
B. Decreases	**14,535**	**6,721**
1. Benefits paid	6,894	6,721
2. Pension cost of prior work	-	-
3. Actuarial gains	7,627	-
4. Exchange differences	-	-
5. Reductions	-	-
6. Positions closed	-	-
7. Other changes	14	-
Closing balance	**148,357**	**161,619**

Actuarial gains are determined by gains from experience due to the significant change in the fund's collective members following the adhesion by many to the staff retirement plan (€ 11.7 million), and by losses from exchange rate assumptions (€ 4.1 million) due to the worsening of the interest rate curve at the reporting date.

10.5.3. Information on fair value of plan assets

As mentioned already, the staff pension funds are in-house defined-benefit plans; the resources to be utilised to cover these liabilities are invested, without separate identification, in operating assets.

10.5.4 Description of the main actuarial assumptions

The demographic assumptions made for the measurement were based on A62 tables to arrive at the probability of death of retired staff by gender.

The financial assumptions adopted were:

- Discount rates: the curve of "Euro Composite AA" rates for prime corporate bonds listed in the Euro market on the measurement date has been used;
- Inflation rate: a fixed rate of 0.8% was used
- Net Interest Cost: it was calculated at a rate that reflected the duration of the liability.

10.5.5. Sensitivity analysis and information on the amount, timing and uncertainty of financial cash flows

As required by IAS 19 Revised, we carried out a sensitivity analysis on the obligation of pension funds with respect to the more significant actuarial assumptions to show how the liability would change in relation to reasonably possible movements in each of these assumptions. The following table shows how the provision would change in the event of a 50 basis point increase or decrease in the discount rate compared with the parameters actually used.

Fund Section A	31.12.2020	+50 bps inflation rate	-50 bps inflation rate
	DBO	DBO	DBO
Bper Banca S.p.A.	147,829	136,566	155,436

In compliance with the requirements of IAS 19 Revised with regard to additional disclosures, an estimate of future cash flows was carried out at 31 December 2020, as shown in the following table:

Future cash-flows

Fund Section A	1st year	2nd year	3rd year	4th year	5th year
Bper Banca S.p.A.	7,574	7,418	7,255	7,083	6,904

10.5.6 Multi-employer plans

At 31 December 2020 there were no multi-employer plans in place.

10.5.7 Defined-benefit plans that share risks between entities under common control

At 31 December 2020 there were no plans of this type.

10.6 Provisions for risks and charges - other provisions

10.6.1 Legal disputes

	31.12.2020	31.12.2019
A. Opening balance	**167,209**	**175,825**
B. Increases	36,766	32,522
Provisions for the year	27,001	30,806
Other increases	9,765	1,716
C. Decreases	47,851	41,138
Other decreases	28,346	15,745
Uses for the year	19,505	25,393
D. Closing balance	**156,124**	**167,209**

Provisions for legal and tax disputes amounted to € 153 million and € 3.1 million respectively.
As regards the provisions set aside for legal disputes, these are mainly to do with relationships with customers arising in the context of banking services (the main types of dispute include compound interest rates, usury, application of the conditions, clawback actions and tax litigation).
In relation to existing disputes for which no provision has been made, against a risk estimate that is merely possible, an update of the main risk situations is presented below.

- BPER Banca (former Cassa di Risparmio dell'Aquila) - Investigation into what the media have labelled the "Truffa dei Parioli"

As regards what the media have labelled the "Truffa dei Parioli", in the civil case brought by the alleged victims, the Bank is defended by a special team of lawyers formed and coordinated by Prof. Francesco Astone of Rome. At present, there are 23 judgements in first instance pending before the Court of Rome, while for other 54 judgements the sentence has already been issued. With the first ruling, in chronological order, BPER Banca was sentenced to pay limited damages of Euro 16 thousand. Against this decision, the reasons for which appear to be groundless, an appeal was filed by the Bank to have it reversed. The subsequent rulings have all rejected the applications with, in some cases, the plaintiffs being required to pay the litigation expenses incurred by the Bank. The respective plaintiffs have appealed to the Civil Court of Appeal of Rome against twenty-one rulings that were in favour of the Bank. In this regard, it should be noted that the Rome Court of Appeal has already sentenced in favour of the Bank on three of the appeals, completely rejecting the claims of other party and confirming the orientation taken by the Judge of first instance who maintained that BPER Banca was not liable for the claims made by investors who felt they had been defrauded. Given the above, it was decided not to make any provision.

- Banco di Sardegna - Tax disputes and audits by the Tax Authorities

No materially significant notices of assessment or dispute were received during the year. Nor are there any disputes that could affect the results or financial position of Banco di Sardegna.
The Regional Directorate of Sardinia of the Revenue Agency, on 11 February 2020, began performing tax audits on 2017. This activity was suspended due to the health emergency until 31 December 2020 and resumed on 1 January 2021.

o Banco di Sardegna - Disclosure relating to Istituto per il Credito Sportivo

In relation to the dispute with Istituto di Credito Sportivo concerning the reimbursement of profits for the years 2005-2010, in 2020 there were no significant events. At the hearing on 28 January 2020, the parties produced supporting documentation and the judgement was postponed to 10 March 2020 to allow it to be examined; the hearing was not held as it was postponed due to the Covid-19 health emergency.
At the hearing on 24 November 2020, the judge reserved judgement on Banco di Sardegna's request to suspend the trial.

o BPER Banca (formerly Emro Finance Ireland Ltd) - tax years 2005-2009

At the date these financial statements were being prepared, the Bologna Regional Tax Commission had ruled partially in favour of the appeal filed by the Tax Authorities to overturn the first-level ruling, which was entirely favourable to the taxpayer.
On 13 June 2018 the Bank appealed to the Court of Cassation, in the absolute conviction that it had acted properly.
In the meantime, the Commission accepted the Bank's request to suspend the enforceability of the second-level sentence.
Also in light of the fiscal opinion issued by professionals and advisors with proven experience who do not consider the risk of losing as probable, at the date of preparation of these financial statements no amount was set aside in the provisions for risks and charges, but a provision for the estimated legal fees was recorded.

10.6.2 Personnel charges

Description/Amounts	Other personnel provisions	
	31.12.2020	31.12.2019
Opening balance	**239,609**	**68,392**
Change in opening balances	-	-
A. Increases	**23,576**	**212,750**
1. Pension cost relating to current work	17,558	156,224
2. Financial cherges	176	214
3. Contribution to the plan by employees	-	-
4. Actuarial losses	2,013	1,830
5. Exchange differences	-	-
6. Pension cost of prior work	-	-
7. Other changes	3,829	54,482
B. Decreases	**80,254**	**41,533**
1. Benefits paid	78,315	38,844
2. Pension cost of prior work	-	-
3. Actuarial gains	-	34
4. Exchange differences	-	-
5. Reductions	-	-
6. Positions closed	-	-
7. Other changes	1,939	2,655
Closing balance	**182,931**	**239,609**

The "Actuarial losses" relate to the "Service Award", € 1,021 thousand, the "Special long-service payment on termination", € 809 thousand, and the "Provision for additional death cover", € 101 thousand and to the "Special one-time long-service payment on termination", € 82 thousand.

10.6.3 Other provisions

Captions	31.12.2020		31.12.2019	
	Other provisions	Provision for charitable donations	Other provisions	Provision for charitable donations
A. Opening balance	**51,669**	**59**	**30,990**	**559**
B. Provisions	15,336	-	38,014	-
C. Uses	(26,789)	(40)	(17,335)	(500)
D. Closing balance	**40,216**	**19**	**51,669**	**59**

Section 11 – Technical reserves Caption 110

There are no amounts to be disclosed in this section.

Section 12 – Redeemable shares Caption 130

There are no amounts to be disclosed in this section.

Section 13 – Shareholders' equity
Captions 120, 130, 140, 150, 160, 170 and 180

13.1 "Share capital" and "Treasury shares": breakdown

"Share capital" caption relates solely to the Parent Company. It consists solely of ordinary shares with no par value, fully subscribed and paid.
There are 455,458 treasury shares in the Parent Company's portfolio amounting to Euro 7,253 thousand. There are also 62,168 shares relating to Banca di Sassari s.p.a., held by it, for a total of about Euro 6 thousand.

13.2 Share capital – Parent Company's number of shares: annual changes

Descriptions/Types	Ordinaries	Others
A. Initial number of shares	**520,627,948**	**-**
- fully paid-in	520,627,948	-
- not fully paid-in	-	-
A.1 Treasury shares (-)	(455,458)	-
A.2 Shares outstanding: opening balance	**520,172,490**	**-**
B. Increases	**892,635,564**	**-**
B.1 New issues	892,635,564	-
- against payment:	892,635,564	-
- business combination transaction	-	-
- conversion of bonds	-	-
- esxercise of warrants	-	-
- others	892,635,564	-
- for free:	-	-
- to employees	-	-
- to directors	-	-
- others	-	-
B.2 Sales of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Business disposal transactions	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balance	**1,412,808,054**	**-**
D.1 Treasury shares (+)	455,458	-
D.2 Final number of shares	1,413,263,512	-
- fully paid-in	1,413,263,512	-
- not fully paid-in	-	-

Caption B.1 New Issues, comprises the new shares issued by BPER Banca following:
- the absorption of Cassa di Risparmio di Bra s.p.a. by issuing 1,237,500 new ordinary shares that were allocated to the minority shareholders of the merged company;
- execution of the increase in capital to finance the project for the acquisition of a business complex split into three business units from the Intesa Sanpaolo Group, which led to the issue of 891,398,064 BPER ordinary shares, with full rights and the same characteristics as the shares currently outstanding.
Further information about these two operations is presented in section 3.1 "Significant events and strategic transactions" of the Directors' Report on Group Operations.

13.3 Share capital: other information

The Parent Company BPER Banca's share capital is represented solely by ordinary shares; such shares are not subject to rights, privileges or restrictions.

13.4 Reserves from profits: other information

Reserves from profits are generally established when the profit shown in the financial statements is specifically allocated to reserves.
The Italian Civil Code obliges companies to set aside at least 5% of their profit for the year to a special reserve until it reaches one-fifth of the share capital. If, for whatever reason, the amount of the legal reserve falls below this limit of one-fifth of share capital, it has to be reinstated by setting aside at least one-twentieth of the profit until the shortfall is covered.
This caption also includes the consolidation reserves generated following the elimination of the book value of equity investments against the corresponding portion of equity of each of them.
Lastly, this caption includes any effects deriving from the first-time application of new international accounting standards.
The reserves can be used for different operations, depending on their constraints and nature; for the disclosures envisaged in art. 2427 paragraph 7 bis of the Italian Civil Code, please refer to the information provided in the Parent Company's separate financial statements.

13.5 Equity instruments: breakdown and annual changes

Issuer	Interest rate	Step up	Issue date	Maturity date	Currency	Nominal Value (in Euro)
BPER Banca	8.75% fixed rate (up to the first Reset Date)	NO	25.07.2019	perpetual	Eur	150,000,000

During the year, the “Additional Tier 1” convertible bond did not show any changes.

13.6 Other information

There are no amounts to be disclosed other than those already provided in this section.

Section 14 – Minority interests Caption 190

14.1 Breakdown of caption 190 "Minority interests"

Company name	31.12.2020	31.12.2019
Equity investments in consolidated companies with significant minority interests	**133,339**	**131,655**
1. Banco di Sardegna	7,902	11,482
2. Cassa di Risparmio di Bra s.p.a. (*)	-	11,348
3. Bibanca s.p.a.	4,954	5,138
4. Arca Holding (**)	118,288	97,188
5. Emilia Romagna Factor s.p.a.	1,299	5,379
6. Sardaleasing s.p.a.	896	1,120
Other equity investments	**596**	**7**
Total	**133,935**	**131,662**

(*) merged for absorption by BPER on 27 July 2020.
(**) consolidation of the sub-holding company Arca Holding and its wholly-owned subsidiary, Arca Fondi SGR s.p.a.

To determine the relevance of minority interests, see Part A of these Explanatory notes.
Minority interests not considered significant have been recognised under "Other equity investments".

14.2 Equity instruments: breakdown and change in year

There are no amounts to be disclosed in this section.

Other information

1. Commitments and financial guarantees granted

	Nominal value on commitments and financial guarantees granted			Total 31.12.2020	Total 31.12.2019
	First stage	Second stage	Third stage		
Commitments to distribute funds	**19,162,741**	**1,210,226**	**303,771**	**20,676,738**	**18,077,187**
a) Central Banks	-	-	-	-	-
b) Public Administrations	447,469	139,020	40,449	626,938	803,638
c) Banks	1,000,948	-	-	1,000,948	769,834
d) Other financial companies	1,030,463	58,315	9,807	1,098,585	1,067,409
e) Non-financial companies	13,647,826	835,117	244,607	14,727,550	14,211,546
f) Households	3,036,035	177,774	8,908	3,222,717	1,224,760
Financial guarantees granted	**592,660**	**31,369**	**33,450**	**657,479**	**815,780**
a) Central Banks	-	-	-	-	-
b) Public Administrations	3,224	-	-	3,224	2,424
c) Banks	22,547	-	-	22,547	22,556
d) Other financial companies	310,870	38	39	310,947	311,480
e) Non-financial companies	228,553	28,453	32,111	289,117	444,321
f) Households	27,466	2,878	1,300	31,644	34,999

2. Other commitments and other guarantees granted

	Nominal value	
	31.12.2020	31.12.2019
Other guarantees granted	**2,430,394**	**2,528,958**
of which: non performing exposures	65,451	78,036
a) Central Banks	-	-
b) Public Administrations	4,922	5,005
c) Banks	187,357	150,755
d) Other financial companies	67,157	77,341
e) Non-financial companies	2,071,004	2,188,161
f) Households	99,954	107,696
Other commitments	**11,000**	**-**
of which: non performing exposures	-	-
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	11,000	-
e) Non-financial companies	-	-
f) Households	-	-

3. Assets pledged as collateral of own liabilities and commitments

Portfolios	Amounts 31.12.2020	Amounts 31.12.2019
1. Financial assets measured at fair value through profit or loss	203,521	44,250
2. Financial assets measured to fair value through other comprehensive income	3,929,470	4,082,914
3. Financial assets measured at amortized cost	26,366,968	17,901,566
4. Property, plant and equipment	-	-
of which: inventories of property, plant and equipmet	-	-

Type of assets pledged as collateral of own liabilities and commitments

	31.12.2020	31.12.2019
1. Assets sold as part of Covered Bonds operations	2,276,065	3,329,951
2. Securities and deposits pledged as collateral for derivative transactions	932,487	624,299
3. Securities pledged as collateral for securitisations	718,859	10,057
4. Securities pledged as collateral for treasury transactions	10,051,448	4,235,158
5. Loans pledged as collateral for treasury transactions	12,782,052	10,579,424
6. Securities guaranteeing the issue of bankers' drafts	18,394	12,087
7. Securities and deposits pledged as collateral for repurchase agreements	2,904,415	2,327,348
8. Loans pledged as collateral for the related funding	244,989	343
9. Securities pledged as collateral for the subsidised loans funding	571,250	567,070

The amounts indicated in point 5 "Loans pledged as collateral for treasury transactions" include, in addition to A.BA.CO operations:
- € 7,225,158 thousand relating to mortgage loans sold as part of covered bond issues,
- € 320,386 thousand relating to leases sold as part of the Multi Lease self-securitisation transaction (Sardaleasing).
Operationally, the instruments provided as collateral are represented by the Senior Notes originated by the transactions.

4. Breakdown of investments for unit-linked and index-linked policies

There are no amounts to be disclosed in this section.

5. Management and dealing on behalf of third parties

Type of service	Total
1. Trading on behalf of customers	**-**
a) purchases	-
1. settled	-
2. non - settled	-
b) sales	-
1. settled	-
2. non - settled	-
2. Portfolios management	**29,796,041**
a) individuals	3,483,482
b) collectives	26,312,559
3. Custody and administration of securities	**191,963,183**
a) third party securities held in deposit: related to depositary bank activities (excluding portfolio management)	-
1. Bonds issued by companies included in consolidation process	-
2. other securities	-
b) third party securities held in deposit (excluding portfolio management): others	80,998,888
1. Bonds issued by companies included in consolidation process	3,455,321
2. other securities	77,543,567
c) third party securities deposited with third parties	79,925,135
d) own portfolio securities deposited with third parties	31,039,160
4. Other transactions	**16,494,226**

6. Financial assets subject to offsetting in financial statements or subject to netting framework arrangements or similar agreements

Types		Gross amount of financial assets (a)	Amount of financial liabilities offset in the balance sheet (b)	Net amount of financial assets shown in balance sheet (c=a-b)	Related amounts not subject to offsetting in balance sheet		Net amounts (f=c-d-e)	Net amounts (f=c-d-e)
					Financial instruments (d)	Cash deposit pledged as collateral (a)	31.12.2020	31.12.2019
1. Derivatives		131,725	-	131,725	112,853	561	18,311	8,189
2. Repurchase agreements		83,949	-	83,949	83,949	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Others		-	-	-	-	-	-	-
Total	**31.12.2020**	215,674	-	215,674	196,802	561	18,311	X
Total	**31.12.2019**	763,378	-	763,378	750,998	4,191	X	8,189

The amounts shown in the table relate to standard master agreements such as ISDA (International Swaps and Derivatives Association) and CSA (Credit Support Annex) agreements for derivatives and GMRA (Global Master Repurchase Agreement) for repurchase agreement transactions.
Under the agreements executed using the ISDA standard, offsetting of OTC derivative contracts is permitted in the event of default of either party to the agreement and, for almost all institutional counterparties, the terms of the CSA provide for cash collateral that is revised daily based on the contracts' underlying value.
Repurchase agreement transactions entered into with institutional counterparties are governed by the GMRA standard, which, in addition to the delivery of the securities pertaining to the transactions, provide for cash collateral that is revised daily based on the value of the securities.
None of the amounts shown has been offset in the financial statements as the amounts in question do not meet the requirements of paragraph 42 of IAS 32.
The gross amounts (a) shown in the table relating to Derivatives are recorded under caption 20 a) "Financial assets measured at fair value through profit or loss - Financial assets held for trading" for € 74,030 thousand and under caption 50 "Hedging derivatives" for € 57,695 thousand; the related financial instruments (d) consist of derivatives recorded under caption 20 "Financial liabilities held for trading" and under caption 40 "Hedging derivatives", whereas cash deposits received (e) are recorded under caption 10 a) "Due to banks" and caption 10 b) "Due to customers".
The gross amounts (a) shown in the table relating to repurchase agreement transactions are recorded under caption 40 "Financial assets measured at amortised cost - Loans to customers" for an amount of € 83,949 thousand; The related financial instruments (d) represent the value of the securities pertaining to the transactions, whereas cash deposits received (e) are recorded under caption 10 a) "Due to banks" and 10 b) "Due to customers".

7. Financial liabilities subject to offsetting in financial statements or subject to netting framework arrangements or similar agreements

Types		Gross amount of the financial liabilities (a)	Amount of financial assets offset in the balance sheet (b)	Net amount of financial liabilities shown in balance sheet (c=a-b)	Related amounts not subject to offsetting in balance sheet		Net amount (f=c-d-e)	Net amount (f=c-d-e)
					Financial instruments (d)	Cash deposit pledged as collateral (e)	31.12.2020	31.12.2019
1. Derivatives		618,085	-	618,085	112,853	500,338	4,894	1,215
2. Repurchase agreements		2,885,253	-	2,885,253	2,881,083	1,655	2,515	917
3. Securities lending		-	-	-	-	-	-	-
4. Other operations		-	-	-	-	-	-	-
Total	**31.12.2020**	3,503,338	-	3,503,338	2,993,936	501,993	7,409	X
Total	**31.12.2019**	2,761,753	-	2,761,753	2,464,346	295,275	X	2,132

None of the amounts shown has been offset in the financial statements as the amounts in question do not meet the requirements of paragraph 42 of IAS 32.
The gross amounts (a) shown in the table relate to € 161,638 thousand of derivatives recorded under caption 20 "Financial liabilities held for trading" and € 456,447 thousand recorded under caption 50 "Hedging derivatives; the related financial instruments (d) consist of derivatives recorded under caption 20 a) "Financial assets measured at fair value through profit or loss - Financial assets held for trading" and under caption 50 "Hedging derivatives", whereas cash deposits made (e) are recorded under caption 40 a) "Due from banks" and caption 40 b) "Loans to customers".
The gross amounts (a) shown in the table relating to repurchase agreement transactions are recorded under caption 10 a) "Due to banks" for an amount of € 2,735,967 thousand and under caption 10 b) "Due to customers" for an amount of € 149,286 thousand; related financial instruments (d) represent the value of the securities pertaining to the transactions, whereas cash deposits made (e) are recorded under caption 40 a) "Due from banks" and 40 b) "Loans to customers".

8. Security loans

There are no amounts to be disclosed in this section.

9. Disclosure on joint control activities

There are no amounts to be disclosed in this section.

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Part C – Information on the consolidated income statement

Section 1 – Interest
Captions 10 and 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	Total 31.12.2020	Total 31.12.2019
1. Financial assets measured at fair value through profit or loss:	**7,079**	**520**	**-**	**7,599**	**21,979**
1.1 Financial assets held for trading	1,011	-	-	1,011	1,105
1.2 Financial assets designated at fair value	3,307	-	-	3,307	14,159
1.3 Other financial assets mandatorily measured at fair value	2,761	520	-	3,281	6,715
2. Financial assets measured at fair value through other comprehensive income	**55,801**	**-**	**X**	**55,801**	**91,175**
3. Financial assets measured at amortised cost:	**114,904**	**1,178,717**	**X**	**1,293,621**	**1,303,676**
3.1 Loans to banks	22,940	2,192	X	25,132	27,536
3.2 Loans to customers	91,964	1,176,525	X	1,268,489	1,276,140
4. Hedging derivatives	**X**	**X**	**(32,552)**	**(32,552)**	**(44,002)**
5. Other assets	**X**	**X**	**461**	**461**	**552**
6. Financial liabilities	**X**	**X**	**X**	**106,179**	**46,387**
Total	**177,784**	**1,179,237**	**(32,091)**	**1,431,109**	**1,419,767**
of which: interest income on impaired financial assets	1	101,314	-	101,315	131,879
of which: interest income on finance lease	-	61,643	-	61,643	62,738

Caption 6. "Financial liabilities" includes interest (at negative rates) deriving from participation in the TLTRO II refinancing operations (repaid on 24 June 2020) for Euro 18.9 million and TLTRO III, for Euro 80.8 million. The latter component reflects the accrued interest calculated by applying the rate set by the ECB at -1%, i.e. equal to the prevailing rate of the main refinancing operations during the respective TLTRO-III, to which a further reduction of 50 bps was applied (scheduled for the period 24 June 2020 - 23 June 2021), as the Group reckons that it will achieve the objectives set as of 31 March 2021 in terms of new eligible loans (or "lending performance").

1.2 Interest and similar income: other information

1.2.1 Interest income on foreign currency financial assets

Captions	31.12.2020	31.12.2019
Interest income on foreign currency financial assets	(3,688)	8,240

The caption includes flows from derivatives hedging securities shown under assets.

1.3 Interest and similar expense: breakdown

Captions/Technical forms	Loans	Debts securities	Other transactions	Total 31.12.2020	Total 31.12.2019
1. Financial liabilities measured at amortised cost	103,929	83,773	X	187,702	247,928
1.1 Due to central banks	-	X	X	-	-
1.2 Due to banks	19,881	X	X	19,881	48,549
1.3 Due to customers	84,048	X	X	84,048	100,170
1.4 Debt securities issued	X	83,773	X	83,773	99,209
2. Financial liabilities held for trading	10	-	1,603	1,613	12,139
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	553	553	544
5. Hedging derivatives	X	X	(6,276)	(6,276)	(13,827)
6. Financial assets	X	X	X	8,641	8,444
Total	**103,939**	**83,773**	**(4,120)**	**192,233**	**255,228**
of which: interest expense on lease payables	2,225	-	-	2,225	1,834

1.4 Interest and similar expense: other information

1.4.1 Interest expense on foreign currency liabilities

Captions	31.12.2020	31.12.2019
Interest expense on foreign currency liabilities	14,991	46,778

1.5 Differentials on hedging transactions

Captions	Total 31.12.2020	Total 31.12.2019
A. Positive differentials on hedging transactions	58,050	44,247
B. Negative differentials on hedging transactions	(84,326)	(74,422)
C. Balance (A-B)	**(26,276)**	**(30,175)**

Section 2 – Commissions Captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	Total 31.12.2020	Total 31.12.2019
a) guarantees granted	30,335	28,785
b) credit derivatives	-	-
c) management, brokerage and consulting:	637,004	489,780
1. trading on financial instruments	638	455
2. trading on foreign currencies	7,367	9,485
3. portfolio management	361,608	198,810
3.1 individuals	34,663	33,668
3.2 collectives	326,945	165,142
4. custody and administration of securities	36,961	20,882
5. depositary bank	-	-
6. placement of securities	106,716	133,996
7. order taking and trasmission	12,957	12,652
8. advisory services	5,064	7,101
8.1 on investments	-	-
8.2 on financial structure	5,064	7,101
9. distribution of third-party services	105,693	106,399
9.1 portfolio management	360	1,446
9.1.1 individuals	-	-
9.1.2 collectives	360	1,446
9.2 insurance products	74,813	72,686
9.3 other products	30,520	32,267
d) collection and payments services	136,766	139,684
e) services related to securitisations	66	28
f) services for factoring transactions	9,734	10,382
g) tax collection services	-	-
h) management of multilateral trading system	-	-
i) maintenance and management of current accounts	198,642	176,558
j) other services	234,328	197,783
1. commissions income on other loans to customers	163,855	131,460
2. commissions income on pos and pagobancomat services	29,387	28,217
3. other commisions income	41,086	38,106
Total	**1,246,875**	**1,043,000**

With respect to the qualitative information on the types of revenue from relations with customers falling within the scope regulated by IFRS 15, please refer to the contents of Part L of these Explanatory Notes.

2.2 Commission expense: breakdown

Type of services/Amounts	Total 31.12.2020	Total 31.12.2019
a) guarantees received	1,224	1,103
b) credit derivatives	-	-
c) management and brokerage services	133,541	71,253
1.trading on financial instruments	1,186	622
2. trading on foreign currencies	4	-
3. portfolio management:	118,867	63,172
3.1 own portfolios	118,814	63,172
3.2 third party portfolios	53	-
4. custody and administration of securities	4,225	2,712
5. placement of financial instruments	14	96
6. out-of-branche offer of securities, financial instruments, products and services	9,245	4,651
d) collection and payment services	5,059	5,751
e) other services	34,537	32,943
Total	**174,361**	**111,050**

The commission expense from the management of own portfolios includes the commissions recognised by Arca Fondi SGR to external intermediaries.

Section 3 – Dividends and similar income Caption 70

3.1 Dividends and similar income: breakdown

Captions/Income	Total 31.12.2020		Total 31.12.2019	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	494	-	2,695	-
B. Other financial assets mandatorily measured at fair value	941	5,348	191	3,685
C. Financial assets measured at fair value through other comprehensive income	11,709	-	7,530	-
D. Equity investments	-	-	-	-
Total	**13,144**	**5,348**	**10,416**	**3,685**

Section 4 – Net income from trading activities Caption 80

4.1 Net income from trading activities: breakdown

Transactions /Income items	Capital gains (A)	Profits on trading (B)	Capital losses (C)	Losses on trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**10,291**	**3,817**	**(4,100)**	**(10,865)**	**(857)**
1.1 Debt securities	4,049	2,188	(684)	(2,916)	2,637
1.2 Equity instruments	6,242	1,629	(3,416)	(7,949)	(3,494)
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Others	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Debts	-	-	-	-	-
2.3 Others	-	-	-	-	-
3. Financial assets and liabilities: exchange	**X**	**X**	**X**	**X**	**1,501**
4. Derivative instruments	**57,925**	**123,055**	**(43,970)**	**(156,126)**	**(14,864)**
4.1 Financial derivatives:	57,925	120,341	(43,687)	(155,026)	(16,195)
- on debt securities and interest rates	57,585	99,842	(42,715)	(127,587)	(12,875)
- on equities and stock indexes	340	13,154	(972)	(14,894)	(2,372)
- on currency and gold	X	X	X	X	4,252
- others	-	7,345	-	(12,545)	(5,200)
4.2 Credit derivatives	-	2,714	(283)	(1,100)	1,331
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	**68,216**	**126,872**	**(48,070)**	**(166,991)**	**(14,220)**

Section 5 – Net income from hedging activities Caption 90

5.1 Net income from hedging activities: breakdown

Income items/Amounts	Total 31.12.2020	Total 31.12.2019
A. Income from:		
A.1 Fair value hedging derivatives	20,204	56,013
A.2 Hedged financial assets (fair value)	217,307	224,833
A.3 Hedged financial liabilities (fair value)	944	2,628
A.4 Cash-flow hedging derivatives	24	-
A.5 Foreign currency assets and liabilities	-	-
Total income from hedging activity (A)	**238,479**	**283,474**
B. Charges from:		
B.1 Fair value hedges	221,705	230,705
B.2 Hedged financial assets (fair value)	754	36,570
B.3 Hedged financial liabilities (fair value)	16,649	17,742
B.4 Cash-flow hedging derivatives	24	3
B.5 Foreign currency assets and liabilities	-	-
Total charges from hedging activity (B)	**239,132**	**285,020**
C. Net income from hedging activities (A-B)	**(653)**	**(1,546)**
of which: result of hedging on net positions	-	-

Section 6 – Gains (Losses) on disposal or repurchase Caption 100

6.1 Gains (Losses) on disposal or repurchase: breakdown

Captions/Income items	Total 31.12.2020			Total 31.12.2019		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets measured at amortised cost	157,863	(27,350)	130,513	101,224	(62,514)	38,710
1.1 Loans to banks	6,397	(1)	6,396	3,081	(92)	2,989
1.2 Loans to customers	151,466	(27,349)	124,117	98,143	(62,422)	35,721
2. Financial assets measured at fair value through other comprehensive income	10,669	(313)	10,356	77,980	(316)	77,664
2.1 Debt securities	10,669	(313)	10,356	77,980	(316)	77,664
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**168,532**	**(27,663)**	**140,869**	**179,204**	**(62,830)**	**116,374**
Financial liabilities measured at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	1,425	(1,112)	313	895	(669)	226
Total liabilities (B)	**1,425**	**(1,112)**	**313**	**895**	**(669)**	**226**

The net result from "Financial assets measured at amortised cost" relating to customers includes the net profit on the sale of debt securities, € 151.9 million, and net losses on the disposal of loans, € 21.4 million.
The gains realised on the FVOCI portfolio mainly relate to the disposal of debt securities classified in the HTC&S portfolio.

Section 7 – Net income on financial assets and liabilities measured at fair value through profit or loss
Caption 110

7.1 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown on financial assets and liabilities designated at fair value

Transactions / Income items	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**-**	**-**	**(3,683)**	**-**	**(3,683)**
1.1 Debt securities	-	-	(3,683)	-	(3,683)
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities issued	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Foreign currency financial assets and liabilities: exchange differences	X	X	X	X	**-**
Total	**-**	**-**	**(3,683)**	**-**	**(3,683)**

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Income items	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net Result [(A+B) - (C+D)]
1. Financial assets	**32,164**	**5,112**	**(16,652)**	**(4,278)**	**16,346**
1.1 Debt securities	355	2,214	(4,191)	(1,137)	(2,759)
1.2 Equity securities	20,994	547	(367)	(479)	20,695
1.3 UCITS units	10,815	2,351	(12,094)	(2,662)	(1,590)
1.4 Loans	-	-	-	-	-
2. Foreign currency financial assets: exchange differences	X	X	X	X	**(807)**
Total	**32,164**	**5,112**	**(16,652)**	**(4,278)**	**15,539**

Section 8 – Net impairment losses for credit risk Caption 130

8.1 Net impairment losses for credit risk relating to financial assets measured at amortised cost: breakdown

Transactions/Income items	Impairment losses (1)			Write - backs (2)		Total	Total
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Others			31.12.2020	31.12.2019
A. Loans to banks	(5,727)	-	-	1	-	(5,726)	(2,612)
- Loans	(5,024)	-	-	1	-	(5,023)	(1,996)
- Debt securities	(703)	-	-	-	-	(703)	(616)
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
B. Loans to customers	(57,236)	(43,805)	(697,031)	12,307	249,614	(536,151)	(444,935)
- Loans	(55,689)	(43,805)	(697,031)	12,306	249,614	(534,605)	(444,818)
- Debt securities	(1,547)	-	-	1	-	(1,546)	(117)
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
Total	**(62,963)**	**(43,805)**	**(697,031)**	**12,308**	**249,614**	**(541,877)**	**(447,547)**

8.1a Net impairment losses for credit risk relating to loans measured at amortised cost subject to Covid-19 support measures: breakdown

Transactions/Income items	Net impairment losses			Total
	First and second stage	Third stage		
		Write-off	Others	31.12.2020
1. Loans subject to forbearance measures compliant with GL	(9,545)	-	-	(9,545)
2. Loans subject to other forbearance measures	253	-	(82)	171
3. New loans	(2,521)	-	(280)	(2,801)
Totale	**(11,813)**	**-**	**(362)**	**(12,175)**

8.2 Net impairment losses for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income items	Impairment losses (1)			Write - backs (2)		Total	Total
	First and second stage	Third stage		First and second stage	Third stage	31.12.2020	31.12.2019
		Write-off	Others				
A. Debt securities	(375)	-	-	13	-	(362)	1,256
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
Total	**(375)**	**-**	**-**	**13**	**-**	**(362)**	**1,256**

8.2a Net impairment losses for credit risk relating to loans measured at fair value through other comprehensive income subject to Covid-19 support measures: breakdown

No table is provided in these consolidated financial statements as the circumstances do not apply.

Section 9 - Gains (Losses) from contractual modifications without derecognition Caption 140

9.1 Gains (losses) from contractual modifications: compositions

The caption in question includes the economic impact of contractual modifications that do not qualify for derecognition of the assets and which, as a result, entail a change in the related amortised cost based on discounting the new contractual flows at the original Internal Rate of Return (IRR).
The scope of the exposures under consideration is represented by a portion of the forborne exposures (performing and non-performing) or situations in which the contractual modification is linked to the borrower's financial difficulty and does not fall within the concept of a "substantial modification" for the BPER Banca Group.
The impact calculated on the basis of this scope is added to the write-downs envisaged by the Group in application of its own policies for the assessment of performing and non-performing loans and, for the two types of exposures, comes to, respectively, gains of Euro 165 thousand on the performing exposures and losses of Euro 2,306 thousand on the non-performing exposures.

Section 10 – Net insurance premiums Caption 160

There are no amounts to be disclosed in this section.

Section 11 – Other net insurance income (expense) Caption 170

There are no amounts to be disclosed in this section.

Section 12 – Administrative expenses Caption 190

12.1 Staff costs: breakdown

Type of costs/Amounts	Total 31.12.2020	Total 31.12.2019
1) Employees	**943,988**	**1,023,585**
a) wages and salaries	686,331	643,606
b) social security charges	180,437	168,055
c) Termination indemnities	38,322	35,398
d) Pension expenses	576	209
e) provision for employee termination indemnities	658	1,160
f) provision for pension and similar commitments:	1,111	608
- defined contribution plan	-	-
- defined benefit plans	1,111	608
g) payments to external supplementary pension funds:	20,513	18,903
- defined contribution plan	20,513	18,903
- defined benefit plans	-	-
h) costs from share based payments	(356)	836
i) other personnel benefits	16,396	154,810
2) Other not-retired employees	**7,207**	**15,760**
3) Directors and Statutory Auditors	**9,418**	**9,187**
4) Retired employees	**106**	**1,154**
Total	**960,719**	**1,049,686**

12.2 Average number of employees by category

	31.12.2020	31.12.2019
Employees:	**12,710**	**12,192**
a) Managers	254	253
b) Middle managers	4,373	4,147
c) Other employees	8,083	7,792
Other employees	**127**	**287**

12.2.1 Number of employees by category: banking group

	31.12.2020	31.12.2019
Employees:	**13,177**	**13,805**
a) Managers	263	262
b) Total 3rd and 4th level middle managers	1,743	1,876
c) Total 1st and 2nd level middle managers	2,650	2,818
d) Other employees	8,521	8,849
Other employees	**160**	**193**

The number of employees does not include staff on leave.

12.3 Provisions for defined-benefit pension plans: costs and revenues

Type of costs/Amounts	31.12.2020	31.12.2019
Provisions for defined-benefit pension plans	1,111	608

For more information on Defined-benefit pension plans, please refer to Part B of these Explanatory notes, section 10 "Provisions for risks and charges".

12.4 Other benefits for employees

Type of costs/Amounts	31.12.2020	31.12.2019
Other benefits for employees	16,396	154,810

The caption "Other employee benefits" at 31 December 2020 mainly includes insurance premiums for the professional coverage of the staff, lower than the previous year which was affected by the provisions for leaving incentives and the solidarity fund for a total of Euro 136 million, following the signature of the agreement with the Trade Unions on 29 October 2019.

12.5 Other administrative expenses: breakdown

Captions	31.12.2020	31.12.2019
Indirect taxes and duties	**157,185**	**156,395**
Stamp duty	132,873	128,556
Other indirect taxes with right of recourse	8,762	10,279
Municipal property tax	10,478	9,875
Others	5,072	7,685
Other costs	**570,006**	**493,385**
Maintenance and repairs	77,711	70,450
Rental expense	19,565	17,077
Post office, telephone and telegraph	19,049	18,811
Data transmission fees and use of databases	48,282	37,364
Advertising	20,714	19,294
Consulting and other professional services	109,296	92,261
Lease of IT hardware and software	32,505	29,322
Insurance	9,449	7,640
Cleaning of office premises	14,178	9,607
Printing and stationery	9,405	7,363
Energy and fuel	16,870	19,121
Transport	10,046	11,704
Staff training and expense refunds	7,843	13,915
Information and surveys	12,404	11,991
Security	9,256	9,455
Administrative services	15,533	9,182
Use of external data gathering and processing services	14,692	13,805
Membership fees	8,004	9,490
Condominium expenses	5,451	4,059
Contribution to SRF, DGS, IDPF-VS	88,182	60,681
Sundry other	21,571	20,793
Total	**727,191**	**649,780**

The increase in this caption has also been influenced by the health emergency resulting from the Covid-19 pandemic; during the year, expenses were incurred for the purchase of hygiene-sanitary materials, licences and technical support for remote working, advertising, donations and building maintenance directly connected to the emergency. On the other hand, some cost savings were also achieved, compared with budget, in relation to activities suspended or reduced as a result of the emergency (travel, training courses and cash collections).
The caption SRF, DGS, FITD-SV contributions includes the ordinary 2020 contribution to the SRF (European Single Resolution Fund) of € 26 million, the additional contribution requested by the SRF for the year 2018 of € 8.1 million, the contribution to the SRF for the settlement of irrevocable commitments previously guaranteed by cash collateral for a total of € 10.9 million and the ordinary 2020 contribution to the DGS (Deposit Guarantee Fund) of € 43 million.

Section 13 – Net provisions for risks and charges Caption 200

13.1 Net provisions for credit risk on commitments to distribute funds and financial guarantees granted: breakdown

Type of risks and charges	Impairment losses			Write-backs			31.12.2020	31.12.2019
	First stage	Second stage	Third stage	First stage	Second stage	Third stage		
Commitments to distribute funds	(306)	(702)	-	380	-	9	(619)	3,989
Financial guarantees granted	(413)	-	(5,734)	-	1,328	10,058	5,239	5,050
Total	**(719)**	**(702)**	**(5,734)**	**380**	**1,328**	**10,067**	**4,620**	**9,039**

13.2 Net provisions on other commitments and other guarantees granted: breakdown

Type of risks and charges	Impairment losses	Write-backs	31.12.2020	31.12.2019
Other guarantees granted	(11,002)	-	(11,002)	(22)
Other commitments	(2,756)	2,809	53	15
Total	**(13,758)**	**2,809**	**(10,949)**	**(7)**

13.3 Net provisions for other risks and charges: breakdown

Type of risks and charges	31.12.2020	31.12.2019
A. Provisions	**(31,236)**	**(46,946)**
1. for legal disputes	(26,552)	(31,386)
2. other	(4,684)	(15,560)
B. Write-backs	**16,536**	**25,721**
1. for legal disputes	12,142	19,994
2. other	4,394	5,727
Total	**(14,700)**	**(21,225)**

Section 14 – Net adjustments to property, plant and equipment
Caption 210

14.1 Net adjustments to property, plant and equipment: breakdown

Asset/Income items	Depreciation (a)	Impairment losses (b)	Write-backs (c)	Net result (a + b - c)
A. Property, plant and equipment				
1. Used in operations	(101,861)	(5,654)	-	(107,515)
- Owned	(42,484)	(3,725)	-	(46,209)
- Rights of use acquired through	(59,377)	(1,929)	-	(61,306)
2. Held for investment	(4,394)	(6,694)	-	(11,088)
- Owned	(4,394)	(6,694)	-	(11,088)
- Rights of use acquired through	-	-	-	-
3. Inventories	X	(213)	-	(213)
Total	**(106,255)**	**(12,561)**	**-**	**(118,816)**

The amounts recorded under the caption "Impairment losses" relate to the impairment tests carried out in accordance with IAS 36 on certain properties and to the adjustments made to rights of use acquired through leases deriving from the early closure of certain rental contracts.

Section 15 – Net adjustments to intangible assets
Caption 220

15.1 Net adjustments to intangible assets: breakdown

Asset/Income items	Depreciation (a)	Impairment losses (b)	Write-backs (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(59,702)	-	-	(59,702)
- Generated internally by the	-	-	-	-
- Other	(59,702)	-	-	(59,702)
A.2 Rights of use acquired through leases	-	-	-	-
Total	**(59,702)**	**-**	**-**	**(59,702)**

Section 16 – Other operating expense (income) Caption 230

16.1 Other operating expense: breakdown

Description/Amounts	31.12.2020	31.12.2019
Reimbursement of interest for collections and payments settled through the clearing house	2	-
Amortisation of leasehold improvement expenditure	3,679	3,840
Out-of-period expense	1,911	727
Other expense	95,549	76,723
Total	**101,141**	**81,290**

The caption "Other expense" includes losses on revocations and lawsuits (€ 10 million), losses on loss data collection (€ 3 million), operating costs of SPVs (€6.5 million) and expenses for the profit-sharing clause contained in the contract for the purchase of Nuova Carife (€ 11.5 million).

16.2 Other operating income: breakdown

Description/Amounts	31.12.2020	31.12.2019
Rental income	7,139	7,373
Recovery of taxes	139,969	137,269
Other income	123,524	124,996
Total	**270,632**	**269,638**

The caption Other income includes, among others, recoveries for the rapid preliminary investigation commission (€ 13.2 million), write-backs from collection of lawsuits and clawbacks (€ 20.1 million), recoveries on complaints and lawsuits (€ 3.4 million), recoveries of previous years' expenses (€ 9.7 million).

Section 17 –Gains (Losses) of equity investments Caption 250

17.1 Gains (Losses) of equity investments: breakdown

Income items/Amounts	Total 31.12.2020	Total 31.12.2019
1) Companies subject to joint control		
A. Gains	-	-
1. Revaluations	-	-
2. Gains on disposals	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Losses	-	-
1. Write-downs	-	-
2. Impairment losses	-	-
3. Loss from disposals	-	-
4. Other charges	-	-
Net result	**-**	**-**
2) Companies subject to significant influence		
A. Gains	6,437	15,769
1. Revaluations	6,437	15,602
2. Gains on disposals	-	-
3. Writebacks	-	-
4. Other income	-	167
B. Losses	(9,382)	(8,556)
1. Write-downs	(1,163)	-
2. Impairment losses	(8,172)	(8,436)
3. Loss from disposals	(47)	(120)
4. Other charges	-	-
Net result	**(2,945)**	**7,213**
Total	**(2,945)**	**7,213**

The amount shown under "Impairment losses" refers to the outcome of the impairment test on the investments in Cassa di Risparmio di Fossano (€ 6.8 million) and Cassa di Risparmio di Savigliano (€ 1.3 million).
The "Revaluations" and "Write-downs" reflect the results of the companies consolidated using the equity method.

Section 18 – Valuation differences on property, plant and equipment and intangible assets Caption 260

There are no amounts to be disclosed in this section.

Section 19 – Impairment losses on goodwill Caption 270

19.1 Impairment losses on goodwill: breakdown

The impairment test, carried out in accordance with IAS 36, did not identify any need to to record impairment losses on goodwill. For further details on how the impairment test is carried out and the related results, please refer to Part B, Section 10 - Intangible Assets in these Explanatory Notes.

Section 20 – Gains (Losses) on disposal of investments Caption 280

20.1 Gains (Losses) on disposal of investments

Income items/Amounts	Total 31.12.2020	Total 31.12.2019
A. Assets	895	(479)
- Gains on disposal	1,057	1,679
- Losses on disposal	(162)	(2,158)
B. Other assets	(29)	(123)
- Gains on disposal	52	36
- Losses on disposal	(81)	(159)
Net profit	**866**	**(602)**

Section 21 – Income taxes for the year on current operations Caption 300

21.1 Income taxes for the year on current operations: breakdown

Income components/Sectors	Total 31.12.2020	Total 31.12.2019
1. Current tax (-)	(42,691)	(35,769)
2. Change in current tax of prior years (+/-)	2,258	10,524
3. Reduction in current tax for the year (+)	52,971	499
3. bis Reduction in current tax for the year for tax credit pursuant to L. 214/2011 (+)	8,411	-
4. Change in deferred tax assets (+/-)	37,038	(7,227)
5.Change in deferred tax liabilities (+/-)	9,058	9,527
6. Tax for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**67,045**	**(22,446)**

Income taxes for the year were determined by applying the regulations in force at 31 December 2020 and, therefore, considering the changes introduced by the "Cura Italia" Decree, in particular, the transformation into tax credits of the deferred tax assets on tax losses and excess ACE on the disposal of non-performing exposures. The regulation also envisages the transformation of deferred tax assets not already recognised. For the purposes of this transformation, tax losses and excess ACE can be considered up to a maximum of 20% of the nominal value of the loans sold. The positive impact of this transformation on the income statement was Euro 53.0 million.
During the year, pursuant to Decree 185/2008, the Parent Company also stepped up the goodwill allocated to the Arca Holding CGU and the intangible assets deriving from the measurement at fair value of the customer relationships of Unipol Banca, with a positive impact on the income statement of Euro 33.9 million.

21.2 Reconciliation between the theoretical tax charge to total income tax expense for the year

IRES		31.12.2020
Profit (Loss) from current operations before tax		**203,622**
Negative components of the gross result definitively considered not relevant (+)		**53,293**
Non-deductible taxes (other than on income)	5,738	
Administrative expenses of limited deductibility	5,518	
Other non-deductible costs	4,401	
Net provisions for sundry disputes	2,084	
Write-down of property, plant and equipment	11,960	
Impairment of equity investments	3,519	
Other	20,073	
Positive components of the gross result definitively considered not relevant (-)		**(39,607)**
Non-relevant portion of gains on disposal/measurement of securities	(20,183)	
Non-relevant portion of dividends	(17,375)	
Other	(2,049)	
Definitive increases not linked to elements of the gross result (+)		**2,031**
Definitive decreases not linked to elements of the gross result (-)		**(58,398)**
Basis of calculation of IRES shown in the income statement		**160,941**
A.C.E. deduction	(38,047)	
Basis of calculation		**122,894**
IRES tax rate		*27.50%*
Effective IRES		**33,796**
Tax Rate IRES		*16.60%*

IRAP		31.12.2020
Profit (Loss) from current operations before tax		**203,622**
Negative components of the gross result definitively considered not relevant (+)		**154,855**
Non-deductible interest expense	474	
Non-deductible portion of depreciation/amortisation on assets used in business	29,110	
Other non-deductible administrative expenses	74,889	
Staff costs net of permitted deductions	9,309	
Net provisions for risks and charges	16,446	
IMU	9,628	
Losses of equity investments	3,269	
Other	11,730	
Positive components of the gross result definitively considered not relevant (-)		**(42,508)**
Non-relevant portion of dividends	(9,824)	
Other net impairment losses (caption 130 of the income statement)	(1,000)	
Other operating income	(30,016)	
Other	(1,668)	
Definitive increases not linked to elements of the gross result (+)		**130,395**
Negative value of production	129,229	
Other	1,166	
Definitive decreases not linked to elements of the gross result (-)		**(104,454)**
Recovery of non-relevant charges of prior periods	(19,851)	
Other	(84,603)	
Basis of calculation of IRAP shown in the income statement		**341,910**
Weighted average nominal rate of IRAP		*5.57%*
Effective IRAP		**19,044**
Tax rate IRAP		9.35%

Out-of-period IRES and IRAP	31.12.2020
Total impact	**(119,885)**
Impacts of domestic tax group	(18,198)
Conversion of Deferred Tax Assets (DTA) by "Cure Italy" Decree-Law	(52,971)
Tax realignment of goodwill e other property, plant and equipment	(33,908)
Other	(14,808)
Out-of-period IRES and IRAP tax rates and other taxes	*-58.88%*

Total tax on gross result	31.12.2020
IRES + IRAP	**(67,045)**
Overall tax rate	*-32.93%*

Section 22 – Gains (Losses) from non-current assets and disposal groups classified as held for sale after tax
Caption 320

There are no amounts to be disclosed in this section.

Section 23 – Profit (Loss) for the year pertaining to minority interests
Caption 340

23.1 Breakdown of caption 340 "Profit (Loss) pertaining to minority interests"

Company name	31.12.2020	31.12.2019
Consolidated equity investments with significant minority interests	**25,007**	**14,869**
1. Banco di Sardegna	319	4,987
2. Bibanca s.p.a.	287	1,236
3. Cassa di Risparmio di Bra s.p.a. (*)	-	74
4. Arca Holding (**)	24,332	9,217
5. Emilia Romagna Factor s.p.a.	45	211
4. Sardaleasing s.p.a.	24	(856)
Equity investments	**10**	-
Total	**25,017**	**14,869**

(*) merged for absorption by BPER on 27 July 2020.
(**) consolidation of the sub-holding company Arca Holding and its wholly-owned subsidiary, Arca Fondi SGR s.p.a.

To determine the relevance of minority interests, see Part A of these Explanatory notes.
Minority interests not considered significant have been recognised under "Other equity investments".

Section 24 – Other information

The information contained in the above sections is deemed to be detailed and completed, thus providing a full picture of the consolidated results.

Section 25 – Earnings per share

IAS 33 requires disclosure of basic and diluted earnings per share (EPS), specifying how each is calculated.
Basic earnings per share reflect the relationship between:

- the earnings attributable to ordinary shareholders, and
- and the weighted average number of shares outstanding during the period.

Diluted earnings per share reflect the relationship between:

- the earnings used to calculate Basic EPS, as adjusted by the economic effects of converting all outstanding convertible bonds into shares at period end;
- the number of shares in circulation used to calculate basic EPS, as adjusted by the weighted average of the potential ordinary shares with a diluting effect deriving from the conversion of bonds outstanding at period end.

	31.12.2020			31.12.2019		
	Attributable earnings	Weighted average ordinary shares	Earnings per share (Euro)	Attributable earnings	Weighted average ordinary shares	Earnings per share (Euro)
Basic EPS	245,650	679,015,111	0.362	379,583	495,526,495	0.766
Diluted EPS	242,500	714,729,397	0.339	379,583	511,182,073	0.743

The following tables reconcile the weighted average number of ordinary shares outstanding used to calculate basic earnings per share with the number of ordinary shares used to calculate diluted earnings per share; they also reconcile profit for the year with the profit used to calculate basic and diluted earnings per share.

25.1 Average number of ordinary shares (fully diluted)

	31.12.2020	31.12.2019
Weighted average number of outstanding ordinary shares for Base EPS calculation	679,015,111	495,526,495
Weighted dilutive effect the potential conversion of convertible bonds	35,714,286	15,655,577
Weighted average number of outstanding ordinary shares for diluted EPS calculation	714,729,397	511,182,072

25.2 Other informations

	31.12.2020	31.12.2019
Profit (Loss) for the year	245,650	379,583
Allocations not attributable to the shareholders	-	-
Net profit for Basic EPS calculation	245,650	379,583
Change in income and charges deriving form conversion	(3,150)	-
Net profit for diluted EPS calculation	242,500	379,583

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Part D – Consolidated other comprehensive income

Consolidated detailed statement of other comprehensive income

Captions		31.12.2020	31.12.2019
10.	**Profit (Loss) for the year**	**270,667**	**394,452**
	Other comprehensive income that will not be reclassified to profit or loss	**69,078**	**(82,548)**
20.	Equity instruments measured at fair value through other comprehensive income	70,788	(58,230)
	a) changes in fair value	13,742	(58,511)
	b) transfer to other components of shareholders' equity	57,046	281
30.	Financial liabilities designated at fair value through profit or loss (changes in own creditworthiness):	-	-
	a) changes in fair value	-	-
	b) transfer to other components of shareholders' equity	-	-
40.	Hedge of equity instruments measured at fair value through other comprehensive income:	(1,251)	-
	a) change in fair value (hedged instrument)	771	-
	b) change in fair value (hedging instrument)	(2,022)	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	6,125	(41,691)
80.	Non-current assets and disposal group classified as held for sale	-	-
90.	Share of valuation reserves connected with equity investments carried at equity	(148)	1,632
100.	Income taxes relating to other comprehensive income that will not be reclassified to profit or loss	(6,436)	15,741
	Other comprehensive income that may be reclassified to profit or loss	**15,324**	**68,167**
110.	Hedge of foreign investments:	-	-
	a) changes in fair value	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
120.	Foreign exchange differences:		-
	a) change in value	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
130.	Cash flow hedges:	(535)	(214)
	a) changes in fair value	(535)	(214)
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
	of which: net result of positions	-	-
140.	Hedging instruments (not designated elements):	-	-
	a) change in value	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
150.	Financial assets (no equity instruments) measured at fair value through other comprehensive income:	23,313	101,080
	a) changes in fair value	25,172	90,282
	b) transfer to the income statement	(1,859)	10,798
	- impairment for credit risk	362	(1,086)
	- gains/losses from realization	(2,221)	11,884
	c) other changes	-	-
160.	Non-current assets and disposal group classified as held for sale:	-	-
	a) changes in fair value	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
170.	Share of valuation reserves connected with equity investments carried at equity:	-	-
	a) changes in fair value	-	-
	b) reclassification to profit or loss	-	-
	- impairment adjustments	-	-
	- gains/losses from realization	-	-
	c) other changes	-	-
180.	Income taxes relating to other comprehensive income that may be reclassified to profit or loss	(7,454)	(32,699)
190.	**Total other comprehensive income**	**84,402**	**(14,381)**
200.	**Other comprehensive income (Captions 10+190)**	**355,069**	**380,071**
210.	Consolidated other comprehensive income pertaining to minority interests	25,014	19,042
220.	**Consolidated other comprehensive income pertaining to the Parent Company**	**330,055**	**361,029**

Part E - Information on risks and related hedging policies

Introduction

The following is a summary of how the Group's risk governance is organised, with its related processes and key functions that are also involved in the overall control system, highlighting the ways in which the spread of a "risk culture" is guaranteed in the BPER Banca Group. The role of the corporate bodies in the supervision of the corporate culture are explained, as are the objectives of the risk culture included in the corporate policies.

The Board of Directors of the Parent Company[75] has established internal control guidelines for the entire BPER Banca Group by issuing and implementing "Guidelines for the Group internal control system"[76], in line with the Regulations for the prudential supervision of banks (Bank of Italy Circular 285 of 17 December 2013 – "Supervisory Instructions for Banks" and subsequent updates).

Risk management (RAF)

The Risk Appetite Framework - RAF, forms part of the Group's internal control system and acts as a frame of reference, in terms of methodologies, processes, policies, controls and systems, designed to establish, communicate and monitor the Group's risk appetite, this being understood as the set of values that reflect the Group's risk objectives (or "risk appetite"), tolerance thresholds (or "risk tolerance"), as well as the related operational limits, in both ordinary and stress conditions, which the Group intends to respect in pursuing its strategic guidelines, defining consistency levels and the maximum risk that it is able to take on ("risk capacity").
The BPER Banca Group identifies the Risk Appetite Framework (RAF) as a tool for overseeing the risk profile that the Group intends to take in the implementation of its business strategies, considering it as an essential element to ensure that the risk governance policy and process by which risks are handled comply with the principles of sound and prudent business management.
The RAF takes on the importance of a management tool that not only permits concrete application of the regulations, but also makes it possible to activate synergistic governance of the planning, control and risk management activities. It is also a key element to:

- strengthen the ability to govern business risks, facilitating the development and dissemination of an integrated risk culture;
- ensure alignment between strategic guidelines and the levels of risk assumed, through the formalisation of consistent objectives and limits;
- develop a quick and effective system of monitoring and reporting the risk profile taken on.

The key principles of the RAF are formalised and approved by BPER Banca, which periodically reviews them, ensuring that they are in line with the strategic guidelines, business model and regulatory requirements in force at the time.
Lastly, the Group periodically monitors the overall RAF metrics, in order to control on a timely basis any overruns of the tolerance thresholds and/or risk limits assigned and, if appropriate, handle the necessary communications to the Corporate Bodies and subsequent remedies.

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[75] *Throughout the chapter, any reference to the Board of Directors or the Chief Executive Officer or any other Corporate Bodies are to be understood as referring to the Parent Company BPER Banca, unless otherwise specified.*
[76] *Last update approved by Board of Directors of the Parent Company on 29 November 2016.*

The Group's risk appetite is expressed:

- in specific areas of analysis defined in accordance with the Supervisory Provisions (capital adequacy, liquidity and measures that reflect risk capital or economic capital) and the expectations and interests of other Group stakeholders;
- through summary indicators (RAF metrics) that represent regulatory constraints and the risk profile defined in accordance with the capital adequacy verification process and risk management processes. The RAF metrics are defined at Group level and can be adapted to individual risks of strategic importance for the Bank and other relevant analysis axes identified in the strategic planning process.

The process of preparing and updating the RAF defines the roles and responsibilities of the corporate bodies and functions involved, adopting coordination mechanisms that ensure the effective inclusion of risk appetite within operational activities. In particular, the Group reconciles the RAF, business model, strategic plan, ICAAP and budget in a consistent manner via a complex system of coordination mechanisms.
In line with the structure of the RAF process, at the board meeting on 23 January 2020, the Parent Company's Board of Directors defined the Risk Appetite Statement of the BPER Group. This formalises the risk appetite at an overall Group level through quantitative indicators that are consistent with the processes of assessing capital adequacy and the adequacy of the Group's liquidity, and with the processes of managing measurable risks and qualitative indications for risks that are difficult to measure.
Furthermore, in consideration of the changed macroeconomic context due to the Covid-19 health emergency, the meeting of the Parent Company's Board of Directors on 11 June 2020 approved a first update of the risk tolerance and risk capacity thresholds of the core RAF indicators currently in force. Subsequently, after completing the update, on 23 July 2020 the Board of Directors approved a revision of the risk appetite, risk tolerance and risk capacity thresholds for all of the RAF metrics.
The RAF is periodically updated and reviewed according to the evolution of the risk and business strategy and of the regulatory and competitive context in which the Group operates.

Development of the internal control system

The Parent Company manages the Group's internal control system through a cyclical process that involves the following phases:

- design;
- implementation;
- assessment;
- communicating outside the Group.

Some additional information is provided below regarding the various stages of development and the related responsibilities of the Corporate Bodies[77].

Design of the internal control system

The Board of Directors of the Parent Company defines and approves:

- the Internal Control System of the Parent Company and the Group;
- the risk objectives, tolerance threshold (where identified) and risk governance;
- the remedies needed to restore a normal situation after any overrun of the tolerance thresholds;

[77] Corporate Bodies include all bodies with strategic supervision, management and control functions. The definition of Corporate Body also includes the sub-committees of the Board of Directors ("Board Committees").

- the criteria for identifying significant transactions to be submitted to the risk control function;
- system standards for carrying out all activities.

More specifically, the Board of Directors, with the assistance of the Control and Risks Committee and on proposal of BPER Banca's CEO, establishes and approves for the Group as a whole and for its components:

- the business model;
- the Corporate Control Functions and other control functions,
- formalised coordination and liaison procedures between the Companies of the Group and the Parent Company;
- the ICAAP and ILAAP processes, ensuring consistency with the RAF;
- the Recovery Plan;
- the process for managing anomalies identified by the corporate control functions, as well as the methods of handling, and perhaps accepting, residual risk in compliance with the RAF;
- asset measurement policies and processes;
- the process for the development and validation of internal risk measurement;
- the process for approving new products and services, the launch of new activities, entering new markets (known collectively as Product Approval);
- Group policy for outsourcing business functions.

Lastly, the Board of Directors ensures that:

- implementation of the RAF is consistent with the approved levels of risk appetite and risk tolerance (where identified);
- the strategic plan, the RAF, the ICAAP, budgets and internal control system are consistent, bearing in mind any developments in the internal and external conditions in which the Group operates;
- the amount and the allocation of capital and liquidity held are consistent with the risk appetite, risk governance policies and risk management process.

The Board of Directors appoints and dismisses the heads of the corporate control functions and the Manager responsible for preparing the company's financial reports, after consultation with the Control and Risk Committee, the Nominations Committee, the Board of Statutory Auditors and the Chief Executive Officer[78].
The Board of Directors of Group companies:

- defines any additions that have to be made to the internal control system of their respective entities, in accordance with the coordination and liaison procedures established by the Parent Company;
- acknowledges and approves the risk appetite of its own company, which has to be consistent with the level of risk of the Group.

Implementation of the internal control system

The Board of Directors delegates adequate powers and resources to the Chief Executive Officer to enable him to implement strategies, RAF and risk governance policies defined by the Parent Company's Board of Directors when designing the internal control system; the Board of Directors is also responsible for taking all the necessary steps to ensure that the organisation and its internal control system comply with

[78] *The Chief Executive Officer only intervenes for the appointment of the heads of Internal Audit, Compliance and Risk Control*

the principles and requirements laid down in regulatory provisions, monitoring compliance on an ongoing basis.
The Board of Directors of each Group bank and company gives a mandate to the appropriate internal functions to implement the decisions made by the Parent Company during the design phase.

Assessment of the internal control system

As part of its strategic supervisory function, the Board of Directors:

- receives from the corporate control functions and other control functions the information flows foreseen for a full awareness of the various risk factors and the ability to govern them;
- periodically assesses the adequacy and effectiveness of the RAF and the compatibility between actual risk and the risk objectives;
- periodically assesses, with the assistance of the Control and Risk Committee, the adequacy and compliance of the Group's internal control system[79], identifying possible improvements and defining the steps needed to correct any weaknesses.

The Board of Directors of each Group company, including the Parent Company, periodically assesses the internal control system[80].
The function responsible for providing support in assessing the effectiveness of the overall internal control system, company-wide, is the Internal Audit Function.
The Board of Statutory Auditors of the Parent Company and of Group companies, each to the extent of its own responsibilities, carry out the assessment of the internal control system foreseen by law and the articles of association and have the responsibility of ensuring the completeness, suitability and functionality of the internal control system and of the RAF. The results of these assessments are brought to the attention of the respective Boards of Directors.
The Board of Directors receives, either directly or through the CEO, the information flows required to gain a full awareness of the various risk factors and the ability to govern them, as well as to plan and implement interventions to ensure the compliance and adequacy of the Internal Control System.

External communication on the internal control system

The Board of Directors of each Group company, especially that of the Parent Company as regards the Group internal control system, ensures that information on the internal control and risk management system is given in all cases foreseen by law, guaranteeing the correctness and completeness of the information provided. In this context, it is important to make the disclosures to the general public required by Pillar 3. For this, the Board of Directors of the Parent Company assigns control responsibilities and duties to the Corporate Bodies and the various functions involved in the different stages of the process of governing internal controls.

A summary of the internal organisation of the control system adopted by the BPER Banca Group is presented below, referring to the two documents indicated for further information (including the duties assigned to each of the internal control functions).

[79] *Supervisory instructions for banks – Circular 285 of the Bank of Italy, Part I, Title IV, Chapter 3, Section II, paragraph 2 "assures that: [...] b) the internal control system and corporate structure are consistently in line with the principles mentioned in Section I and the control functions satisfy the requirements and comply with the provisions of Section III. In the event of weaknesses or anomalies, it promotes timely adoption of appropriate corrective measures and assesses their effectiveness".*
[80] *a) Civil Code – art. 2381 – "The Board of Directors ... omissis ... evaluates the adequacy of the organisational, administrative and accounting structure of the company on the basis of the information received".*
c) Code of Conduct for Listed Companies – Standard 8.P.3. "The Board of Directors assesses the effectiveness of the system of internal control with respect to the characteristics of the business".

Levels of control envisaged by the Supervisory Authority

As part of the Group internal control system, the following control functions are identified at the levels provided for in the Supervisory instructions for banks, taking into account of the fact that the second and third level control functions always apply to the entire Group:

- Third-level controls: designed to identify violations of procedures and regulations and to assess periodically the completeness, suitability, functionality (in terms of efficiency and effectiveness) and reliability of the internal control system and information systems (ICT audit), with a set timing in relation to the nature and intensity of the risks involved. They are conducted on an ongoing basis, periodically or at random, by various structures that are independent of production, including spot checks. This activity is entrusted to the Internal Audit Function;
- Second-level controls ("risk and compliance controls"): the second level control functions have been developed and identified with the following objectives:
  - to check on an ongoing basis that company procedures are consistent with the goal of preventing money laundering and financing of terrorism and to prevent and combat money laundering and financing of terrorism by reporting suspicious transactions and by performing constant checks. This activity is entrusted to the Anti-Money Laundering Function;
  - to identify non-compliance risks, examining the standards applicable to the Group on an ongoing basis and assessing their impact on Group companies. To establish, depending on the risks that have been identified and assessed, the minimum control objectives foreseen, by proposing organisational and procedural interventions to ensure adequate protection from any risks of non-compliance and monitoring their implementation. This activity is entrusted to the Compliance Function;
  - to collaborate in the definition and implementation of the RAF and the related risk governance policies, through an adequate risk management process, verifying the adequacy thereof. To define methodologies, processes and tools to be used for risk management. To ensure consistency of the measurement and risk control systems with processes and methodologies to assess business operations. To ensure the correct representation of the risk profile and assessment of loan positions, to perform assessments of loan monitoring and recovery processes, to supervise the process for the allocation/monitoring of the official rating and to perform second-level controls over the lending process. These activities are entrusted to various functions of the Risk Management Unit;
  - qualitative and quantitative ratification of internal risk measurement systems adopted by the Parent Company, as used to estimate internal capital and capital requirements, ensuring compliance with the instructions issued by the Supervisory Authority for this process, as well as consistency with the operational needs of the company and the evolution of the market. This activity is entrusted to the Model Ratification Office, which forms part of the Risk Department's Credit Control and Internal Ratification Department. The organisational positioning of this Office guarantees independence from the structures responsible for the development and use of internal risk models subjected to ratification;
- First-level controls ("line controls"): designed to ensure that operations are carried out properly. They are performed by the production structures themselves (e.g. hierarchical, systematic and random controls), also through units dedicated exclusively to control duties that report to the

heads of the operating structures or carried out as part of the back office activities; as far as possible, they are incorporated into IT procedures.

Control roles and duties attributed to BPER Banca Group functions

Internal Audit Function

The primary objective of the Internal Audit Function is to provide independent and objective assurance and advice in order to improve the effectiveness and efficiency of the organisation. Internal Audit assists the organisation in pursuing its objectives through a systematic professional approach, which generates added value as it is aimed at assessing and improving the risk management, control and governance processes.

Its mission is therefore to enhance and protect the value of the organisation by providing objective and risk-based assurance, advice and expertise.This mission is pursued:

- through a risk-based and process-oriented audit plan;
- by promoting a culture of risk and control in the company;
- by providing assurance and advice on risk management, control and governance processes;
- by evaluating existing controls and making suggestions for their continuous improvement.

The principal responsibilities associated with the individual internal audit processes are described below.

- Planning of internal audit activities: this involves preparing planning guidelines and the consequent annual and long-term planning of audit activities, based on the methodological models approved by the Board of Directors, and proposing them to the competent Body. In this context, the audit universe, i.e. all the areas of risk that could subjected to audit, gets updated. Checks that are not preannounced or not expressly indicated in the Audit Plan are also carried out;
- QAIP – Quality Assurance and Improvement Programme: this involves developing and maintaining an Internal Audit quality assurance and improvement programme;
- Assurance assignments: i) from a third-level control perspective, it also carries out on-site checks to verify the regular performance of operations and the evolution of risks and assesses the completeness, adequacy, functionality and reliability of the organisational structure and other components of the internal control system, bringing possible improvements to the attention of the corporate bodies, with particular reference to the RAF, the risk management process, as well as the tools for measuring and controlling them; ii) it checks the Risk Control, Compliance and Anti-Money Laundering Functions; iii) it carries out Fraud Audits (Detection and Investigation) through the recording, assessment and, where appropriate, reporting of anomalous behaviour found during the audit;
- Advisory assignments: providing support and recommendations, generally on the specific request of an Organisational Unit or Corporate Body;
- Periodic reporting: it explains the results of the audit work it has performed to the Corporate Bodies of the Parent Company and of Group companies, summarised in a suitable report. It also prepares the reports required by the Supervisory Authorities and assigned to the Internal Audit Function.

In general terms, the Group's internal control system delegates second- and third-level Control Functions of the Italian Group companies to the Parent Company, as laid down in the "Group Guidelines - Internal Control System".
Foreign companies for which the centralised organisational model is partially derogated according to internal regulations or those for which the Board of Directors of the Parent Company approves such a derogation are exceptions to this general principle.
At the date of this document, the Italian banks and companies have all outsourced the Internal Audit Function to the Parent Company, with the exception of Arca Fondi SGR S.p.A. and Arca Holding S.p.A.

Risk Management Department

The Risk Management Department reports directly to the Parent Company's CEO and, as the Group's risk control function, aims to collaborate in the definition and implementation of the Risk Appetite Framework and the related risk governance policies, through an adequate risk management process.
An integral part of its mission is to ensure adequate reporting to the Corporate Bodies of the Parent Company and Group companies.
The Risk Management Department extends its area of responsibility to all of the Group companies included in the current risk map, given that the "Group Guidelines - Internal Control System" provide for centralised management of the risk control function by the Parent Company.
The Group companies that have this function outsource it to the Parent Company, with the exception of the Luxembourg based company[81].
The mission of the Risk Management Department is carried out as part of the Parent Company's guidance and coordination activity as an outsourcer for Group Banks and Companies.
The Risk Management Department operates at Group companies through a Contact (who functionally reports to it) identified at the various Group companies.
ARCA Fondi SGR is an exception to this approach[82] because of the specific nature of the company's operations. Decentralisation makes for continuity in the risk management of the subsidiary, also in application of the principle of cost-effectiveness. It also increases the specialist expertise of the decentralised structure in managing the principal risks of ARCA Fondi SGR, while ensuring that the Corporate Bodies of the Parent Company are kept adequately informed about the subsidiary's business risks.
The responsibilities of the Risk Management Department are entrusted to the Chief Risk Officer (CRO), who performs the role with support from the organisational units that report hierarchically to the department; its main activities include:

- within the ambit of the Risk Appetite Framework, proposing the quantitative and qualitative parameters necessary for its definition, both in the normal course of business and in situations of stress, ensuring their adequacy over time in relation to changes in the internal and external context;
- proposing risk governance policies for measurable and non-measurable risks not allocated to other control functions (limited to the sections relating to risk management and exposure/operational limits) and overseeing their implementation, ensuring that the various stages of the risk management process are consistent with the Risk Appetite Framework;
- developing risk management methodologies, processes and tools via the identification, measurement/assessment, monitoring and reporting of risks, ensuring their adequacy over time

[81] *Circular CSSF 14/597 – Update of circular CSSF 12/552 on the central administration, internal governance and risk management "117. Outsourcing the compliance function and risk control function is not authorised."*
[82] *Part of the Group since 22 July 2019*

through the development and application of indicators designed to highlight anomalous situations and inefficiencies;
- monitoring the actual risk profile assumed in relation to the risk objectives defined in the RAF, collaborating in the definition of operating limits for the assumption of various types of risk and constantly verifying their adequacy and compliance, reporting any overruns to Corporate Bodies;
- supporting the CEO in implementing the ICAAP and ILAAP;
- coordinating the process of preparing and updating the BPER Banca Group's Recovery Plan;
- coordinating the various activities involved in the internal stress testing programme;
- checking the adequacy and effectiveness of the measures taken to correct weaknesses in the risk management process;
- developing, ratifying[83] and maintaining the internal systems of risk measurement, ensuring compliance with the instructions issued by the Supervisory Authority, as well as consistency with the operational needs of the company and the evolution of the market;
- analysis of risks deriving from new products/services and from entry into new business segments;
- performance of second-level checks on the lending process, verifying the existence of effective supervision over credit exposures (especially if impaired), the proper classification of risk and the adequacy of provisions; verifying the effectiveness of the debt recovery process;

Anti-Money Laundering Function

The Anti-Money Laundering Function's duty is:
- to prevent and combat money laundering and financing of terrorism through the reporting of suspicious transactions and the execution of continuing control activities (Anti-Money Laundering control);
- to check that the IT and organisational procedures adopted by Group companies are consistent with laws and regulations, as well as self-regulation in the field of money laundering and financing of terrorism (Anti-Money Laundering function).

The organisational model adopted by the Group provides for centralised management at the Parent Company of the anti-money laundering function and supervision of the Italian Group banks and non-banking companies subject to money laundering regulations, excepting Arca Holding and Arca Fondi SGR.

As regards the Parent Company's guidance and coordination activities, performed for all Group companies subject to anti-money laundering regulations, the Anti-Money Laundering Function has the following responsibilities:
- it identifies and evaluates the Group's exposure to the risk of money laundering and financing of terrorism;
- it identifies any risk of non-compliance with anti-money laundering legislation to which the Group is exposed, continuously examining the rules applicable to the Group and assessing their impact on Group companies;
- it makes an annual assessment of the principal money laundering and terrorism financing risks, at Group level and for each Group company, and presents that assessment ("Report of the Anti-Money Laundering Unit of the BPER Banca Group") to the management bodies of the Parent Company. This report identifies the action taken and the training provided to personnel,

[83] *Through the Model Ratification Office*

highlighting any issues and making planning proposals for the related corrective actions, as well as for the preventive actions needed to tackle any new non-conformity risks identified;
- it supports the Head of the Anti-Money Laundering Function, as Group Delegate, in examining and evaluating, from a Group perspective, the reports filed and the transactions reported to the Bank of Italy's Financial Information Unit on behalf of the Italian Companies. This type of support is also provided with reference to reports filed and transactions reported to the competent local authorities by the Group's Luxembourg subsidiary;
- manages relations with the Financial Intelligence Unit, the Investigative Authorities and the Judicial Authorities whenever there is need for in-depth investigation or discussion about the anti-money laundering and anti-terrorism legislation;
- supports the Company Delegate in assessing and investigating reports of suspicious transactions and their transmission to the Financial Intelligence Unit if considered justified;
- checks on proper compliance with the requirements for adequate verification, the risk profiling of customers, the recognition and reporting of suspicious transactions, the limits on cash usage, and data retention.

With reference to the Luxembourg subsidiary, which does not fall within the scope of the Anti-Money Laundering Function, the guidance and coordination activity is supported by monitoring the reports on suspicious transactions and by specific instructions in the field of customer identification.

Compliance Function

The Compliance Function's task is to ensure the adequacy of internal procedures to prevent the violation of external rules (e.g. laws and regulations) and self-regulation (e.g. codes of conduct) applicable to Group Companies.

With reference to the internal procedures adopted under art. 88 of the Intermediaries Regulations adopted by CONSOB with resolution 20307 of 15 February 2018, the Compliance Function also carries out regular checks on the effective application ("functioning") of the procedures and the measures taken to resolve any weaknesses.

It assists the Corporate Bodies and Organisational Units of Group companies in pursuing the objectives of compliance by promoting the spread of a corporate culture based on compliance and fairness in behaviour as an essential element for a company to function properly.

It assesses the risk of non-compliance arising from innovative projects that the Group intends to undertake, including the launch of new products or services, and operating in new markets or with new types of customers.

The Compliance Function, as part of the management of compliance risk, works - directly or through the Specialist Controls - on regulations that concern the entire banking activity, with the exception of those for which there are Corporate Functions and other dedicated control functions.

In line with its mission, it extends the scope of its guidance, control and coordination activities to all Group companies. Italian Group companies with this function outsource their regulatory compliance activities to the Parent Company, while the Group bank based in Luxembourg, Arca Holding and Arca Fondi SGR are only subject to guidance and coordination activities.

As part of the guidance and coordination activity exercised by the Parent Company on behalf of the Group companies, the Compliance Function has the following responsibilities:
- it identifies non-compliance risks, at Group level, examining the standards applicable to the Group on an ongoing basis and assessing their impact on Group companies;

- it establishes, depending on the risks that have been identified and assessed, the minimum control objectives foreseen for the Companies concerned, and verifies that the planning of Compliance activities of the individual companies that did not outsource this function to the Parent Company applies them;
- it ensures adequate reporting on the outcome of its activities to the Corporate Bodies, promptly highlighting the main non-compliance issues and events of particular risk as they emerge;
- it proposes organisational and procedural changes to the guidance and coordination processes and to the processes of the companies that do not have this function, in order to ensure adequate control over the non-compliance risks that have been identified and to monitor that it is carried out.

Line controls

Line controls (so-called "first-level controls") are designed to ensure that operations are carried out properly; these controls also include those that contribute to the creation of an internal accounting control system, understood as a set of controls that form part of the individual administrative and accounting procedures in order to have reasonable assurance that the recording and processing of data and the production of information have been performed correctly. They are performed by the same operating structures (e.g. hierarchical controls) or incorporated into procedures, or carried out as part of back-office activities.

Other control functions

In addition to the levels of control laid down by Supervisory Regulations, the regulations governing self-regulation necessitate the allocation of control duties to specific functions other than corporate control functions - or to board committees, the activities of which are consistent with the internal control system.
Specifically, control functions identified within the Group are:

- the Manager responsible for preparing the Company's financial reports;
- Supervisory Bodies pursuant to Legislative Decree 231/2001.

Manager responsible for preparing the company's financial reports

In compliance with Law 262/2005, which added art. 154-*bis* to Section V bis of Legislative Decree 58/98, the BPER Group has appointed a Manager responsible for preparing the Company's financial reports, whose task pursuant to the above article is to ensure the reliability of the separate and consolidated financial statements, the financial disclosures made, the separate and consolidated reports made to the supervisory authorities and all other financial communications. Art. 39 of the Articles of Association establishes that the Board of Directors, having heard the required opinion of the Board of Statutory Auditors, shall appoint a person in charge of preparing the corporate accounting documents, allocating him suitable powers and resources for the performance of the assigned tasks pursuant to legal requirements. Having received the opinion required from the Board of Statutory Auditors, the Board of Directors is also entitled to revoke the appointment of the Manager responsible for preparing the Company's financial reports.
The BPER Banca Group's Manager responsible for preparing the Company's financial reports is identified within the Group as a control function and, as laid down in the Guidelines for the Group internal control system, he is responsible for the design, implementation and maintenance of the "Financial reporting control model" to be applied to the Parent Company and, with reference to the procedures for the

preparation of consolidated financial statements, to the Banks and Companies included in the scope of consolidation.

The financial reporting control model is a set of requirements to be met for proper management and control of the risks of unintentional errors and fraud in financial reports. It is up to the Manager Responsible to ensure that it is adopted.

In the BPER Banca Group the responsibility for the proper management and control of the risk of unintentional errors and fraud in financial reports, also taking into account the regulatory framework that assigns specific responsibilities to the Manager Responsible, is assigned, not only to the Corporate Bodies, but above all to the Manager Responsible.

The financial reporting control model is represented by a "body of law" made up as follows:

- Group policy for managing the risk of unintentional errors and fraud in financial reports (high level legislative source);
- Regulation of the Function of Manager Responsible for preparing the Company's financial reports (high level legislative source);
- Methodological note addressing macro process management of unintentional errors and fraud in financial disclosures (high level atypical source).

In order to carry out his mission, the Manager responsible for preparing the company's financial reports makes use of a structure within the Parent Company (Financial Reporting Monitoring and Control Office), which reports hierarchically to the Manager responsible for preparing the company's financial reports and to a Contact Person appointed by each subsidiary bank and company, whether or not they form part of the Group, who reports functionally to the Manager responsible for preparing the company's financial reports.

For more details regarding the main characteristics of the current risk management and internal control systems in relation to the financial reporting process, please refer to the 2019 Report on corporate governance and ownership structure, prepared in accordance with art. 123-*bis* of Legislative Decree 58/98.

Supervisory Body pursuant to Legislative Decree 231/01

The Parent Company, in compliance with arts. 6 and 7 of Legislative Decree 231/01, adopted a Model of Organisation and Management in order to prevent the commission and/or the attempted commission of the types of offence provided for in this Decree. In accordance with this law, the Parent Company has established a Supervisory Body (known as the Supervisory Board) to supervise the functioning, compliance with and update of its Model of Organisation and Management.

These activities principally comprise:

- monitoring the functioning of the Model: in all business areas, checking that the risk of committing offences identified in Legislative Decree 231/01 is identified, mapped and monitored; with regard to the risk areas and sensitive processes identified, ensuring the adequacy of the protocols adopted to prevent and stop unlawful conduct and requiring their adoption or amendment in the event of weaknesses, inadequacies or changes in internal organisation and/or business activities;

- monitoring compliance with the Model: in the context of the risk areas and sensitive processes identified, checks compliance with the protocols adopted to prevent and impede unlawful conduct; checks the efficacy of the organisational/managerial changes following the update of the Model; promotes training, communications and dissemination of the Model and the Code of Ethics; receives reports and notifies infringements of the Model of Organisation and Management to the competent bodies;
- monitors updating of the Model: prepares observations calling for improvements to the Model by the Board of Directors or, in urgent cases, by the CEO, when there are changes in the regulations governing the administrative responsibility of legal entities pursuant to Legislative Decree 231/01, or in internal organisation and/or business activities, or if significant weaknesses in/infringements of the Model are identified.

The Board supervises the functioning of and compliance with the Model by implementing and executing periodic audit activities, even without giving prior notice.
The Board reports every six months to the Board of Directors and the Board of Statutory Auditors regarding the verification work and checks carried out, and on any Model weaknesses identified, suggesting as necessary the relevant corrective actions.

The Supervisory Board of the Parent Company also coordinates the supervisory boards of the companies subject to Group instructions in relation to Legislative Decree 231/01 (Banco di Sardegna, Bibanca, BPER Credit Management, Optima SIM, Nadia, Sifà, EmilRo Factor, Sardaleasing and Finitalia) and monitors that they adopt these instructions, albeit with the necessary adjustments to take account of the special responsibilities and characteristics of each legal entity.

It should also be noted that, in compliance with the prudential regulations intended to strengthen the ability of banks to absorb shocks deriving from economic and financial tensions, the Group monitors capital adequacy, the exposure to risks and the general characteristics of the related management and control systems, in order to facilitate market discipline.
The document "Public Disclosure - Pillar 3" is prepared pursuant to the requirements of Circular 285 of 17 December 2013 and subsequent updates issued by the Bank of Italy, Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) and the EBA Guidelines dated 23 December 2014 that came into force on 1 January 2015.

This document is published as at 31 December 2020 together with the financial statements on the Parent Company's website (https://istituzione.bper.it).

Section 1 – Risks of consolidated for accounting purpose

Quantitative information

A. Credit quality

A.1 Non-performing and performing credit exposures: amounts, adjustments, changes and economic distribution

A.1.1 Breakdown of financial assets by portfolio classification and credit quality (book values)

Portfolios/quality		Bad loans	Unlikely to pay loans	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost		725,787	1,292,768	109,319	460,093	77,403,538	79,991,505
2. Financial assets measured at fair value through other comprehensive income		18	-	-	-	6,021,590	6,021,608
3. Financial assets designated at fair value		-	-	-	-	127,368	127,368
4. Other financial assets mandatorily at fair value		-	-	-	-	197,174	197,174
5. Financial assets classified as held for sale		944	1,085	309	819	87,618	90,775
Total	**31.12.2020**	**726,749**	**1,293,853**	**109,628**	**460,912**	**83,837,288**	**86,428,430**
Total	**31.12.2019**	**1,171,299**	**1,661,585**	**166,598**	**887,637**	**68,397,443**	**72,284,562**

Details on forborne exposure classified as “Financial assets measured at amortised cost” are provided below.

Portfolios/Quality	Bad loans	Unlikely to pay loans	Non-performing past due exposures	Performing past due exposures	Performing exposures
1. Financial assets measured at amortised					
- Loans to customers	154,736	740,035	18	10,341	524,799

A.1.2 Breakdown of financial assets by portfolio classification and credit quality (gross and net values)

Portfolios/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Overall impairment provisions	Net exposure	Overall partial write-off	Gross exposure	Overall impairment provisions	Net exposure	
1. Financial assets measured at amortised cost	4,339,127	2,211,253	2,127,874	302,788	78,052,643	189,012	77,863,631	79,991,505
2. Financial assets measured at fair value through other comprehensive income	26	8	18	-	6,026,463	4,873	6,021,590	6,021,608
3. Financial assets designated at fair value	-	-	-	-	X	X	127,368	127,368
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	197,174	197,174
5. Financial assets classified as held for sale	3,814	1,476	2,338	128	88,717	280	88,437	90,775
Total 31.12.2020	**4,342,967**	**2,212,737**	**2,130,230**	**302,916**	**84,167,823**	**194,165**	**84,298,200**	**86,428,430**
Total 31.12.2019	**6,123,606**	**3,124,124**	**2,999,482**	**444,040**	**69,143,120**	**176,092**	**69,285,080**	**72,284,562**

Portfolios/quality	Low credit quality assets		Other activities
	Cumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	313	400	216,288
2. Hedging derivatives	-	-	57,776
Total 31.12.2020	**313**	**400**	**274,064**
Total 31.12.2019	**358**	**557**	**286,870**

Details of counterparties	Total write-offs	
	31.12.2020	31.12.2019
Financial companies	6,304	26,686
- of which: financial and non resident companies	-	-
Non financial companies	275,200	394,844
- of which: non financial and non resident companies	29	10
Households	21,412	22,510
- of which: non resident households	75	-
Total	**302,916**	**444,040**
- of which: non resident	**104**	**10**

Previous write-offs do not include those carried out during the year on bad loans as part of credit extinction events, also reported in the tables A.1.8 and A.1.9, as detailed below.

Details of counterparties	Total write-offs	
	31.12.2020	31.12.2019
Financial companies	284	17,904
- of which: financial and non resident companies	7	-
Non financial companies	69,061	122,644
- of which: non financial and non resident companies	114	622
Households	35,703	30,309
- of which: non resident households	64	213
Public Administrations	134	
- of which: non resident Public Administrations	-	
Total	**105,182**	**170,857**
- of which: non resident	**185**	**835**

The amounts shown above are gross of default interest.

B. Information on structured entities (other than securitisation vehicles)

B.1 Consolidated structured entities

At 31 December 2020, the companies that have been consolidated do not include structured entities, as defined in IFRS 12, but only companies controlled by holding voting rights that ensure governance of the relevant activities.

B.2 Structured entities not consolidated for accounting purpose

B.2.1 Consolidated structured entities for regulatory purpose

At 31 December 2020, the BPER Banca Group does not have any structured entities that are not consolidated from an accounting point of view, but consolidated for regulatory purpose.

B.2.2 Other structured entities

Qualitative information

At 31 December 2020, the BPER Banca Group holds investments in mutual funds of more than 20% which have not been consolidated because:

- there is no quantitative and qualitative correlation between the loan granted and the investment policies of the fund;
- the fund constitutes independent equity distinct from that of each participant;
- the percentage interest is transitory, structurally destined to fall over time.

Along with these types of transactions, the portfolio includes entities that, on the basis of the interest held, would fall within the scope of application of IFRS 10 or IAS 28, but the percentage held in the

nominal share capital is limited to situations that do not make it possible to exercise a significant influence.
These are investments of marginal value, for which it is not considered necessary to provide additional information to help give a complete and accurate representation of the economic and financial situation of the Group.
For completeness of information, it should be noted that at 31 December 2020 unconsolidated SPVs are those provided in this Part E of the Explanatory Notes, Section C "Securitisation Transactions" in Table C.4 "Prudential consolidation - Non-consolidated securitisation vehicles".
As of the same date, the BPER Banca Group has not issued any covered bonds through unconsolidated structured entities.

Quantitative information

Captions/ Type of structured entity	Accounting portfolios of Assets	Total assets (A)	Accounting portfolios of Liabilities	Total liabilities (B)	Net book value (C=A - B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and book value (E=D-C)
1. Special purpose vehicle		-	-	-	-	-	-
2. UCITS							
	FVTPLM	37,188	-	-	37,188	37,188	-
3. Other companies							
	FVOCI	22	-	-	(67)	(17)	50
		-	Debts to customers	89	(89)	-	89

Section 2 – Risk of prudential consolidation

1.1 Credit risk

Qualitative information

The Group's organisation provides for centralisation of the credit risk control function at the Parent Company.

1. General aspects

After the growth phase that characterised the third quarter of 2020, when the economy in Italy, as in the other Eurozone countries, showed considerable resilience, above expectations, another contraction arrived due to the second wave of the Covid-19 pandemic.
The decline in GDP in the last quarter of the year is estimated to be in the order of -3.5% (source: Economic Bulletin of the Bank of Italy no. 1 - 2021).
The activities affected the most were services and, to a lesser extent, manufacturing, but this has still led to a less positive mood on the part of businesses and households, not so much for the restrictive measures that have had to be reactivated, but above all for fear of contagion.
In the latter part of the year, faced with a deterioration in the health emergency, the Government launched new measures to support families and businesses and extended the measures introduced previously through the same year-end budget.
The start of the vaccination campaigns has a positive effect on the medium-term prospects, but the timing and intensity of recovery are still uncertain.
Faced with this situation, the BPER Banca Group has substantially confirmed the Lending Policy Guidelines already approved in July, which comply with the guidelines issued by the Supervisory Authorities[84]. These are guidelines on how to manage the riskiness of the loan portfolio and provide management strategies and asset-allocation objectives to reduce the impact on its loan portfolio, especially by granting new loans supported by State guarantees under the Liquidity Decree and subsequent regulatory provisions. For further details on the interventions carried out by the Group, please refer to the information contained in the Pillar 3 Public Disclosures as at 31 December 2020, available on BPER's website.

2. Credit risk management policies

The credit management policy of the BPER Banca Group pursues the aim of carefully selecting counterparties through an analysis of their creditworthiness, including the use of well-established tools such as the internal rating system, having regard for the achievement of commercial and support objectives.
In view of the Group's strategic objectives and operations, the general risk management strategy is to accept a moderate level of risk involving:

[84] *Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis" published by EBA (EBA/GL/2020/07).*

- the assessment of the current and prospective creditworthiness of counterparties;
- the diversification of the portfolio, limiting the concentration of exposures towards individual counterparties and sectors of economic activity.

Management objectives and impacts deriving from the Covid-19 pandemic

In pursuit of the general objectives of credit policy and with the desire to support customers affected by the economic consequences of the Covid-19 pandemic, a forward-looking approach was adopted with the aim of:

- incorporating the sectoral and micro-sectoral forecasts for 2021-22;
- assessing the resilience of individual companies' finances by applying simulations of stress due to the health crisis;
- extending portfolio segmentation to the various branches of the economy in order to intercept dissimilar micro-sector dynamics within the same business areas;
- favouring the use of state measures and the "consolidation" operations established by the Liquidity Decree;
- introducing assessments of climatic, environmental and sustainability risks, with particular reference to those sectors with greater energy absorption or characterised by a high dependence on fossil fuels;
- providing for the development of "green financing" and "technological innovation", transversal to all sectors of the economy and intended to ensure greater competitiveness for the companies concerned;
- continuing to finance consumer households in the various technical forms (home mortgages, personal loans, etc.).

2.1 Organisational aspects

The Group's credit risk management model has the following objectives:

- apply the instructions issued by the Supervisory Authorities, while taking account of the Group's specific operating characteristics;
- ensure that credit risk is managed appropriately by each bank and at a consolidated level.

These objectives are achieved via the segregation of responsibilities and duties between the bodies that manage credit risk and those with a control function.

The following elements underpin work to manage and control the exposure to credit risk:

- independence of the function responsible for the measurement of credit risk with respect to the various business functions;
- clear definition of delegated powers and the resulting structure of limits imposed by the Board of Directors of the Parent Company;
- coordination by the Parent Company of credit risk management processes, while leaving individual companies with operational autonomy for the management of credit risk;
- consistent application of measurement models throughout the Group, in line with international best practice;
- transparent methodology and measurement criteria to facilitate understanding of the risk measures adopted;
- performance of periodic stress tests which use endogenous and exogenous shock scenarios to provide deterministic and/or probability-based indicators of risk.

2.2 Systems for managing, measuring and monitoring

The management of risk involves applying a system of methodologies and approaches for the ongoing measurement and/or assessment of risk. This system helps to guide operational decisions and quantify the level of capital required by the Group in order to cover the risks that have been accepted. Each Group Bank analyses the various components of credit risk and identifies the exposure associated with the loan portfolio using suitable measurement methodologies. In particular, the Bank uses many tools to measure and monitor credit risk in relation to both performing and non-performing loans.
As part of its policies for managing loans to customers, the Group has adopted rules and processes for monitoring relationships, which have involved, among other things, a complex activity of classifying them into homogeneous risk categories. In particular, on the basis of "rating" and "early warning" systems, the Group has analysed performing loans to customers valued at amortised cost and identified those most at risk.
The characteristics of the rating models developed by the Parent Company for the calculation of PD (Probability of default: i.e. the probability that the borrower will not be able to meet their commitments) depend on the risk segment to which the counterparty belongs, the amount of the exposure and the stage in the lending process at which they are applied (initial pay-out or monitoring). The classifications are represented by 13[85] classes of merit differentiated by risk segment. All of the Parent Company's systems share a number of common characteristics:

- the rating is determined with reference to the specific counterparty;
- the rating systems are established with reference to the loan portfolio of the BPER Banca group (the rating is unique for each counterparty, even if shared by several Group Banks and Companies);
- the models process internal performance information (derived from reports issued by the Central Risk Database), as well as financial information in the case of businesses;
- the models for Corporate SMEs, Long-term Property SMEs, Holding, Financial Companies and Large Corporates add a qualitative element to the purely statistical side. The rating assignment process for these segments envisages expert attribution for Holding Companies, Financial Companies and Large Corporates above the threshold through a specific central structure operating at Group level. For Corporate SMEs, Real Estate-Multiannual and Large Corporate SMEs below the threshold, there is also the possibility for the manager to activate an override, i.e. to request an exception from the quantitative rating on the basis of solid, documented information not processed by the model. The exception requested is evaluated by a central function that operates at Group level;
- in addition to the model that evaluates the individual counterparty, for Large Corporates, Holding Companies, Financial Companies, Corporate SMEs and Multiannual-Real Estate SMEs, there is also a component that takes into consideration the fact that they belong to a consolidated corporate group;
- the Probability of Default is calibrated with reference to regulatory anomalies, which include past due amounts;
- the time series used in order to develop and calibrate the models cover a broad time horizon, consistent with the requirements of current regulations;
- the ratings are reviewed at least once each year; the Bank has also defined a process for the monitoring of each rating, causing the rating to lapse if it no longer represents the true risk

[85] *Except for the Large Corporate model, which has 9 classes.*

profile of the counterparty and there are signs of deterioration in the quality of the related lending;

- use is made of a rating calculation model for counterparties acting as guarantors for individuals, aimed at the quantification and measurement of credit risk attributable to private counterparties that provide personal guarantees to BPER Banca Group's customers.

The estimation of LGD (Loss Given Default: representing the extent of the loss expected to occur on default of the borrower, dependent on type of exposure to the counterparty) is based on information on the borrower (segment, geographical area, internal administrative status), the product (technical form, size of exposure), and the presence, type and coverage of guarantees. LGD estimation includes the impact of the recession phase in the economic cycle (downturn LGD).

Significant activities carried out in 2020 included:

- further work was carried out to align internal models with the new definition of default, which was implemented for the purpose of classifying credit exposures from 8 October 2019, following authorisation from the Supervisory Authorities on 19 September 2019;
- a Remedy Plan was sent to the Supervisory Authority in response to the matters raised in the final decision letter received in March 2020 regarding the “Targeted Review of Internal Models” (TRIM, which commenced in 2018 and was completed in March 2019); following this:
    - a new Large Corporate PD model was released for use in the calculation of capital requirements with effect from the Supervisory Reporting at 31 March 2020;
    - in December 2020 the remedial actions for the TRIMIX obligations regarding the Large Corporate PD model and the non-retail segment LGD model were sent to the Supervisory Authority;
- an application was sent to the Supervisory Authority in March 2020 for permission to apply the advanced AIRB methodology to the credit exposures originated by the former Unipol Banca, which was absorbed by the Parent Company in November 2019;
- the update of the IFRS 9 risk models following the introduction of the new Large Corporate model;
- sending to the Supervisory Authority in December 2020 the update of the BPER Banca Group's Roll Out Plan and a first version of the "Return to Compliance Plan" to extend BPER's AIRB models to the former-UBI/ISP loan portfolio acquired in the first half of 2021.

In addition to indicating the principles of governance, assumption and management of credit risk, the Group Credit Risk Governance Policy defines the BPER Group's credit risk appetite. For this purpose, the policy provides for a new system of credit risk exposure limits, establishing supervisory thresholds that have to be monitored periodically. The document also explains the principles for calculating analytical and collective loan loss provisions and for the classification of loans by status.

In order to manage credit risk, the Group has developed a system of credit limits designed to regulate the lending process, together with a system for authorisations that takes account of the riskiness of the customer and/or the transaction, consistent with the risk evaluation systems adopted. This system ensures compliance with the principle that the level of authorisation be consistent with the riskiness of the transaction, envisaging that the limits on decision making are established with reference to one or more aspects of the specific counterparty and transaction risk (in particular counterparty rating, expected loss, amount of the facility).

The internal rating system's risk measures are used for management reporting purposes;

- the section on credit risk and individual risks is drawn up on a quarterly basis as part of the RAF Report and sent to the Control Functions and Corporate Bodies, discussed by the Risk Committee and subjected by the Chief Risk Officer to examination by the Control and Risks Committee and the Board of Directors of the Parent Company; it contains detailed reports on credit risk at consolidated and individual level (distribution of the portfolio by administrative status and rating classes, dynamics of risk and expected loss parameters, transition matrices, dynamics of general and analytical provisions), with analyses broken down by risk segment and sector;
- a summary report is prepared on a monthly basis, including the monitoring of supervisory thresholds set for credit risk;
- a network reporting tool is also available, characterised by different views of the loan portfolio, with different levels of aggregation (Branch, Regional Division, General Management, Bank and Group) and hierarchical visibility cones.

Following the ECB's authorisation in June 2016 to use internal models for measuring capital requirements for credit risk, the BPER Banca Group applies AIRB methodologies for the banks included within the scope of the first validation (BPER Banca, Banco di Sardegna and BiBanca).
The following asset classes are subject to AIRB methodologies:

- "Exposures to retail businesses";
- "Exposure to companies".

The other Group companies and asset classes for which Permanent Partial Use (PPU) is not required or which are not included in the roll-out plan, the BPER Banca Group will continue to use the Standardised Approach and the external ratings supplied by the ECAIs (external agencies for the assessment of creditworthiness) recognised by the Supervisory Authority. In particular, the Group used the Cerved Rating for "Exposures to companies," the Scope Ratings AG Rating for "Exposures to central administrations or central banks", the Fitch Rating for "Financial Instruments" lodged in guarantee and "Exposures to UCITS", and the Standard & Poor's Rating for "Exposures to securitisation".

In order to optimise the process of monitoring customers, the Parent Company made some refinements to an early warning model, which is capable of analysing performing loans by level of risk, with a view to suggesting timely action to be taken by the responsible functions.
The model was developed using methodology that responds to two key needs in the process of managing performing counterparties:

- the need to identify as a first step those counterparties that, for the sake of prudence, should be monitored actively in order to avoid a deterioration in their position, or to implement actions that will improve the counterparty's risk profile or contain possible future losses;
- the need to define processes for observing these positions, determining the priorities and the rules for monitoring them, in order to optimise the organisational effort of the account managers and the results of such action.

Interventions on the monitoring system related to the Covid-19 crisis and related support measures

In line with the expectations of the European and Italian Supervisory Authorities, since the beginning of the crisis caused by the Covid-19 pandemic, the BPER Banca Group has identified the need to carefully monitor and evaluate counterparties that have benefited from support measures introduced by

government decree. In fact, the granting of payment moratoria entailed for the main monitoring systems (Early Warning and Internal Rating System) a problem of interception of certain types of anomaly and triggers of any difficulties or deterioration on the part of the counterparty. It being impossible to review all applications in a short time, appropriate management actions were put in place to intercept any prospective difficulties of customers, both Corporate and Retail, in order to continue active support of counterparties with temporary problems related to the consequences of Covid-19.
Innovative investigation methods have therefore been developed, correlating, for example, current account movements, their liquidity and the risk of non-payment of instalments at the end of the moratoria, pro-actively offering customers new forbearance measures where necessary.
This activity also involved measuring a significant increase in credit risk and, in particular, the granting of forbearance measures, in compliance with current regulations and the recommendations of the European Supervisory Authority.
Lastly, during 2020, other activities were carried on to protect credit risk and at the same time to support Small Economic Operators (SEO) and Corporate customers, pro-actively proposing loans with state guarantees in the forms of access permitted by government decree. In this regard, in order not to burden the financial situation of companies and, at the same time, allow them sufficient liquidity to overcome the temporary difficulties due to Covid-19, their financial perspectives were assessed with an analysis of the microeconomic sectors that they belong to, so as to verify the possibility of continuing to develop adequate cash flows to support the debt. As part of this initiative, the overall information on the state of health of companies was also updated, in order to monitor credit risk correctly.

Also the second level controls put in place by the Risk Management function were partly revised and integrated, providing for sampling of positions on which to carry out the Single File Review checks, concentrating on the economic sectors hit the worst by the crisis caused by the Covid-19 pandemic ("vulnerable sectors").

2.3. Methods of measuring expected losses

The ECL model for calculating expected credit losses is based on the risk parameters estimated for regulatory purposes, whose main characteristics were described in the previous paragraphs, appropriately modified to ensure that they fully comply with IFRS 9. Information on impairment models and related risk parameters is presented in Part A of the Explanatory Notes.

Update of macroeconomic scenarios and ECL sensitivity

As stated in Part A of these Explanatory Notes, the BPER Banca Group develops forward-looking impairment models using three macroeconomic scenarios that are consistent with those considered in other business areas requiring similar forecasts, such as planning (including the determination of lending policies) and risk management.
The time horizon for the macroeconomic forecasts is 3 years for each of the 3 scenarios used:

- Adverse scenario;
- Baseline scenario;
- Best scenario.

Development of the scenarios is outsourced to a leading company that carries out economic research, which provides the BPER Banca Group with short and medium-term forecasts for the Italian and international economies and long-term forecasts for the Italian economy.

The BPER Banca Group considers the following macroeconomic indicators to be the most useful for calibrating the PD and LGD risk parameters:

1. inflation-adjusted GDP, which is the most frequent regressor in the PD satellite model (following the theory that the default rate has a close positive correlation with the related global economic index);
2. the home price index, which is a statistically-significant indicator for determining the point-in-time LGD on impaired mortgaged-based exposures;
3. the FTSE MIB, which is a statistically-significant indicator for determining the point-in-time LGD on impaired loans measured under IFRS 9 that are assisted by financial guarantees.

Modifications due to Covid-19

Based on the arguments already mentioned in Part A, Section 5 – Other aspects of these Explanatory Notes, given the uncertainty caused by the pandemic emergency at the balance sheet date, 31 December 2020, the Group has decided to apply an Overlay approach for the update of the IFRS 9 ECL based on the macroeconomic scenarios released in June 2020. This is to capture in the provision made in December 2020 the best estimate of the risk of a deterioration in credit quality inherent in the portfolio due to the economic crisis triggered by the Covid-19 pandemic and not already intercepted by the ordinary monitoring and classification systems used by the BPER Banca Group.

The procedures for managing the update of the ECL at 31 December 2020, as explained in Part A, Section 5 Other aspects, to which reference should be made for the "Assessment of a significant increase in credit risk (SICR)", as well as for the “Measurement of expected losses”, make the presentation of a sensitivity analysis of the provision for changes in the macroeconomic scenarios being considered.

2.4 Credit risk mitigation techniques

Mitigation techniques are an important tool for reducing or transferring part of the credit risk associated with the portfolio of exposure. Consistent with the low propensity to accept risk that characterises operations, the Group seeks to mitigate credit risk, in particular, by obtaining and managing secured and unsecured guarantees. For this purpose, the Group has prepared suitable IT procedures and systems for managing mortgages and financial guarantees in compliance with prudent supervisory requirements, as well as appropriate internal regulations for managing the life-cycles of the other tangible security obtained.

The secured guarantees obtained by the Group generally comprise mortgages on residential and non-residential property, as part of retail lending and, to a lesser extent, loans to Corporate customers, as well as pledges on securities, receivables and cash. An internal procedure developed over a number of years gathers information in an organised fashion on the property assets of borrowers and on the properties given in guarantee. As a guarantee of both performing and non-performing positions, properties are periodically revalued and updated with new appraisals or indexed revaluations based on the statistical databases of a primary operator in the sector. A dedicated procedure is used to check every month whether a new appraisal or index-based revaluation is needed, in compliance with the Guidelines for banks on non-performing loans (NPL) and the CRR (EU Reg. 575/2013). An internal function covering the entire banking group has been established to supervise this process and monitor constantly the value obtained to cover exposures, as required by the current regulations. The Group also has a new appraisal management system that automatically directs requests to providers according to the rules consistent with the relevant legislation. The same application monitors the state of the appraisals in progress and

acts as a historical archive that preserves the previous assessments in digital format with all the accompanying documents.
Likewise, the collateral represented by financial instruments is managed within a procedure that updates the fair value on the basis of market trends.

The principal types of unsecured guarantees consist of "specific guarantees" and "restricted omnibus guarantees", mainly given by entrepreneurs in favour of their companies and by parent companies in favour of their subsidiaries in the form of binding letters of patronage. Guarantees given by various guarantee consortia in favour of their members firms are becoming more significant, as well as guarantees given by third party institutions, such as SACE, MCC (Guarantee Fund for SMEs), EIF (European Investment Fund) and Guarantee Fund for the First Home and EIB (Life for Energy), which are also subject to periodic monitoring and, lastly, the state guarantees issued following the crisis triggered off by the Covid-19 pandemic.

3. Non-performing credit exposures

3.1. Strategies and management policies

As part of the update of the financial forecasts carried out by the Board of Directors of the Parent Company on 5 August 2020, the strategic development lines already included in the BEST WAY Plan were confirmed, including the significant reduction in the NPL portfolio. This strategic objective, pursued with determination by the Group in recent years, has most likely been affected by the economic crisis caused by the Covid-19 pandemic. It should be noted, however, that 2020 was characterised by important achievements with respect to the reduction of the NPL portfolio (for which reference should be made to paragraph 3.4 - Progress in de-risking of the Directors' Report on Group operations), which allowed the objectives set by the NPE Strategy 2019-2021 to be substantially achieved.

In relation to the general management aspects of the NPE portfolio, it should be noted that the classification of financial assets within the risk categories envisaged by supervisory regulations is based on the identified risk profile.
The classification of a position is determined both automatically and using an analytical methodology. These processes are governed by an internal regulation that applies the guidelines for identifying any deterioration in creditworthiness and assigns the most appropriate administrative state to the position. When not automatic, the classification of positions as anomalous is based on assessments made by account managers who actively monitor conditions within the lending system. The tools that we have available make it possible to identify on a timely basis any signs of deterioration in risk relationships, allowing punctual analysis of the credit worthiness and classification of the position to the correct category of risk.
Since the end of 2019, the BPER Banca Group has adopted the new definition of default for the purposes of classifying credit exposures, adapting processes and procedures to the new rules for interception and management of defaults at the Banking Group level.

The following are some of the interventions developed at Banking Group level, which contributed to better processing of anomalous and non-performing loans:

- Organisation and governance: pro-active management activities have been introduced for performing accounts with loan anomalies, as part of compliance with the Supervisory requirements (NPL Guidance) for the greater monitoring of loans and operational specialisation by segment. This involved reorganising the structures dedicated to managing positions in default (Anomalous Loans and BPER Credit Management – BCM). In particular:
  - the handling of anomalous loans has been focused on managing counterparties already classified as in default (non-performing past due exposures and unlikely to pay loans), which have been grouped into three clusters (Retail, Corporate and Real Estate);
  - pro-active management has been added to supervise performing loans with anomalies, in order to avoid the deterioration of the lending relationship and provide constant support to the commercial network in determining the best operational strategies. The loan counterparts under management have been grouped into the clusters also identified for anomalous loans (Retail, Corporate, Real Estate). In this context, further specialist functions have been established for the management of Watch List positions and performing positions with forbearance measures;
  - BPER Credit Management has been sub-divided into specialist operational and recovery teams focused on specific asset types (Corporate, Retail, centralised or outsourced recovery), thus changing completely the approach to managing bad loans;
  - following the acquisition of Unipol Banca, the area structures were also reorganised in order to ensure adequate coverage of the non-performing portfolios and the application of models, processes and procedures to the new positions acquired by the Group.

  The above evolution of the organisational model, together with the procedural and process changes needed in order to implement the new regulations governing defaults, has resulted in better management of the stock of NPEs and a reduction in new non-performing loans.

- Processes and procedures acting on anomalous loans: anomalous loan management and monitoring processes have been adapted, with the introduction of procedures that have been further developed and improved over the last three years. In particular:
  - the Early Warning model, with the development over time of 6 specialised anomaly detection engines by customer segment (Corporate, Private, Small Business, Construction, Real Estate and Finance & PA) and optimisation of anomaly detection performance, in particular with the insertion of anomalies dictated by the NPL Guidance (which act as "triggers");
  - Electronic Dossier Management, optimised with the gradual inclusion of new management measures and new information available to the manager to gain a better understanding of the potential evolution of the position, with targeted links to other procedures;
  - external collection system that seeks to recover smaller loans via “phone collection” and “home collection” activities;
  - a much more precise monitoring system, focused not only on the quality of the overall portfolio, but also on the performance of the individual structures;
  - more extensive use of the forbearance tool and introduction of sustainability tools and monitoring of the effectiveness of the agreed measures;
  - greater use of write-offs, especially for Minor Positions (an instrument that in any case is used in an extremely prudent way).

- Processes and procedures acting on the Forbearance: the decision-making system has been strengthened to prevent potential deterioration already at the time of the forbearance. In particular:
  - development of more punctual credit policies, characterised by indications of asset allocation based on risk/return/capital absorption indicators. These indications, valid for each individual counterparty, have been included in the Electronic Credit Dossier procedure, therefore visible to the proposer and to the decision maker. In this way the quality of the performing portfolio has improved over the years, shifting its concentration towards the best rating classes;
  - strengthening of the preliminary investigation of top management dossiers, with the introduction of a much more complete set of information, similar to structured finance transactions, strengthening the functions delegated this task;
  - a much more precise monitoring system also for Granting, the timing of approvals, as well as the quality of the approved portfolio.

- Incentive systems: credit quality objectives have been allocated to the network and central office/top management teams, addressing the activities of each function, in order to achieve complementary results that are fully consistent with Group objectives.
- Training on lending activities: in order to strengthen credit monitoring in application of current legislation, (NPL Guidance and Guidelines on the application of the definition of default), training cycles segmented by functions were provided to central structures and training cycles with more general content and strategic management indications to pursue were provided to the network.

The consistency of the classification of a position in the right risk category, with respect to internal rules and Bank of Italy regulations, is also ensured by second-level checks that, by applying a suitable method, verify not only that classifications are correct, but also the adequacy of provisions, the presence of first-level controls and the effectiveness of recovery processes, so as to ensure strong supervision throughout the entire credit chain. The improvement in the risk profile of counterparties leads to a transfer to better internal classifications and may result in a return to "performing" status.

With regard to the cycle for the management of non-performing exposures, macro strategies for internal recoveries are envisaged in the Group, which will apply specific methods depending on the type of debtor, how critical the anomalies are and an assessment of the entire exposure to the debtor and any related parties.
The main strategies that can be followed are:

- management of arrears/overdrafts, also through outsourcing;
- reshaping of the credit line and/or guarantee framework;
- granting of forbearance measures;
- waiver of loan (with or without debt forgiveness);
- transfer of loans to third parties;
- repossession of the asset.

The recovery of arrears and the granting of forbearance measures without remission - even partial - of the debt, where judged practicable, are to be preferred to alternative strategies such as a waiver or assignment of loans and the use of debt recovery procedures and enforcement actions, and will be pursued as a matter of priority.

The resolution approving the management strategy envisages a system of increasing delegated powers, consistent with the powers of classification and the estimate of value adjustments, also with the intervention of specialist units competent in the various phases of the relationship, and with different degrees of centralisation of decision-making skills in relationship management.

3.2 Write-off

In general, and in line with the relevant legislation, the elimination of the loan from the financial statements must be carried out when:

- there is no reasonable prospect of recovery as a result of facts of any nature that make it impossible for the customer to fully meet their obligations ("write-off"), or
- the certainty of a loss materialises (for example, because of definitive legal events).

The assessment and proposal of write-offs, foreseen exclusively for the positions classified as "unlikely to pay" and "bad" loans according to certain events, must be adequately motivated and documented. In line with the recommendations of the supervisory authority, in cases of non-recoverability of the loan, it is best to write off a loan as soon as its non-recoverability has been ascertained.
In line with the reference guidelines:

- derecognition of a financial asset in its entirety or in part constitutes an accounting elimination and the derecognised amount cannot be subject to write-backs. Dereconitions should not be reinstated and where cash flows or other assets are recovered as a last resort, their amount should be recognised as income in the income statement;
- derecognition can take place before legal action against the debtor for the recovery of the loan has been definitively concluded;
- derecognition, in itself, does not necessarily imply renunciation by the Bank of the legal right to recover the loan. The Bank's decision to waive this right is known as "debt forgiveness". Detailed evidence of derecognitions of NPLs at portfolio level is kept, as well as information on financial assets that are subject to execution measures, even if derecognised from the financial statements.

3.3 Purchased or originated impaired financial assets

If a credit exposure classified in caption 30 "Financial assets measured at fair value through other comprehensive income" or in caption 40 "Financial assets measured at amortised cost" at the time of initial recognition becomes impaired, it is identified as "Purchased or Originated Credit Impaired - POCI".
By convention, POCI financial assets are classified in Stage 3 on initial recognition.
Should these assets become performing, following an improvement in the creditworthiness of the counterparty, they are reclassified to Stage 2.
They can never be classified in Stage 1, as the expected credit loss must always be calculated over the residual duration.

The BPER Banca Group identifies as "Purchased or originated impaired financial assets":

- exposures already impaired at the time of purchase, also as part of business combinations;

- exposures originated as part of restructuring transactions of impaired exposures that led to the disbursement of new finance, or introduced substantial changes to the original contractual conditions.

4. Financial assets involved in commercial renegotiations and forborne exposures

The BPER Banca Group adopts the definition of "Forbearance Measure" of the Implementing Regulation EU 227/2015.
Measures of forbearance, or "tolerance", consist of concessions to a debtor who is or is about to find themselves in difficulty in meeting their financial commitments (i.e. in financial difficulty). The exposures subject to forbearance measures are identified as forborne.
"Forbearance" means facilitating measures in favour of the customer which can be summarised in the following categories:

- “Changes”, made to the terms and conditions of a loan agreement due to the debtor's inability to perform financially in the commitments assumed previously;
- total or partial "refinancing" of the debt.

An intrinsic characteristic of forbearance is the state of financial difficulty of the debtor: it is based on an overall assessment of the debtor for which the rating is one of the elements to be considered. Financial difficulty is objectively recognised when the counterparty position is classified among the non-performing loans, while it is presumed when loan anomalies envisaged under current regulations are detected, including but not limited to:

- existence during the past 3 months, or potential existence in the absence of assistance granted to the debtor, of past due and/or overdrawn relationships for periods of at least 30 days;
- allocation of new loans, in whole or in part, to paying down existing credit lines that were past due and/or overdrawn for 30 days at least once during the 3-month period prior to granting the new loans to the debtor.

The Group adopts standardised decision-making trees and/or customised solutions in order to apply efficient and effective debt rescheduling solutions, based on customer characteristics and type of exposure, which constitute one of the Group's strategies for reducing non-performing exposures.

The forbearance measures are divided, depending on the time horizon over which they extend, into:

- short-term forbearance measures, or temporary changes in the reimbursement conditions, aimed at facing short-term financial difficulties, and have a duration of less than 24 months;
- long-term forbearance measures, or changes in the reimbursement conditions aimed at definitively resolving the debtor's financial difficulty, and lasting more than 24 months (also in combination with short-term measures).

Not all contractual changes in favour of the customer ("concessions") give rise to forborne exposures, but only if there are also elements of financial difficulty. In their absence, the concessions are configured as transactions for merely commercial purposes.

Forborne positions are monitored by the Bank to check the effectiveness and efficiency of the assistance provided, in order to verify that the financial difficulties have been overcome.

The minimum observation period is:

- 24 months if the counterparty is classified as performing (probation period);

- 36 months if the counterparty is in default (12-month cure period and 24-month probation period).

Once the debtor's financial difficulty has been established, the conditions for classification as an unlikely to pay position must also be verified when the measure is granted.
Positions may be forborne in both macro-categories of credit classification ("performing" and "default") and, in accordance with current regulations, may result in the counterparty being classified as non-performing: for example, a counterparty with credit lines that are forborne under probation, that has therefore completed the 12-month cure period and is now in the probation period following reclassification as "performing" from "default", is automatically classified as unlikely to pay if they are overdrawn for more than 30 days or a new concession is made (re-forborne).

Please refer to what is said in Part A, Section 5 - Other aspects, regarding the accounting treatment of the moratoria granted to customers affected by the economic consequences of the Covid-19 pandemic.

Quantitative information

A. Credit quality

A.1 Non-performing and performing credit exposures: amounts, adjustments, changes and economic distribution

A.1.1 Prudential consolidation: breakdown of financial assets by past due buckets (book values)

Portfolios/risk stages		First stage			Second stage			Third stage		
		From 1 day to 30 days	Over 30 days to 90 days	Over 90 days	From 1 day to 30 days	Over 30 days to 90 days	Over 90 days	From 1 day to 30 days	Over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost		269,339	-	-	117,530	54,992	18,232	48,054	97,930	1,416,526
2. Financial assets measured at fair value through other comprehensive income		-	-	-	-	-	-	-	-	18
3. Financial assets held for sale		74	-	-	58	391	296	108	170	1,594
Total	**31.12.2020**	**269,413**	**-**	**-**	**117,588**	**55,383**	**18,528**	**48,162**	**98,100**	**1,418,138**
Total	**31.12.2019**	**469,106**	**-**	**-**	**177,556**	**186,819**	**54,156**	**91,168**	**117,953**	**2,215,386**

A.1.2 Prudential Consolidation - Financial assets, commitments to distribute funds and financial guarantees granted: changes in total impairment provisions

Causal / risk stages	Total impairment provisions									
	First stage activities					Second stage activities				
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses
Total opening adjustments	**70,451**	**3,458**	**143**	**-**	**73,909**	**100,890**	**1,059**	**92**	**-**	**101,949**
Increases in purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-	-	-	-	-	-
Net impairment losses for credit risk (+/-)	2,902	56	-	-	2,958	47,753	387	-	-	48,140
Contractual modifications without derecognitions	-	-	-	-	-	-	-	-	-	-
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs non recorded directly in the income statement	-	-	-	-	-	-	-	-	-	-
Other variations	(17)	(87)	(71)	-	(104)	(32,967)	-	117	-	(32,967)
Total closing adjustments	**73,336**	**3,427**	**72**	**-**	**76,763**	**115,676**	**1,446**	**209**	**-**	**117,122**
Recoveries from financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-
Write-offs recorded directly through profit or loss	-	-	-	-	-	-	-	-	-	-

A.1.2 Prudential Consolidation - Financial assets, commitments to distribute funds and financial guarantees granted: changes in total impairment provisions

Causal / risk stages	Total impairment provisions						Total provisions on commitments to disburse funds and financial guarantees issued			Total
	Activities included in the third stage									
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Of which: impaired financial assets acquired or originated	First stage	Second stage	Third stage	
Total opening adjustments	**3,123,101**	**8**	**1,015**	**3,123,109**	**-**	**-**	**9,140**	**2,952**	**33,752**	**3,346,061**
Increases in purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	(1,215,227)	-	-	(1,215,227)	-	-	-	-	-	(1,215,227)
Net impairment losses for credit risk (+/-)	428,141	-	-	428,141	-	-	339	(626)	(4,333)	474,619
Contractual modifications without derecognitions	-	-	-	-	-	-	-	-	-	-
Changes in the estimation methodology	(151,067)	-	-	(151,067)	-	-	-	-	-	(151,067)
Write-offs non recorded directly in the income statement	-	-	-	-	-	-	-	-	-	-
Other variations	26,306	-	460	26,306	-	-	5	4	(125)	(6,375)
Total closing adjustments	**2,211,254**	**8**	**1,475**	**2,211,262**	**-**	**-**	**9,484**	**2,330**	**29,294**	**2,448,011**
Recoveries from financial assets subject to write-off	7,043	-	-	7,043	-	-	-	-	-	7,043
Write-offs recorded directly through profit or loss	43,070	-	-	43,070	-	-	-	-	-	43,070

A.1.3 Prudential Consolidation - Financial assets, commitments to distribute funds and financial guarantees granted: transfers between different credit risk stages (gross and nominal values)

Portofolios/risk stages		Gross values/Nominal values					
		Transfers between first stage and second stage		Transfers between second stage to third stage		Transfer between first stage and third stage	
		From first stage to second stage	From second stage to first stage	From second to third stage	From third to second stage	From first to third step	From third to first stage
1. Financial assets measured at amortized cost		3,221,873	1,673,588	215,326	83,425	161,093	39,871
2. Financial assets measured at fair value through other comprehensive income		81,282	7,719	-	-	-	-
3. Financial assets held for sale		-	-	-	-	-	-
4. Commitments to distribute funds and financial guarantees granted		813,496	1,131,717	35,189	37,395	84,517	15,206
Total	31.12.2020	4,116,651	2,813,024	250,515	120,820	245,610	55,077
Total	31.12.2019	1,649,740	3,768,803	561,707	130,087	309,816	52,827

A.1.3a Prudential Consolidation - Loans subject to Covid-19 support measures: transfers between different credit risk stages (gross values)

Portofolios/risk stages	Gross values					
	Transfers between first stage and second stage		Transfers between second stage to third stage		Transfer between first stage and third stage	
	From first to second stage	From second to first stage	From second to third stage	From third to second stage	From first to third stage	From third to first stage
A. Loans measured at amortised cost	**877,560**	**321,996**	**23,701**	**8,652**	**17,390**	**1,563**
A.1 subject to forbearance measures compliant with GL	876,707	319,454	23,053	7,323	17,357	1,563
A.2 subject to other forbearance measures	853	2,542	648	1,329	33	-
A.3 new loans	-	-	-	-	-	-
B. Loans measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
B.1 subject to forbearance measures compliant with GL	-	-	-	-	-	-
B.2 subject to other forbearance measures	-	-	-	-	-	-
B.3 new loans	-	-	-	-	-	-
Total 31.12.2020	**877,560**	**321,996**	**23,701**	**8,652**	**17,390**	**1,563**

A.1.4 Prudential consolidation - Cash and off-balance sheet credit exposures to banks: gross and net values

Type of exposures/amounts	Gross exposure		Total impairment provisions	Net Exposure	Total partial write-off
	Non-performing	Performing			
A. Cash exposures					
a) Bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	38	-	38	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	17,998,390	13,608	17,984,782	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**-**	**17,998,428**	**13,608**	**17,984,820**	**-**
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	1,343,431	179	1,343,252	-
Total (B)	**-**	**1,343,431**	**179**	**1,343,252**	**-**
Total (A+B)	**-**	**19,341,859**	**13,787**	**19,328,072**	**-**

A.1.5 Prudential consolidation - Cash and off-balance sheet credit exposures to customers: gross and net values

Type of exposures/amounts	Gross exposure		Total impairment provisions	Net exposure	Total partial write-off
	Non-performing	Performing			
A. Cash exposures					
a) Bad loans	2,076,411	X	1,349,662	726,749	302,916
- of which: forborne exposures	347,620	X	192,884	154,736	14,159
b) Unlikely to pay loans	2,125,247	X	831,394	1,293,853	-
- of which: forborne exposures	1,157,376	X	417,341	740,035	-
c) Non-performing past due exposures	141,309	X	31,681	109,628	-
- of which: forborne exposures	19	X	1	18	-
d) Performing past due exposures	X	465,353	4,479	460,874	-
- of which: forborne exposures	X	10,626	285	10,341	-
e) Other performing exposures	X	66,105,229	176,078	65,929,151	-
- of which: forborne exposures	X	533,196	8,397	524,799	-
Total (A)	**4,342,967**	**66,570,582**	**2,393,294**	**68,520,255**	**302,916**
B. Off-balance sheet credit exposures					
a) Non performing	402,120	X	30,674	371,446	-
b) Performing	X	22,231,293	24,057	22,207,236	-
Total (B)	**402,120**	**22,231,293**	**54,731**	**22,578,682**	**-**
Total (A+B)	**4,745,087**	**88,801,875**	**2,448,025**	**91,098,937**	**302,916**

Details of impairment losses on an individual and collective basis on performing and non-performing exposures are provided below.

	Non-performing assets				Performing assets		
	Gross exposure	Individual impairment provisions - analytical	Individual impairment provisions - automated	Net exposure	Gross exposure	Collective impairment provisions	Net exposure
Cash credit exposures to customers (loans and	**4,339,126**	**1,994,577**	**216,676**	**2,127,874**	**63,688,684**	**177,782**	**63,510,902**
Governments and other public entities	24,417	8,105	488	15,824	13,079,915	9,276	13,070,640
- of which: foreign	3,786	2,358	-	1,428	3,671,305	275	3,671,030
Financial companies	214,899	122,652	1,113	91,135	4,708,458	14,678	4,693,780
- of which: foreign	36,614	34,353	1	2,260	784,194	442	783,752
Non-financial companies	3,308,952	1,649,628	113,029	1,546,295	24,423,432	100,936	24,322,496
- of which: foreign	15,954	4,949	363	10,642	491,395	770	490,624
Privates and households	790,858	214,192	102,046	474,620	21,476,879	52,892	21,423,986
- of which: foreign	21,558	13,049	517	7,992	65,772	154	65,618

The figures in the table above refer to caption 40 b) at 31 December 2020.

A.1.5a Prudential Consolidation - Loans subject to Covid-19 support measures: gross and net values

Type of exposures/amounts	Gross exposure	Total impairment provisions	Net exposure	Total partial write-off
A. Bad loans:	**18**	**11**	**7**	**-**
a) Subject to forbearance measures compliant with GL	18	11	7	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	-	-	-	-
B. Unlikely to pay loans:	**48,895**	**10,873**	**38,022**	**-**
a) Subject to forbearance measures compliant with GL	39,159	9,790	29,369	-
b) Subject to other forbearance measures	4,373	883	3,490	-
c) New loans	5,363	200	5,163	-
C. Non-performing past due loans:	**11,994**	**1,525**	**10,469**	**-**
a) Subject to forbearance measures compliant with GL	8,571	1,358	7,213	-
b) Subject to other forbearance measures	402	87	315	-
c) New loans	3,021	80	2,941	-
D. Other performing past due loans:	**9,478**	**123**	**9,355**	**-**
a) Subject to forbearance measures compliant with GL	4,220	117	4,103	-
b) Subject to other forbearance measures	711	3	708	-
c) New loans	4,547	3	4,544	-
E. Other performing loans:	**10,683,556**	**34,000**	**10,649,556**	**-**
a) Subject to forbearance measures compliant with GL	7,181,265	31,444	7,149,821	-
b) Subject to other forbearance measures	8,026	37	7,989	-
c) New loans	3,494,265	2,519	3,491,746	-
Total (A+B+C+D+E)	**10,753,941**	**46,532**	**10,707,409**	**-**

A.1.6 Prudential consolidation - Cash credit exposures to banks: change in gross non-performing exposures

There are no amounts to be disclosed in this section.

A.1.6bis Prudential consolidation - Cash credit exposures to banks: change in gross forborne exposures broken down by credit quality

There are no amounts to be disclosed in this section.

A. 1.7 Prudential consolidation – cash credit exposures to customers: change in gross non-performing exposures

Reasons/Categories	Bad loans	Unlikely to pay loans	Non-performing past due exposures
A. Opening balance (gross amount)	**3,448,787**	**2,479,816**	**195,003**
- Sold but not derecognised	-	-	-
B. Increases	**524,961**	**923,045**	**177,255**
B.1 entry from performing exposures	32,542	328,358	151,715
B.2 entry from purchased or originated impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures	371,647	86,755	447
B.4 contractual modifications without derecognitions	-	-	-
B.5 other increases	120,772	507,932	25,093
C. Decreases	**1,897,337**	**1,277,614**	**230,949**
C.1 transfers to performing exposures	487	133,851	51,949
C.2 write-offs	105,182	88,908	48
C.3 recoveries	206,119	540,953	61,244
C.4 sales proceeds	447,014	75,932	-
C.5 losses on disposals	22,417	4,912	-
C.6 transfers to other non-performing exposures	862	340,280	117,707
C.7 contractual modifications without derecognitions	-	-	-
C.8 other decreases	1,115,256	92,778	1
D. Closing balance (gross amounts)	**2,076,411**	**2,125,247**	**141,309**
- Sold but not derecognised	-	-	-

During the course of 2020, the sales of non-performing loans (explained more fully in para. 3.4 - "Progress on de-risking" of the Directors' report on Group operations) and in particular the Spring and Summer transactions (securitisations of bad loans backed by GACS) contributed to the reduction of the NPL portfolio. The reduction attributable to these two transactions is shown in the table in lines "C.4 Realizations through disposals" and "C.8 Other changes (decreases)" for a total of Euro 1,497 million.

A.1.7bis Prudential Consolidation - Cash credit exposures to customers: change in gross forbone exposures broke down by credit quality

Description/Quality	Forborne exposures impaired	Forborne exposures not impaired
A. Opening balance (gross amount)	**1,819,980**	**697,654**
- Sold but not derecognised	-	-
B. Increases	**547,097**	**349,874**
B.1 transfers from performing not forborne exposures	64,839	136,857
B.2 transfers from performing forborne exposures	72,296	X
B.3 transfers from impaired forborne exposures	X	59,445
B.4 transfers from impaired not forborne exposure	26	-
B.5 other increases	409,936	153,572
C. Decreases	**862,062**	**503,706**
C.1 transfers to not forborne performing exposures	X	210,724
C.2 transfers to forborne performing exposures	59,445	X
C.3 transfers to non performing forbone exposures	X	72,296
C.4 write-offs	15,801	-
C.5 recoveries	376,234	220,686
C.6 sales proceeds	88,684	-
C.7 losses on disposals	22,293	-
C.8 other decreases	299,605	-
D. Closing balance (gross amounts)	**1,505,015**	**543,822**
- Sold but not derecognised	-	-

A.1.8 Prudential consolidation – On-balance sheet non-performing credit exposures to banks: dynamics of overall adjustments

There are no amounts to be disclosed in this section.

A.1.9 Prudential consolidation - Non-performing cash credit exposures to customers: change in total impairment provisions

Reasons/Categories	Bad loans		Unlikely to pay loans		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening balance (total impairment	**2,277,488**	**325,491**	**818,231**	**385,792**	**28,405**	**2,550**
- Sold but not derecognised	-	-	-	-	-	-
B. Increases	**514,773**	**90,305**	**450,040**	**217,579**	**28,994**	**18**
B.1 impairment losses on purchased or originated assets	-	X	-	X	-	X
B. 2 other value adjustments	363,278	33,722	358,686	112,424	28,535	13
B.3 losses on disposal	22,417	22,293	4,912	-	-	-
B.4 transfer from other non-performing exposures	120,204	33,700	13,685	1,677	174	5
B. 5 contractual modifications without derecognitions	-	X	-	X	-	X
B.6 other increases	8,874	590	72,757	103,478	285	-
C. Decreases	**1,442,599**	**222,912**	**436,877**	**186,030**	**25,718**	**2,567**
C.1 write-backs from assessment	80,445	38,726	83,629	34,166	5,337	166
C.2 write-backs from recoveries	55,180	12,075	60,487	3	473	-
C.3 gains on disposal	4,306	-	1,412	-	-	-
C.4 write-offs	105,182	9,467	88,908	6,330	48	4
C.5 transfers to other non-performing exposures	538	17	114,841	33,186	18,684	2,154
C. 6 contractual modifications without derecongitions	-	X	-	X	-	X
C.7 other decreases	1,196,948	162,627	87,600	112,345	1,176	243
D. Closing balance (total impairment	**1,349,662**	**192,884**	**831,394**	**417,341**	**31,681**	**1**
- Sold but not derecognised	-	-	-	-	-	-

A.2 Classification of exposures based on external and internal ratings

A.2.1 Prudential consolidation - Breakdown of financial assets, commitments to distribute funds and financial guarantees granted by external rating classes (gross amounts)

Exposures	External rating classes						Unrated	Total
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortised cost	4,644,279	3,572,065	8,874,096	1,779,824	244,611	44,298	63,232,597	82,391,770
- First stage	4,626,811	3,552,117	8,738,020	1,375,204	156,919	11,888	53,356,813	71,817,772
- Second stage	17,468	19,939	135,852	361,835	53,032	5,861	5,640,885	6,234,872
- Third stage	-	9	224	42,785	34,660	26,549	4,234,899	4,339,126
B. Financial assets measured at fair value through other	1,871,357	1,134,176	1,278,020	166,697	16,310	-	1,559,929	6,026,489
- First stage	1,786,683	1,031,107	1,196,084	119,085	16,310	-	1,528,786	5,678,055
- Second stage	84,674	103,069	81,936	47,612	-	-	31,117	348,408
- Third stage	-	-	-	-	-	-	26	26
C. Financial assets classified as held for sale	-	-	-	752	-	-	91,779	92,531
- First stage	-	-	-	362	-	-	76,124	76,486
- Second stage	-	-	-	390	-	-	11,842	12,232
- Third stage	-	-	-	-	-	-	3,813	3,813
Total (A + B + C)	**6,515,636**	**4,706,241**	**10,152,116**	**1,947,273**	**260,921**	**44,298**	**64,884,305**	**88,510,790**
of which: purchased or originated impaired financial	-	-	-	-	-	-	-	-
D. Commitments to distribute funds and financial guarantees	453,167	1,686,215	585,796	878,946	19,755	11,830	20,341,135	23,976,844
- First stage	453,167	1,654,228	545,405	713,487	15,835	2,556	18,730,068	22,114,746
- Second stage	-	31,987	40,391	152,753	1,982	-	1,229,639	1,456,752
- Third stage	-	-	-	12,706	1,938	9,274	381,428	405,346
Total (D)	**453,167**	**1,686,215**	**585,796**	**878,946**	**19,755**	**11,830**	**20,341,135**	**23,976,844**
Total (A + B + C + D)	**6,968,803**	**6,392,456**	**10,737,912**	**2,826,219**	**280,676**	**56,128**	**85,225,440**	**112,487,634**

The following rating agencies are used: Cerved Group for exposure to companies, Scope Ratings for exposures to central administrations, Fitch Ratings and Standard & Poor’s for exposures deriving from securitisations.
The rating classes of Scope Ratings, Cerved Group, Fitch Ratings and Standard & Poor’s used by the BPER Banca Group have been interpreted with reference to the classes of creditworthiness of the debtors/guarantors according to prudential regulations. The rating agencies used are shown below and there is a reconciliation between the external ratings and the agencies' ratings.

Long-term rating for exposures to companies:

Class of credit merit	Risk weighting coefficients	ECAI Cerved Group
1	20%	A1.1, A1.2, A1.3
2	50%	A2.1, A2.2, A3.1
3	100%	B1.1, B1.2
4	100%	B2.1, B2.2
5	150%	C1.1
6	150%	C1.2, C2.1

Long-term rating for exposures to securitisations:

Class of credit merit	Risk weighting coefficients	ECAI Fitch Ratings
1	20%	from AAA to AA-
2	50%	from A+ to A-
3	100%	from BBB+ to BBB-
4	350%	from BB+ to BB-
5	1250%	less than BB-

Class of credit merit	Risk weighting coefficients	ECAI Scope Ratings
1	20%	from AAA to AA-
2	50%	from A+ to A-
3	100%	from BBB+ to BBB-
4	350%	from BB+ to BB-
5	1250%	less than BB-

Long-term rating for exposures to Public Administrations:

Class of credit merit	Risk weighting coefficients	ECAI Scope Ratings
1	0%	from AAA to AA-
2	20%	from A+ to A-
3	50%	from BBB+ to BBB-
4	100%	from BB+ to BB-
5	100%	from B+ to B-
6	150%	from CCC to D

A.2.2 Prudential consolidation - Breakdown of financial assets, commitments to distribute funds and financial guarantees granted by internal rating classes (gross amounts)

Exposures	Internal rating classes						
	1	2	3	4	5	6	7
A. Financial assets measured at amortised cost	9,409,572	6,333,485	8,905,209	9,044,153	7,270,934	3,534,974	4,968,514
- First stage	9,376,872	6,281,248	8,786,691	8,603,308	5,883,563	2,459,005	4,145,491
- Second stage	32,700	52,237	118,518	440,845	1,387,371	1,075,969	823,023
- Third stage	-	-	-	-	-	-	-
B. Financial assets measured at fair value through other	559,540	126,558	359,052	380,191	488,510	532,190	1,265,924
- First stage	544,372	104,395	359,052	369,966	455,296	511,832	1,250,178
- Second stage	15,168	22,163	-	10,225	33,214	20,358	15,746
- Third stage	-	-	-	-	-	-	-
C. Financial assets classified as held for sale	9,656	11,241	13,127	14,253	13,600	7,994	4,692
- First stage	9,656	11,204	12,866	13,779	12,256	6,354	3,651
- Second stage	-	37	261	474	1,344	1,640	1,041
- Third stage	-	-	-	-	-	-	-
Total (A + B + C)	**9,978,768**	**6,471,284**	**9,277,388**	**9,438,597**	**7,773,044**	**4,075,158**	**6,239,130**
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-
D. Commitments to distribute funds and financial guarantees	4,439,308	4,258,811	3,963,611	3,189,675	1,119,186	1,214,402	259,783
- First stage	4,436,998	4,254,525	3,929,886	3,072,280	989,455	899,220	147,775
- Second stage	2,310	4,286	33,725	117,395	129,731	315,182	112,008
- Third stage	-	-	-	-	-	-	-
Total (D)	**4,439,308**	**4,258,811**	**3,963,611**	**3,189,675**	**1,119,186**	**1,214,402**	**259,783**
Total (A + B + C + D)	**14,418,076**	**10,730,095**	**13,240,999**	**12,628,272**	**8,892,230**	**5,289,560**	**6,498,913**

(cont.)

Exposures	Internal rating classes						Total
	8	9	10	11	12	13	
A. Financial assets measured at amortised cost	1,941,792	767,041	8,764,967	194,960	180,750	131,616	61,447,967
- First stage	1,118,164	377,751	8,411,996	-	125,229	20,537	55,589,855
- Second stage	823,628	389,290	352,795	194,960	55,521	111,079	5,857,936
- Third stage	-	-	176	-	-	-	176
B. Financial assets measured at fair value through other comprehensive income	741,705	296,437	708,919	124,953	173,475	10,004	5,767,458
- First stage	691,078	286,851	708,919	28,065	142,797	-	5,452,801
- Second stage	50,627	9,586	-	96,888	30,678	10,004	314,657
- Third stage	-	-	-	-	-	-	-
C. Financial assets classified as held for sale	3,573	1,780	1,258	736	130	537	82,577
- First stage	2,704	387	-	-	-	-	72,857
- Second stage	869	1,393	1,258	736	130	537	9,720
- Third stage	-	-	-	-	-	-	-
Total (A + B + C)	**2,687,070**	**1,065,258**	**9,475,144**	**320,649**	**354,355**	**142,157**	**67,298,002**
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-
D. Commitments to distribute funds and financial guarantees granted	432,934	88,376	23,647	59,533	1,990	28,960	19,080,216
- First stage	129,595	32,589	373	-	-	-	17,892,696
- Second stage	303,339	55,787	23,274	59,533	1,990	28,960	1,187,520
- Third stage	-	-	-	-	-	-	-
Total (D)	**432,934**	**88,376**	**23,647**	**59,533**	**1,990**	**28,960**	**19,080,216**
Total (A + B + C + D)	**3,120,004**	**1,153,634**	**9,498,791**	**380,182**	**356,345**	**171,117**	**86,378,218**

	With internal rating	Unrated	Total
Cash exposures	67,298,002	21,212,788	88,510,790
Off-balance sheet exposures	19,080,216	4,896,628	23,976,844
Total	**86,378,218**	**26,109,416**	**112,487,634**

On 24 June 2016, the ECB authorised the Group to use the IRB Advanced Method (PD, LGD, EAD parameters) for the quantification of the capital requirement for customers' credit risk.
The internal rating classes are shown as they are used in the management of credit risk. The Group's rating system for the valuation of counterparties is divided into a Large Corporate model, a Corporate model and an Individuals model. Creditworthiness classifications are represented by 13 rating classes regarding performing counterparties, differentiated by risk segment, and by a class relating to default. In turn, the 13 rating classes have been grouped into 5 operational classes, which indicate aggregate risk levels:

Operational classes (of risk)	Rating classes
High	10 - 11 - 12 - 13
Significant	8 -9
Average	5 - 6 - 7
Low	3 - 4
Very low	1 - 2

Cash exposures include all the financial assets of the "Financial assets measured at fair value through other comprehensive income" portfolio, with the exception of equity instruments and the "Financial assets measured at amortised cost" portfolio; "off-balance sheet" exposures include all financial transactions other than cash transactions (guarantees granted, commitments, derivatives) that involve the assumption of a credit risk, whatever the purpose of such transactions is (trading, hedging, etc.)

A.3 Breakdown of guaranteed credit exposures by type of guarantee

A.3.1 Prudential consolidation - Guaranteed cash and off-balance sheet credit exposures to banks

	Gross exposure	Net exposure	Collaterals (1)				Personal guarantees (2)	
							Credit derivatives	
								Other derivatives
			Property - mortgages	Property - Financial leasing	Securities	Other collaterals	CLN	Central counterparties
1. Guaranteed cash credit exposures:	**13,239**	**13,234**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 totally guaranted	13,239	13,234	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partially guaranted	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**60,903**	**60,872**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 totally guaranted	34,752	34,735	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partially guaranted	26,151	26,137	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-

A.3.1 Prudential consolidation - Guaranteed cash and off-balance sheet credit exposures to banks

(cont.)

	Personal guarantees (2)							Total (1)+(2)
	Credit derivatives			Endorsement loans				
	Other derivatives							
	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Guaranteed cash credit exposures:	**-**	**-**	**-**	**13,129**	**-**	**-**	**105**	**13,234**
1.1 totally guaranted	-	-	-	13,129	-	-	105	13,234
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partially guaranted	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**13,700**	**8,439**	**-**	**25,272**	**47,411**
2.1 totally guaranted	-	-	-	13,700	1,861	-	16,902	32,463
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partially guaranted	-	-	-	-	6,578	-	8,370	14,948
- of which non-performing	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation - Guaranteed cash and off-balance sheet credit exposures to customers

	Gross exposure	Net exposures	Collaterals (1)				Personal guarantees (2)	
							Credit derivatives	
			Property - mortgages	Property - Financial leasing	Securities	Other collaterals	CLN	Other derivatives - Central counterparties
1. Guaranteed cash credit exposures:	**38,666,273**	**37,064,786**	**22,174,857**	**2,109,982**	**904,684**	**1,748,053**	**-**	**-**
1.1 totally secured	33,329,863	32,051,567	21,854,426	2,109,982	663,905	1,693,224	-	-
- of which non-performing	2,854,006	1,696,213	1,137,307	244,937	10,871	54,544	-	-
1.2 partially secured	5,336,410	5,013,219	320,431	-	240,779	54,829	-	-
- of which non-performing	483,672	189,146	96,533	-	6,319	2,621	-	-
2. Guaranteed off-balance sheet credit exposures:	**3,794,394**	**3,777,671**	**35,440**	**-**	**221,636**	**201,263**	**-**	**-**
2.1 totally secured	3,287,904	3,271,756	34,224	-	162,291	172,824	-	-
- of which non-performing	65,349	50,304	407	-	1,985	9,187	-	-
2.2. partially guaranteed	506,490	505,915	1,216	-	59,345	28,439	-	-
- of which non-performing	6,970	6,708	526	-	426	549	-	-

A.3.2 Prudential consolidation - Guaranteed cash and off-balance sheet credit exposures to customers

(segue)

	Personal guarantees (2)							Total (1)+(2)
	Credit derivatives			Endorsement loans				
	Other derivatives							
	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Guaranteed cash credit exposures:	**-**	**-**	**-**	**3,660,051**	**82,205**	**193,263**	**4,777,378**	**35,650,473**
1.1 totally secured	-	-	-	1,254,324	69,202	169,565	4,166,227	31,980,855
- of which non-performing	-	-	-	20,772	23,127	10,268	193,977	1,695,803
1.2 partially secured	-	-	-	2,405,727	13,003	23,698	611,151	3,669,618
- of which non-performing	-	-	-	10,940	-	2,583	30,414	149,410
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**43,399**	**3,144**	**148,108**	**2,919,582**	**3,572,572**
2.1 totally secured	-	-	-	23,908	2,023	145,338	2,729,985	3,270,593
- of which non-performing	-	-	-	202	-	611	37,913	50,305
2.2. partially guaranteed	-	-	-	19,491	1,121	2,770	189,597	301,979
- of which non-performing	-	-	-	86	-	-	2,687	4,274

A.4 Prudential consolidation - Financial and non-financial assets deriving from the recovery of guarantee

	Derecognised credit exposure	Gross value	Total impairment provisions	Book value	
					of which: obtained during the year
A. Property, plant and equipment	**70,466**	**70,466**	**31,303**	**39,163**	**9,556**
A.1 Used in operations	-	-	-	-	-
A.2. Held for investment	70,466	70,466	31,303	39,163	9,556
A.3 Inventories	-	-	-	-	-
B. Equity instruments and debt securities	**-**	**-**	**-**	**-**	**-**
C. Other assets	**-**	**-**	**-**	**-**	**-**
D. Non-current assets and disposal groups classified as held for sale	**-**	**-**	**-**	**-**	**-**
D.1 Property, plant and equipment	-	-	-	-	-
D.2. Other Assets	-	-	-	-	-
Total 31.12.2020	70,466	70,466	31,303	39,163	9,556
Total 31.12.2019	-	-	-	-	-

B. Distribution and concentration of credit exposures

B.1 Prudential consolidation - Breakdown by sector of cash and off-balance sheet credit exposures to customers

Exposures/Counterparties		Public Administrations		Financial companies		Financial companies (of which: insurance companies)	
		Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions
A.Cash credit exposures							
A.1 Bad loans		290	2,881	20,865	59,002	-	6
- of which: forborne exposures		218	182	11,747	17,086	-	-
A.2 Unlikely to pay loans		4,967	2,868	70,001	64,618	-	-
- of which: forborne exposures		-	-	51,132	37,096	-	-
A.3 Non-performing past due exposures		10,570	2,854	261	133	-	-
- of which: forborne exposures		-	-	-	-	-	-
A.4 Performing exposures		13,949,645	9,476	5,936,433	16,211	142,504	29
- of which: forborne exposures		-	-	13,992	546	-	-
Total (A)		**13,965,472**	**18,079**	**6,027,560**	**139,964**	**142,504**	**35**
B. Off-balance sheet credit exposures							
B.1 Non-performing exposures		40,449	-	9,813	33	-	-
B.2 Performing exposures		603,847	171	1,460,970	737	76,671	-
Total (B)		**644,296**	**171**	**1,470,783**	**770**	**76,671**	**-**
Total (A+B)	**31.12.2020**	**14,609,768**	**18,250**	**7,498,343**	**140,734**	**219,175**	**35**
Total (A+B)	**31.12.2019**	**11,470,728**	**17,828**	**7,294,101**	**143,640**	**219,439**	**33**

B.1 Prudential consolidation - Breakdown by sector of cash and off-balance sheet credit exposures to customers

(cont.)

Exposures/Counterparties		Non-financial companies		Households	
		Net exposure	Total impairment provisions	Net exposure	Total impairment provisions
A.Cash credit exposures					
A.1 Bad loans		579,468	1,101,186	126,126	186,593
- of which: forborne exposures		116,559	151,672	26,212	23,944
A.2 Unlikely to pay loans		937,431	654,681	281,454	109,227
- of which: forborne exposures		563,556	341,869	125,347	38,376
A.3 Non-performing past due exposures		29,904	7,432	68,893	21,262
- of which: forborne exposures		-	-	18	1
A.4 Performing exposures		25,005,720	101,792	21,498,227	53,078
- of which: forborne exposures		362,707	6,545	158,441	1,591
Total (A)		**26,552,523**	**1,865,091**	**21,974,700**	**370,160**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures		309,532	29,741	11,653	900
B.2 Performing exposures		16,805,492	3,980	3,334,708	19,169
Total (B)		**17,115,024**	**33,721**	**3,346,361**	**20,069**
Total (A+B)	**31.12.2020**	**43,667,547**	**1,898,812**	**25,321,061**	**390,229**
Total (A+B)	**31.12.2019**	**42,408,268**	**2,623,882**	**24,417,522**	**553,844**

B.2 Prudential consolidation - Breakdown by geographical area of cash and off-balance sheet credit exposures to customers

Exposures/Geographical areas		Italy		Other european countries		America
		Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure
A. Cash credit exposures						
A.1 Bad loans		724,279	1,322,159	2,470	27,122	-
A.2 Unlikely to pay loans		1,273,302	804,762	17,548	23,661	1,466
A.3 Non-performing past due exposures		109,005	31,549	591	118	10
A.4 Performing exposures		59,508,883	177,515	4,749,638	2,389	1,233,901
Total (A)		**61,615,469**	**2,335,985**	**4,770,247**	**53,290**	**1,235,377**
B. Off-balance sheet credit exposures						
B.1 Non-performing exposures		370,662	30,674	780	-	-
B.2 Performing exposures		21,853,931	23,566	349,380	491	1,388
Total (B)		**22,224,593**	**54,240**	**350,160**	**491**	**1,388**
Total (A+B)	**31.12.2020**	**83,840,062**	**2,390,225**	**5,120,407**	**53,781**	**1,236,765**
Total (A+B)	**31.12.2019**	**80,915,128**	**3,279,484**	**3,661,658**	**55,704**	**766,845**

B.2 Prudential consolidation - Breakdown by geographical area of cash and off-balance sheet credit exposures to customers

(cont.)

Exposures/Geographical areas		America	Asia		Rest of the world	
		Total impairment provisions	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions
A. Cash credit exposures						
A.1 Bad loans		365	-	9	-	7
A.2 Unlikely to pay loans		575	1	2	1,536	2,394
A.3 Non-performing past due exposures		7	19	5	3	2
A.4 Performing exposures		423	333,037	87	564,566	143
Total (A)		**1,370**	**333,057**	**103**	**566,105**	**2,546**
B. Off-balance sheet credit exposures						
B.1 Non-performing exposures		-	-	-	5	-
B.2 Performing exposures		-	88	-	230	-
Total (B)		**-**	**88**	**-**	**235**	**-**
Total (A+B)	**31.12.2020**	**1,370**	**333,145**	**103**	**566,340**	**2,546**
Total (A+B)	**31.12.2019**	**1,504**	**218,132**	**78**	**28,856**	**2,424**

The territorial distribution of exposures to customers is presented below, considering just the component of loans and distinguishing between the Stage classifications:

Exposures/ Geographical areas	Italy			Other european countries			United States		
	Gross exposure	Total impairment provisions	Net exposure	Gross exposure	Total impairment provisions	Net exposure	Gross exposure	Total impairment provisions	Net exposure
Total loans	**54,822,540**	**(2,329,680)**	**52,492,860**	**513,353**	**(50,567)**	**462,786**	**19,778**	**(987)**	**18,791**
First stage	*44,356,020*	*(55,606)*	*44,300,414*	*427,756*	*(829)*	*426,927*	*16,572*	*(30)*	*16,542*
Second stage	*6,201,492*	*(115,613)*	*6,085,879*	*16,230*	*(157)*	*16,073*	*784*	*(10)*	*774*
Total Performing Loans	50,557,512	(171,219)	50,386,293	443,986	(986)	443,000	17,356	(40)	17,316
Third stage - Non-performing loans	4,265,028	(2,158,461)	2,106,567	69,367	(49,581)	19,786	2,422	(947)	1,475

(cont.)

Exposures/ Geographical areas	Asia			Rest of the world			Total		
	Gross exposure	Total impairment provisions	Net exposure	Gross exposure	Total impairment provisions	Net exposure	Gross exposure	Total impairment provisions	Net exposure
Total loans	**23,056**	**(65)**	**22,991**	**12,191**	**(3,740)**	**8,451**	**55,390,91**	**(2,385,039)**	**53,005,879**
First stage	*22,346*	*(42)*	*22,304*	*5,668*	*(10)*	*5,658*	*44,828,36*	*(56,517)*	*44,771,845*
Second stage	*674*	*(7)*	*667*	*436*	*(7)*	*429*	*6,219,616*	*(115,794)*	*6,103,822*
Total Performing Loans	23,020	(49)	22,971	6,104	(17)	6,087	51,047,978	(172,311)	50,875,667
Third stage - Non-performing loans	36	(16)	20	6,087	(3,723)	2,364	4,342,940	(2,212,728)	2,130,212

B. 2 Prudential consolidation – Breakdown by geographical area of cash and off-balance sheet credit exposures to customers

Exposures/Geographical areas		North West Italy		North East Italy		Centre Italy		South Italy and Islands	
		Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions
A. Cash credit exposures									
A.1 Bad loans		66,590	160,254	173,307	339,963	94,281	179,501	390,101	642,441
A.2 Unlikely to pay loans		168,308	130,776	455,523	313,602	192,616	132,283	456,855	228,101
A.3 Non-performing past due exposures		16,079	4,425	20,215	5,334	13,046	3,874	59,665	17,916
A.4 Performing exposures		8,433,127	38,408	19,754,906	50,234	16,490,158	30,912	14,830,692	57,961
Total (A)		**8,684,104**	**333,863**	**20,403,951**	**709,133**	**16,790,101**	**346,570**	**15,737,313**	**946,419**
B. Off-balance sheet credit exposures									
B. 1 Non-performing exposures		38,939	827	186,412	17,796	57,852	7,262	87,459	4,789
B. 2 Performing exposures		4,323,439	967	9,990,651	15,944	2,905,953	736	4,633,888	5,919
Total (B)		4,362,378	1,794	10,177,063	33,740	2,963,805	7,998	4,721,347	10,708
Total (A+B)	**31.12.2020**	**13,046,482**	**335,657**	**30,581,014**	**742,873**	**19,753,906**	**354,568**	**20,458,660**	**957,127**
Total (A+B)	**31.12.2019**	**12,732,173**	**399,688**	**29,995,833**	**1,126,985**	**18,066,992**	**447,493**	**20,120,130**	**1,305,318**

B.3 Prudential consolidation – Breakdown by geographical area of cash and off-balance sheet credit exposures to banks

Exposures/Geographical areas		Italy		Other european countries		America
		Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure
A. Cash credit exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay loans		-	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-
A.4 Performing exposures		10,486,169	9,484	6,116,332	3,879	145,031
Total (A)		**10,486,169**	**9,484**	**6,116,332**	**3,879**	**145,031**
B. Off-balance sheet credit exposures						
B.1 Non-performing exposures		-	-	-	-	-
B.2 Performing exposures		383,221	10	421,702	100	67,352
Total (B)		**383,221**	**10**	**421,702**	**100**	**67,352**
Total (A+B)	**31.12.2020**	**10,869,390**	**9,494**	**6,538,034**	**3,979**	**212,383**
Total (A+B)	**31.12.2019**	**3,147,517**	**4,621**	**5,362,597**	**3,222**	**228,597**

B.3 Prudential consolidation – Breakdown by geographical area of cash and off-balance sheet credit exposures to banks

(cont.)

Exposures/Geographical areas		America	Asia		Rest of the world	
		Total impairment provisions	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions
A. Cash credit exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay loans		-	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-
A.4 Performing exposures		33	109,564	102	1,127,724	110
Total (A)		**33**	**109,564**	**102**	**1,127,724**	**110**
B. Off-balance sheet credit exposures						
B.1 Non-performing exposures		-	-	-	-	-
B.2 Performing exposures		3	404,303	45	65,810	21
Total (B)		**3**	**404,303**	**45**	**65,810**	**21**
Total (A+B)	**31.12.2020**	**36**	**513,867**	**147**	**1,193,534**	**131**
Total (A+B)	**31.12.2019**	**124**	**531,541**	**225**	**862,524**	**68**

B.3 Prudential consolidation – Breakdown by geographical area of cash and off-balance sheet credit exposures to banks

Exposures/Geographical areas		North West Italy		North East Italy		Centre Italy		South Italy and Islands	
		Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions
A. Cash credit exposures									
A.1 Bad loans		-	-	-	-	-	-	-	-
A.2 Unlikely to pay loans		-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-	-	-	-
A.4 Performing exposures		1,839,576	4,279	162,722	141	8,480,858	5,064	3,013	-
Total (A)		**1,839,576**	**4,279**	**162,722**	**141**	**8,480,858**	**5,064**	**3,013**	**-**
B. Off-balance sheet credit exposures									
B.1 Non-performing exposures		-	-	-	-	-	-	-	-
B.2 Performing exposures		86,531	3	289,324	7	4,733	-	2,533	-
Total (B)		86,531	3	289,324	7	4,733	-	2,533	-
Total (A+B)	**31.12.2020**	**1,926,107**	**4,282**	**452,046**	**148**	**8,485,591**	**5,064**	**5,546**	**-**
Total (A+B)	**31.12.2019**	**1,725,400**	**4,169**	**160,295**	**207**	**1,254,089**	**245**	**7,733**	**-**

B.4 Large exposures

	31.12.2020	31.12.2019
a) Book value	18,479,039	14,559,073
b) Weighted value	4,590,357	3,051,775
c) Number	9	7

This measurement was made on the basis of the updates to Circular 285 which regulate "large exposures".
The rules define as a "large exposure" the amount of cash assets at risk and off-balance sheet transactions of a single customer or group of related customers that come to 10% or more of admissible capital.
Note that repurchase agreements are included in the amount of risk activities. These transactions contribute to the value of the counterparty exposure for the amount of "securities to be received", while they contribute to the exposure after CRM and exemptions under art. 400 CRR only for the difference between the amount of "securities to be received" and the cash deposit received.
At 31 December 2020, there are nine "large exposures" for an overall amount of € 18,479 million, corresponding to € 4,590 million after CRM and exemptions under art. 400 CRR. Of these, repurchase agreements account for € 2,034 million and € 93.5 million respectively.
For an amount in excess of 60% of the total, the positions shown include the State Treasury and the Ministry of Economy and Finance for a total exposure of € 11,631 million, € 1,497 million after CRM and exemptions (including the DTA amount recognized in the finacial statements).
The rest is made up of leading European and world companies/banks (for € 6,848 million - € 3,094 million after CRM and exemptions) and an associated/related company.

To facilitate an understanding of the degree of concentration of loans, the nominal value of major exposures has been provided.

Risk concentration:

Reference date: 31.12.2019	Amount of the exposure	Amount of the exposure after CRM and exemptions under art. 400 CRR
First 5 exposures	15,267,549	3,430,441
First 10 exposures	19,111,399	4,590,357
First 20 exposures	23,053,667	6,924,512

Reference date: 31.12.2018	Amount of the exposure	Amount of the exposure after CRM and exemptions under art. 400 CRR
First 5 exposures	13,163,586	2,454,597
First 10 exposures	15,973,049	3,819,689
First 20 exposures	19,076,614	6,256,111

C. Securitisation transactions

Qualitative information

The primary objectives of the securitisation transactions arranged by the Group in relation to non-performing loans are:

- to improve the asset structure of the banks concerned;
- to facilitate loan recovery strategies and make them more efficient (by centralising work with one group of lawyers);
- to exercise rigorous, direct control over higher risk loans, without modifying the overall risk profile.

Transactions involving performing contracts are, on the other hand, arranged in order to optimise sources of funding.

The following BPER Banca Group transactions, other than self-securitisation transactions described in the subsequent paragraph 1.4, are outstanding at 31 December 2020:

- Sardegna no. 1
- Italian Credit Recycle
- Restart
- 4 Mori Sardegna
- AQUI SPV
- Spring
- Summer
- Grecale 2015
- SME Grecale 2017
- Pillarstone
- Sestante no. 2
- Sestante no. 3

The following securitisations were closed in 2020:

- Grecale 2009
- Grecale 2011

Sardegna no.1

The special purpose vehicle has issued three types of bonds, equalling the amount of the assets sold:

Disposal date:	31 December 1997
Seller:	Banco di Sardegna s.p.a.
Special purpose vehicle:	"Sardegna No. 1 Limited", with registered offices in Jersey.
Servicer:	Banco di Sardegna s.p.a.
Issue date of securities	31 December 1997
Type of transaction	Standard
Organisation	The responsible central offices provide a detailed quarterly report on the collections made during the period to Senior Management and the Group secretariat. In addition, the financial statements of the SPV are prepared each quarter by the external accountants and reviewed by management.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects, managed by ABN Amro Bank, are summarised below:

Assets sold	Mortgage loans, Government securities
Quality of assets securitised	Non-performing
Amount of securitised assets	Mortgage loans of Euro 79.4 million and government securities of Euro 309.9 million, together totalling Euro 389.3 million.
Disposal price of securitised assets	The mortgage loans had a carrying amount of Euro 90.2 million; the difference (Euro 10.8 million) with respect to the disposal price (Euro 79.4 million) was charged to the income statement in the year of disposal.
Guarantees and credit lines granted by the bank	Non-performing loans are guaranteed by voluntary or judgement mortgages and represent a group of similar assets, as required by Art. 58 of the Consolidated Banking Law.
Guarantees and credit lines granted by third parties	-
Related financial transactions	-
Analysis by business sector	Not provided for non-performing loans since this would not be significant given their nature (the businesses concerned may have closed, be bankrupt or subject to other forms of court-supervised arrangements).
Analysis by geographical area	Italy. Coincides with the originator bank that sold the loans, since the operations of the bank are regional.

The special purpose vehicle has issued the following bonds:

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020	Rating Moody's	Rating S&P
-	Senior	Dec-02	233,600	-	Aa1	AA
XS0083054394	Mezzanine	Dec-03	136,200	-	n.r.	n.r.
XS0083054550	Junior	Dec-20	19,500	-	n.r.	n.r.
Total			**389,300**	**-**		

Italian Credit Recycle (transaction structured pursuant to Law 130 dated 30 April 1999)

Disposal date:	20 June 2017
Seller:	Nuova Cassa di Risparmio di Ferrara s.p.a.
Special purpose vehicle:	Italian Credit Recycle s.r.l., based in Rome
Servicer:	Credito Fondiario s.p.a., acting as Servicer, Corporate Servicer, Calculation and Paying Agent.
Issue date of securities	28 June 2017
Type of transaction	Standard
Organisation	Credito Fondiario s.p.a. prepares a quarterly report that communicates to investors.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects are summarised below:

Assets sold	Loans of banking origin
Quality of assets securitised	Non-performing
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 252 million.
Disposal price of securitised assets	The disposal price was Euro 41 million.
Guarantees and credit lines granted by the bank	None.
Guarantees and credit lines granted by third parties	None.

The special purpose vehicle has issued the following bonds:

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020
IT0005274565	Senior	Dec-37	22,400	-
IT0005274573	Junior	Dec-37	18,600	10
Total			**41,000**	**10**

The securities were placed with institutional investors on issue and, for a residual part, were subscribed by BPER Banca (Euro 2.2 million).

Restart (transaction structured pursuant to Law 130 dated 30 April 1999)

Disposal date:	20 June 2017
Seller:	Nuova Cassa di Risparmio di Ferrara s.p.a.
Special purpose vehicle:	Restart SPV s.r.l., based in Rome
Servicer:	Credito Fondiario s.p.a., acting as Servicer, Corporate Servicer, Calculation and Paying Agent.
Issue date of securities	20 June 2017
Type of transaction	Standard
Organisation	Credito Fondiario s.p.a. prepares a quarterly report that communicates to investors.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects are summarised below:

Assets sold	Loans of banking origin
Quality of assets securitised	Non-performing
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 343 million.
Disposal price of securitised assets	The disposal price was Euro 22 million.
Guarantees and credit lines granted by the bank	None.
Guarantees and credit lines granted by third parties	None.

The special purpose vehicle has issued the following bonds:

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020
IT0005274532	Senior	Dec-37	18,200	5,234
IT0005274540	Junior	Dec-37	14,800	12,570
Total			**33,000**	**17,804**

The securities were placed with institutional investors on issue and, for a residual part, were subscribed by BPER Banca (Euro 1.8 million).

4 Mori Sardegna S.r.l. (transaction structured pursuant to Law 130 dated 30 April 1999)

Disposal date:	7 June 2018
Seller:	Banco di Sardegna s.p.a. ;
Special purpose vehicle:	4 Mori Sardegna S.r.l., based in Conegliano (Treviso)
Servicer:	Prelios Credit Servicing s.p.a., as Servicer.
Issue date of securities	21 June 2017
Type of transaction	Traditional with Guarantee from the Ministry of Economy and Finance (GACS or Bad Loan Securitisation Guarantee)
Organisation	Prelios Credit Servicing s.p.a. prepares a half-year report that communicates to investors.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects are summarised below:

Assets sold	Loans of banking origin
Quality of assets securitised	Non-performing
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 1,045 million.
Disposal price of securitised assets	The disposal price was Euro 253 million.
Guarantees and credit lines granted by the bank	Subordinated loan of Euro 12,000 million.

The special purpose vehicle has issued the following bonds:

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020	Rating DBRS	Rating Scope
IT0005337446	Senior	Jan-37	232,000	191,549	BBB	BBB+
IT0005337479	Mezzanine	Jan-37	13,000	13,000	B	B
IT0005337487	Junior	Jan-37	8,000	8,000	n.r.	n.r.
Total			**253,000**	**212,549**		

The securities were fully subscribed by Banco di Sardegna s.p.a. on issue The Mezzanine and Junior notes were subsequently placed with institutional investors net of a residual part equal to 5% (Euro 1.05 million), kept by Banco di Sardegna s.p.a. in compliance with the retention obligations prescribed by the CRR (Capital Requirements Regulation).

AQUI SPV S.R.L. (transaction structured pursuant to Law 130 dated 30 April 1999)

Disposal date:	2 October 2018
Seller:	BPER Banca S.p.A ; Cassa di Risparmio di Bra s.p.a.; Cassa di Risparmio di Saluzzo s.p.a.
Special purpose vehicle:	AQUI SPV S.r.l., based in Conegliano (TV)
Servicer:	Prelios Credit Servicing s.p.a., as Servicer.
Issue date of securities	7 November 2018
Type of transaction	Traditional with Guarantee from the Ministry of Economy and Finance (GACS or Bad Loan Securitisation Guarantee)
Organisation	Prelios Credit Servicing s.p.a. prepares a half-year report that communicates to investors.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects are summarised below:

Assets sold	Loans of banking origin
Quality of assets securitised	Non-performing
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 2,082 million.
Disposal price of securitised assets	The disposal price was Euro 618 million.
Guarantees and credit lines granted by the bank	Subordinated loan of Euro 27,235 million.
Guarantees and credit lines granted by third parties	Cap Agreement to hedge interest rates on the notes issued.

The special purpose vehicle has issued the following bonds:

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020	Rating Scope	Rating Moody's
IT0005351330	Senior	Oct-38	544,700	421,097	BBB	Baa3
IT0005351348	Mezzanine	Oct-38	62,900	62,900	n.r.	n.r.
IT0005351355	Junior	Oct-38	10,852	10,852	n.r.	n.r.
Total			**618,452**	**494,849**		

The notes were fully subscribed by BPER Banca s.p.A. on issue. The Mezzanine and Junior notes were subsequently placed with institutional investors net of a residual part equal to 5% (Euro 3.7 million), kept by BPER Banca s.p.a. in compliance with the retention obligations prescribed by the CRR (Capital Requirements Regulation).

Spring (transaction structured pursuant to Law 130 dated 30 April 1999)

Disposal date:	1 June 2020
Seller:	BPER Banca S.p.A ; Banco di Sardegna S.p.A.; Cassa di Risparmio di Bra S.p.A.
Special purpose vehicle:	SPRING SPV S.r.l., based in Conegliano (Treviso)
Servicer:	Prelios Credit Servicing s.p.a., as Servicer.
Issue date of securities	18 June 2020
Type of transaction	Traditional with Guarantee from the Ministry of Economy and Finance (GACS or Bad Loan Securitisation Guarantee)
Organisation	Prelios Credit Servicing s.p.a. prepares a half-year report that communicates to investors.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects are summarised below:

Assets sold	Loans of banking origin
Quality of assets securitised	Non-performing
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 1,377 million.
Disposal price of securitised assets	The disposal price was Euro 341 million.
Guarantees and credit lines granted by the bank	Subordinated loan of Euro 16,450 million.
Guarantees and credit lines granted by third parties	Cap Agreement to hedge interest rates on the notes issued.

The special purpose vehicle has issued the following bonds:

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020	Rating Scope	Rating Moody's
IT0005413197	Senior	Sep-40	320,000	228,470	BBB	Baa1
IT0005413213	Mezzanine	Sep-40	20,000	20,000	n.r.	n.r.
IT0005413221	Junior	Sep-40	3,400	3,400	n.r.	n.r.
Total			**343,400**	**251,870**		

The securities were fully subscribed by BPER Banca s.p.a. and Banco di Sardegna s.p.a. on issue. The Mezzanine and Junior notes were subsequently placed with institutional investors net of a residual part equal to 5% (Euro 1.2 million), kept by BPER Banca s.p.a. in compliance with the retention obligations prescribed by the CRR (Capital Requirements Regulation).

Summer (transaction structured pursuant to Law 130 dated 30 April 1999)

Disposal date:	18 December 2020
Seller:	BPER Banca S.p.A ; Banco di Sardegna S.p.A.
Special purpose vehicle:	SUMMER SPV S.r.l., based in Conegliano (Treviso)
Servicer:	Fire S.p.A. as Special Servicer and Banca Finint S.p.A. as Manager Servicer
Issue date of securities	30 December 2020
Type of transaction	Traditional with Guarantee from the Ministry of Economy and Finance (GACS or Bad Loan Securitisation Guarantee)
Organisation	Banca Finint S.p.A. prepares a half-year report that communicates to investors.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects are summarised below:

Assets sold	Loans of banking origin
Quality of assets securitised	Non-performing
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 322 million.
Disposal price of securitised assets	The disposal price was Euro 86 million.
Guarantees and credit lines granted by the bank	Subordinated loan of Euro 3,666 million.
Guarantees and credit lines granted by third parties	Cap Agreement to hedge interest rates on the notes issued.

The special purpose vehicle has issued the following bonds:

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020	Rating Scope	Rating Moody's
IT0005432445	Senior	Oct-40	85,400	85,400	BBB	Baa2
IT0005432452	Mezzanine	Oct-40	10,000	10,000	n.r.	n.r.
IT0005432460	Junior	Oct-40	1,000	1,000	n.r.	n.r.
Total			**96,400**	**96,400**		

The Senior notes were fully subscribed by BPER Banca s.p.a. and Banco di Sardegna s.p.a. The Mezzanine and Junior notes were placed with an institutional investor and for a residual part equal to 5% (Euro 550 thousand), they were subscribed by BPER Banca s.p.a. in compliance with the retention obligations prescribed by the CRR (Capital Requirements Regulation).

Pillarstone

During 2017, BPER Banca securitised a loan of 21 million US dollars granted to Premuda S.p.a., through the vehicle Pillarstone Italy SPV S.r.l. (established under Law 130/99).
The transaction, carried out jointly with other important Italian banks, was carried out in order to allow a restructuring of the receivables from Premuda S.p.a., with the aim of facilitating and increasing the recoveries of the securitised exposures.
The sale was finalized with the issue by the vehicle of Super Senior class securities (subscribed by third parties), of Senior and Junior class securities (fully subscribed by the bank).
The transaction also involves the transfer of all the loans purchased by the vehicle (Pillarstone Italy SPV S.r.l.) to a company (Pillarstone Italy Holding S.p.a.) which, through separate assets established pursuant to art. 2447-bis letter a) of the Italian Civil Code, provides for the restructuring of the loan due from the Premuda group.
BPER Banca does not hold any interest in the companies indicated above.
None of the securities issued by the SPV have a rating.
This loan has been derecognised for financial reporting and prudential supervisory purposes, as the requirements of IFRS 9 (IAS 39 at the time of the transaction) were satisfied.
To match the derecognition of the loan, the Parent Company has recognised the securities subscribed as an asset.
The carrying value of the securities of US dollar 9,259 thousand is equal to the amount of the restructured loan signed between Pillarstone Italy Holding S.p.a. and the Premuda group.

The "own" transactions also include those originated by the Banks absorbed by BPER Banca s.p.a. In particular, they include:

- the securities issued by Sestante Finance SPV s.r.l. deriving from transactions originated by Meliorbanca s.p.a., which was absorbed by BPER Banca in 2012;
- the "Grecale" securities deriving from transactions originated by Unipol Banca s.p.a., which was absorbed by BPER Banca in 2019.

Sestante no.2

Disposal date:	3 December 2004
Seller:	Meliorbanca S.p.a.
Special purpose vehicle:	Sestante Finance s.r.l., based in Via Mario Carucci 131, Roma
Servicer:	Italfondiario Spa
Issue date of securities	3 December 2004
Type of transaction	Standard
Organisation	Italfondiario S.p.a. provides a quarterly report on the collections in which it comments on the activity carried out with indications relating to collections, entering specifically as regards the interest payments or a repayment of the capital.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out by the Servicer.

The operational aspects are summarised below:

Assets sold	ABS securities with mortgage loans on residential and commercial properties as underlying
Quality of assets securitised	Performing loans
Amount of securitised assets	The nominal value of ABS securities issued by Sestante W Srl was Euro 625 millions.
Disposal price of securitised assets	The disposal price was Euro 653 millions.
Guarantees and credit lines granted by the bank	Contingency liquidity
Guarantees and credit lines granted by third parties	None.
Analysis by business sector	Mortgage agreements stipulated with both individuals and legal entities excluding Public Administrations.
Analysis by geographical area	Securitised loans are concentrated in Italy.

The special purpose vehicle has issued the following bonds:

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020
IT0003760136	Senior	Jul-42	575,300	50,778
IT0003760193	Mezzanine	Jul-42	34,400	34,400
IT0003760227	Mezzanine	Jul-42	15,600	15,600
IT0003760243	Mezzanine	Jul-42	21,900	559
IT0003760284	Junior	Jul-42	6,253	6,253
Totale			**653,453**	**107,590**

The Senior and Mezzanine securities were placed with institutional investors on issue, while the Junior securities were subscribed by the merged company Meliorbanca s.p.a. and subsequently sold on the secondary market.

Sestante no.3

Disposal date:	16 December 2005
Seller:	Meliorbanca S.p.a.
Special purpose vehicle:	Sestante Finance s.r.l., based on Via Mario Carucci 131, Roma
Servicer:	Italfondiario Spa
Issue date of securities	16 December 2005
Type of transaction	Standard
Organisation	Italfondiario S.p.a. provides a quarterly report on the collections in which it comments on the activity carried out with indications relating to collections, entering specifically as regards the interest payments or a repayment of the capital.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out by the Servicer.

The operational aspects are summarised below:

Assets sold	ABS securities with mortgage loans on residential and commercial properties as underlying
Quality of assets securitised	Performing loans
Amount of securitised assets	The nominal value of ABS securities issued by Sestante W Srl was Euro 858 millions.
Disposal price of securitised assets	The disposal price was Euro 900 millions.
Guarantees and credit lines granted by the bank	None.
Guarantees and credit lines granted by third parties	Contingency liquidity
Analysis by business sector	Mortgage agreements stipulated with both individuals and legal entities excluding Public Administrations.
Analysis by geographical area	Securitised loans are concentrated in Italy.

The special purpose vehicle has issued the following bonds:

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020
IT0003937452	Senior	Jul-45	791,900	121,383
IT0003937486	Mezzanine	Jul-45	47,350	47,350
IT0003937510	Mezzanine	Jul-45	21,500	21,500
IT0003937569	Mezzanine	Jul-45	30,150	20,652
IT0003937551	Junior	Jul-45	8,610	8,610
Totale			**899,510**	**219,495**

The Senior and Mezzanine securities were placed with institutional investors on issue, while the Junior securities were subscribed by the merged company Meliorbanca s.p.a. and subsequently sold on the secondary market.

Grecale 2009

On 13 November 2020, BPER Banca completed the repurchase of the loan portfolio originally sold to the vehicle company. The repurchase refers to a portfolio of land and mortgage loans for a residual debt of approximately Euro 105 million.
This was announced by publication in the Official Gazette (OG Second Part, no. 136 of 19/11/2020) and to the contractors.

Grecale 2011

On 13 May 2020, BPER Banca completed the repurchase of the loan portfolio originally sold to the vehicle company.The repurchase refers to a portfolio of land and mortgage loans for a residual debt of approximately Euro 205 million.
This was announced by publication in the Official Gazette (OG Second Part, no. 60 of 21/05/2020) and to the contractors.

Grecale 2015

Disposal date:	25 September 2015
Seller:	Unipol Banca S.p.a.
Special purpose vehicle:	SME Grecale RMBS 2015 s.r.l., based on Piazza della Costituzione, 2 Bologna (BO)
Servicer:	BPER Banca S.p.A (former Unipol Banca S.p.A.), in the role of Servicer - Corporate Servicer and Cash Manager, BNP Paribas – in the role of Account Bank and Paying Agent, Securitisation Services in the role of Administrative Servicer and Calculation Agent.
Issue date of securities	24 November 2015
Type of transaction	Standard
Organisation	BPER Banca S.p.A (former Unipol Banca S.p.A.) provides a quarterly report on the collections in which it comments on the activity carried out with indications relating to collections, entering specifically as regards the interest payments or a repayment of the capital. The Corporate Servicer activity has been delegated to Securitization Services s.p.a. since the absorption date of Unipol Banca into Bper.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out by the Originator. This activity has been delegated to Servicer since the absorption date of Unipol Banca into Bper.

The operational aspects are summarised below:

Assets sold	Mortgage loans on residential and commercial properties
Quality of assets securitised	Performing loans
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 728 millions.
Disposal price of securitised assets	The disposal price was Euro 728 millions.
Guarantees and credit lines granted by the bank	Subordinated loan for Euro 19.5 millions.
Guarantees and credit lines granted by third	None.
Analysis by business sector	Mortgage agreements stipulated with both individuals and legal entities excluding Public Administrations.
Analysis by geographical area	Securitised loans are concentrated in Italy.

The special purpose vehicle has issued the following bonds:

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020	Rating Fitch	Rating DBRS
IT0005143836	Senior	Dec-67	573,500	111,005	AA+	AAA
IT0005143844	Mezzanine	Dec-67	58,100	58,100	A	A
IT0005143851	Mezzanine	Dec-67	29,000	29,000	BBB	BBB+
IT0005143869	Junior	Dec-67	65,378	65,378	n.r.	n.r.
Totale			**725,978**	**263,483**		

SME Grecale 2017

Disposal date:	29 September 2017
Seller:	Unipol Banca S.p.a.
Special purpose vehicle:	SME Grecale RMBS 2017 s.r.l., based on Piazza della Costituzione, 2 Bologna (BO)
Servicer:	BPER Banca S.p.A (former Unipol Banca S.p.A.), in the role of Servicer and Corporate Servicer, BNP Paribas – in the role of Account Bank - Paying Agent, Zenith Service s.p.a. in the role of Calculation Agent.
Issue date of securities	8 November 2017
Type of transaction	Standard
Organisation	BPER Banca S.p.A (former Unipol Banca S.p.A.) provides a quarterly report on the collections in which it comments on the activity carried out with indications relating to collections, entering specifically as regards the interest payments or a repayment of the capital. The Corporate Servicer activity has been delegated to Centotrenta Servicing s.r.l. since the absorption date of Unipol Banca into Bper.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out by the Originator. This activity has been delegated to Originator since the absorption date of Unipol Banca into Bper.

The operational aspects are summarised below:

Assets sold	Mortgage and unsecured loans
Quality of assets securitised	Performing loans
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 770 millions.
Disposal price of securitised assets	The disposal price was Euro 770 millions.
Guarantees and credit lines granted by the bank	Subordinated loan for Euro 18.5 millions.
Guarantees and credit lines granted by third parties	None.
Analysis by business sector	Sole enterprises/Legal entities
Analysis by geographical area	Securitised loans are concentrated in Italy.

The special purpose vehicle has issued the following bonds:

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020	Rating Moody's	Rating DBRS
IT0005285207	Senior	Mar-56	508,220	33,357	Aa3	AAA
IT0005285215	Mezzanine	Mar-56	77,000	77,000	A1	AA
IT0005285223	Junior	Mar-56	184,816	184,816	n.r.	n.r.
Totale			**770,036**	**295,173**		

Quantitative information

C.1 Prudential consolidation - Breakdown of exposures deriving from the main “own” securitisations by type of securitised asset and type of exposure

Type of securitised assets/Exposure	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Net impairment losses	Book value	Net impairment losses	Book value	Net impairment losses
A. Fully derecognized	**927,002**	**1,837**	**9,885**	**2**	**439**	**-**
- performing residential mortgages	1,648	3	847	2	38	-
- non-performing residential mortgages	219,140	433	456	-	154	-
- performing no residential mortgages	-	-	-	-	-	-
- non-performing no residential mortgages	351,776	701	645	-	119	-
- leasing performing	-	-	-	-	-	-
- leasing non performing	256	-	680	-	-	-
- other performing loans	-	-	-	-	-	-
- other non-performing loans	354,182	700	7,257	-	128	-
- performing securities	-	-	-	-	-	-
- non-performing securities	-	-	-	-	-	-
B. Partially derecognized	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognized	**-**	**-**	**-**	**-**	**-**	**-**

(cont.)

Type of securitised assets/Exposure	Guarantees granted					
	Senior		Mezzanine		Junior	
	Book value	Net impairment losses	Book value	Net impairment losses	Book value	Net impairment losses
A. Fully derecognized	**2,786**	**-**	**-**	**-**	**-**	**-**
- performing residential mortgages	2,786	-	-	-	-	-
- non-performing residential mortgages	-	-	-	-	-	-
- performing no residential mortgages	-	-	-	-	-	-
- non-performing no residential mortgages	-	-	-	-	-	-
- leasing performing	-	-	-	-	-	-
- leasing non performing	-	-	-	-	-	-
- other performing loans	-	-	-	-	-	-
- other non-performing loans	-	-	-	-	-	-
- performing securities	-	-	-	-	-	-
- non-performing securities	-	-	-	-	-	-
B. Partially derecognized	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognized	**-**	**-**	**-**	**-**	**-**	**-**

The table shows the cash exposures assumed by the Group in connection with its own securitisations Sestante, Restart, Italian Credit Recycle, Pillarstone, Aqui, 4 Mori, Sardegna no. 1, Spring and Summer.
"Net impairment losses" show the annual flow of impairment losses and write-backs as required by the Bank of Italy's Circular 262/2005.
The parts of the table relating to "Credit Lines" have not been shown as there is nothing to report.

C.2 Prudential consolidation - Breakdown of exposures deriving from the main “third-party” securitisations by type of securitised asset and type of exposure

Type of underlying asset/Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Net impairment losses	Book value	Net impairment losses	Book value	Net impairment losses
- performing residential mortgages	31,305	20	1,958	-	-	-
- non-performing residential mortgages	7,894	5	-	-	-	-
- performing no residential mortgages	-	-	-	-	-	-
- non-performing no residential mortgages	-	-	-	-	-	-
- leasing performing	-	-	-	-	-	-
- leasing non-performing	-	-	-	-	-	-
- other performing loans	44,344	-	-	-	-	-
- other non-performing loans	7,695	15	-	-	-	-
- performing securities	-	-	-	-	-	-
- non performing securities	-	-	-	-	-	-

(cont.)

Type of underlying asset/Exposures	Credit lines					
	Senior		Mezzanine		Junior	
	Book value	Net impairment losses	Book value	Net impairment losses	Book value	Net impairment losses
- performing residential mortgages	-	-	-	-	-	-
- non-performing residential mortgages	-	-	-	-	-	-
- performing no residential mortgages	-	-	-	-	-	-
- non-performing no residential mortgages	-	-	-	-	-	-
- leasing performing	-	-	-	-	-	-
- leasing non-performing	-	-	-	-	-	-
- other performing loans	2,100	-	-	-	-	-
- other non-performing loans	-	-	-	-	-	-
- performing securities	-	-	-	-	-	-
- non performing securities	-	-	-	-	-	-

The parts of the table relating to “Guarantees granted” have not been shown as there is nothing to report.

There are no amounts to be disclosed in this section.

C.4 Prudential consolidation - Non-consolidated securitisation vehicles

Securitisation name/ Securitisation vehicle name	Head office	% Interest	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Sardegna Re Finance Srl	Milan	10%	1,508,695	-	31,229	1,066,187	-	462,264

C.5 Prudential consolidation - Servicer activities - "own" securitisation: collection of securitised loans and reimbursement of securities issued by securitisation vehicle

Servicer	Securitisation vehicle	Securitised assets (closing balance)		Collections of loans during the year		Percentage of redeemed securities (closing balance)					
						Senior		Mezzanine		Junior	
		Non-performing	Performing	Non-performing	Performing	Non-performing assets	Performing assets	Non-performing assets	Performing assets	Non-performing assets	Performing assets
Banco di Sardegna s.p.a.	Sardegna N.1	2,841	-	698	-	-	100.00%	56.00%	44.00%	-	-

C.6 Prudential consolidation – Consolidated securitisation vehicles

There are no amounts to be disclosed in this section.

D. Disposal transactions

A. Financial assets sold but not fully derecognised

Qualitative information

The business reflected in the following table mainly relates to the use of investment securities for short/medium/long-term repo transactions and to the disposal of loans to customers in the context of securitisation transactions.

Quantitative information

D.1 Prudential consolidation - Financial assets sold fully recognised and related financial liabilities: book value

	Financial assets sold fully recognised				Related financial liabilities		
	Book value	of which: subject to securitization transactions	of which: subject to sale contracts with repurchase agreement	of which: non-performing	Book value	of which: subject to securitization transactions	of which: subject to sale contracts with repurchase agreement
A. Financial assets held for trading	-	-	-	X	-	-	-
1. Debt securities	-	-	-	X	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	758,247	-	758,247	-	738,416	-	738,416
1. Debt securities	758,247	-	758,247	-	738,416	-	738,416
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	2,865,028	718,859	2,146,169	-	2,290,650	143,813	2,146,837
1. Debt securities	1,987,699	-	1,987,699	-	1,988,322	-	1,988,322
2. Loans	877,329	718,859	158,470	-	302,328	143,813	158,515
Total 31.12.2020	3,623,275	718,859	2,904,416	-	3,029,066	143,813	2,885,253
Total 31.12.2019	3,551,155	1,223,807	2,327,347	-	2,601,139	294,503	2,306,637

D.2 Prudential consolidation - Financial assets sold partially recognised and related financial liabilities: book value

There are no amounts to be disclosed in this section.

D.3 Prudential Consolidation – Sale transactions with liabilities having recourse exclusively on the assets sold and not fully derecognised: fair value

There are no amounts to be disclosed in this section.

B. Financial assets sold and not fully derecognised with recognition of continuing involvement

The Group did not make any disposal for which it would have to provide information in accordance with IFRS 7 § 7, 42D letters a), b), c) and § 42H.

D.3 Prudential Consolidation – Financial assets sold and fully derecognised

Overall, in the three-year period 2018-2020, the BPER Banca Group has completed four sales of non-performing loans, classified as unlikely to pay (UTP), to “multi-originator” mutual funds, with simultaneous subscription of units issued by the fund in proportion to the value of the loans transferred.

The sale transactions of the BPER Banca Group still outstanding at 31 December 2020 are therefore as follows:

- Clessidra Restructuring Fund – CRF
- IDeA Corporate Credit Recovery II – CCR II
- RSCT Fund
- Efesto

Sale of non-performing loans to Clessidra Restructuring Fund

The sale was carried out in September 2019 with the transfer of a portfolio of BPER Banca unlikely to pay (UTP) loans, for a gross carrying amount of Euro 27.7 million, to the purchaser, Clessidra Restructuring Fund ("CRF" or the "Fund") managed by Clessidra SGR. The sale took place without recourse and, in terms of the counterparties sold, it is possible that they may coincide with those sold by the other banks participating in the transaction.

In return for the sale, BPER Banca was assigned 18,317,940 A Units of the Credit Section of the Fund, which have been recognized in the balance sheet at an initial value equal to Euro 12 million. The amounts due for each bank participating in the transaction were determined in proportion to the value of the loans sold by each of them with respect to the total value of the loans sold by the banks participating in the Fund.

CRF is an alternative private, closed-end mutual fund specialised in investing in credit exposures classified as "bad", "unlikely to pay", "past due", "forborne performing and non-performing", and "high risk performing" loans to companies, as well as in lending to debtors for the purpose of restructuring their loans.

The structure and functioning of the transactions are administered and governed in accordance with the Fund Regulations; consistent with these regulations, several classes of units were issued, giving their holders different economic and governance rights; specifically, the following units were issued in the context of this transaction:

- A units: subscribed for solely by the banks that assigned loans (including BPER Banca);

- B units: subscribed for by other "Admissible Investors" and paid for with liquid funds (low yield new finance);
- C units: subscribed for by other "Admissible Investors" and paid for with liquid funds (high yield new finance);
- D units: subscribed for by the SGR, the directors and employees of the SGR and the advisors with which the SGR has a long-term contract for the provision of professional activities in relation to the fund, and paid for with liquid funds.

Consistent with market practice for restructuring operations, the B and C units (subscribed for by investors that contributed new liquidity to the Fund) have seniority over the A units subscribed for by the contributors of the pre-existing credit exposures. In particular, the CRF Regulation recognises that these units have preference on redemption and on the distribution of any income deriving from ownership, as specified in the waterfall envisaged in the Regulation.

The CRF management company, Clessidra SGR, carries out the investment and divestment operations and related negotiations, arranges for collections and exercises all other rights in relation to the loans, arranges for payments and carries out all other Fund administration and risk management activities on behalf of the investors and in compliance with the Fund and sector regulations. The Board of Directors of Clessidra SGR (no members appointed by BPER Banca) is responsible for implementing the investment policy.
The CRF Regulation also requires the Board of Directors to work with a Consultative Committee, which provides advice or binding decisions, without prejudice to the responsibility of the Board of Directors for administering the Fund.
Prior consent from the Consultative Committee (on which BPER Banca has a representative) is required for certain specific non-operating matters.
Like all other investors in the Fund, BPER Banca is also entitled to participate in the Investors' Meeting that, in accordance with the Regulation, resolves solely on the following matters: i. replacement of the SGR, ii. early liquidation of the Fund, iii. amendment of the Regulations.

The following significant information is provided about the UTP portfolio sold by BPER Banca in 2019, in terms of the type of credit line, economic sector and geographical location of the counterparties, the gross amount sold and the impairment adjustments existing at the disposal date.

(in thousands)

Geographical areas/ Sectors/ Guarantees	Gross exposure	Total impairment provisions
Emilia Romagna	**16,061**	**8,466**
Diversified Industrial Products	3,816	-
Secured	*3,816*	-
Marine Applications	12,245	8,466
Unsecured	*12,245*	*8,466*
Lombardy	**6,396**	**4,168**
Consumer Retail	4,206	2,836
Secured	*2,811*	*1,896*
Unsecured	*1,395*	*940*
Iron & Steel	2,190	1,332
Unsecured	*2,190*	*1,332*
Veneto	**5,212**	**3,580**
Food & Beverage	5,212	3,580
Unsecured	*5,212*	*3,580*
Total	**27,669**	**16,214**

During the sale of the non-performing loans, the conditions required by IFRS 9 to proceed with derecognition of the assets were verified[86], applying the relative “flow chart”.
As indicated in Part A4 – Fair Value Information, the financial instruments acquired in the context of the transaction with the Clessidra Restructuring Fund, being (illiquid) unlisted closed-end mutual fund units, have been classified as "Financial assets mandatorily measured at fair value".
Given the characteristics of the instruments, the fair value on initial recognition and subsequent remeasurement was determined using a mark-to-model approach, resulting in a Level 3 fair value. A type of Discounted Cash Flow (DCF) model was used. The fair value at 31 December 2020 was Euro 10.8 million compared with an initial fair value of Euro 12 million.

Sale of non-performing loans to IDeA Corporate Credit Recovery - CCR II

The sale was carried out in 2020 with the transfer of a portfolio of BPER Banca unlikely to pay (UTP) loans, for a gross carrying amount of Euro 8.7 million, to the purchaser, IDeA Corporate Credit Recovery II (“IDeA CCR II or the “Fund”) mutual investment fund, established and managed by Dea Capital Alternative Funds SGR S.p.a. Already in June 2018, BPER Banca had made a first transfer of loans of the same nature to the Fund for a total gross book value of Euro 6.1 million. Both sales took place without recourse and, in terms of the counterparties sold, it is possible that they coincide with those sold by the other banks participating in the transaction.

In return for the sales, BPER Banca was assigned a total of 231 A1 Units of the Credit Section of the Fund, which have been recognised in the balance sheet at a total initial value of Euro 6 million. The amounts due for each bank participating in the transaction were determined in proportion to the value of the loans sold by each of them with respect to the total value of the loans sold by the banks participating in the Fund.

[86] *IFRS 9.3.2.1-3.2.21 and IFRS 9.B3.2.1-B3.2.16.*

IDeA CCR II is a closed-end multi-sector alternative investment fund specialised i) in the acquisition of UTP credits held by the banking system in order to maximise the recovery rate of the positions through a standard, undivided type of management; ii) as well as in the disbursement of new finance in the context of restructuring plans of the companies in the portfolio, through instruments that allow a higher degree of priority in repayment than the financial debt already in place (known as "Debtor-in-Possession Financing").

The structure and functioning of the transactions are administered and governed in accordance with the Fund Regulations.

The Management Regulations of the IDeA CCR II Fund provide that it should be made up of three sub-funds, the Credit Section, the New Finance Section and the Shipping Section. The Banks participating in the operation transfer debt exposures (and/or participating financial instruments) on loan transactions classified as UTPs to the Credit Section and receive units in the Fund in exchange. Third-party investors, on the other hand, finance the New Finance Section through the subscription of units, the purpose of which is to allocate additional resources to the Target Companies of the Credit Section (or to other companies with similar characteristics) to be used in servicing the turnaround. Some of the Fund's partner banks transfer UTP debt positions relating to Target Companies operating in the shipping sector to the Shipping Section and receive units in the Fund in exchange.
To be more specific, the units issued by the Fund are as follows:

- A1 units: units in the Credit Section reserved for banks selling loans (including BPER Banca);
- B1 units: units in the Credit Section reserved for the SGR, the members of the Fund Management Team, the Sponsor and other persons identified by the SGR's Board of Directors;
- A2 units: units in the New Finance Section subscribed by investors other than the “Anchor Investors” as defined in the following point;
- A3 units: units in the Nuova Finanza Section subscribed by investors for a minimum initial amount equal to or greater than Euro 15 million (“Anchor Investors”);
- B2 units: units in the Nuova Finanza Section reserved for the SGR, the members of the Management Team of the Fund, the Sponsor and other persons identified by the Board of Directors of the SGR.
- A4 units: units in the Shipping Section reserved for the banks selling loans in this sector (BPER Banca is not one of these);
- B3 units: units in the Shipping Section reserved for the SGR, the members of the Management Team of the Fund, the Sponsor and other persons identified by the Board of Directors of the SGR.

The units in the Credit, New Finance and Shipping Sections are characterised by a different distribution priority of any income that comes from owning them to be allocated to subscribers. Specifically:

- in cases where no new financial resources have been disbursed to Target Companies of the Credit Section (or Shipping Section), the revenues deriving from specific transactions are allocated 100% to the subscribers of that Section.
- in the case of co-investment between the Credit Section (or Shipping Section) and the New Finance Section in the same Target Companies, the Fund Management Regulations provide for a specific waterfall structure of the proceeds deriving from the sale of the investments. In this case, the units issued by the New Finance Section enjoy a privileged seniority with respect to the units issued by the Credit Section (or Shipping Section).

The management company of IDeA CCR II is Dea Capital Alternative Funds SGR, which, in this role, carries out the investment and divestment operations and related negotiations, arranges for collections and exercises all other rights in relation to the loans, arranges for payments and carries out all other Fund administration and risk management activities on behalf of the investors and in compliance with the Fund and sector regulations.

The overall management and strategic supervision function of the Fund lies with the Board of Directors of Dea Capital Alternative Funds SGR (on which there is no representative appointed by the BPER Banca Group).

The Fund Regulation also provides that the Board of Directors avails itself of the collaboration of an Advisory Committee, which expresses preventive and mandatory opinions, which may be binding or non-binding, while the strategic management and responsibility for the management of each Section of the Fund remains with the Board of Directors.

The prior consent of the Advisory Committee (in which BPER Banca also participates with its own representative) is mandatory for any investment or divestment operation or contract or other deed in conflict of interest governed by the Regulations.

Like all other investors in the Fund, BPER Banca is also entitled to participate in the Investors' Meeting that, in accordance with the Regulation, resolves on the following matters: i) amendment of the Regulations; ii) early liquidation of the Fund, iii) replacement of the asset management company; iv) revocation of the Servicer; v) increase in the maximum amount of expenses; vi) substantial changes to the Servicing Agreement.

The following significant information is provided about the UTP portfolio assigned by BPER Banca in 2018 and 2020, in terms of the type of credit line, economic sector and geographical location of the counterparties, the gross amount assigned and the impairment adjustments existing at the disposal date.

(in thousands)

Geographical areas/ Sectors/ Guarantees	Gross exposure	Total impairment provisions
Emilia-Romagna	**13,900**	**9,009**
Manufacturing	13,900	9,009
Secured	*13,900*	*9,009*
Marche	**916**	**503**
Manufacturing	163	89
Unsecured	*163*	*89*
Wholesale and retail trade	753	414
Unsecured	*753*	*414*
Total	**14,816**	**9,512**

During the sale of the non-performing loans, the conditions required by IFRS 9 to proceed with derecognition of the assets were verified[87], obtaining a specific accounting opinion from an accredited independent consultant.

As indicated in Part A4 – Fair Value Information, the financial instruments acquired in the context of the transaction with the Idea CCR II, being (illiquid) unlisted closed-end mutual fund units, have been classified as "Financial assets mandatorily measured at fair value".

[87] *IFRS 9.3.2.1-3.2.21 and IFRS 9.B3.2.1-B3.2.16.*

Given the characteristics of the instruments, the fair value on initial recognition and subsequent remeasurement was determined using a mark-to-model approach, resulting in a Level 3 fair value. A type of Discounted Cash Flow (DCF) model was used. The fair value at 31 December 2020 was Euro 6.7 million compared with an initial fair value of Euro 6.0 million.

Sale of non-performing loans to RSCT Fund

The sale was carried out in May 2020 with the transfer of a portfolio of BPER Banca unlikely to pay (UTP) loans, for a gross carrying amount of Euro 45.4 million, to the purchaser, RSCT Fund (the "Fund"), managed by the Irish asset management company (AMC) Davy Global Fund Management Limited, which is linked to Pillarstone Italia S.p.a. The sale took place without recourse and, in terms of the counterparties sold, it is possible that they may coincide with those sold by the other banks participating in the transaction.

In return for the sale, BPER Banca was assigned a total of 26,524,044 A1 Units of the Credit Section of the Fund, which have been recognised in the balance sheet at an initial value of Euro 18.5 million. The amounts due for each bank participating in the transaction were determined in proportion to the value of the loans sold by each of them with respect to the total value of the loans sold by the banks participating in the Fund.

RSCT Fund is an alternative investment fund, of the closed-end multi-sector type, specialised in the purchase of loans (and securities representing loans) of debtor Target Companies in a state of financial tension and/or in distress, with the ultimate aim of carrying out investment transactions in the Debtor Company and turnaround and enhancement of the companies in question, also through the investment of new finance according to the methods and limits specified in these Regulations. The loans acquired may possibly be transferred, in whole or in part, from the Fund to the Vehicle Company in order to carry out debt-to-equity swaps or other strategies to maximise the recovery rate of the loans.

The structure and functioning of the transactions are administered and governed in accordance with the Fund Regulations.

The Management Regulations of the RSTC Fund provide that it is made up of two sub-funds, the Credit Section and the New Finance Section. The Banks participating in the operation transfer debt exposures (and/or participating financial instruments) on loan transactions classified as UTPs to the Credit Section and receive units in the Fund in exchange. Third-party investors, on the other hand, finance the New Finance Section through the subscription of units, the purpose of which is to allocate additional resources to the Target Companies of the Credit Section (or to other companies with similar characteristics) to be used in servicing the turnaround.

To be more specific, the units issued by the Fund are as follows:

- A1 units: units in the Credit Section reserved for Professional Investors (banks selling loans, including BPER Banca);
- A2 units: units in the Credit Section reserved exclusively for the SGR, the members of the SGR's Strategic Supervisory Body and the SGR's employees;
- B1 units: units in the New Finance Section reserved for Professional Investors;
- B2 units: units in the New Finance Section reserved exclusively for the SGR, the members of the SGR's Strategic Supervisory Body and the SGR's employees.

The units in the Credit and New Finance Sections are characterised by a different distribution priority of any income that comes from owning them to be allocated to subscribers. To be more specific:

- within each Section (or Sub-Fund), the income deriving from specific investment transactions attributable to the Section is allocated to the subscribers according to a specific waterfall structure defined in the Fund Regulations;
- in the case of co-investment by the Loans and Nuova Finanza Sections in the same Target Companies, the Fund Management Regulations provide for an additional specific waterfall structure of the proceeds deriving from the sale of the investments. In this case, the units issued by the New Finance Section enjoy a privileged seniority with respect to the units issued by the Credit Section.

The company that manages the RSTC Fund is Davy Global Fund Management Limited, which manages the Fund through the Strategic Supervisory Body in accordance with Fund Regulations. The goal is to enhance the value of the loans sold by the banks in order to maximise their yield, sustaining management costs through the collection of income deriving from various activities, including investment and divestment transactions, related negotiations, collection activities and the exercise of any other rights relating to loans, disbursements and any other asset management activity of the Fund in compliance with its Regulations, as well as with sector regulations. The Strategic Supervisory Body of the Irish AMC (no members appointed by BPER Banca) is responsible for implementing the investment policy.
In managing the Fund, the Strategic Supervisory Body uses the collaboration of the Advisor Pillarstone Italy S.p.a., a company that provides consulting services through a specific Advisory Committee, in which BPER Banca also participates by appointing its own representative. The prior, non-binding consent of the Advisory Committee is required with regard to specific matters envisaged by the Fund Regulations, while strategic management and responsibility for managing the Fund remain with the AMC.
Like all other investors in the Fund, BPER Banca is also entitled to participate in the Investors' Meeting that, in accordance with the Regulation, resolves on the following specific matters: i) replacement of the AMC, ii) amendment of the Regulations, iii) early liquidation of the Fund.

The following significant information is provided about the UTP portfolio sold by BPER Banca in 2020, in terms of the type of credit line, economic sector and geographical location of the counterparties, the gross amount sold and the impairment adjustments existing at the disposal date.

(in thousands)

Geographical areas/ Sectors/ Guarantees	Gross exposure	Total impairment provisions
Emilia-Romagna	**32,837**	**18,925**
Manufacturing	19,446	11,254
Secured	16,207	9,476
Unsecured	*3,239*	*1,778*
Transport and storage	13,391	7,671
Secured	*13,391*	*7,671*
Veneto	**12,585**	**7,481**
Wholesale and retail trade	12,585	7,481
Secured	*12,585*	*7,481*
Total	**45,422**	**26,406**

During the sale of the non-performing loans, the conditions required by IFRS 9 to proceed with derecognition of the assets were verified[88], obtaining a specific accounting opinion from an accredited independent consultant.
As indicated in Part A4 – Fair Value Information, the financial instruments acquired in the context of the transaction with the RSTC Fund, being (illiquid) unlisted closed-end mutual fund units, have been classified as "Financial assets mandatorily measured at fair value".
Given the characteristics of the instruments, the fair value on initial recognition and subsequent remeasurement was determined using a mark-to-model approach, resulting in a Level 3 fair value. A type of Discounted Cash Flow (DCF) model was used. The fair value at 31 December 2020 was Euro 20.4 million compared with an initial fair value of Euro 18.5 million.

Sale of non-performing loans to Efesto

The first sale was in October 2020 with the transfer of a portfolio of unlikely to pay (UTP) loans belonging to BPER Banca and Banco di Sardegna, for a total gross book value of Euro 43.1 million (25.1 million from BPER Banca and Euro 18 million from Banco di Sardegna) to the buyer, the Efesto mutual investment fund (the “Fund”), established and managed by Finanziaria Internazionale Investments SGR S.p.a. In December 2020, a further contribution of UTP loans to the Efesto Fund was made by Banco di Sardegna for a gross book value of Euro 10.8 million. Both sales took place without recourse and, in terms of the counterparties sold, it is possible that they coincide with those sold by the other banks participating in the transaction.

In return for the sales, the BPER Banca Group was assigned a total of 32,139,414 single class Units issued by the Fund (of which 13,814,877 to BPER Banca and 18,324,537 to Banco di Sardegna), which have been recognised in the balance sheet at an initial value of Euro 27.2 million (of wich 10 million for BPER Banca and Euro 17.2 million for Banco di Sardegna). The amounts due for each bank participating in the transaction were determined in proportion to the value of the loans sold by each of them with respect to the total value of the loans sold by the banks participating in the Fund.

Efesto is a closed-end, reserved alternative investment fund specialised in i) investing in unlikely to pay (UTP) credit exposures towards Target Companies established in an initial phase of contribution (wave 1) of medium/long term credit lines with the possibility of subsequent expansion to working capital lines to be activated in a second phase (wave 2); as well as in ii) the disbursement of new finance to the Target Companies (or to other companies with similar characteristics) in order to facilitate the turnaround and improve the prospects of recovering the debt. The disbursement of new finance will take place through the special purpose vehicle (SPV) and will have priority in the payment of the loans sold compared with the individual debtor by virtue of contractual agreements (the Fund has granted the SPV super seniority).

The structure and functioning of the transactions are administered and governed in accordance with the Fund Regulations; in line with these provisions, in fact, a single class of units was issued which assign the same administrative and capital rights to the holders, in accordance with the Regulations.
Efesto's management company is Finanziaria Internazionale Investments SGR which, in this role, carries out the investment and divestment operations and related negotiations, arranges for collections and exercises all other rights in relation to the loans, arranges for payments and carries out all other Fund administration and risk management activities on behalf of the investors and in compliance with the Fund and sector regulations. The overall management and strategic supervision function of the Fund lies

[88] *IFRS 9.3.2.1-3.2.21 and IFRS 9.B3.2.1-B3.2.16.*

with the Board of Directors of Finanziaria Internazionale Investments SGR (on which there is no representative appointed by the BPER Banca Group).
The Fund Regulation also provides that the Board of Directors avails itself of the collaboration of an Advisory Committee (in which BPER Banca also participates by appointing its own representative), which expresses preventive, mandatory and binding opinions in the case of transactions in conflict of interest and transactions that take place while waiting for the AMC to be replaced; whereas the Committee's opinion is not binding for the revocation and replacement of the Servicer and the early liquidation of the Fund, approval of the Fund's first business plan and any subsequent amendments. The Committee can also formulate non-binding proposals to the AMC, such as an assessment of contractual remedies in the event of inadequate performance on the part of the Servicer. The Board of Directors remains responsible for administering the Fund.
Like all other investors in the Fund, BPER Banca is also entitled to participate in the Investors' Meeting that, in accordance with the Regulations, resolves exclusively on the following matters;i) amendment of the Regulations; ii) early liquidation of the Fund, iii) replacement of the asset management company; iv) revocation of the Servicer; v) increase in the maximum amount of expenses; vi) substantial changes to the Servicing Agreement.

The following significant information is provided about the UTP portfolio sold by the BPER Banca Group in 2020, in terms of the type of credit line, economic sector and geographical location of the counterparties, the gross amount assigned and the impairment adjustments existing at the disposal date.

(in thousands)

Geographical areas/ Sectors/ Guarantees	Gross exposure	Total impairment provisions
Campania	**3,950**	**2,372**
Administrative and support service activities	2,110	1,058
Unsecured	*2,110*	*1,058*
Construction	1,840	1,314
Secured	*1,840*	*1,314*
Emilia-Romagna	**12,942**	**8,744**
Administrative and support service activities	4,843	1,735
Secured	*4,843*	*1,735*
Manufacturing	7,629	6,475
Secured	7,629	6,475
Transport and storage	470	534
Secured	*470*	*534*
Lombardy	**923**	**477**
Administrative and support service activities	923	477
Secured	*923*	*477*
Marche	**7,319**	**3,869**
Wholesale and retail trade	7,319	3,869
Secured	*7,319*	*3,869*
Total BPER BANCA	**25,134**	**15,462**
Lazio	**476**	**189**
Real estate activities	476	189
Unsecured	*476*	*189*
Sardinia	**28,208**	**11,585**
Accommodation and food service activities	1,637	426
Unsecured	*1,637*	*426*
Construction	3,722	1,529
Unsecured	*3,722*	*1,529*
Financial and insurance activities	2,010	660
Unsecured	*2,010*	*660*
Manufacturing	18,766	8,394
Secured	17,957	8,154
Unsecured	*809*	*240*
Real estate activities	2,073	576
Unsecured	*2,073*	*576*
Umbria	**144**	**40**
Construction	144	40
Unsecured	*144*	*40*
Total BANCO DI SARDEGNA	**28,828**	**11,814**
Total	**53,962**	**27,276**

During the sale of the non-performing loans, the conditions required by IFRS 9 to proceed with derecognition of the assets were verified[89], obtaining a specific accounting opinion from an accredited independent consultant.
As indicated in Part A4 – Fair Value Information, the financial instruments acquired in the context of the transaction with the Efesto Fund, being (illiquid) unlisted closed-end mutual fund units, have been classified as "Financial assets mandatorily measured at fair value".
Given the characteristics of the instruments, the fair value on initial recognition and subsequent remeasurement was determined using a mark-to-model approach, resulting in a Level 3 fair value. A type of Discounted Cash Flow (DCF) model was used. The fair value at 31 December 2020 is Euro 27.5 million (Euro 10.3 million of BPER Banca and Euro 17.2 million of Banco di Sardegna) against an initial fair value of Euro 27.2 million (Euro 10.0 million of BPER Banca and Euro 17, 2 million of Banco di Sardegna).

D.4 Prudential consolidation – Covered bond transactions

Introduction

Guaranteed Bank Bond (GBB) issues are foreseen by BPER Banca Group's strategic plan as a means to diversify funding sources, reduce funding costs and extend the maturities of liabilities. In particular, Guaranteed Bank Bond (GBB) issues are extremely appealing at a time when market yields are very low.
The Board of Directors:

- on 8 February 2011, launched the structuring of a first programme for the issue of guaranteed bank bonds ("GBB1"), based on a collateralised portfolio of residential mortgage loans pursuant to art. 7-bis of Law 130 of 30 April 1999 ("Law 130/99"), the Ministry of Economy and Finance's Decree no. 310 of 14 December 2006 (the "MEF Decree") and the regulatory provisions of the Bank of Italy of 24 March 2010 and subsequent amendments and additions (the "Rules" and, together with Law 130 and the MEF Decree and each subsequent amendment, the "Regulations");
- on 3 March 2015, launched the structuring of a second programme for the issue of guaranteed bank bonds ("GBB2"), based on a collateralised portfolio of residential and commercial mortgage loans, as already mentioned in the Directors' report on Group operations.

The basic structure of a guaranteed bank bond issue

"Guaranteed Bank Bonds", also known as "Covered Bonds", may be issued under a scheme which envisages:

- the sale by a bank, which may differ from the bond issuer, to a special purpose vehicle of high credit quality assets and which constitute segregated assets pursuant to the applicable provisions of Law 130/99;
- the selling bank or another bank granting a subordinated loan to the assignee company to provide the assignee with the funding required to purchase the assets;
- the issue of a guarantee by the assignee company in favour of the bondholders, up to the amount of the segregated assets.

High credit quality assets are intended to mean loans that meet the selection criteria defined by the Regulations and related contracts (the "Eligible Assets").

[89] *IFRS 9.3.2.1-3.2.21 and IFRS 9.B3.2.1-B3.2.16.*

Key elements of the BPER Banca Group's Programmes for the issue of Covered Bonds

The BPER Banca's Covered Bond Programmes (the "Programmes") have been structured as follows:

- the sale without recourse to Estense Covered Bond s.r.l. (the "SPV" or "Estense Covered Bond") for GBB1, and to Estense CPT Covered Bond s.r.l. (the "SPV" or "Estense CPT Covered Bond") for GBB2, initially just by BPER Banca and then, during the Programmes, also by other Group Banks, of assets with a high credit quality, which constitute segregated assets pursuant to Law 130/99;
- the provision to the assignee SPVs, by BPER Banca and other Group Banks that will eventually join the programmes as selling banks, of subordinated loans to provide the assignees with the funding required to purchase the assets sold;
- the issue by the SPVs, up to the amount of the segregated assets, of guarantees in favour of the holders of the Guaranteed Bank Bonds issued by BPER Banca.

Although they are presented as Group programmes, the initial and subsequent transactions only involved BPER Banca as the selling bank, the understanding being that BPER Banca will always take on the role of issuing bank. Only at a later stage, after an expert assessment of the risks and opportunities, is it expected that other Group Banks will join the Programmes as selling banks to sell additional Eligible Assets.

The portfolios of Eligible Assets involved in the initial sales are composed of loans originating from residential mortgage loans for GBB1 and of residential and commercial mortgage loans for GBB2, which meet the requirements of the Regulations. These portfolios were identified based on general and specific criteria indicated in the sale agreements. Additional portfolios of Eligible Assets may include mortgage loans that meet the requirements of the Rules and any subsequent additional eligible assets referred to in article 2, paragraph 3, points 2 and 3 of the MEF Decree.

The sale prices of the portfolios is determined, as laid down in the Provisions, with reference to their book values in the latest financial statements approved by BPER Banca with a view to specific sale dates or by having the sale price certified by the Independent Auditors. The sale prices so determined are subject to adjustment to consider movements on the loans between the financial year end and the date of sale. More specifically, the sale prices shall be adjusted to consider the collection of the capital element of the loans in the intervening period and the payment of contractually agreed interest in the same period.

The sale of the portfolios - without recourse and under the combined provisions of articles 1 and 4 of Law 130/99 and art. 58 of the CFA - is communicated to the mortgage holders by publishing a notice of sale by the seller with the above selection criteria in the Official Journal and by filing the same notice of sale with the Registrar of Companies. Further formalities are also carried out for privacy legislation purposes (Legislative Decree 196/2003).

The mortgage holders maintain a direct operational relationship with BPER Banca - or, in the case of sale of Eligible Assets by other selling banks that will join the Programmes, with the other Group Banks that the mortgage holders originally obtained the loans from - since the two SPVs have given BPER Banca responsibility for managing and administering the loans sold and the related collection and payment services (servicing activities), with BPER Banca having the power to grant a sub-proxy to the pertinent selling banks to perform servicing activities for the portfolios sold.

This, in accordance with the Regulations, is in order to minimise the commercial impact with the mortgage holders and, at the same time, to optimise the operational management of each portfolio which, in fact, remains in the hands of the assignors.

At predetermined dates and based on specific operational and market situations, BPER Banca, in the role of Calculation Agent, will perform assessment tests to compare the portfolios sold with the bonds issued,

aimed at verifying the adequacy of the guarantees issued with reference to specific legal parameters and the parameters set by the Programmes' documentation based on indications provided by rating agencies, on which the credit rating assigned to the Guaranteed Bank Bonds depends.
In the case of non-compliance with one or more of the required parameters, it will be necessary to add to the portfolios sold by selling further Eligible Assets. The portfolios can be added to by using the SPVs' liquid funds or by further drawdowns of the subordinated loans granted by BPER Banca (or by the other selling banks) to the two SPVs.
Other initiatives are required in the case of violation of contractual conditions, up to the extreme consequences of enforcement of the guarantees provided by the SPVs in the case of an Event of Default by the Issuer (for example, default in repayment of principal or non-payment of interest on the Covered Bonds).
Moreover, on predetermined dates, the functions responsible for supervising the Bank's risk management verify the quality and integrity of the assets provided as collateral for Covered Bonds issued.
The structure of the Programmes, as outlined, permits the creation of segregated assets (consisting of the Eligible Assets assigned from time to time to the SPVs), to serve as a preferred guarantee for the Covered Bond holders, for the counterparties to derivative contracts entered into under the Programmes to hedge the risks inherent in the portfolio of transferred Eligible Assets and for the payment of other transaction costs.
Normally, the charges for payment and redemption of the GBB remain with the Issuer and, only when there is an Event of Default by the Issuer will automatic protection mechanisms be activated to protect the investors.
To further support of the financial structure, provision has been made for swaps with one or more external counterparties selected on the market and with an appropriate credit standing in line with the eligibility criteria required by rating agencies. The purpose of these contracts is to transform the interest flow produced by the loan portfolios sold so as to make them consistent with that incurred on the bonds issued.
In particular, among the various options available, it is normally envisaged that two separate swap derivative contracts will be entered into:

- asset swap: under this contract, the SPV will pay the swap counterparty the flow received as interest on a notional amount represented by a portion of segregated assets and determined by taking into account the outstanding amount of the liability represented by the Guaranteed Bank Bonds issued and will collect from it a flow corresponding to Euribor for the period plus or minus a Spread applied to the same notional amount for the reference period;
- liability swap: under this derivative the SPV will receive from the swap counterparty a fixed rate equal to the coupon of the related series of Guaranteed Bank Bonds and will pay to the same flow corresponding to Euribor plus or minus (as appropriate) a Spread applied to an amount equal to the nominal value of the corresponding series of Guaranteed Bank Bonds.

These contracts can be linked to back-to-back swap agreements between the swap counterparties and BPER Banca, a situation that currently exists in the case of the fourth, eighth and ninth issue of the GBB1 Programme.
In this respect, it should be noted that the first issue of the GBB1 Programme was redeemed on 22 January 2014, whereas the second issue, redemption of which should have taken place in April 2015, was redeemed early on 12 January 2015. The third issue was repaid according to schedule on 22 October 2018, while the fifth and sixth issues was repaid according to schedule on 22 July 2020.

For the fourth, eighth and ninth issue, which have a fixed interest rate, it was necessary to execute liability swap agreements. Lastly, the seventh and tenth issues have a floating interest rate and therefore do not have any liability swaps.
The financial mechanism allows, on the one hand, BPER Banca, as selling bank, to maintain a financial position as desired and consistent with its Asset & Liability Management strategies and, on the other hand, the SPV, as guarantor, in the Event of the occurrence of an Event of Default of the Issuer, to cover the costs of the Guaranteed Bank Bonds by trading them for the expected return on portfolio of loans sold.

The GBB1 Programme

The GBB1 Programme – following the January 2019 update – provides for the issue of Covered Bonds up to a maximum of Euro 7 billion, to be carried out in a number of issues over time, by 31 December 2023 at latest (subject to the obligations for annual renewal of the prospectus prepared in compliance with EU regulations).
The first series of Guaranteed Bank Bonds with a nominal value of Euro 750 million was issued on 1 December 2011 and was redeemed on 22 January 2014, after the sale on 2 November 2011 by BPER Banca to Estense Covered Bond s.r.l. of a portfolio of loans that met eligibility requirements under the Regulations for a nominal value of Euro 1.1 billion, selected on the basis of the criteria outlined above and having the following main characteristics:

- residential mortgage loans provided in accordance with mortgage lending legislation;
- concluded by 31 December 2010;
- final instalment due after 31 December 2012;
- ratio of outstanding debt to the value of secured property, estimated at the payment date, lower than 80%.

Based on these general assumptions, a second issue of Guaranteed Bank Bonds was completed on 25 June 2012 for a total of Euro 300 million, with a maturity of three years at a floating rate. This was after another Euro 546 million of residential mortgage loans, again originated exclusively by BPER Banca, were transferred to the vehicle company Estense Covered Bond s.r.l. on 4 May 2012, essentially attributable to the "production" of 2011.
Based on these same general assumptions, on 10 July 2013, a further Euro 680 million of residential mortgage loans was sold, with these originating solely from BPER Banca or from other Group banks merged into the Parent Company.
On 12 January 2015 the second series of GBB was all repaid early.
On 15 October 2013, a third issue of Guaranteed Bank Bonds was completed for an amount of Euro 750 million, at a fixed rate and with a tenor of 5 years, all of which was placed on the market. This issue was then reopened on 24 February 2014 for a further Euro 250 million. This third issue was repaid according to schedule in October 2018.
On 23 July 2014, another Euro 501 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 22 January 2015, a fourth issue of Guaranteed Bank Bonds was completed for an amount of Euro 750 million, at a fixed rate and with a tenor of 7 years, all of which was placed on the market.
On 28 April 2015, another Euro 1,074 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 29 July 2015, a fifth issue of Guaranteed Bank Bonds was completed for an amount of Euro 750 million, at a fixed rate and with a tenor of 5 years, all of which was placed on the market.
On 28 January 2016, another Euro 1,086 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 31 May 2016, a sixth issue of Guaranteed Bank Bonds was completed for an amount of Euro 500 million, at a floating interest rate, with a tenor of 4 years and which was self-subscribed.
On 27 July 2016, another Euro 310 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 25 January 2017, another Euro 404 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 3 February 2017, a seventh issue of Guaranteed Bank Bonds was completed for an amount of Euro 540 million, at a floating interest rate, with a tenor of 4 years and which was self-subscribed.
On 23 October 2017, another Euro 816 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 27 April 2018, another Euro 652 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 19 July 2018, a eighth issue of Guaranteed Bank Bonds was completed for an amount of Euro 500 million, at a fixed rate and with a tenor of 5 years, all of which was placed on the market.
On 19 March 2019, a ninth issue of Guaranteed Bank Bonds was completed for an amount of Euro 600 million, at a fixed rate and with a tenor of 7 years, all of which was placed on the market.
On 29 April 2019, another Euro 570 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 25 June 2020, another Euro 515 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 18 September 2020, a tenth issue of Guaranteed Bank Bonds was completed for an amount of Euro 1,150 million, at a floating interest rate and a tenor of 4 years, which was self-subscribed.

The subordinated loan granted by BPER Banca to Estense Covered Bond s.r.l., under the form of a credit facility to finance the purchase of the assigned portfolios currently amounts to Euro 6 billion. Notwithstanding BPER Banca's right to increase the amount of the subordinated loan granted to finance the purchase of additional portfolios (both in connection with new issues or for the purpose of adding to segregated assets) and with a remuneration that guarantees a return to the transferor of the yield on the segregated mortgage loans, albeit residual with respect to payment of the SPV's operating expenses; thus making the sale essentially neutral from an economic standpoint.
Repayment of this loan is linked to the gradual reimbursement of the Guaranteed Bank Bonds that, in turn, will allow the release of the loan portfolio or the cash collections generated thereby. In this regard it should be noted that in October 2014 drawdowns of the subordinated loan had been reduced to Euro 250 million, as a first partial early redemption was made taking advantage of part of the principal generated by the loan portfolio sold. Subsequently, in October 2015, an additional Euro 250 million was

repaid. Euro 620 million was repaid in 2016, with a further Euro 400 million in 2017. In 2018, a total of Euro 850 million was then repaid. In 2019, a total of Euro 727 million was repaid, again on the basis of the available capital provided by the transferred loan portfolio. Likewise, in 2020 a further Euro 495 million was repaid in total. Euro 50 million was repaid already in January 2021.
The liquidity generated by the portfolio can also be used - within the limits established by law - for suitable investments or deposits, based on BPER Banca's indications as Investment Agent. It cannot, however, be entrusted to BPER Banca because the rating is inadequate. Accordingly, cash generated from the portfolio of sold Eligible Assets - for which BPER Banca will remain as Servicer - are transferred to current accounts with BNP Paribas Securitisation Services, either in Italy or the UK, since this is a third party with appropriate rating.

Counterparties involved in the GBB1 Programme

Issuing Bank, initial Selling Bank, Servicer, Investment Agent, Principal Paying Agent and Calculation Agent: BPER Banca.
Any other seller banks that could join the Programme:

- Banco di Sardegna S.p.A.;
- Bibanca S.p.A.

Arranger: NatWest Market Plc (formerly The Royal Bank of Scotland plc).
Joint Lead Manager of the third series of bonds issued: NatWest, Citibank, Mediobanca, Société Générale, UBS.
Joint Lead Manager of re-opening of the third series of bonds issued: Citibank, Raiffeisen Bank International.
Joint Lead Manager of the fourth series of bonds issued: NatWest, BNP Paribas, Natixis, Nomura International plc., UNICREDIT Bank AG.
Joint Lead Manager of the fifth series of bonds issued: NatWest, Banca IMI, Credit Suisse International, Raiffeisen Bank International, Société Générale.
Lead Manager of the sixth series of bonds issued: NatWest.
Lead Manager of the seventh series of bonds issued: NatWest.
Joint Lead Manager of the eighth series of bonds issued: NatWest, Commerzbank, Nomura, UBS, Unicredit. Guarantor: Estense Covered Bond s.r.l..
Joint Lead Manager of the ninth series of bonds issued: NatWest, BNP Paribas, Credit Agricole CIB, HSBC France, Banca IMI.
Joint Lead Manager of the tenth series of bonds issued: NatWest.
Guarantor: Estense Covered Bond s.r.l..
Representative of the Bondholders (RoB): Banca Finint S.p.A.
Italian Paying Agent, Cash Manager and Account Bank: BNP Paribas Securities Services (both the Italian and London branches).
Corporate Servicer: Banca Finint S.p.A.
Guarantor Calculation Agent: Banca Finint S.p.A.
Liability Swap counterparty: for the fourth issue, NatWest; for the fifth issue, Credit Suisse International; for the eighth and ninth issue, BNP-Paribas.
Legal advisor to BPER Banca: Studio Legale CRCCD.
Asset Monitor and Pool Auditor: PriceWaterhouseCoopers S.p.A.
Independent Auditors of the special purpose vehicle: Deloitte & Touche S.p.A.
Rating agency: Moody's Investor Services.

In 2012, the role of Back-Up Servicer (BUS) was added to the structure of this transaction and is being performed by Italfondiario S.p.A. the aim was to make the transaction more robust, also based on the indications received to that effect from the counterparty to the asset swap and from the rating agency.

The GBB2 Programme

The GBB2 Programme provides for the issue of Covered Bonds up to a maximum of Euro 7 billion, to take place in a number of issues over time, by 31 December 2025 at latest (subject to the obligations for annual renewal of the prospectus prepared in compliance with EU regulations).

The first series of Guaranteed Bank Bonds with par value of Euro 625 million was issued on 16 December 2015, after the sale on 17 September 2015 by BPER Banca to Estense CPT Covered Bond s.r.l. of a portfolio of loans that met eligibility requirements under the regulations for a nominal value of Euro 870 million, selected on the basis of the criteria outlined above and having the following main characteristics:

- residential and commercial mortgage loans;
- granted by 31 December 2014;
- final instalment due after 31 December 2015;
- ratio of outstanding debt to the value of secured property, revalued close to the date of sale, up to a maximum of 80% for residential mortgage loans and up to a maximum of 60% for commercial mortgage loans.

The first bond issue of Euro 625 million was fully subscribed by BPER Banca in order to increase the collateral for refinancing operations with the European Central Bank.

On 23 June 2016, another Euro 478 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 1 August 2016, a second issue of Guaranteed Bank Bonds was completed for an amount of Euro 200 million, at a floating interest rate, with a tenor of 4 years and which was self-subscribed.

On 21 November 2016, another Euro 411 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 24 February 2017, a third issue of Guaranteed Bank Bonds was completed for an amount of Euro 240 million, at a floating interest rate, with a tenor of 4 years and which was self-subscribed.

On 27 September 2017 a partial early repayment was made for Euro 150 million on the first series of securities issued.

On 25 January 2018, a fourth issue of Guaranteed Bank Bonds was completed for an amount of Euro 420 million, at a floating interest rate, with a tenor of 3 years and which was self-subscribed.

On 22 May 2018, another Euro 594 million of commercial mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 24 September 2018, another Euro 731 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 17 October 2018, a fifth issue of Guaranteed Bank Bonds was completed for an amount of Euro 1,050 million, at a floating interest rate, with a tenor of 3 years and which was self-subscribed.

On 27 February 2019, another Euro 276 million of commercial mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 13 March 2019, a sixth issue of Guaranteed Bank Bonds was completed for an amount of Euro 200 million, at a fixed interest rate, with a tenor of 3 years and which was self-subscribed.

On 25 June 2019, another Euro 593 million of residential and commercial mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 10 July 2019, a seventh issue of Guaranteed Bank Bonds was completed for an amount of Euro 250 million, at a fixed interest rate, with a tenor of 4 years and which was self-subscribed.
On 26 November 2019, another Euro 594 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 30 January 2020, a eighth issue of Guaranteed Bank Bonds was completed for an amount of Euro 200 million, at a fixed interest rate and a tenor of 4 years, which was self-subscribed.
On 25 March 2020, another Euro 441 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 23 April 2020, another Euro 1,123 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 30 April 2020, a ninth issue of Guaranteed Bank Bonds was completed for an amount of Euro 900 million, at a fixed interest rate and a tenor of 4 years, which was self-subscribed.
On 23 October 2020, another Euro 840 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 12 November 2020, a tenth issue of Guaranteed Bank Bonds was completed for an amount of Euro 550 million, at a floating interest rate and a tenor of 4 years, which was self-subscribed.
Also on 12 November 2020, an eleventh issue of Guaranteed Bank Bonds was completed for an amount of Euro 600 million, at a fixed interest rate and a tenor of 4 years, which was self-subscribed.

The subordinated loan granted by BPER Banca to Estense CPT Covered Bond s.r.l., under the form of a credit facility, to finance the purchase of the assigned portfolios, amounted to Euro 5.5 billion, notwithstanding BPER Banca's right to increase the amount of the subordinated loan granted to finance the purchase of additional portfolios (both in connection with new issues or for the purposes of adding to segregated assets) and with a yield that guarantees a return to the transferor of the yield on the segregated mortgage loans within segregated assets, albeit residual with respect to the payment of the SPV's operating expenses; thus making the sale essentially neutral from an economic standpoint.
Repayment of this loan is linked to the gradual reimbursement of the Guaranteed Bank Bonds that, in turn, will allow the release of the loan portfolio or the cash collections generated thereby. In this regard it should be noted that in 2017 drawdowns of the subordinated loan had been reduced to Euro 270 million, as partial early redemptions were made taking advantage of part of the principal generated by the loan portfolio sold. A further Euro 250 million was repaid during 2018. In 2019, an additional Euro 645 million was repaid, again on the basis of the available capital provided by the transferred loan portfolio. A further Euro 310 million was repaid in 2020. Euro 50 million was repaid already in January 2021.
The liquidity generated by the portfolio can also be used - within the limits established by law - for suitable investments or deposits, based on BPER Banca's indications as Investment Agent. It cannot, however, be entrusted to BPER Banca because of the inadequate rating level. Accordingly, cash generated by the portfolio of Eligible Assets sold - for which BPER Banca will remain as Servicer - are transferred to current accounts with Citibank N.A., either in Italy or the UK, as this is a third party with an adequate rating.

The specific financial feature of the GBB2 Programme is a different structural technique which, in the event of the Parent Company's default and under other circumstances foreseen in the GBB2 Programme, makes it possible to transform the repayment plan of the Covered Bonds according to the loan portfolio amortisation schedule given in guarantee. This eliminates the financial risk associated with a forced and peremptory liquidation of this portfolio, thereby transforming the outstanding Covered Bonds into securities similar to pass-through securities issued as part of securitisation transactions. In this way, the risk profile of a default on the Covered Bonds is clearly attenuated, making it possible to obtain a higher rating.

Counterparties involved in the GBB2 Programme

Issuing Bank, initial Selling Bank, Servicer, Investment Agent, Primary Paying Agent and Calculation Agent: BPER Banca.

Any other seller banks that could join the Programme:

- Banco di Sardegna S.p.A.;
- Bibanca S.p.A.

Arranger: Banca Finint S.p.A.

Initial Dealer of the first series of bonds issued: Banca Finint S.p.A.

Dealer of all the other series of bonds issued: NatWest.

Guarantor: Estense CPT Covered Bond s.r.l.

Representative of the Bondholders (RoB): Banca Finint S.p.A.

Subsequent Paying Agent, Cash Manager and Account Bank: Citibank N.A. (both Italian and London branches).

Corporate Servicer: Banca Finint S.p.A.

Guarantor Calculation Agent: Banca Finint S.p.A.

Legal advisor to BPER Banca: Dentons Europe Studio Legale.

Asset Monitor and Pool Auditor: PricewaterhouseCoopers S.p.A.

Independent Auditors of the special purpose vehicle: Deloitte & Touche S.p.A.

Rating agencies: Moody’s Investor Services.

The requirements for Issuers

According to the Rules, Guaranteed Bank Bonds may be issued by banks belonging to banking groups that have:

- Own Funds not lower than Euro 250 million;
- Total capital ratio at consolidated level not lower than 9%.

These requirements must be satisfied, on a consolidated basis, even by selling banks, where the latter, as provided for by the Programmes' structure, differ from the bank issuing the Guaranteed Bank Bonds. In the case of banks belonging to the same group, reference should be made to consolidated figures.

With reference to the figures at 31 December 2020, the Own Funds of the BPER Banca Group amount to Euro 7,094 million and the Total Capital Ratio is 21.18%.

Limits on the sale of Eligible Assets

The Provisions set limits to the possibility for banks to sell Eligible Assets, which are based on the level of their Tier 1 (T1) and Common Equity Tier 1 (CET1) ratio.

Sale restrictions refer to total transactions of this kind made by a banking group. Banking groups are classified into three categories, with corresponding specific limits as shown below:

- "a" band: for banking groups with T1 Ratio equal to or higher than 9% and CET1 Ratio equal to or higher than 8%, for which there are no sale limits;
- "b" band: for banking groups with T1 Ratio equal to or higher than 8% and CET1 Ratio equal to or higher than 7%, for which there is a sale limit of 60% of appropriate assets;
- "c" band; for banking groups with T1 Ratio equal to or higher than 7% and CET1 Ratio equal to or higher than 6%, for which there is a sale limit of 25% of appropriate assets.

At 31 December 2020, the pro-forma Phased In Tier 1 Ratio is 18.15% and the pro-forma Phased In Common Equity Tier 1 Ratio is 17.70%.

Organisational structure and procedures

The structuring process for the GBB Issue Programmes meant organising a team to coordinate the activities of all the departments involved. In this regard, a specific structure was set up, the Structured Finance Management Office, which acts as coordinator of the interfunctional team, taking care to involve all the structures involved in the management process of the Covered Bonds. To supervise the structuring process and management of the Programmes, including when it is fully operational, a specific Group Regulation has been prepared followed by a Group Organisational Procedure.

Accounting, capital and tax impact

With the issue of the GBB, BPER Banca, as initial selling bank and any subsequent selling banks will retain substantially all the risks and benefits of the transferred assets as:

- they are required to reinstate, in line with several alternatives, the collateral should the value of assets sold deteriorate and their value fall below the thresholds set by contract;
- the repayment of the subordinated loan granted to the special purpose vehicle is linked to the performance of the secured assets.

The primary objective of creating a special purpose vehicle and the sale of eligible assets thereto is, in fact, to legally segregate, by means of a without recourse sale contract, the selling bank's assets within a separate legal entity. These assets, segregated in this manner, are subject to a restriction as to their use pursuant to Law 130/99 for the protection, among others, of the holders. Thus, the holders of Covered Bonds benefit, on the one hand, from the general guarantee represented by the issuer's capital and on the other, from the guarantee issued by the SPV in respect of the segregated portfolio for which they have priority creditor rights. This structure of "dual protection" facilitates the creation of conditions for a potential reduction in funding costs.

The overall risk profile of BPER Banca as initial selling bank and that of any further selling banks is not altered in any way.

The same regulatory provisions stipulate that the selling banks retain the same capital requirement that they are already required to comply with, in respect of the assets sold, prior to the sale. The transactions do not, therefore, qualify for derecognition: the selling banks must continue to recognise the transferred assets in their entirety in the balance sheet and the considerations received from the sale must be accounted for as opposite entries to the financial liabilities due to the SPVs.

In turn, these liabilities must be shown net of the subordinated loans granted to the vehicles, due to the principle of substance over form: it is as if the purchase of loans by the SPVs had never taken place.

The subordinated loans are not taken into consideration for the purposes of counterparty risk; these loans must not, in fact, be considered, as the credit risk is already reflected in the valuation of the mortgage loans being sold.

As regards the impact at consolidation level, it should be noted that both the SPVs are BPER Banca Group's entities, as the Parent Company has a 60% holding; they are therefore subject to consolidation.

Finally, regarding the tax implications, consistent with the dictates of art. 7 *bis*, Law 130/99, all taxes and dues are payable as though the sales of the loans had never taken place.
Again, to ensure that the operation was neutral for tax purposes, it was established, as foreseen in art. 7 *bis*, paragraph 7 of Law 130/99, that the sale price would be equal *"to the latest carrying amount of the loans"*, or as certified by the Independent Auditors of the selling Bank.

More specifically, the book value is adjusted for "endogenous variables", that is, cash collected from the loans in the intervening period and contractual interest accruing in the same period. This is also consistent with the regulatory provisions laid down by the Rules as described previously.
As for the other components that could affect the configuration of the carrying amount, i.e. amortised cost and collective impairments (given that they are performing loans), it has been considered in line with the principles of relevance, pertinence and materiality to assume that their value is equal to the one shown in the latest approved and audited financial statements, or the sale price specifically certified by the auditors of the selling Bank.

The risks associated with the transaction
The GBB1 and GBB2 Programmes involve some financial and other risks, subject to analysis and monitoring by the Group’s Risk Management and Compliance functions and, specifically with regard to the risks of fraud and unintentional errors in financial reporting, by the Manager responsible for preparing the company's financial reports. In summary the main risk profiles can be summarised as follows:

- Interest rate risk. In the structure of a Covered Bond, the interest rate risk originates from the different characteristics of interest rates on Guaranteed Bank Bonds and on the portfolio of secured assets. These risks are mitigated by hedging derivatives put in place from time to time with market counterparties.
- Credit risk. In the structure of a covered bond, credit risk is attributable to the quality of loans sold by each Selling Bank in the cover pool. Given this risk, the rating agencies, in order to attribute to the Covered Bonds the maximum rating possible, require a level of over-collateralisation which is also linked to the quality of the cover pool.
- Counterparty risk. The counterparty risk is the possibility that the creditworthiness of counterparties involved in the transaction, in other words, the swap counterparties and the non Group bank, with which the SPV has its accounts, may worsen to the point of creating a liquidity problem, with the result that the cover pool funds that flow into the accounts of the SPV or payments made in connection with the swaps are retained by the same counterparties. This risk is mitigated by the involvement of high rated counterparties and the existence of clauses, in the relevant ISDA and CSA contracts as well as in the "Cash Management and Agency Agreement", according to which, in the case of downgrading of the counterparties, they will be immediately replaced.
- Liquidity risk. An issue of "bullet" Covered Bonds with a cover pool relating to mortgage loans with a given repayment plan entails the need for dynamic management of the cover pool itself. The funds received from the collection of capital instalments on the mortgage loans relating to the cover pool may have to be, in fact, reinvested in new mortgage loans with similar characteristics. If the Group does not have eligible mortgages available to be sold to supplement the cover pool (or to replace non-performing mortgages), it would be forced to pay cash or eligible securities, impacting negatively on Counterbalancing Capacity (the limit set by the Rules for these assets is 15%).

- Compliance risk. The articulate and accurate external legislation regulating Guaranteed Bank Bonds, together with management and internal operating rules, require a precise and formal structuring of activities under the Programmes, both during the up front and on going phases. The analysis of compliance requirements has been performed by the Compliance function.
- Reputational risk. Reputational risk is the possibility that the failure by BPER Banca to fulfil certain obligations arising from its role in the Programmes adversely affects the credibility and image of the Group on the market, resulting in a significant economic and financial impact. In addition to the risks outlined above, already existing at the inaugural issue, there are aspects associated with the multioriginator characteristic of the Programmes, which will be formally integrated into the body of the contract and management processes, as and when other Group Banks join the Programmes as originators.
- Risk of financial inadequacy. The regulatory provisions, in the discipline of Guaranteed Bank Bonds, in relation to the complexity of the contractual profiles and the possible impact on the technical structure of these transactions, require, among other things, a careful assessment of the impact on the financial stability of the bank. The analysis of the projects by the Board of Directors, highlighted:
    - regarding the impact on results, the transactions would have led to, with reference to available market data, a lower cost of funding compared with equivalent senior transactions and this would have allowed start-up costs to be fully covered, already in the first year, as well as to cover ongoing costs for the period. Under current market conditions, this original estimate may be considered highly conservative;
    - regarding the impact on the financial position, having considered the portfolio of eligible residential or commercial mortgage loans, at Group level, an plan was hypothesised for 7-year, later extended for another 5 years, and 10-year issues for, respectively, the first and second Programme, so as to have sufficient room to top-up the cover pool, if necessary, without affecting the financial position or commercial practices of the Group.

These findings have allowed the Board to determine that the transactions do not negatively affect the financial stability of the bank and of the Group as a whole.
In order to renew and extend the OBG1 Programme for a further 5 years - completed in January 2019 - the Board of Directors reiterated in good time its assessments in this regard.

Organisational and management aspects of special purpose vehicles

With regard to organisational and management aspects of special purpose vehicles (in order to assess their adequacy in relation to the role assigned them) and the contracts entered into as part of the Programmes, "Reports on the transferee company" have been prepared by external legal consultants, in order to ensure that the contracts entered into as part of the Programmes contain clauses that ensure the regular and efficient performance of functions by the assignees, as required by the Regulations.

Assessment of legal aspects of the Programmes for Issue of Guaranteed Bank Bonds

Linklaters and Allen & Overy, both law firms, originally issued reports on the GBB1 and GBB2 Programmes covering, in accordance with the Rules, the legal aspects of the activities involved in the Programmes. The reports contain a thorough assessment of legal structures and contractual arrangements used, with particular attention to the characteristics of the guarantees given by the assignee companies and the overall relationships between and among the participants in the Programmes.

Annual assessment of the Programmes for Issue of Guaranteed Bank Bonds by Asset Monitor

Note that, under the regulations, the asset monitor – in this case PricewaterhouseCoopers s.p.a. replaced Deloitte & Touche s.p.a. in July 2017 – performs annual reviews of the Programmes' status and issues a report to the Board of Directors, the Board of Statutory Auditors and the Bank's Internal Audit Function.
To date, reviews have been performed for 2011, 2012, 2013, 2014, 2015, 2016, 2017 2018 and 2019 without any significant findings emerging.

E. Prudential consolidation – models for the measurement of credit risk

The BPER Banca Group does not have internal portfolio credit risk models (VAR methodology).

1.2 – Market risk

1.2.1 Interest rate risk and price risk - Trading portfolio for regulatory purposes

The Group's organisation provides for centralisation of the market risk control function at the Parent Company; consequently, the qualitative information set out below also reflects the individual position of BPER Banca.

Qualitative information

A. General aspects

The Group portfolio comprises all of the financial instruments acquired for trading purposes or for hedging a risk factor inherent to the portfolio or the banking book.
"For trading purposes" is understood as being the purchase of financial instruments with the following features:

- exposure to managed risk factors (interest rate risk and price risk, exchange rate risk, issuer risk, counterparty risk and liquidity risk);
- trading done prevalently on active markets;
- securities issued by operators of prime standing.

The trading portfolio is managed according to exposure to the interest rate risk deriving from the overall asset-liability structure and, as a rule, does not include complex or innovative derivatives.
The trading portfolio comprises all those financial instruments not purchased with the aim of achieving equilibrium of the asset-liability structure, but with a view to contributing to the results of the year, optimising the overall risk-yield profile.
The size of the trading portfolio is closely linked to the liquidity position.
Arbitrage and short-term speculative activity with regard to listed derivative instruments are marginal with respect to routine trading on own account. The objective of the investment strategy underlying trading in these financial instruments is to maximise the overall risk/yield profile via appropriate diversification.
The Parent Company makes medium-term speculative investments in stock markets, in commodity derivatives, in mutual funds and, to a marginal extent, in hedge funds. However, this activity is just a small part of the transactions carried out in the bond markets.
The trading portfolio governance process is centralised in BPER Banca to respond to the needs of central oversight of market risk and greater efficiency of Group investment processes.
This process implies that the individual Group banks remain responsible for optimisation of the yield from liquidity through treasury transactions with BPER Banca or, alternatively, by investing in floating rate or fixed rate bonds issued by the Bank.
In this way, the governance of market risk has been centralised by the Parent Company on the basis of decisions taken by the ALCO and Finance Committee, which is chaired by the Chief Executive Officer.

B. Management and measurement of interest rate risk and price risk

The BPER Banca Group's system of daily checking is consistent with market standards. Value at Risk (VaR) techniques are used to measure market risk.
VaR represents the estimated maximum potential loss, determined based on probabilities, that may be suffered by the aggregate concerned over a given time horizon at a pre-determined level of confidence.
The method adopted for calculating VaR belongs to the class of "historical simulation" models, according to which the overall risk is determined on the basis of the historical distribution of the returns on the risk factors to which the financial instruments held are sensitive. The methodologies used to monitor market risks also include a sensitivity analysis based on parallel shifts in the market rate curves.
Currently, the daily calculation of VaR makes reference to two distinct time horizons; In fact, an analysis is carried out with a time horizon of one month and with a confidence interval of 99% on the entire Group's proprietary portfolio (banking book and trading book), in line with the Group's Risk Appetite Framework. This is accompanied by further analysis with the same confidence interval, but with a one-day time horizon, in order to monitor day by day the market risk dynamics of the Bank's trading portfolio. This model is only used for internal management purposes and is not involved in the calculation of the capital adequacy requirements regarding market risk.
The process of controlling interest-rate risk and price risk is centralised at BPER Banca. Periodic information is assured by the distribution of specific reports prepared at different time intervals, starting from the one produced daily.
The monitoring and control of interest rate risk of the trading portfolio aims to mitigate the risk in question, by defining a system of operating limits for the portfolios managed by the appropriate Group structures, addressing the various risks to which they are exposed. The limits are checked on a daily basis.
The daily monitoring and control of the price risk associated with the trading portfolio for supervisory purposes is performed via Value-at-Risk (VaR) analyses, in accordance with the method indicated above.

Impacts resulting from the Covid-19 pandemic

During 2020, the market risk profile of the BPER Banca Group was affected by the situation of high volatility on financial markets, particularly acute in the months of March and April because of the Covid-19 pandemic; given this situation, steps were taken on the one hand to increase the frequency of reporting to the Control and Risks Committee of the Parent Company with the aim of guaranteeing timely information to the corporate bodies; and, on the other, after an adequate period of monitoring to verify the trend in impacts of the pandemic on financial markets, updating the system of materiality thresholds (risk appetite, limits and risk tolerance) relating to market risk indicators.

Quantitative information

3. Interest rate risk - Trading portfolio for regulatory purposes: internal models and other methodologies for the sensitivity analysis

The VaR readings determined over time horizons of ten days and one day are set out below, in relation to the rate risk associated with the trading portfolio reported for regulatory purposes at 31 December 2020.

Descriptive data		VaR Time horizon: 10 days Confidence interval: 99%		VaR Time horizon: 1 day Confidence interval: 99%	
Type of transaction	**Present value**	**VaR**	**Var/Present Value**	**VaR**	**Var/ Present Value**
BOT	90	-	0.20%	-	0.06%
BTP	1,333	135	10.13%	44	3.30%
CCT	-	-	0.00%	-	0.00%
Other government securities	2,707	69	2.53%	22	0.81%
Bonds	94,289	1,211	1.28%	394	0.42%
Equities	66	-	0.00%	-	0.00%
Mutual funds and Sicavs		-	0.00%	-	0.00%
Derivatives/Transactions to be settled	(487,037)	59,766	-12.27%	17,162	-3.52%
Effect of diversification		(9,845)		(2,458)	
Total portfolio 2020	**(388,552)**	**51,336**	**-13.21%**	**15,164**	**-3.90%**
Total portfolio 2019	**(120,594)**	**9,323**	**-7.73%**	**2,762**	**-2.29%**

The value of the trading portfolio at 31 December 2020 given a parallel shift of +/- 100 bps (sensitivity analysis) is set out below.

	+100 bps	-100 bps
31 Dec 2020	41,396	(115,482)
31 Dec 2019	20,639	(34,518)

3. Price risk - Trading portfolio for regulatory purposes: internal models and other methodologies for the sensitivity analysis

The VaR determined over time horizons of ten days and one day is set out below, in relation to the price risk associated with the trading portfolio reported for regulatory purposes at 31 December 2020.

Descriptive data		VaR Time horizon: 10 days Confidence interval: 99%		VaR Time horizon: 1 day Confidence interval: 99%	
Type of transaction	**Present value**	**VaR**	**Var/Present Value**	**VaR**	**Var/Present Value**
Equities	62,529	15,309	24.48%	4,843	7.75%
Mutual funds and Sicavs	-	-	7.65%	-	2.42%
Derivatives/Transactions to be settled	(1,354)	12,457	-919.70%	3,949	-291.57%
Effect of diversification		(22,078)		(7,007)	
Total portfolio 2020	**61,175**	**5,688**	**9.30%**	**1,785**	**2.92%**
Total portfolio 2019	**93,898**	**3,129**	**3.33%**	**989**	**1.05%**

1.2.2 Interest rate risk and price risk - Banking book

Qualitative information

A. General aspects, management and measurement of interest rate risk and price risk

Interest rate risk represents the potential impact of unexpected changes in market rates on current profits and the equity value of the Parent Company. This risk typically affects the positions included in the banking book.
The exposure to interest rate risk can be further analysed into:

- income risk;
- investment risk.

Income risk derives from the possibility that an unexpected change in interest rates may reduce net interest income, being the difference between interest received and interest paid. This risk is measured by maturity gap models and depends on:

- the mismatch in the maturity structures of lending and funding, in cases where the related assets and liabilities are remunerated at fixed rates until final maturity;
- the mismatch of the review periods for rate conditions, in the case of floating-rate assets and liabilities.

The timing mismatches mentioned above expose BPER Banca to:

- refinancing risk: the risk arising when the average maturity period (period until the next rate review) is shorter for funding than for lending. In this case, the Bank is exposed to possible increases in interest rates (the Bank is Liability Sensitive);

- reinvestment risk: the risk arising when the average maturity period (period until the next rate review) is shorter for lending than for funding. In this case, the Bank's net interest income will decline if interest rates fall (the Bank is Asset Sensitive).

Investment risk derives from the possibility that adverse changes in the value of all assets, liabilities and off-balance sheet instruments held by the Bank, following changes in interest rates, may destabilise the equilibrium of the balance sheet. This risk is measured by duration gap and sensitivity analysis techniques.

The following types of interest rate risk are identified:

- *Repricing Risk:* risk associated with differences in the maturities (fixed rate) and the repricing dates (floating rate) of the assets and liabilities held in the portfolio.
- *Yield Curve Risk:* risk associated with changes in the gradient and shape of the yield curve.
- *Refixing Risk:* risk associated with the timing of changes in market parameters, for floating rate positions. More specifically, this is the risk that rate of rise in interest rates is more marked in the refixing periods for funding than in those for lending.
- *Basis Risk:* risk arising from the imperfect correlation between the indexation parameters for lending and funding, or from unfavourable changes in the gradient of the curve.
- *Optionality Risk:* risk associated with "explicit" or "embedded" options embedded in the banking book's assets and liabilities (e.g. cap/floor/collar, loan prepayment options).

Every month, BPER Banca monitors at both consolidated and legal entity level the impact that unexpected changes in market interest rates might have on the positions in the banking book, according to the following prospects:

- standpoint of current profits: the purchase of considering the impact on current profits is to evaluate interest risk with reference to the sensitivity of net interest income to rate changes over a given period of time. Adverse changes in net interest income potentially affect the financial stability of a bank by weakening its capital adequacy. The change in net interest income depends on the various types of risk;
- standpoint of economic value: changes in interest rates may affect the economic value of the Parent Company's assets and liabilities. The economic value of a bank is represented by the present value of its expected cash flows, defined as the sum of the present value of the cash flows to be generated by its assets, liabilities and positions in derivatives. By contrast with the standpoint of current profits, that of economic value identifies the risk generated by the repricing or maturity gap over a long time horizon.

The objectives to be pursued in support of the proper management of interest rate risk are:

- reduce the adverse effects of the volatility of net interest income (standpoint of current profits). The stability of net interest income is principally influenced by the yield curve risk, repricing risk, basis risk and optionality risk;
- immunise the economic value, being the sum of the present values of all the expected cash flows, generated by both sides of the balance sheet. By contrast with the standpoint of current profits, the standpoint of economic value takes a medium/long-term view and is principally associated with the repricing risk;
- ensure compliance with the related organisational requirements envisaged by the domestic and international supervisory bodies.

The model for the governance of rate risk is based on the following principles:

- assignment to the Parent Company of guidance and coordination rights over the strategic planning and control processes, treasury and financial management, the commercial area and the governance of lending for the entire Group, in order to ensure the consistent management of interest-rate risk and compliance with regulatory requirements,
- segregation between governance processes and the management of rate risk.

The strategic decisions at Group level regarding the management of risk are made by the corporate bodies of the Parent Company. The decisions made take account of the operational specifics and related risk profiles of each Group company, in order to establish an integrated and consistent risk management policy.
Given the above, the BPER Group has adopted a centralised model for the governance and management of risk.
As the Parent Company, BPER Banca is responsible for defining guidance for the governance, acceptance and management of interest-rate risk at Group level.

The model for the management of interest rate risk focuses on the following measures of risk:
- sensitivity of net interest income;
- sensitivity of economic value.

The sensitivity analysis of net interest income identifies the impact of changes in interest rates as a result of parallel and other shocks.
The Bank calculates the sensitivity of net interest income holding rates and volumes constant. According to this model amounts maturing are reinvested on the assumption of constant volumes, rates and maturities.
The indicator is calculated at both Group and Legal Entity levels.

The sensitivity analysis of economic value identifies the impact on the value of shareholders' equity of parallel and other shocks to the yield curve. This change is calculated by discounting all the cash flows using two different yield curves: the current curve at the analysis date and that following the shock, and comparing the two values.

$$\Delta VA = VA_{(Curve1)} - VA_{(Curve2)}$$

In order to include the prepayment phenomenon (early repayment, in whole or in part, of the residual debt by the borrower) when measuring the sensitivity of economic value, a statistical model has been adopted whereby the potential prepayment of loan principal is estimated using different variables, both of financial nature (such as market interest rates) and contractual (such as the original duration of the loan, the type of loan, the personal characteristics of the borrower, etc.).
For the calculation of sensitivity, demand balances outstanding with customers are simulated using an econometric model which identifies a portfolio that replicates them, by allocating demand funding (lending) to a portfolio of liabilities (assets) with an identified effective repricing profile.

In addition to the risk measures mentioned above, the capital absorbed in relation to interest rate risk is also calculated. Sensitivity analysis is applied in order to estimate the capital absorbed, consistent with the standardised approach envisaged by the Supervisory Authorities. Under this approach, the capital

absorbed in relation to the banking book's interest rate risk is the change in the economic value (defined as the present value of expected cash flows) caused by an adverse interest-rate shock.
With regard to price risk, the banking book essentially includes transactions in equity instruments, mutual funds and SICAVs classified in the financial statements as measured at fair value through profit or loss and other comprehensive income.
The monitoring of the aforementioned portfolio takes place through the Value at Risk (VaR) methodology presented in detail in the section on qualitative information: "Interest rate risk and price risk - Trading portfolio reported for regulatory purposes".
The Risk Management Department determines the exposure to price risk each day in a specific VaR report.

Impacts resulting from the Covid-19 pandemic

During 2020, the market risk profile of the BPER Banca Group was affected by the situation of high volatility on financial markets, particularly acute in the months of March and April because of the Covid-19 pandemic; given this situation, steps were taken on the one hand to increase the frequency of reporting to the Control and Risks Committee of the Parent Company with the aim of guaranteeing timely information to the corporate bodies; and, on the other, after an adequate period of monitoring to verify the trend in impacts of the pandemic on financial markets, updating the system of materiality thresholds (risk appetite, limits and risk tolerance) relating to market risk indicators.

Quantitative information

2. Interest rate risk - Banking book: internal models and other methodologies for the sensitivity analysis

Below are the year-end figures at 31 December 2020 and their trends (minimum, average, maximum) of the management reporting year relating to the banking book's interest margin, against a parallel shift of 100/-50 bps.

	+100 bps	-50 bps
31 December 2020	**32,424**	**(44,739)**
maximum change	64,948	(55,941)
minimum change	32,424	(44,739)
average change	48,193	(50,090)
31 December 2019	**73,616**	**(39,483)**

Below are the year-end figures at 31 December 2020 and their trends (minimum, average, maximum) of the management reporting year relating to the change in the value of the banking book, against a parallel shift of +/- 100 bps (sensitivity analysis).

	+100 bps	-100 bps
31 December 2020	**124,901**	**508,729**
maximum change	339,087	508,729
minimum change	124,901	348,189
average change	235,433	449,150
31 December 2019	**116,631**	**244,022**

In relation to the measurement of interest-rate risk, the VaR[90] of the overall securities portfolio (banking and trading) amounts to Euro 1,257 million (Euro 275 million at 31 December 2019) and is principally attributable to the Italian government securities held in the portfolio, which account for just under 60% of the indicator, Euro 726 million (Euro 211 million at 31 December 2019).

3. Price risk - Banking book: internal models and other methodologies for the sensitivity analysis

The VaR determined over time horizons of ten days and one day is set out below, in relation to the price risk associated with the trading portfolio reported for regulatory purposes at 31 December 2020.

Descriptive data		VaR Time horizon: 10 days Confidence interval: 99%		VaR Time horizon: 1 day Confidence interval: 99%	
Type of transaction	**Present value**	**VaR**	**Var/Present Value**	**VaR**	**Var/Present Value**
Equities Instruments	334,912	80,317	23.98%	25,398	7.58%
Mutual funds and SICAVs	511,681	65,691	12.84%	20,773	4.06%
Derivatives/Transactions to be settled	-	-		-	
Effect of diversification		836		264	
Total portfolio 2020	**846,593**	**146,844**	**17.35%**	**46,435**	**5.49%**
Total portfolio 2019	**758,766**	**30,225**	**3.98%**	**9,558**	**1.26%**

[90] *VaR measured over a time horizon of one month with a confidence interval of 99%.*

1. .2.3 Exchange risk

Qualitative information

A. General aspects, management and measurement of exchange risk

The BPER Banca Group is exposed to exchange risk in connection with routine funding and lending activities and, to a marginal extent, in relation to speculative activities.
The Parent Company's Financial Risk Department records and monitors the exposure to exchange rate risk daily in a specific VaR report.

B. Hedging of exchange risk

The BPER Banca Group uses plain vanilla instruments for the operational hedging of exchange risk.

Quantitative information

1. Distribution by currency of assets and liabilities and derivatives

Items	Currency					
	USD	GBP	CHF	PLN	AED	OTHER CURRENCIES
A. Financial assets	**3,018,483**	**344,892**	**10,675**	**5,018**	**1,676**	**16,443**
A.1 Debt securities	2,816,049	334,495	-	-	-	-
A.2 Equity securities	38,882	441	917	-	-	1,001
A.3 Loans to banks	79,434	3,058	1,671	2,871	1,676	13,470
A.4 Loans to customers	84,118	6,898	8,087	2,147	-	1,972
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**3,366**	**2,251**	**1,010**	**181**	**-**	**1,483**
C. Financial liabilities	**2,835,368**	**69,423**	**14,147**	**24,567**	**18,471**	**18,104**
C.1 Deposits from banks	2,505,834	19,943	418	3	-	611
C.2 Deposits from customers	329,534	49,480	13,729	24,564	18,471	17,493
C.3 Debt securities in issue	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**2,853**	**107**	**4**	**-**	**285**	**69**
E. Financial derivatives	**647,443**	**331,896**	**125,158**	**29,912**	**17,318**	**79,628**
- Options	-	-	-	-	-	-
+ Long positions	16,349	266	-	-	-	4,760
+ Short positions	89,526	3,234	-	-	-	8,630
- Other derivative instruments	-	-	-	-	-	-
+ Long positions	282,285	34,612	58,470	25,829	17,318	36,685
+ Short positions	259,283	293,784	66,688	4,083	-	29,553
Total Assets	**3,320,483**	**382,021**	**70,155**	**31,028**	**18,994**	**59,371**
Total liabilities	**3,187,030**	**366,548**	**80,839**	**28,650**	**18,756**	**56,356**
Net balance (+/-)	**133,453**	**15,473**	**(10,684)**	**2,378**	**238**	**3,015**

2. Internal models and other methodologies for the analysis of sensitivity

The VaR determined over time horizons of ten days and one day is set out below, in relation to the risk faced by the BPER Banca Group at 31 December 2020.

	VaR Time horizon: 10 days Confidence interval: 99%	VaR Time horizon: 1 day Confidence interval: 99%
2020 figures	15,624	5,025
2019 figures	(39,545)	(12,584)

1.3 Derivatives and hedging policies

1.3.1 Trading derivative instruments

A. Financial derivatives

A.1 Trading financial derivatives: notional values at the end of the period

Underlying assets/Type of derivatives	Total 31.12.2020				Total 31.12.2019			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparties	without central counterparties			Central Counterparties	without central counterparties		
		with clearing arrangements	without clearing arrangements			with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	**-**	**9,398,825**	**455,605**	**-**	**-**	**10,559,564**	**422,916**	**-**
a) Options	-	1,683,565	-	-	-	720,001	-	-
b) Swap	-	7,538,770	-	-	-	9,587,047	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	455,605	-	-	-	422,916	-
e) Others	-	176,490	-	-	-	252,516	-	-
2. Equities and stock indexes	**-**	**40,314**	**42,765**	**-**	**-**	**107,452**	**90,928**	**-**
a) Options	-	40,314	3,449	-	-	107,452	60,769	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	39,316	-	-	-	30,159	-
e) Others	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**978,337**	**104,878**	**-**	**-**	**619,762**	**8,181**	**-**
a) Options	-	133,305	-	-	-	112,700	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	845,032	104,878	-	-	507,062	8,181	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**2,966**	**-**	**-**	**-**	**25,757**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	-	10,417,476	606,214	-	-	11,286,778	547,782	-

A.2 Trading financial derivatives: gross positive and negative fair value - breakdown by product

Types of derivatives	Total 31.12.2020				Total 31.12.2019			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements	
1. Positive fair value								
a) Options	-	6,652	101	-	-	5,453	65	-
b) Interest rate swap	-	115,805	-	-	-	121,497	-	-
c) Cross currency	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	5,794	2,166	-	-	4,548	993	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	9,525	-	-	-	10,107	-	-
Total	**-**	**137,776**	**2,267**	**-**	**-**	**141,605**	**1,058**	**-**
2. Negative fair value								
a) Options	-	35,680	82	-	-	10,350	2,304	-
b) Interest rate swap	-	117,330	-	-	-	141,414	-	-
c) Cross currency	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	10,089	102	-	-	3,142	254	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	6,199	-	-	-	6,808	-	-
Total	**-**	**169,298**	**184**	**-**	**-**	**161,714**	**2,558**	**-**

A.3 OTC trading financial derivatives - notional values, gross positive and negative fair value by counterparties

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	455,605	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equities and stock indexes				
- notional value	X	40,136	110	2,519
- positive fair value	X	-	-	101
- negative fair value	X	9	-	73
3) Currencies and gold				
- notional value	X	2,284	102,224	370
- positive fair value	X	424	1,736	6
- negative fair value	X	-	101	1
4)Goods				
- notional value	X	2,966	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Others				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	-	7,855,148	128,957	1,414,720
- positive fair value	-	71,405	2,464	53,195
- negative fair value	-	157,404	3	124
2) Equities and stock indexes				
- notional value	-	8,250	64	32,000
- positive fair value	-	332	12	-
- negative fair value	-	215	1	-
3) Currencies and gold				
- notional value	-	673,660	18,470	286,207
- positive fair value	-	1,791	612	7,965
- negative fair value	-	8,946	-	2,605
4) Goods				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Others				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC trading financial derivatives: notional values

Underlyings / residual	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
A.1 Financial derivative contracts on debt securities and interest rates	2,688,952	4,616,706	2,548,772	9,854,430
A.2 Financial derivative contracts on equity securities and stock indexes	50,730	32,189	160	83,079
A.3 Financial derivatives on currencies and gold	1,050,360	32,855	-	1,083,215
A.4 Financial derivatives on goods	2,966	-	-	2,966
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2020	**3,793,008**	**4,681,750**	**2,548,932**	**11,023,690**
Total 31.12.2019	**4,087,007**	**4,617,560**	**3,129,993**	**11,834,560**

B. Credit derivatives

B.1 Trading credit derivatives: notional values at the end of the period

Types of transactions	Trading derivatives	
	with a single counterparty	with more than one counterparty (basket)
1. Protection purchases		
a) Credit default products	-	30,000
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31.12.2020	**-**	**30,000**
Total 31.12.2019	**-**	**70,000**
2. Protection sales		
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31.12.2020	**-**	**-**
Total 31.12.2019	**-**	**-**

B.2 Trading credit derivatives: positive and negative gross fair value - breakdown for products

Types of derivatives	Total 31.12.2020	Total 31.12.2019
1. Positive fair value		
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**-**	**-**
2. Negative fair value		
a) Credit default products	612	1,683
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**612**	**1,683**

B.3 OTC trading credit derivatives: notional values, gross positive and negative fair value by counterparties

	Central counterparties	Banks	Other financial companies	Other entities
Contracts not covered by clearing agreements				
1) Protection purchases				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Protection sales				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by clearing agreements				
1) Protection purchases				
- notional value	-	30,000	-	-
- positive fair value	-	-	-	-
- negative fair value	-	612	-	-
2) Protection sales				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

B.4 Residual life of OTC trading credit derivatives: notional values

Underlyings / residual	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
1 Sale protection	-	-	-	-
2 Buy protection	-	30,000	-	30,000
Total 31.12.2020	**-**	**30,000**	**-**	**30,000**
Total 31.12.2019	**-**	**70,000**	**-**	**70,000**

B.5 Credit derivatives connected with the fair value option: annual changes

There are no amounts in this section.

1.3.2 Accounting hedges

Qualitative information

From 1 July 2020, the BPER Banca Group has adopted Chapter 6 Hedge Accounting of IFRS 9. For more details on the reasons that led to the change in the reference standards and on the related application methods, please refer to what is mentioned in Part A.2 of the Explanatory Notes, para. 4. “Hedging operations”.

A. Fair value hedges

Hedged Risk - Rate Risk

As already mentioned previously and in other parts of the financial statements, the corporate strategies provide for specific interventions aimed at the best possible management of interest rate risk. Among the intervention levers, the Group has recourse to derivative contracts (classified from an accounting point of view both as “hedging” and “trading”), used to reduce the sensitivity of the proprietary securities portfolio, loans granted and own bond issues, compared with a movement in risk-free rates.

The derivatives used for this purpose are:

- Interest Rate Swaps (IRS), also in currencies other than the Euro, traded over the counter, that are specific for each asset or liability instrument to be hedged, or refer to several instruments with the same maturity. Using these instruments, the BPER Banca Group pays fixed and receives floating for asset securities, and pays floating and receives fixed for liability securities;
- Futures, listed, generic with underlying German, Italian and US bonds.

Compared with what is shown, micro-hedge accounting is qualified only for hedging the interest rate risk connected to bonds in the banking book, classified among Financial assets measured at fair value through other comprehensive income and Financial assets measured at amortised cost, loans disbursed and classified as financial assets at amortised cost, using IRS-type derivatives for this purpose. Similarly, they have been qualified as hedges of bonds issued by the Group at a fixed rate.

Hedged risk - Credit / Counterparty Risk

Given the unexpected increase in credit/counterparty risk, the BPER Banca Group uses derivative instruments to reduce the sensitivity of the investment portfolio.

The derivatives used for this purpose are:

- Credit Default Swaps – CDS, traded over-the-counter, generic and linked to sub-indexes;
- Futures, listed, generic with underlying German, Italian and US bonds.

Compared with what is shown, the credit risk is hedged only by management, as no Hedge Accounting has been qualified.

Hedged risk – Price risk

The coverage of unwanted changes in fair value also includes transactions involving equity securities.
The derivatives used for this purpose are:

- Total Return Swaps (TRS), traded over the counter, specific for each individual asset including equities and in currencies other than the Euro.

B. Cash flow hedges

Hedged Risk – Rate Risk

The objective pursued by the Group in this case is to stabilise the contribution made by the securities portfolio to the net interest income of the Bank should risk-free rates rise.
The derivatives used for this purpose are:

- Interest Rate Swaps - IRS, traded over the counter, that are specific for each instrument to be hedged or for multiple instruments with the same maturity. In this case the BPER Banca Group pays floating and receives fixed interest.

With respect to this management approach, the BPER Banca Group has classified a hedging relationship (micro-hedge accounting) solely with a view to minimising the risk of an undesired fluctuation in the rate of inflation of a security indexed to it. An inflation-linked swap is used as a hedging instrument in this case.

Hedged risk - Exchange-rate risk

The objective pursued by the Group in this case is to stabilise the contribution made by the foreign currency securities portfolio to the net interest income of the Bank should the exchange rate depreciate.
The derivatives used for this purpose are:

- Cross Currency Swaps - CCS, traded over-the-counter, specific for each issue to be hedged or for multiple issues with the same maturity. The BPER Banca Group pays the cash flows in foreign currency that it receives from the hedged asset and receives Euro.

In this case, the BPER Banca Group has classified a hedging relationship (micro-hedge accounting) achieved by using a CCS derivative contract, under which the BPER Banca Group pays Dollars and collects Euro.

C. Foreign investment hedging assets

The BPER Banca Group does not have any foreign investment hedging relationships

D. Hedging instruments

The hedge accounting implemented by the BPER Banca Group is therefore achieved by the use of OTC IRS derivative contracts, either plain vanilla or with cap & floor options, and CCS or TRS derivatives.

E. Hedged items

The BPER Banca Group currently has accounting hedges on securities (bonds and equities) in the banking book, on loans (mortgages) granted and on its own bond issues. For these instruments, either just the interest rate risk component or the interest rate risk and inflation rate risk components are hedged.

IBOR Reform

As mentioned in the Directors' report on operations (in the section on "Main risks and uncertainties - IBOR Reform"), following the Financial Stability Board's decision to gradually replace IBORs with "alternative interest rates", the European Union introduced its Benchmarks Regulation (EU 2016/1011 BMR), published in 2016 and in force since January 2018. It lays down precise rules for administrators, contributors and users of benchmarks that guarantee transparency and representativeness of the indices with respect to the markets to which they refer, requiring them to base their figures as much as possible on actual transactions.

Following the BMR, European institutions declared as critical:

- the EONIA rate, which since 2 October 2019 has been based on the fixing of the Euro Short-Term Rate (€STR), identified by ECB as an alternative rate which will no longer be used after 31 December 2021;
- the EURIBOR rate, which had its methodology revised in 2019 (introducing the so-called hybrid method), guarantees compliance with the regulatory requirements;
- as regards the benchmark rates for other currencies, the most important ones involved in the reform are EURIBOR, USD LIBOR, GBP LIBOR, EUR LIBOR, CHF LIBOR, JPY LIBOR, JPY TIBOR, EUROYEN TIBOR, CAD CDOR, etc.

The following table indicates the notional amount and average residual duration of all hedging derivatives, aggregated by the reference benchmark rate used. The hedging derivatives provide a good proxy of the extent of the interest-rate exposures that the Bank manages via the hedges.

Interest Rate Swap	Euribor 3M	Fixed rate	27,000	2.71
Interest Rate Swap	Euribor 6M	Euribor 6M	7,900	0.75
		Fixed rate	5,772,672	7.97
Interest Rate Swap	GBP LIBOR 6M	Fixed rate	27,808	5.43
Interest Rate Swap	USD LIBOR 3M	Uncodified rates	14,693	4.05
		Fixed rate	520,577	4.74
Interest Rate Swap	Fixed rate	Euribor 6M	1,854,392	2.85
		Fixed rate	104,446	4.93
Total			**8,329,487**	**6.55**

Of the hedging relationships shown, only those tied to the USD LIBOR and GBP LIBOR benchmarks are affected by the IBOR Reform, given the "uncertainty" of their future cash flows and consequent difficulty in carrying out tests of their future stability. As already mentioned in Part A of the Explanatory Notes, the BPER Banca Group has applied Regulation 34/2020 of 15 January 2020, which adopts the guidelines issued by the IASB in its document "Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)". This allows, on an exceptional and temporary basis, the performance of prospective tests in constant application of the current benchmark, also for maturities after 31 December 2021. The purpose is to avoid the situation whereby the uncertainty caused by the reform with regard to the amount and timing of cash flows might lead to existing hedges being interrupted.

Quantitative information

A. Financial hedging derivatives

A.1 Hedging financial derivatives: notional values at the end of the period

Underlying assets / Type of derivatives	Total 31.12.2020				Total 31.12.2019			
	Over the counter				Over the counter			
	Central Counterparties	without central counterparties		Organized markets	Central Counterparties	without central counterparties		Organized markets
		with clearing arrangements	without clearing arrangements			with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	**-**	**8,260,348**	**-**	**-**	**-**	**7,777,014**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	8,260,348	-	-	-	7,777,014	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
2. Equities and stock indexes	**-**	**14,693**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	14,693	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
3. Currencies	**-**	**54,446**	**-**	**-**	**-**	**54,446**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	54,446	-	-	-	54,446	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	-	8,329,487	-	-	-	7,831,460	-	-

A.2 Hedging financial derivatives: gross positive and negative fair value - breakdown by product

Types of derivatives	Positive and negative fair value								Change in the value used to calculate the effectiveness of the hedge	
	Total 31.12.2020				Total 31.12.2019				Total 31.12.2020	Total 31.12.2019
	Over the counter			Organized markets	Over the counter			Organized markets		
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties				
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements			
1. Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swap	-	53,795	-	-	-	80,964	-	-	-	-
c) Cross currency swap	-	3,981	-	-	-	1,221	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**57,776**	**-**	**-**	**-**	**82,185**	**-**	**-**	**-**	**-**
2. Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swap	-	469,240	-	-	-	294,114	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**469,240**	**-**	**-**	**-**	**294,114**	**-**	**-**	**-**	**-**

A.3 OTC hedging financial derivatives - notional values, gross positive and negative fair value by counterparties

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equities and stock indexes				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Goods				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	-	8,260,348	-	-
- positive fair value	-	53,795	-	-
- negative fair value	-	467,794	-	-
2) Equities and stock indexes				
- notional value	-	14,693	-	-
- positive fair value	-	-	-	-
- negative fair value	-	1,446	-	-
3) Currencies and gold				
- notional value	-	54,446	-	-
- positive fair value	-	3,981	-	-
- negative fair value	-	-	-	-
4) Goods				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC hedging financial derivatives: notional values

Underlyings / residual		Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
A.1 Financial derivative contracts on debt securities and interest rates		58,138	3,651,685	4,550,525	8,260,348
A.2 Financial derivative contracts on equity securities and stock indexes		-	14,693	-	14,693
A.3 Financial derivative contracts on currency and gold		-	-	54,446	54,446
A.4 Financial derivative on goods		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	**31.12.2020**	**58,138**	**3,666,378**	**4,604,971**	**8,329,487**
Total	**31.12.2019**	**256,522**	**3,427,279**	**4,147,659**	**7,831,460**

B. Credit hedging derivatives

There are no amounts to be disclosed in this section

C. Non-hedging derivatives

There are no amounts to be disclosed in this section

D. Hedged instruments

D.1 Fair value hedges

		Specific hedges: book value	Specific hedges - net positions: balance sheet value of assets or liabilities (before offsetting)	Specific hedges			Generic hedges: book value
				Accumulated changes in fair value of hedging instrument	Ending of hedge: residual accumulated valute of residual changes in fair value	Change in value used to relieve hedging ineffectiveness	
A. Assets							
1. Financial assets measured at fair value with impact on other income components - hedges of:		**2,995,179**	**-**	**9,999**	**(182)**	**9,817**	**-**
1.1 Debt securities and interest rate		2,979,712	-	9,228	(182)	9,046	X
1.2 Equity securities and stock price indices		15,467	-	771	-	771	X
1.3 Currencies and gold		-	-	-	-	-	X
1.4 Credits		-	-	-	-	-	X
1.5 Other		-	-	-	-	-	X
2. Financial assets measured at amortized cost - hedges of:		**3,760,038**	**-**	**18,970**	**-**	**18,970**	**-**
1.1 Debt securities and interest rate		3,746,922	-	21,088	-	21,088	X
1.2 Equity securities and stock price indices		-	-	-	-	-	X
1.3 Currencies and gold		-	-	-	-	-	X
1.4 Credits		13,116	-	(2,118)	-	(2,118)	X
1.5 Other		-	-	-	-	-	X
Total	**31.12.2020**	**6,755,217**	**-**	**28,969**	**(182)**	**28,787**	**-**
Total	**31.12.2019**	**-**	**-**	**-**	**-**	**-**	**-**
B. Liabilities							
1, Financial liabilities measured at amortized cost - hedges of:		**1,907,449**	**-**	**(6,062)**	**23**	**(6,040)**	**-**
1.1 Debt securities and interest rate		1,907,449	-	(6,062)	23	(6,040)	X
1.2 Currencies and gold		-	-	-	-	-	X
1.3 Other		-	-	-	-	-	X
Total	**31.12.2020**	**1,907,449**	**-**	**(6,062)**	**23**	**(6,040)**	**-**
Total	**31.12.2019**	**-**	**-**	**-**	**-**	**-**	**-**

D.2 Coverage of financial flows and foreign investments

		Change in value used to calculate hedging ineffectiveness	Hedging reserves	Cessation of hedging: residual value of hedging reserves
A. Coverage of financial flows				
1. Assets		-	(2,348)	-
1.1 Debt securities and interest rate		-	(575)	-
1.2 Equity securities and stock price indices		-	-	-
1.3 Currencies and gold		-	(1,773)	-
1.4 Credits		-	-	-
1.5 Other		-	-	-
2. Liabilities		-	-	-
1.1 Debt securities and interest rate		-	-	-
1.2 Currencies and gold		-	-	-
1.3 Other		-	-	-
Total (A)	31.12.2020	-	(2,348)	-
Total (A)	31.12.2019	-	-	-
B. Coverage Foreign Investments		X	-	-
Total (A+B)	31.12.2020	-	(2,348)	-
Total (A+B)	31.12.2019	-	-	-

E. Effects of hedging transactions on shareholders' equity

E.1 Reconciliation of equity's components

	Reserve hedging financial flows				
	Debt securities and interest rate	Equity securities and stock price indices	Currencies and gold	Credits	Others
Initial balance	(688)	-	(3,590)	-	-
Changes in Fair Value	113	-	1,816	-	-
Transfer to P&L	-	-	-	-	-
of which: future transaction not expected	-	-	-	-	-
Other variations	-	-	-	-	-
of wich: transfer to initial book value	-	-	-	-	-
Final balance	(575)	-	(1,774)	-	-

The parts of the table relating to hedging reserves for foreign investments and hedging instruments (non-designated elements) are not shown as they do not apply.
The opening balance shows the value of the cash flow hedging reserve at the date of adoption of IFRS 9 Hedge Accounting (1 July 2020).

1.3.3 Other information on derivative instruments (trading and hedging)

At 31 December 2020, the BPER Banca Group does not have any derivatives that satisfy the criteria envisaged in IAS 32.42 for offsetting financial assets and liabilities.

1.4 Liquidity risks

Qualitative information

A. General aspects, management and measurement of liquidity risk

The BPER Banca Group has a specific policy for the management of liquidity risk (Group Policy for Liquidity and Funding Risk Governance), which includes the plan covering the objectives, processes and strategies for action (Contingency Funding Plan).

Group Policy for Liquidity and Funding Risk Governance

This document, which forms an integral part of the Risk Appetite Framework of the BPER Banca Group, defines the principles, objectives and methods of governance and monitoring of liquidity and funding risk at Group level.
More specifically, it contains:

- the definition of the governance model in terms of the parties involved in risk governance and their roles and responsibilities;
- definition of limits and mitigating actions aimed at risk containment;
- the formalisation of risk management methods, through the establishment of rules, procedures and metrics for the measurement and monitoring of liquidity and funding risk, describing the stress test model adopted to evaluate the risk exposure in stress scenarios.

Liquidity risk typically crystallises in the form of failure to meet payment obligations; it may take various forms, depending on the circumstances in which the risk arises. With reference to the definitions adopted at international level, a distinction is made between funding liquidity risk and market liquidity risk.
Funding liquidity risk is the risk that the Parent Company will not be able to make, in an efficient manner, expected and unexpected cash payments, both current and future, nor will it be able to meet collateral obligations, without an adverse effect on current operations or its financial position.
Market liquidity risk, on the other hand, is the risk that the Parent Company is not able to sell a financial asset without incurring a capital loss due to poor liquidity or disorder in the reference market.
These two forms of liquidity risk are often highly correlated, and may crystallise as a result of the same underlying factors. Market liquidity risk is usually considered to be a type of market risk (price risk); accordingly, the processes and rules for measuring, controlling and mitigating liquidity risk focus on the funding risk aspect.
In the context of funding risk, a distinction is made between:

- mismatch liquidity risk, being the liquidity risk implicit in the structure of the Parent Company's assets and liabilities due to the transformation of maturities typical of financial intermediaries, when the profile of cash outflows is not perfectly matched by the profile of cash inflows (with reference to contractual maturities and routine behaviour);
- contingency liquidity risk, being the risk that future events may require access to significantly more liquidity than previously planned by the Group; in other words, this is the risk of not being able to settle sudden and unexpected payment commitments in the short or very short term.

Liquidity risk can derive from different types of sources. In particular, two macro-categories are considered:

- Endogenous sources of liquidity risk: these include, among specific adverse events for the Group, a rating downgrade or other event that causes the market to lose confidence in the Group. Such a downgrade or a widespread market perception of a deterioration in the Group's solidity (which could arise from other risks, such as major losses on the trading book or loan portfolio) might also result in:
  - reduced access to the market for unsecured funds (e.g. commercial paper) by institutional investors;
  - a reduction in or cancellation of interbank lines of credit;
  - the withdrawal of deposits by retail customers;
  - an increased need for liquidity, for example a request to increase margins and guarantees due, or the need to finance assets that can no longer be sold or converted into securities through securitisations.
- Exogenous sources of liquidity risk include:
  - systemic events that cause a liquidity crisis in the market (political and financial crises, catastrophic events, etc.);
  - specificity of some financial products (derivative contracts, stock-borrowing contracts), where events, such as sudden market movements, bankruptcies or downgrades in the ratings, could trigger a request for further collateral from counterparties;
  - commitments relating to committed lines that in the event of a crisis could generate an increase in the demand for liquidity on the part of customers; endorsement credits or committed lines facilities stipulated with special purpose vehicles in connection with securitisations act in a similar way;
  - structural changes in the market that can lead to an increase in the liquidity risk perceived overall (increasing system demand for more volatile funding sources such as wholesale funds, rapid movement of accounts via internet banking).

Consistent with the Group Guidelines - Internal Control System, the management of liquidity risk can be broken down into the following components:

- definition of risk objectives,
- risk-taking,
- risk management,
- definition of risk exposure and operational limits.

The Group's governance model of short-term liquidity (operating liquidity) is based on centralised governance of liquidity and the related risk. In particular, the Parent Company:

- is responsible for the liquidity policy,
- governs short-term liquidity,
- determines and manages the funding plan,
- monitors liquidity risk,

for all Group Banks and Companies covered by the policy.

Funding/lending transactions involving liquidity are centralised at the Treasury and Institutional Liquidity Office to ensure that the Group's overall liquidity is managed efficiently:

- by optimising access to liquidity markets in terms of volumes and costs, exploiting the creditworthiness of the Group and minimising the cost of funding;

- by centralising "rating sensitive" funding transactions, as well as interventions on the money market;
- by implementing a principle of functional specialisation through centres of competence for secured funding transactions (issues of secured instruments, funding from particular categories of institutional investors, etc.).

The Group's governance model for long-term liquidity (or "structural liquidity") is based on the following principles:

- attribution to the Parent Company of the prerogatives for the guidance and coordination of the commercial and credit policies of Group Companies to ensure consistency in the overall governance of funding risk and to ensure compliance with the requisites envisaged by the regulations;
- communication of decisions and clear division of responsibilities between management, control and operational bodies;
- development of processes for the governance and control of funding risk that are consistent with the Group's reporting structure and by using the governance model formalised by this policy.

The principles listed above give rise to a centralised model for the governance and management of the structural liquidity risk among all Group banks/companies included in the scope of consolidation.

The Group's model for the governance of liquidity and funding risk has the following objectives:

- guarantee solvency in the ordinary course of business and under crisis conditions;
- ensure enough liquidity to satisfy the contractual commitments of the Group at all times, while also optimising the cost of funding given both current and expected market conditions;
- apply the instructions issued by the Supervisory Authorities, while also taking account of the Group's own operating characteristics.

Pursuit of the above objectives takes account of the following aspects:

- separation of responsibilities and roles between the corporate bodies that govern liquidity and funding and those with control functions;
- distinction between the metrics that monitor short-term risk and those focused on the medium-long term:
- the metrics that monitor short-term liquidity risk, being the ability of the Group to meet both routine and unexpected payment obligations, while minimising the related cost, envisage:
    - calculation of the exposure using the Liquidity Risk Mismatch Model, considering the eligible assets that are readily convertible into liquid funds, as well as any reserves held in the form of working capital;
    - maintenance of the lending-funding due to mature in the various time bands within a cumulative limit; verification both daily for internal operational purposes and weekly in accordance with the frequency requirements specified by the Supervisory Authorities;
- the metrics that monitor medium/long-term liquidity risk, being the maintenance of suitable dynamics in the ratio of medium/long-term assets and liabilities, avoiding pressure on the sources of current and expected short-term liquidity while also optimising the cost of funding.

These metrics envisage:
    - calculation of the liquidity mismatch which, in practical terms, means calculating the gap ratios between assets and liabilities in the time bands beyond one year;
    - calculation of the funding gap, being the difference between lending and commercial funding as a percentage of total lending;
    - the use of statistical/quantitative behavioural models for items without contractual maturities or which are subject to options;
- definition of a Group Contingency Funding Plan that establishes the most suitable methods of managing Group liquidity in a crisis scenario caused by endogenous and/or exogenous factors;
- monitoring the liquidity position in the ordinary course of business and under stress conditions;
- performance of periodic stress tests considering both endogenous and exogenous shock scenarios; when carrying out stress analysis, scenarios are constructed with reference to events of a systemic, idiosyncratic and combined nature;
- development of processes for the governance and management of liquidity and funding risk, using a model that involves the appropriate corporate bodies and functions;
- conformity of the processes for the governance and management of liquidity and funding risk with the prudential supervision instructions.

Contingency Funding Plan

The Contingency Funding Plan formalises the process of liquidity management under stress or crisis scenarios. The business functions responsible for monitoring and managing liquidity risk must be able to carry out their activities both under normal conditions and at times of stress and/or liquidity crises that are unlikely to occur, but which would have a significant impact.
In view of the governance model of the liquidity and funding risk previously illustrated, BPER Banca - as the lender of last resort for all Group subsidiaries - guarantees their short, medium and long-term solvency and is responsible for activating the Contingency Funding Plan, regardless of where in the Group the liquidity crisis arises.
The purpose of the Contingency Funding Plan is to safeguard the net assets of the Bank at the early stages of liquidity stress and to guarantee the Group's continuity in the event of a serious and/or prolonged liquidity crisis, by:
- defining a process for the identification and monitoring of risk indicators that signal and measure the stages in a liquidity crisis;
- identifying ex ante a system of predetermined but flexible actions to be implemented in the early stages of a crisis;
- determining the roles and responsibilities of each business function;
- identifying the internal regulations that may be invoked to justify the actions of the BPER Banca Group's management, which at a time of crisis must be authorised to modify on a timely and perhaps radical basis the structure of the assets and liabilities in the balance sheet.

A state of liquidity crisis is defined as a situation in which a Group finds it difficult or impossible to settle the cash payments falling due, except by activating procedures and/or using tools with an intensity or in a manner not envisaged as part of ordinary administration.
Liquidity crises fall into two broad categories:
- systemic liquidity crises generated by market, political or macroeconomic crises;

- specific liquidity crises limited to the Group or to one or more Group Companies/Banks.

Considering the types of liquidity crisis and their scale, three operational scenarios have been identified:

- ordinary course of business;
- state of stress;
- state of crisis.

Depending on the scenario, the actions required and the functions involved in its management can be identified.
The operational scenario faced by the Group is identified by monitoring the system of early warnings, which comprises a series of indicators that flag the scenario with reference to progressive levels of stress/crisis associated with one or more drivers. Depending on the level of stress/crisis identified, monitoring and/or communications procedures are activated in preparation for implementing procedures designed to manage the state of stress or state of crisis concerned.

The Contingency Funding Plan and its revisions must be approved by the Board of Directors of the Parent Company.

B. Liquidity indicators

The new harmonised rules for banks and investment companies contained in EU Regulation 575/2013 (CRR), as subsequent updates, also introduced new liquidity indicators:

- Liquidity Coverage Ratio (LCR): this is an indicator of coverage of short-term liquidity whose purpose is to force banks to accumulate sufficient high-quality assets that are readily convertible into cash, in order to deal with a scenario of high stress on the funding side over a period of thirty days. At 31 December 2020 it was 200.1% calculated as a ratio of Euro 19,461 million of highly liquid assets and Euro 9,724 million of net cash outflows.
- Net Stable Funding Ratio (NSFR): a structural long-term indicator that is measured with a view to reporting any mismatches between liquid assets and liabilities. At 31 December 2020, this indicator stood at 123.7%.

The liquidity requirements are over 100%, so above the minimum requirements of Basel 3.
Alongside these indicators, the legislation also sets the leverage ratio which is highlighted in the Directors' Report on Operations under the heading "Key figures".

Impacts resulting from the Covid-19 pandemic

Faced with the Covid-19 pandemic, the Group implemented a broad set of actions to strengthen its liquidity profile and address the potential impacts of a crisis caused by customers' sudden requests for liquidity and volatility in the value of easily marketable assets as a result of unfavourable market conditions; these actions involved both the operational profile (mainly by increasing funding from the European Central Bank and expanding potential sources of funding to draw upon in case of need) and the measurement and monitoring of the risk (mainly by increasing the frequency of reports to the Control and Risk Committee and to Senior Management, intensifying stress tests and monitoring specific risk factors linked to the crisis). It was not necessary to act on the relevant internal thresholds (risk appetite, limits and risk tolerance) for liquidity risk indicators as the Group's liquidity profile remained robust throughout the crisis, a good deal higher than the minimum values defined internally and well above the regulatory thresholds.

Quantitative information

1.Time breakdown by contractual residual maturity of financial assets and liabilities
EURO

Items/Time	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months
Cash assets	**6,195,467**	**409,990**	**757,924**	**1,627,171**	**2,752,356**
A.1 Government securities	-	-	3,717	70	20,152
A.2 Other debt securities	300	5,448	17,374	36,030	101,775
A.3 UCITS units	495,938	-	-	-	-
A.4 Loans	5,699,229	404,542	736,833	1,591,071	2,630,429
- Banks	1,325,324	20,499	452	549	13,619
- Customers	4,373,905	384,043	736,381	1,590,522	2,616,810
Cash liabilities	**55,736,212**	**222,219**	**140,130**	**53,447**	**409,206**
B.1 Deposits and current accounts	54,978,214	65,964	5,629	16,645	78,435
- Banks	165,762	23,602	3,075	9,814	6,096
- Customers	54,812,452	42,362	2,554	6,831	72,339
B.2 Debt securities	49,974	5,712	16,549	25,319	71,042
B.3 Other liabilities	708,024	150,543	117,952	11,483	259,729
Off-balance sheet transactions					
C.1 Physically settled financial derivatives					
- Long positions	10	140,886	43,022	57,991	244,588
- Short positions	300,991	4,639	46,677	48,685	150,602
C.2 Cash settled financial derivatives					
- Long positions	87,851	-	-	-	-
- Short positions	86,941	-	-	-	-
C.3 Deposit to be received					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds					
- Long positions	1,418,768	7,226	7,559	318,263	447,887
- Short positions	4,411,248	-	-	-	-
C.5 Written guarantees	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Physically settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Cash settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	612	-	-	-	-

1.Time breakdown by contractual residual maturity of financial assets and liabilities
EURO

(cont.)

Items/Time	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity
Cash assets	**3,263,795**	**4,945,893**	**27,843,262**	**29,425,935**	**8,359,559**
A.1 Government securities	62,325	361,048	4,268,970	4,982,111	-
A.2 Other debt securities	59,969	164,797	4,121,239	5,686,948	182
A.3 UCITS units	-	-	-	-	-
A.4 Loans	3,141,501	4,420,048	19,453,053	18,756,876	8,359,377
- Banks	18,430	16,596	1,850	1,878	8,359,377
- Customers	3,123,071	4,403,452	19,451,203	18,754,998	-
Cash liabilities	**381,569**	**436,655**	**20,153,674**	**3,099,779**	**-**
B.1 Deposits and current accounts	67,797	32,859	26,851	206,040	-
- Banks	1,384	3,988	26,238	206,040	-
- Customers	66,413	28,871	613	-	-
B.2 Debt securities	217,705	167,410	2,779,965	1,531,846	-
B.3 Other liabilities	96,067	236,386	17,346,858	1,361,893	-
Off-balance sheet transactions					
C.1 Physically settled financial derivatives					
- Long positions	62,818	63,121	20,796	246,545	-
- Short positions	54,604	48,912	10,509	-	-
C.2 Cash settled financial derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.3 Deposit to be received					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds					
- Long positions	338,345	648,805	568,667	160,198	-
- Short positions	-	-	-	-	-
C.5 Written guarantees	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Physically settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Cash settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-

1.Time breakdown by contractual residual maturity of financial assets and liabilities
OTHER CURRENCIES

Items/Time	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months
Cash assets	**72,477**	**1,721**	**4,633**	**29,424**	**231,693**
A.1 Government securities	-	-	-	-	11,566
A.2 Other debt securities	-	42	150	97	166,430
A.3 UCITS units	15,447	-	-	-	-
A.4 Loans	57,030	1,679	4,483	29,327	53,697
- Banks	50,322	-	569	80	1,392
- Customers	6,708	1,679	3,914	29,247	52,305
Cash liabilities	**442,918**	**153,394**	**259,743**	**510,498**	**1,609,147**
B.1 Deposits and current accounts	442,829	139	51	83,862	169,929
- Banks	2,471	-	-	81,575	163,285
- Customers	440,358	139	51	2,287	6,644
B.2 Debt securities	-	-	-	-	-
B.3 Other liabilities	89	153,255	259,692	426,636	1,439,218
Off-balance sheet transactions					
C.1 Physically settled financial derivatives					
- Long positions	-	12,292	45,708	48,426	150,792
- Short positions	260,725	130,998	42,940	62,351	247,286
C.2 Cash settled financial derivatives					
- Long positions	-	-	-	-	-
- Short positions	1,765	-	-	-	-
C.3 Deposit to be received					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds					
- Long positions	-	22	576	9	410
- Short positions	522	136	-	-	-
C.5 Written guarantees	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Physically settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Cash settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-

1.Time breakdown by contractual residual maturity of financial assets and liabilities
OTHER CURRENCIES

(cont.)

Items/Time	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity
Cash assets	**145,740**	**207,659**	**1,346,533**	**2,032,895**	**-**
A.1 Government securities	9,548	1,690	83,257	796,935	-
A.2 Other debt securities	101,716	187,997	1,255,618	1,235,960	-
A.3 UCITS units	-	-	-	-	-
A.4 Loans	34,476	17,972	7,658	-	-
- Banks	29,251	13,414	7,658	-	-
- Customers	5,225	4,558	-	-	-
Cash liabilities	**2,539**	**1,751**	**-**	**-**	**-**
B.1 Deposits and current accounts	2,539	1,751	-	-	-
- Banks	-	-	-	-	-
- Customers	2,539	1,751	-	-	-
B.2 Debt securities	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-
Off-balance sheet transactions					
C.1 Physically settled financial derivatives					
- Long positions	55,362	48,527	9,671	260,716	-
- Short positions	62,034	62,255	20,024	54,446	-
C.2 Cash settled financial derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.3 Deposit to be received					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds					
- Long positions	252	270	-	-	-
- Short positions	-	-	-	-	-
C.5 Written guarantees	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Physically settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Cash settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-

As required by the regulations, liquidity risk includes the self-securitisations carried out by the BPER Banca Group and outstanding as at 31 December 2020.

Sardegna Re-Finance self-securitisation

During 2017, the subsidiary Banco di Sardegna completed a securitisation of performing residential mortgage loans pursuant to Law 130 dated 30 April 1999 to strengthen the funding available - through the Parent Company BPER Banca - to control liquidity risk.

This operation involved the without-recourse sale of a block of 19,494 performing loans, comprising residential mortgage loans granted to developers and residential mortgage loans granted to home owners, totalling Euro 1,494,858,369, to Sardegna Re-Finance s.r.l., a company formed pursuant to Law 130. The vehicle company financed the operation via issue of the asset-backed bonds described in the following table, all of which were taken up by Banco di Sardegna.

The objective of this operation, which did not involve the market, was to create a reserve of liquidity via the issue of securities eligible for refinancing with the ECB - through BPER Banca - and for use as collateral for other funding transactions. It represents one aspect of the liquidity management activities arranged by the BPER Group.

The securities have been rated by Moody’s and DBRS.

As structured, the sale does not transfer to third parties, with respect to the originator bank, the real credit risk associated with the underlying loans. Based on the provisions of IAS 39 regarding derecognition (replaced by IFRS 9 starting from 1 January 2018, maintaining the same approach for the derecognition of assets), the transactions subject to securitisation remain on the books of Banco di Sardegna (and therefore of the BPER Banca Group) and are discussed in the Explanatory Notes.

Since the possibility of subsequent sales of loan portfolios was envisaged - within 24 months from the December 2017 closing date - to be followed by an adjustment of the securities issued due to an increase in their respective pool factor values, there were two further sales of mortgages, selected with criteria similar to those used for the first sale, of Euro 443 and Euro 175 million, respectively, in June and December 2018. The portfolio has therefore reached its maximum capacity already after 12 months and the operation has been consolidated as follows.

Classes	A	J
Issue amount	1,668,800,000	531,200,000
Current Pool Factor	0, 63889421	0, 87022505
Currency	Eur	Eur
Maturity	22.12.2060	22.12.2060
Listing	Dublin Stock Exchange	Unlisted
ISIN Code	IT0005317034	IT0005317042
Depreciation	Pass Through	Pass Through
Indexation	Euribor 3m	Unindexed
Spread	0.80%	Residual
Issue Moody's Rating	Aa2	Unrated
Issue DBRS Rating	AA (low)	Unrated
Current Moody's Rating	Aa3	Unrated
Current DBRS Rating	AA	Unrated

Multi Lease AS self-securitisation

Towards the end of 2015 (with the issue of securities in February 2016) Sardaleasing s.p.a. arranged a self-securitisation named Multi Lease II in response to the need to transform the assets of the Group into negotiable securities eligible for repo transactions with the ECB. This securitisation was closed out early, in July 2018, with the repurchase of the residual portfolio for about Euro 614 million with economic effect on 30 June 2018.

In pursuit of the original objective, the company - in collaboration with the Parent Company - has already completed preparations for a new operation, named Multi Lease III, with an underlying portfolio of performing lease contracts; in particular, criteria for selecting the performing contracts have been defined in collaboration with the Arranger (Zenith Services) and the Legal Advisor (Baker & McKenzie), a preliminary analysis of the eligible portfolio has been carried out and the two Rating Agencies (Standard & Poor's and DBRS) have completed their due diligence work. The inclusion of leases arranged in 2016-2018 and contracts that were not yet eligible at the end of 2015 has resulted in the achievement of critical mass for the loans to be assigned to Multilease AS, the SPV, totalling Euro 1,200 million. The positive preliminary results of the analysis of the agencies allowed the inclusion of the so-called "pool energy" for the first time for an amount of about Euro 50 million. The sale of the pool of performing lease contracts to Multilease AS was formalised on 3 August 2018 for a spot capital price of Euro 1,135 million, as well as a residual amount of Euro 4 million (corresponding to the Accrued Interest at 1 July 2018, which was the Portfolio Valuation Date). As in the previous Multi Lease II transaction, the so-called redemption/option price was not assigned to the SPV, in order to be compliant with the requirements of the ECB.

Furthermore, the retention structure of the transaction has been confirmed, that is, the securities have been subscribed for by the Originator (Sardaleasing) and subsequently loaned to the Parent Company and used as collateral for repo transactions with ECB.

The total amount of these notes after the repayment on the payment date (21 January 2021) – repayment of principal Euro 28,428,087.87 and interest Euro 215,739.14 - is Euro 662,331,970.18 made up as follows:

- Class A Senior Notes – € 321,860,970.18
- Class B Junior Notes – € 340,471,000.00

The residual balance of the portfolio at 31 December 2020 amounted to Euro 711,358,586.24 for a total of 3,691 contracts, including Euro 62,837.55 of unpaid principal instalments:

Based on the servicing contract, credit monitoring and loan recovery remain with the Servicer, which takes all steps possible to collect any loan instalments that have not been repaid or defaulted loans included in the securitised portfolio, using the same recovery policies applied to the non-securitised part of the loans.

Dedalo Finance self-securitisation

In 2011, Cassa di Risparmio di Bra s.p.a. (absorbed by BPER Banca on 27 July 2020) completed a self-securitisation under Law 139/99, which allowed the sale of loans by transforming them into securities eligible for refinancing at the European Central Bank. The operation was a multioriginator and through joint use of the portfolios of Cassa di Risparmio di Bra s.p.a., Banca Alpi Marittime s.c. and BCC di Pianfei e di Rocca de Baldi s.c.p.a., made it possible to combine the advantages in terms of lower costs without any penalisation compared with the situation of the individual bank's portfolio. The sale involved the portfolios of performing residential mortgage loans granted to households, which were sold to a company called Dedalo Finance S.r.l., that financed the purchase by issuing bonds.

Each of the loan portfolios sold was rated by two rating agencies to determine the overall quality and structure of the bond issue. Each bank continues to manage its credit position, in terms of both risk management and control, and the business relationship with the customer by virtue of a servicing agreement signed with the SPV.

The structure of the operation involved issuing two tranches of securities, a senior tranche eligible for refinancing with the ECB, and a junior tranche. Both tranches of securities were subscribed by each bank in proportion to the loans sold.

The following securities were issued as part of the operation:

- Senior Securities (class A) issued for a total of Euro 166,800,000, partially subscribed by Cassa di Risparmio di Bra s.p.a. for Euro 77,000,000 (at 31 December 2020 the securities have a residual nominal value of Euro 11,259,786).
- Junior Securities (class B) issued for a total of Euro 33,837,000, subscribed by Cassa di Risparmio di Bra s.p.a. for Euro 15,625,000 (at 31 December 2020 the securities have a residual nominal value of Euro 15,625 thousand).

Grecale 2008 self-securitisation

On 15 July 2020, BPER Banca repurchased the loan portfolio originally sold by Unipol Banca s.p.a. to the vehicle company Grecale 2008, terminating the operation ahead of schedule.The repurchase refers to a portfolio of land and mortgage loans for a residual debt of approximately Euro 189 million.

This was announced by publication in the Official Gazette (OG Second Part no. 87 of 25/07/2020).

1.5 Operational risk

Qualitative information

A. General aspects, governance and measurement of operational risk

Operational risk is "the risk of losses due to inadequate or dysfunctional procedures, human resources or internal systems, or to exogenous events, including the legal risk[91]".
The BPER Banca Group adopts the Traditional Standardised Approach (TSA) to calculate the capital requirement for operational risk. The Own Funds requirement is calculated using the standardised approach by determining the three-year average of the sum of the annual Own Funds requirement for the lines of business in which the relevant indicator was classified[92].
Note that, on the basis of the principles of organisational separation and independence of functions exercising second and third level control activities, it is envisaged that there is:

- a first level control of operational risk;
- a function that performs second level controls of operational risk within the Risk Management Department, part of the Credit and Operational Risk Management Unit;
- a function for third level controls that is attributed to the Internal Audit Function, in accordance with the Group's internal control system.

Operational risk management is based on the following principles:

- identification: operational risks are identified, highlighted and reported to senior management;
- measurement and assessment: the risk is quantified by determining the impact on business processes, inclusive of the financial impact thereon;
- monitoring: monitoring of operational risk and of exposure to significant losses is ensured, generating information flows that favour active risk management;
- mitigation: appropriate measures have been taken to mitigate operational risk;
- reporting: a reporting system has been set up to report on operational risk management.

The collection and storage of data relating to loss events is done by means of the Group's Loss Data Collection process.
The process of Loss Data Collection is supported by special IT tools, which are under constant development, to ensure the integrity and quality of data.
The assessment of operational risk exposure, which is performed by means of risk self assessment, is aimed at determining, with an annual time horizon and for significant operating segments:

- the extent of exposure to operational risk;
- an assessment of the adequacy of line processes and controls.

The management of operational risk also includes assessment of the risks associated with the approval of new products and services, the start-up of new activities, the entry into new markets and the outsourcing of corporate functions.

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[91] See (EU) Regulation 575/2013 of the European Parliament and the Council of 26 June 2013 on prudential requirements for credit institutions and investment companies (CRR) – Part one, Title I, art. 4. Legal risk is the risk of losses resulting from violations of laws or regulations, from contractual or extra-contractual liability or from other disputes.
[92] See CRR – Part three, Title III, Chapter 3, art. 317.

In 2015, the Group implemented an analytical framework for IT risk, in compliance with Circular 285 of 17 December 2013, with the aim of providing an overview of the current risk situation and the remedy plan needed to avoid exceeding the threshold set for the Group's risk appetite.
Following the new regulatory provisions (Directive (EU) 2015/2366 implemented in the 28th update of Circular 285 of July 2019), every year the Group carries out an in-depth assessment of the operational and security risks related to the payment services provided and the adequacy of the mitigation measures and control mechanisms put in place to address them.

The Parent Company prepares a quarterly report for Senior Management and the managers of central organisational units on the operational losses incurred during the period, as well as an annual report that analyses the forward-looking assessments of operational risk, based on the risk self-assessments carried out, and describes the various risk mitigation actions planned. Specific reporting requirements have also been established by the IT risk management framework.

Membership by the BPER Banca Group of the DIPO consortium[93] allows the Bank to obtain feedback about the operational losses reported by the other Italian banks that are members. The Parent Company currently uses this feedback to analyse the positioning of the Group with respect to the system as a whole, to update the map of operational risks and to support the estimates made during the risk self-assessment process.
Operational risk management includes the various steps involved in the process of Business Continuity Management. This process is designed to maintain an appropriate level of attention regarding operational continuity and to avoid the progressive obsolescence of organisational measures (rules, impact assessment, scenarios, emergency measures, operating plans etc.) taken to ensure the continuity of critical business processes.

Impacts resulting from the Covid-19 pandemic

Faced with the Covid-19 pandemic, the BPER Banca Group implemented a series of activities designed to identify and assess the current and future operational risks that it might involve, also to foresee appropriate mitigation measures.
These activities concerned:

- the collection of operational loss events that took place after the outbreak of Covid-19 event, including the extraordinary costs needed to ensure operational continuity (e.g. health and hygiene expenses);
- a specific exercise to identify and quantify the impacts of operational risk (both actual and expected) linked to the pandemic by applying a scenario analysis approach;
- more frequent reporting dedicated to the Covid-19 scenario to ensure that the Corporate Bodies had timely information.

[93] *Database Italiano Perdite Operative (Italian Database of Operational Losses) which the BPER Banca Group has participated in since 2003. The DIPO observatory is a service provided by the Italian Banking Association designed to support the development of Operational Risk Management and to create a methodology for gathering and exchanging information on operational losses suffered by members.*

Quantitative information

The following is the distribution of the number of events and operating losses recorded in 2020, divided into the following risk categories:

- internal fraud: losses due to fraud, embezzlement or circumvention of regulations, laws or company policies, excluding incidents of discrimination or failure to apply equal treatment, which involves at least one internal resource of the entity;
- external fraud: losses due to fraud, embezzlement or violation/circumvention laws, by a third party;
- employment and safety at work: losses arising from acts not in compliance with laws or agreements in respect of employment, health and safety at work, from the payment of compensation for personal injuries or incidents of discrimination or failure to apply equal treatment;
- customers, products and business practices: losses arising from unintentional or negligent non-performance relating to professional obligations to specific clients (including fiduciary and suitability requirements), or from the nature or characteristics of the product;
- damage to fixed assets: losses resulting from loss or damage to assets from natural disasters or other events;
- business interruption and system failures: losses arising from business interruption or system failures;
- performance, delivery and management of processes: losses due to weaknesses in the handling of transactions or management of processes, as well as losses due to relations with business partners and suppliers.

Figure 1 – Breakdown by Frequency

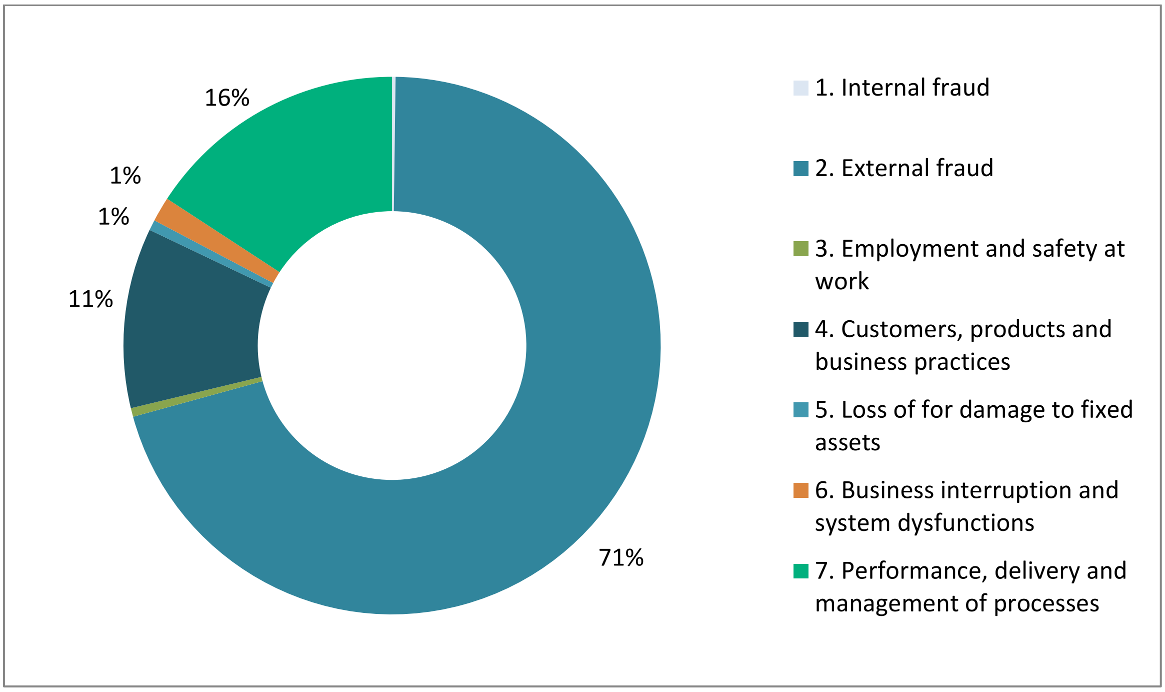
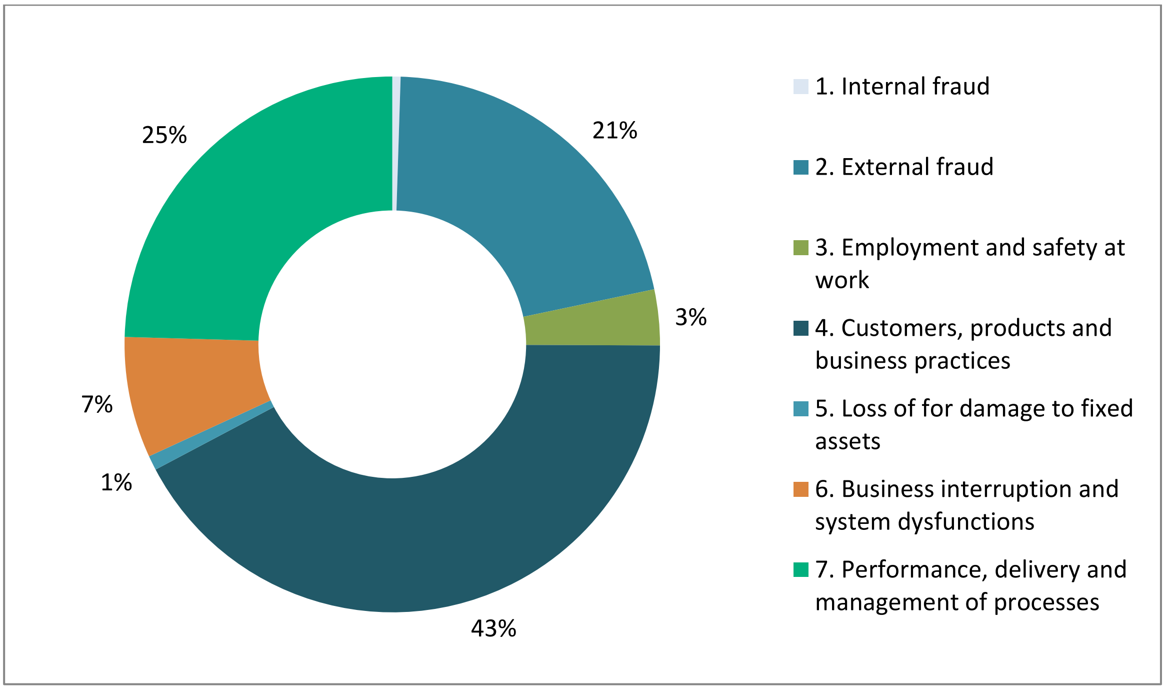


Figure 2 – Breakdown by Gross Actual Loss



An analysis of the graphs shows that the most relevant type of event in terms of frequency is:

- "External fraud" with 71% of the total frequency;
- "Performance, delivery and management of processes", with 16% of the total frequency.

In terms of economic impact the most significant events related to:

- "Customers, products and business practices", with 43% of the total gross loss;
- "Performance, delivery and management of processes", with 25% of the total gross loss.

Reputational risk

Qualitative information

B. General aspects, management and methods to measure reputational risk

Reputational risk is "the current or prospective risk of a decline in earnings or capital arising from an adverse perception of the Group by customers, employees, counterparties, shareholders, investors or Supervisory Authorities”.
The framework for the management of reputational risk is supervised by the Credit and Operational Risks Office within the Risks Department, with support from the organisational units involved (Reputational Risk Owner) in managing the risk and monitoring the corrective actions needed to mitigate any vulnerabilities identified.
The system of reputational risk management adopted by the BPER Group has the following components:

- identification and assessment of risk based on Reputational Data Collection and Reputational Self Assessment;
- monitoring of the Group's exposure to reputational risk using a series of specific Key Risk Indicators;
- management of critical reputational events (escalation): management of particularly critical reputational events, by means of a functional escalation process and the determination of short and long term responses and mitigation;
- reporting: preparation of suitable reports, based on the various processes/sub-processes comprising the framework, in order to present in summary form the outcome of the risk management activities to all bodies and functions concerned.

No internal capital is allocated to cover reputational risk (since included in other risk categories).

Section 3 - Risks of insurance companies

This section is not applicable as the BPER Banca Group does not include insurance companies.

Section 4 - Risks of other companies

This section is not applicable because, as already explained in part A of the Explanatory notes, the BPER Banca Group has decided to align the scope of consolidation with that used for regulatory purposes.

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Part F – Information on consolidated shareholders' equity

Section 1 – Consolidated shareholders' equity

Qualitative information

Equity management and its continuous monitoring in terms of size and quality compared with the risks assumed is an activity that the BPER Banca Group carries on constantly to ensure an adequate level of capitalisation in compliance with the prudential rules.
As Parent Company, BPER Banca performs the role of coordination and guidance of Group companies, coordinating the management of capital in each Legal Entity and providing appropriate guidelines.
By means of active capital management, a suitable combination of different capitalisation instruments and continuous monitoring, the Parent Company has managed to combine projects for capital growth and optimisation that have enabled the Group to maintain one of the strongest capital profiles among Italian banking groups.
The size of the Group's consolidated capital resources and those of the individual Group companies are verified periodically and brought to the attention of management and of the Board of Directors and Board of Statutory Auditors. The capital position is monitored as part of the RAF (Risk Appetite Framework) process, at meetings of the Risk Committee, in periodic reports relating to the financial statements and in the impact simulations relating to extraordinary transactions and regulatory changes.
The capital management, planning and allocation activities are aimed at governing and improving the current and prospective financial solidity of the Group. There are also plans to improve the capital base, such as conservative pay-out policies, strategic finance operations (capital increases, convertible loans, subordinated bonds) and levers connected to the containment of risks, such as insurance coverage, management of loans in function of the counterparty risk, the technical form and the guarantees assumed.
In line with the recommendations of the European Central Bank, the Board of Directors has decided to suspend payment of the 2020 dividend and to increase revenue reserves by the same amount, thereby strengthening capital solidity and determining greater resilience in the face of necessities, not quantifiable at present, which could arise considering the current state of the health emergency.
All of these activities have helped to mitigate the financial impact of several major extraordinary transactions, such as the acquisitions of Unipol Banca and Arca Holding, and to maintain adequate capital solidity in view of the acquisition of the "Business Complex". This consists of 620 branches of UBI Banca and Intesa Sanpaolo, for which the Parent Company BPER Banca has approved, an increase in capital of Euro 802.3 million realized on October 2020, as detailed in the chapter of this Report entitled "Significant events and strategic transactions".
The Parent Company is subject to the capital adequacy requirements established by the Basel Committee, in accordance with the rules defined by EU Regulation 575/2013 (CRR). In regulatory terms, BPER Banca s.p.a., Banco di Sardegna s.p.a. and Bibanca s.p.a. were authorised from 30 June 2016 to use the AIRB approach for measuring credit risk for Corporate and Retail segments. Other BPER Banca Group companies apply the Standard Method (SA) for the measurement of credit risk while, at the same time, continuing preparations to extend the use of advanced methodologies to other Group entities whose IT systems have already been aligned.

Lastly, with reference to the transition to IFRS 9, the Board of Directors of BPER Banca has decided to make the election allowed by Regulation (EU) 2395/2017 of the European Parliament and of the Council as regards "transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds". The five-year transition period envisaged in that regulation will end on 1 January 2023 (for 2020 a 70% correction factor has been applied, 85% for 2019), when the provisions recorded during the transition to 1 January 2018 will be included in full in the calculation of own funds. BPER Banca has also decided that the entire banking group will adopt the "static" option, which limits deferral of the impact on capital solely to FTA of the regulation.

Quantitative information

B.1 Consolidated Shareholders' equity: breakdown by business type

Captions	Prudential consolidation	Insurance companies	Other companies	Consolidation adjustments and eliminations	Total
1. Share capital	2,822,262	-	-	(696,055)	2,126,207
2. Share premium reserve	1,543,354	-	-	(299,288)	1,244,066
3. Reserves	3,432,386	-	-	(1,004,672)	2,427,714
4. Equity instruments	150,000	-	-	-	150,000
5. (Treasury shares)	(7,259)	-	-	-	(7,259)
6. Valuation reserves:	113,446	-	-	5,913	119,359
- Equity instruments designated at fair value through other comprehensive income	51,631	-	-	(324)	51,307
- Hedging of equity instruments designated at fair value through other comprehensive income	(1,385)	-	-	222	(1,163)
- Financial assets (no equity instruments) measured at fair value through other comprehensive income	39,833	-	-	3,008	42,841
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Foreign investments hedges	-	-	-	-	-
- Cash flow hedges	(1,572)	-	-	-	(1,572)
- Hedging instruments (non-designated elements)	-	-	-	-	-
- Exchange differences	-	-	-	-	-
- Non-current assets and disposal groups held for sale	-	-	-	-	-
- Financial liabilities designated at fair value through profit or loss (variation due to changes in the credit worthiness)	-	-	-	-	-
- Actuarial gains (losses) on defined benefit plans	(155,764)	-	-	-	(155,764)
- Share of the valuation reserves of equity investments carried at equity	-	-	-	3,007	3,007
- Special revaluation laws	180,703	-	-	-	180,703
7. Profit (Loss) for the year (+/-) of group and minority interests	281,700	-	-	(11,033)	270,667
Total	**8,335,889**	**-**	**-**	**(2,005,135)**	**6,330,754**

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

Assets/values	Prudential consolidation		Insurance companies		Other companies		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	44,093	4,260	-	-	-	-	3,998	990	48,091	5,250
2. Equity instruments	100,115	48,484	-	-	-	-	(324)	-	99,791	48,484
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31.12.2020	**144,208**	**52,744**	**-**	**-**	**-**	**-**	**3,674**	**990**	**147,882**	**53,734**
Total 31.12.2019	**96,680**	**87,370**	**-**	**-**	**-**	**-**	**3,940**	**990**	**100,620**	**88,360**

B.3 Valuation reserves of financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity instruments	Loans
1. Opening balance	**27,158**	**(14,898)**	**-**
2. Positive changes	**52,197**	**104,899**	**-**
2.1 Fair value increases	40,149	41,270	-
2.2 Impairment losses for credit risk	1,285	X	-
2.3 Reclassification to profit or loss of negative reserves to be realized	1,135	X	-
2.4 Transfer to other components of shareholders' equity (equity instruments)	-	57,095	-
2.5 Other changes	9,628	6,534	-
3. Negative changes	**36,514**	**38,694**	**-**
3.1 Fair value decreases	14,977	27,528	-
3.2 Write-backs for credit risk	923	-	-
3.3 Reclassification to profit or loss of positive reserves to be realized	3,356	X	-
3.4 Transfer to other components of shareholders' equity (equity instruments)	-	49	-
3.5 Other changes	17,258	11,117	-
4. Closing balance	**42,841**	**51,307**	**-**

B.4 Valuation reserves about actuarial gains (losses) on defined-benefit plans: annual changes

	31.12.2020	31.12.2019
1. Opening balance	**(159,949)**	**(124,221)**
2. Positive changes	**8,377**	**10,806**
2.1 Actuarial gains	8,095	48
2.2 Other changes	282	10,758
3. Negative changes	**4,192**	**46,534**
3.2 Other changes	1,974	41,739
3.1 Actuarial losses	2,218	4,795
4. Closing balance	**(155,764)**	**(159,949)**

Section 2 – Own funds and capital adequacy ratios

The disclosures about own funds and capital adequacy are provided in the document entitled "Public Disclosures as at 31 December 2020 – Pillar 3", prepared in accordance with the aforementioned Bank of Italy Circular 285 dated 17 December 2013 and subsequent amendments, which applies in Italy the requirements of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) and the subsequent EBA Guidance documents in force on the reporting date.
The document is published together with the Consolidated financial statements at 31 December 2020 on the website of the Parent Company – http://istituzionale.bper.it

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Part G – Business combinations

Section 1 - Transactions carried out during the year

1.1 Business combinations

No business combinations pursuant to IFRS 3 were carried out during the period to 31 December 2020.

1.2 Operations between entities under common control

The absorption of Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a. by BPER Banca s.p.a. was completed on 27 July 2020. For more details please read the Group interim report on operations.
The transaction was consistent with the action plan that has reduced the number of Legal Entities belonging to the BPER Banca Group with a view to improving operating efficiency and creating cost/income synergies.
Being classified as a Business Combination between entities under common control, the transaction is not addressed by IFRS 3 and has been accounted for in continuity of values in the Parent Company's separate financial statements as are shown in the consolidated financial statements.
As this is a transaction involving the absorption of subsidiaries, it did not have any impact at a consolidated level at 31 December 2020, except as regards the distribution of the Group's shareholders' equity between the Parent Company and minority interests.

Section 2 – Transactions subsequent to the year end

2.1 Business combinations

On 19 February 2021, final contracts were signed for the purchase from the Intesa Sanpaolo Group of a business complex split into three business units. The transfer to BPER Banca of the business units of UBI Banca s.p.a. and UBISS s.c.p.a. took effect for legal purposes on 22 February 2021, whereas the transfer of the Intesa Sanpaolo Group business unit will take effect on 21 June 2021.
On the basis of these contracts, the overall consideration agreed for the purchase and sale of the business units is equal to Euro 644.0 million, of which Euro 23.5 million referable to the unit owned by Intesa Sanpaolo, and is expected to be paid by BPER Banca entirely in cash at the dates that the transfer takes effect. The Common Equity Tier 1 capital of the entire business complex (with all three business units) comes to Euro 1,611.0 million.
For further details on the composition of the business complex acquired, provided in advance with respect to final definition of the accounting situations at the respective execution dates, and on its integration with BPER Banca, please refer to what has already been presented and commented on in section 3.1 "Increase in capital of BPER Banca and acquisition of a Business Unit from the Intesa Sanpaolo Group" and in the section 9 “Outlook for operations” of the Directos’ report on operations.

Note that this comparison between the consideration paid for the acquisition of the business units and the Common Equity Tier 1 acquired (intended as a proxy of the net assets acquired) would lead to a result of the business combination characterised by a "gain from a bargain purchase”, or badwill, which can only be confirmed on completion of the Purchase Price Allocation required by IFRS 3. This result would be largely attributable to the favourable market moment for "buyers" in which the transaction took place; in fact, one of the reference parameters considered in defining the price, together with other less significant ones, was the relationship between the market price and the book value of the banks selling the business unit.

Accounting treatment of the transaction

This transaction counts as a Business Combination for the purposes of IFRS 3, having satisfied the IFRS 3 requirements for the identification of an acquired "business”.

The initial and supplementary agreements signed in 2020 and, most recently, in January 2021, between the BPER Banca Group and Intesa Sanpaolo, the contents of which were confirmed by the final contracts signed on 19 February 2021, showed that the subject of the agreements was the transfer of a series of "Branches", defined as a set of rights, obligations and legal relationships relating to (or connected with): (i) contracts signed with each branch's customers, (ii) employment relationships with the members of staff working at them, (iii) lease and utility contracts related to them, and (iv) ownership of (or real rights over or enjoyment of) the movable and immovable tangible assets used by the branch. With respect to the characteristics of the complex acquired, it is therefore possible to identify[94]:

- Inputs: contracts with customers (and consequent loans, direct and indirect deposits), employees (as an "organised workforce that has the necessary skills, knowledge or experience") and premises (owned or rented properties) needed for the provision of banking services;
- Processes: all those connected with the provision of banking services to customers (i.e. processes such as loan disbursement, credit monitoring, provision of payment services, provision of financial and investment services), as well as the customer development (acceptance process). These processes are considered "substantial" as intended by IFRS 3 since, being a business complex already "in production" at the date of the combination, it is carried on by employees who already have the necessary skills, knowledge or experience in the banking sector (also in the sense of relationships with customers) which cannot be replaced without costs, efforts or significant delays due to the ability to carry on generating "production deriving from the banking activity"[95].
- Production: understood as the ability to generate revenues not only in the form of interest, but also in the form of commissions from banking services provided to customers.

It should also be noted that the so-called "concentration test" envisaged by paras. B7A and B7B of IFRS 3 (in force from 1 January 2020), focused on gross assets and indicated, in any case, as optional, was not applied as the qualitative analysis reported above regarding the components of the business complex transferred showed sufficient elements to conclude that what has been acquired represents a business.

[94] *As required by IFRS 3 B7.*

[95] *IFRS 3 B12C: If a set of activities and assets has a production at the acquisition date, the process (or group of processes) acquired is considered substantial if, applied to one or more of the inputs acquired:*

a) is of crucial importance to continue generating production and the inputs acquired include an organised workforce that has the necessary skills, knowledge or experience to carry out this process (or group of processes); or

b) significantly contributes to the ability to continue generating production and:

i) is considered unique or scarce; or

ii) cannot be replaced without cost, effort or significant delays due to the ability to carry on generating production.

Having qualified the transaction as a business combination, the Acquisition Method envisaged by IFRS 3 has to be applied, as described in Part A.2 of the Explanatory Notes, to which reference should be made for details.

The acquisition (initial recognition at fair value of the balance sheet amounts relating to the business complex acquired) must be accounted for on the date when the purchaser effectively gains control over the assets acquired, in this situation this date is identified with the legal effectiveness of the sale (as shown in the deed of sale) and the preliminary IT migration, i.e. on 22 February 2021 in relation to the Business Units acquired from UBI Banca and UBISS and on 21 June 2021 in relation to the Business Unit acquired from Intesa Sanpaolo.

At the date of approval of these consolidated financial statements, the asset and liability balances acquired have not yet been definitively determined, despite having identified the categories of assets and liabilities transferred and, consequently, defined the methods of valuation at fair value, also making use of the support of an accredited external consultants. More specifically:

- Performing and non-performing loans: the model for determining the fair value involves discounting expected gross cash flows, appropriately adjusted to take into account expected losses and related operating costs (recovery costs for non-performing positions), based on an appropriate discount rate (the BPER Banca Group's Average Cost of Funding for performing loans and a Weighted Average Cost of Capital (WACC) for non-performing loans). The parameters used in the model were determined with maximum recourse to available market information.
- Intangible assets: analyses are currently underway to identify any intangibles originating from Customer Relationships, not already recognised in the financial statements of the seller. Preliminary analyses show that there would not seem to be the conditions for enhancing the value of so-called Core Deposits as the benefit linked to the lower cost of the deposits acquired compared with alternative sources of funding (the so-called mark-down) would be zero. There are also analyses still underway on the characteristics of the indirect deposits acquired to identify any conditions of implicit remuneration, which would allow them to be reassessed as intangible assets.
- Property, plant and equipment: checks are in progress to verify the reliability of the valuations at fair value of the properties acquired, based on site appraisals by the independent expert used by the BPER Banca Group.
- Direct deposits: the characteristics of the direct deposits acquired (substantially represented by sight or short-term items) suggest that their fair value is substantially the same as their book value.
- Right of Use and lease liability: application of BPER Banca Group's valuation methodology is envisaged at the date of the business combination, as required by paragraphs 28A and 28B of IFRS 3, for the leases acquired (mainly for real estate);
- Contingent liabilities: the recognition of any implicit risks in the business complex acquired has been commenced, as has the measurement at fair value of any related contingent liabilities and of any legal risks connected with disputes at the branches.
- Deferred taxation: the tax effects associated with the fair value measurements at the time of the Purchase Price Allocation (PPA) will be determined in application of the tax legislation in force at the date of the combination.

As required by paragraph B66 of IFRS 3, it should be noted that, at the date of approval of these consolidated financial statements, part of the information required by paragraph B64 of IFRS 3 was not provided, as it was not available. With specific reference to the business units acquired on 22 February 2021, this lack of availability is in any case consistent with the contractual provisions which envisage a period of time needed to prepare the accounting situation of the units acquired; this period has not yet been completed at the date of approval of these financial statements. Consequently, information on the impacts of the fair value measurement of the assets and liabilities acquired is not available and will be provided in the financial document, which will contain provisional or final disclosures on the PPA.

2.2 Operations between entities under common control

On 6 November 2020, the Boards of Directors of Nadia s.p.a. and Tholos s.p.a., each to the extent of their respective competence, approved the Merger Plan for the absorption of Tholos s.p.a. by Nadia s.p.a. The Shareholders' Meetings of the two companies that approved the merger were held on 18 November 2020. Please refer to the Directors' Report for further details.

The merger, which qualified as a business combination between entities under common control and therefore outside the scope of IFRS 3, took effect for accounting and tax purposes on 1 January 2021. It has no effect on the consolidated financial statements.

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Part H – Related-party transactions

1. Information on the remuneration of Executives with strategic responsibilities

	Description	31.12.2020	31.12.2019
	Directors		
-	short-term benefits (as shown in the Parent Company's annual report)	2,860	3,059
-	other long-term benefits (as shown in the Parent Company's annual report)	199	302
-	directors' emoluments received from other banks and companies within the scope of consolidation on a line-by-line basis	-	14
	Statutory Auditors		
-	short-term benefits (as shown in the Parent Company's annual report)	522	522
-	Statutory Auditors' emoluments received from other banks and companies within the scope of consolidation on a line-by-line basis	-	-
	Other Managers with strategic responsibilities (General Manager, Deputy General Managers, Manager responsible for preparing the company's financial reports and Managers of General Management Internal Committee):		
1	- short-term benefits (as shown in the Parent Company's annual report) includes salaries, social security contributions, indemnities in lieu of untaken vacation, paid leave of absence and any fringe benefits, such as insurance, housing and car.	3,538	3,150
	- other short-term benefits - contributions for social contributions (as shown in the Parent Company's annual report)	992	1,002
	- directors' emoluments received from other Banks and Companies within the scope of consolidation on a line-by-line basis	124	218
2	post-employment benefits	325	297
	includes payments to supplementary pension funds and provisions for termination indemnities		
3	other long-term benefits	265	584
4	indemnities for termination of employment	408	750
5	share-based payments	-	-

The information provided is consistent with that required by IAS 24.
The amounts shown for the Directors, including the emoluments of the Chief Executive Officer, the Statutory Auditors and other Managers with strategic responsibilities, represent their emoluments for the year, regardless of when they are paid. These amounts are classified in the income statement caption 190-a "Staff costs".
As regards the Directors, note that the amount shown (€ 2,860 thousand) consists of their emoluments for the period in accordance with art. 11 of the Articles of Association. More specifically:
- € 1,845 thousand (€ 1,742 thousand at 31 December 2019), comprising the fees payable to the directors (€ 1,124 thousand), the additional emoluments due to members of the Executive Committee (€ 170 thousand) and all other Board committees (€ 380 thousand), as well as the attendance fees payable for participating in meetings of the Board of Directors (€ 171 thousand);
- € 365 thousand (€ 365 thousand at 31 December 2019) of additional emoluments payable to Directors appointed to particular positions in compliance with the Articles of Association (specifically Chairman and Deputy Chairmen); in fact, this remuneration has to be set by the Board of Directors, after having heard the opinion of the Board of Statutory Auditors;
- € 600 thousand (€ 850 thousand at 31 December 2019) as additional emoluments, again with reference to the same clause of the Articles of Association mentioned above, for the office of Chief Executive Officer, to which € 50 thousand of variable remuneration.
Other long-term benefits worth € 199 thousand for the Directors (specifically, the Chief Executive Officer), relating, as indicated in the Report on Remuneration, to deferred variable remuneration, including € 137 thousand for a remuneration plan based on financial instruments called "Phantom stock".
The amounts shown for other Key Management Personnel (the General Manager, 5 Deputy General Managers, the Manager responsible for preparing the company's financial reports and 4 other Group Senior Managers in the Parent Company BPER Banca) belong to the types of costs detailed above. They are disclosed in the Report on Remuneration (art. 123-ter of Legislative Decree 58/1998) in accordance with CONSOB's instructions.
Other long-term benefits for other Managers with strategic responsibilities relate entirely to deferred variable remuneration, including € 182 thousand for the valuation of the Phantom Stocks assigned.

2. Information on related-party transactions

The following shows the transactions with related parties, identified in application of IAS 24.

	Assets	Liabilities	Guarantees and commitments	Revenues	Costs
Subsidiaries	451,398	8,982	-	1,827	568
Associates	813,332	5,473	67,745	5,317	4,045
Directors, Statutory Auditors and Managers	568	1,856	155	51	2
Other related parties	277,997	1,121,093	100,858	132,314	10,678
Total 31.12.2020	**1,543,295**	**1,137,404**	**168,758**	**139,509**	**15,293**
Subsidiaries	353,981	10,650	-	3,012	1,035
Associates	782,534	7,741	170,085	5,476	2,871
Directors, Statutory Auditors and Managers	745	2,368	165	65	12
Other related parties	242,345	972,801	103,127	100,408	3,176
Total 31.12.2019	**1,379,605**	**993,560**	**273,377**	**108,961**	**7,094**

None of the balances or transactions with related parties can be considered critical. They all relate to routine banking and other services and arose normally during the year as a consequence of needs and requirements in the common interests of the parties or, where applicable, of the Group. The conditions applied to individual balances and transactions with these companies are in line with those currently applied in the market.
The "Other related parties" reflect situations other than those detailed in the table, including subsidiaries of associates of BPER Banca, entities that exercise significant influence over the BPER Banca Group and entities under the control of Directors, Statutory Auditors or Managers, or parties related to them, that can exercise influence over them, as defined in IAS 24.
The total amount of cash and endorsement loans to Directors, Statutory Auditors, Managers and other related parties comes to € 379.6 million (€ 346.4 million at 31 December 2019). The above amount represents 0.32% of total cash and endorsement loans.
With reference to the entry into force in 2012 of the regulations relating to "Risk Activities and Conflicts of Interest with Related Parties and Associated Persons" (regulated by the Bank of Italy through Circular 285 of 17 December 2013 and subsequent updates), the BPER Group has adopted a series of regulations which includes, among others, the "Group Policy for the governance of the risk of non-compliance with regard to conflicts of interest with related parties and risk activities with associated persons", which describes the prudential limits to risk assets towards associated persons, continuous monitoring of the limits and handling situations where the limits are exceeded. An "internal threshold of attention" establishes an individual limit on the weighted consolidated exposure that is lower than the regulatory threshold. This threshold is set at such a level as to constitute an adequate precaution against accepting particularly significant exposures to related parties and persons associated with them.
At 31 December 2020 there were no provisions for doubtful loans to related parties.

	Assets	Liabilities	Guarantees and commitments	Revenues	Costs
Total reference amounts - 31.12.2020	93,050,838	86,720,084	23,775,611	2,948,617	2,155,646
Total reference amounts - 31.12.2019	79,033,498	73,779,701	21,421,925	2,732,405	2,147,034

The total reference amounts for revenues include interest income (caption 10), commission income (caption 40) and other operating income (detail of caption 230); costs include interest expense (caption 20), commission expense (caption 50), other operating expenses (detail of caption 230) and administrative expenses (caption 190).

Related party transactions stated as a percentage of reference amounts (financial position and economic results)

	Assets	Liabilities	Guarantees and commitments	Revenues	Costs
Subsidiaries	0.49%	0.01%	0.00%	0.06%	0.03%
Associates	0.87%	0.01%	0.28%	0.18%	0.19%
Directors, Statutory Auditors and Managers	0.00%	0.00%	0.00%	0.00%	0.00%
Other related parties	0.30%	1.29%	0.42%	4.49%	0.50%
Total 31.12.2020	**1.66%**	**1.31%**	**0.70%**	**4.73%**	**0.72%**
Subsidiaries	0.45%	0.01%	0.00%	0.11%	0.05%
Associates	0.99%	0.01%	0.79%	0.20%	0.13%
Directors, Statutory Auditors and Managers	0.00%	0.00%	0.00%	0.00%	0.00%
Other related parties	0.31%	1.32%	0.48%	3.67%	0.15%
Total 31.12.2019	**1.75%**	**1.34%**	**1.27%**	**3.98%**	**0.33%**

Part I – Equity-based payments

Qualitative information

1. Description of equity-based payments

On 10 March 2020 the Board of Directors of the Parent Company BPER Banca approved:

- the Report on the Remuneration Policy and on Compensation Paid, pursuant to art. 123-*ter* of Legislative Decree no. 58 of 24 February 1998, which explains the Remuneration Policies of the BPER Banca Group for 2020 and the Compensation Paid in 2019;
- the Remuneration Plan pursuant to art. 114-*bis* of Legislative Decree 58 of 24 February 1998, implementing the remuneration policies of the BPER Banca Group for 2020. The Plan covers those employees of the BPER Banca Group identified as "Material Risk Takers (MRTs)" in accordance with the 25th update of Circular 285 "Supervisory Provisions for Banks" of 23 November 2018, Title IV, Chapter 2 "Remuneration and incentive policies and practices" and in Delegated EU Regulation 604 of 4 March 2014.

The above documents were approved by the Shareholders' Meeting held on 22 April 2020 at a single calling.
The remuneration of MRTs consists of a fixed component and a short-term variable component that for some may also be long-term.
The variable component of the bonus is governed by very strict rules, as required by the Bank of Italy's rules on the remuneration of MRTs (Circular 285).
In line with the regulatory requirements and the resolutions adopted at the Shareholders' Meeting held in 2019, the ratio between variable and fixed remuneration is set at 2:1 for all MRTs (except for control and similar functions). This is to have the flexibility to make payments ahead or in the event of early termination of employment or term of office and to have available all the operational levers needed to attract external resources in order to achieve the Group's objectives.
Generally speaking, this limit is kept below 100% of the fixed component, except for specific situations in which it is possible to raise this percentage (for example, the payment of entry bonuses or incentive packages designed to facilitate the acquisition of resources that the company deems necessary to achieve important objectives).

The following table shows the short and long-term variable incentive target and maximum levels defined for MRTs and for Control Functions.

	Short-term target bonus		Long-term target bonus calculated on a 8-year basis (1)		Long-term target bonus calculated on a three-year vesting period	
	Target bonus (% fixed remuneration)	Maximum bonus (% fixed remuneration)	Target bonus (% fixed remuneration)	Maximum bonus (% fixed remuneration)	Target bonus (% fixed remuneration)	Maximum bonus (% fixed remuneration)
CEO and GM	35%	45%	*15%*	*21%*	40%	55%
Key personnel	35%	45%	*12%*	*16%*	32%	45%
Control functions	25% (*)	33%	-	-	-	-

(*) 33% limit set by the law.

(1) For the purpose of calculating the limit to the variable/fixed ratio, the amount of the long-term incentive plan is calculated in full in the year it is recognised; however, it is possible to calculate this amount, according to a linear pro-rata criterion, within the limit relating to each year of the long-term incentive plan (also considering the deferral period), this being more than 6 years. In absolute terms, therefore, the figure has to be multiplied by 8 years.

The sustainability of the overall maximum amount of variable remuneration allocated to MRTs (those most responsible for running the company) is assessed in relation to the economic and financial stability of the BPER Banca Group as a whole.
For the rest of the personnel, a maximum ratio between the components of remuneration of 1:1 is normally adopted, with the exception of key personnel of Corporate Control Functions, for whom their variable remuneration cannot exceed one third of their fixed remuneration.
Nevertheless, the Group sets the maximum fixed/variable ratio at 2:1[96] for all other personnel too (always excluding the Control Functions) in the following limited circumstances:

- to make payments ahead or in the event of early termination of employment or term of office, again within the maximum limits already established in these policies under limited and specific circumstances;
- to have appropriate levers to manage in a suitable manner the competitive pressures in the job markets for certain, highly profitable business segments and specific professional families (Wealth Management and Corporate Banking).

Adoption of this 2:1 ratio between variable and fixed remuneration does not have any effect on the BPER Banca Group's ability to continue complying with the prudential rules on capital, the requirements regarding Own Funds in particular.

Short-term variable component

The incentive system provides for the identification of a bonus pool [97]which represents the maximum amount of bonuses that can be paid. The bonus pool for the Chief Executive Officer and General Manager and for the MRTs is set at Group level (excluding the bonuses deriving from MBOs for Control Functions, which are of limited amount and not related to the Group's results, not even indirectly). The amount of the bonus pool is correlated to the results achieved, in terms of the Post-Provisions Profit reported by the Group, and constitutes a maximum limit. In order to discourage excessive risk-taking which can lead to a deterioration in the Group's "state of health", also in compliance with the Bank of Italy's regulatory requirements, disbursement of the bonus pool, whatever the amount, is essential subject to compliance with certain indicators, called "entry gates", which are related to the capital, liquidity and risk-adjusted return ratios.

The entry gates that have been identified are based on the following parameters:

- Common Equity Tier 1 (CET 1) – Pillar 1 consolidated ratio in transitional arrangement;
- Consolidated Return On Risk-Weighted Assets (RORWA);
- Consolidated Liquidity Coverage Ratio (LCR) .

Failure to achieve even only one of the entry gates means not paying any bonus under this scheme.

[96] This ratio does not apply to personnel belonging to Arca Fondi SGR, for whom the regulations envisage the possibility of different limits.
[97] During 2020, when revising the budget after the impact of the Covid-19 pandemic on the original forecasts for 2020, the overall bonus pool was reduced by 25% in accordance with the recommendations of the Supervisory Authority. At the level of individual pools, the largest reduction was made to the pool of the MRTs, which was reduced by 50%.

After checking that the entry gates have been exceeded, the bonus allocation and the extent of the variable remuneration are defined by evaluating individual performances using a process that includes an analysis of various qualitative and quantitative indicators.
If the Bonus exceeds a specific amount established by the Board of Directors, the Plan envisages an allocation (which can also be deferred) of part of the total bonus through an assignment of "phantom stock"[98].
In particular, this Plan provides for (apart from as provided by the stricter regulations foreseen for the Chief Executive Officer and General Manager of the Parent Company):

Material Risk Takers (MRTs) belonging to top management

- Bonus > Euro 424 thousand (particularly high amount)[99]:
  - 40% is attributed at the date the bonus is granted (up-front portion): 20% cash and 20% through phantom stock subject to a retention period of 1 year (unavailability);
  - 60% (25% cash and 35% through phantom stock) is deferred in equal annual instalments over the 5 years from that of the grant, subject to a retention period (during which the shares cannot be sold) of one year from the vesting date of each deferred tranche.
- Bonus > Euro 50 thousand (or 1/3 of total annual remuneration) and ≤ Euro 424 thousand:
  - 45% is attributed on the date the bonus is granted (up-front portion): 20% cash and 25% through phantom stock subject to a retention period of 1 year (unavailability);
  - 55% (25% cash and 30% through phantom stock) is deferred in equal annual instalments over the 5 years from that of the grant, subject to a retention period (during which the shares cannot be sold) of one year from the vesting date of each deferred tranche.
- Bonus ≤ Euro 50 thousand and ≤ 1/3 of total annual remuneration are paid in cash up-front.

Material Risk Takers (MRTs) not belonging to top management

- Bonus > Euro 424 thousand (particularly high amount):
  - 40% is attributed at the date the bonus is granted (up-front portion): 20% cash and 20% through phantom stock subject to a retention period of 1 year(unavailability);
  - 60% (30% cash and 30% through phantom stock) is deferred in equal annual instalments over the 3 years from that of the grant, subject to a retention period (during which the shares cannot be sold) of one year from the vesting date of each deferred tranche.
- Bonus > Euro 50 thousand (or 1/3 of total annual remuneration) and ≤ Euro 424 thousand:
  - 60% is attributed at the date the bonus is granted (up-front portion): 30% cash and 30% through phantom stock subject to a retention period of 1 year(unavailability);
  - 40% (20% cash and 20% through phantom stock) is deferred in equal annual instalments over the 3 years from that of the grant, subject to a retention period (during which the shares cannot be sold) of one year from the vesting date of each deferred tranche.
- Bonus ≤ Euro 50 thousand and ≤ 1/3 of total annual remuneration are paid in cash up-front.

The deferred instalments are subject to malus rules that can reduce the instalment to zero in the event of failure to achieve the entry gates for the financial year preceding the year of payment of each deferred instalment.

[98] *Phantom Stock: these are "virtual" financial instruments (free, personal and not transferable inter vivos) that assign to each recipient the right to demand on maturity an amount of money corresponding to the value of the BPER Banca stock, calculated as per paragraph 3.8 of the information document on the remuneration plan based on financial instruments - Phantom Stock 2020, at the payment date.*
[99] *As defined by Bank of Italy's Circular 285 (25th update).*

The malus mechanism, which can block payment of the deferred portions of the bonus, also acts in the circumstances that trigger off the clawback clauses. Note that there are compensation plans still outstanding for the years 2017, 2018 and 2019.

Long-term variable component – LTI Plan

In 2019, the BPER Banca Group established a long-term variable incentive system based on a long-term period of performance assessment (2019-2021), consistent with the objectives and duration of the Group's Strategic Plan. The objectives of this system are to:

- recognise an incentive exclusively in BPER Banca ordinary shares, according to methods that comply with the relevant provisions and in line with what is defined in the Business Plan 2019-2021;
- align management's interests with the creation of long-term shareholder value;
- motivate management to achieve the objectives of the Business Plan 2019-2021, within a framework of healthy, prudent risk management and Corporate Social Responsibility (CSR) sustainability;
- strengthen key persons' sense of belonging in order to implement the Group's medium-long term strategy;
- reward virtuous behaviour and positive results while penalizing failure to achieve results and any deterioration in the Group's capital, liquidity and profitability by not paying any bonuses.

The Plan provides clear and predetermined performance conditions, verified during and at the end of the plan, so that the variable remuneration cannot, in any case, be paid before the end of the plan. The bonus is recognised at the end of the performance evaluation period.
The incentive system provides for the identification of a bonus pool, which represents the maximum amount of bonuses that can be paid. The bonus pool for the Chief Executive Officer and Managing Director and for MRTs is set at Group level. The amount of the bonus pool is related to the results achieved and constitutes a maximum limit; its distribution is entirely subject to compliance with certain entry gates, based on indicators of capital strength, liquidity and risk-adjusted profitability. The entry gates for the LTI Plan 2019-2021, all of which have to be achieved at the same time, are in line with those established for the MBO.
Failure to achieve even only one of the entry gates means not paying any bonus under this long-term incentive scheme. If all of these entry gates are achieved, the plan provides for an assessment of the Group's key performance indicators (KPIs) at the end of the three-year vesting period (2021). Continuous monitoring of the indicators is carried out during the three-year period to verify compliance with the objectives of the Strategic Plan.
After checking that the entry gates have been achieved, actual assignment of the bonus and the related amount, within the maximum limits (the theoretical maximum amount of the bonus payable, being the bonus pool, is the sum of the maximum bonuses obtainable at an individual level) established for variable remuneration, are defined through a process of corporate performance assessment that includes an analysis of three indicators (KPIs). For the three-year period 2019-2021, the scorecard of the LTI Plan, which is the same for all beneficiaries, is made up of objectives of operating efficiency, credit quality and profitability of a quantitative nature. Following the measurement of these KPIs, the performance of the BPER Banca stock is evaluated with respect to a peer group and the achievement of sustainability objectives.
Actual quantification of the bonus earned in 2021 is also subordinated to two further indicators, the first being the TSRr (Total Shareholder Return) which functions as a multiplier/demultiplier (by +/-15%); the

second being sustainability (the achievement of 3 Environmental, Social, Governance (ESG) objectives), which might involve a deduction of up to 15% from the bonus earned.
As regards the 2019-2021 LTI Plan, the manner in which bonuses are awarded is structured - in accordance with current regulations applicable to the banking sector - as an up-front portion, which is paid immediately, and as a portion deferred pro-rata in equal tranches, over a number of years (5 years). The payment structure for the shares provides for a retention period of one year for the up-front portion and for the deferred portions.
The malus and clawback mechanisms may apply under certain circumstances, as described in BPER Banca Group's 2020 Remuneration Policies, and in line with the regulatory framework in force.

In accordance with the instructions contained in Circular 285/2013 (and subsequent updates) and Regulation (EU) 575/2013, the Group provides annual information on Remuneration Policies also in the document "Public disclosure as at 31 December 2020 - Pillar 3" which is available, as provided by law, on the institutional website of the Parent Company (https://istituzionale.bper.it).

Quantitative information

As regards the LTI Plan, the grant of shares without charge in execution of the Plan will take place using treasury shares that derive from purchases authorised at the Shareholders' Meeting, pursuant to arts. 2357 and 2357-ter of the Italian Civil Code.
Purchasing the shares is in any case subject to authorisation by the ECB. The request will have to be repeated because the previous authorisation, issued in April 2019 for the 2019-2021 LTI Plan, expired before the shares were bought.
At 31 December 2020, the BPER Banca Group has still not purchased any treasury shares to service the Plan.

2. Other information

Determination of the fair value and accounting treatment

Short-term variable component
Note that the variable remuneration for 2020 is currently being determined. With reference to the Compensation Plan for 2020, in the light of the economic and financial results achieved at Group level, it is estimated that 268,007 Phantom Stocks will be allocated for a total consideration of Euro 425 thousand.
Please also note that the same results affect the 2015 Plan allowing the vesting of 3,808 Phantom Stocks, for a consideration of Euro 6 thousand, on the 2017 Plan allowing the vesting of 14,400 Phantom Stocks for a consideration of Euro 23 thousand, on the 2018 Plan allowing the vesting of 134,809 Phantom Stocks for a consideration of Euro 214 thousand and on the 2019 Plan allowing the vesting of 45,734 Phantom Stocks, for a consideration of Euro 72 thousand.

Long-term variable component - Long-Term Incentive

The 2019-2021 Long-Term Incentive Plan is designed to award the beneficiaries an incentive to be paid exclusively in BPER Banca ordinary shares; given the characteristics of the plan, it falls within the scope of application of IFRS 2, as an equity-settled payment plan.

At 31 December 2020, the total plan bonus amounts to Euro 6.9 million which, considering the average market price for BPER Banca ordinary shares in the 30 days prior to the Shareholders' Meeting held on 17 April 2019 (which approved the Plan), of 3.74 euro, resulted in a total number of shares to be granted to beneficiaries of 1,731,490. The total cost of the plan must be recognised on an accruals basis over the plan vesting period: provision of 40% of the bonus due, spread over the first 3 years (from the grant date), and provision of 12% of the bonus due in each of the subsequent years until the end of the plan.
The fair value of BPER Banca shares considered in order to measure the Plan was based on their market price at the grant date, as adjusted to take account of market conditions which resulted in the identification of a unit price of 4.39 euro. Application of this price to the estimated number of shares that may be granted to beneficiaries resulted in a quota of cost pertaining to the year 2020 of Euro 2.2 million.

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Part L – Segment reporting

According to IAS/IFRS, the disclosures in the financial statements must include descriptive information or more detailed analysis of the figures shown in the financial statements (balance sheet, income statement, statement of other comprehensive income and statement of changes in shareholders' equity, statement of cash flows).
In addition, the Conceptual Framework of Financial Information points out that financial statements can include additional information compared with what is specifically requested by the Standards, when, in the opinion of those who are preparing the financial statements, this is likely to give a clearer explanation of the company's business.
In this sense, paragraph 1 of the IFRS 8 establishes as the objective of the Standard to provide the information that allows readers of the financial statements to assess the nature and the effects on the financial statements of the various business activities of the company and the economic contexts in which it operates.
Based on these recommendations, the following representation is structured in a broader way with more detailed information than is used in the top management reporting system, which is mainly based on a vision by legal entity, although it is aligned with it and can be reconciled with it.
The criteria used to allocate the various captions being analysed are based on qualitative and quantitative parameters that are consistent with the customer segmentation adopted by the Group only for defining its commercial policies; each segment identified has similar economic characteristics and is internally consistent in terms of:

- nature of products and services offered and distribution processes;
- type of customers;
- marketing approach;
- nature of regulatory environment.

The segments identified are covered in the disclosures made, even if their results are quantitatively lower than the thresholds envisaged, since this is deemed helpful to users of the financial statements.

Segments

Economic and financial information is presented for the following segments:

Retail

This segment comprises the economic and financial information deriving from relations with the following types of customers:

- individuals and joint accounts not regulated by the "BPER Private Banking" service;
- sole enterprises;
- non-financial partnerships or limited companies with turnover of less than Euro 2.5 million and with agreed facilities with the Banking Group of less than Euro 1 million.

The economic and financial data of Optima s.p.a. SIM, Finitalia s.p.a. and Arca Holding s.p.a. (sub-consolidation) is also included as, by their nature, these Group companies offer products and services to retail customers.

Private

This segment comprises the economic and financial information deriving from relations with the following types of customers:

- individuals and joint accounts using the "BPER Private Banking" service, with assets of at least Euro 500,000.

Corporate

This segment comprises the economic and financial information deriving from relations with the following types of customers:

- public administration;
- non-financial and non-resident companies;
- non-financial partnerships and companies with turnover equal to or greater than Euro 2.5 million but less than Euro 250 million;
- non-financial partnerships and companies with turnover greater than Euro 250 million or belonging to a corporate group (as reported in the general register) with reported consolidated turnover equal to or greater than Euro 250 million;
- financial companies.

This segment also includes the results and financial position of Group companies that, by their nature, offer products and services to Corporate customers (Sardaleasing s.p.a. and Emil-Ro Factor s.p.a.).

Large Corporate

This segment comprises the economic and financial information deriving from relations with the following types of customers:

- partnerships and companies, which on their own or as part of a group, ought to be considered in the Corporate macrosegment, but which are considered as Large Corporate to ensure maximum supervision (assignment to this segment is performed solely in expert mode and not automatically).

Finance

This segment includes the results and financial position deriving from treasury activities, management of the Group's investment portfolio, access to financial markets and specialist operational support for the commercial network.

Corporate centre

Included herein are income statement and balance sheet captions arising from activities related to the governance of the Group, to strategic decisions and results thereof (shareholders' equity, equity investments, etc.) or from activities not directly connected to other areas of the business.

Other activities

This segment also includes the results and financial position of those non-banking Group companies that are not allocated to the other segments.

A.1 Distribution by segment: income statement

Based on the requirements established in IFRS 8, the income statement by segment contains the following information:

Captions	Retail	Private	Corporate	Large Corporate	Finance	Corporate centre	Other activities	Total
Net interest income	535,340	6,126	286,975	23,521	257,487	124,205	5,222	1,238,876
Net commission income	784,223	67,948	197,690	18,144	-	-	4,509	1,072,514
Net interest and other banking income	1,311,775	73,958	472,607	40,182	433,565	124,205	11,755	2,468,047
Net income from financial activities 31.12.2020	**1,132,365**	**73,958**	**143,617**	**12,004**	**425,953**	**124,205**	**11,565**	**1,923,667**
Net income from financial activities 31.12.2019	**1,054,905**	**81,396**	**250,759**	**(17,938)**	**335,825**	**59,459**	**10,907**	**1,775,313**
Operating costs	(922,740)	(32,497)	(211,711)	(35,125)	(12,970)	(482,213)	(20,710)	(1,717,966)
Profit (Loss) from current operations before tax 31.12.2020	**209,624**	**41,461**	**(68,093)**	**(23,121)**	**412,983**	**(360,117)**	**(9,115)**	**203,622**
Profit (Loss) from current operations before tax 31.12.2019	**87,280**	**40,491**	**(91)**	**(50,036)**	**317,209**	**42,664**	**(20,619)**	**416,898**

The above captions have been allocated to the various segments using the information held on the management information system, which can be reconciled with the accounting system.
The figures for the previous year are those published in the Consolidated Financial Statements as at 31 December 2019.

Detailed information about net commission income by segment is presented below, pursuant to paras. 114 and 115 of IFRS 15 "Revenues from contracts with customers".

Captions	Retail	Private	Corporate	Large Corporate	Other activities	Total
Guarantees grantes	5,327	130	19,848	4,976	54	30,335
Management, brokerage and consulting:	541,988	66,074	23,997	3,246	1,699	637,004
- placement of securities	*78,663*	*24,666*	*3,377*	*10*	-	*106,716*
- distribution of third-party services	*94,902*	*17,348*	*(6,719)*	*162*	-	*105,693*
Collection and payment services	90,585	787	43,190	1,883	321	136,766
Management of current accounts	172,309	1,227	24,047	1,059	-	198,642
Other commission income	128,615	1,609	102,039	9,258	2,607	244,128
- commission income on other loans to customers	*83,272*	*391*	*72,531*	*7,662*	-	*163,856*
Total Commission income 31.12.2020	**938,824**	**69,827**	**213,121**	**20,422**	**4,681**	**1,246,875**

Commission income includes the following types of variable income:
- Placement fees for "credit protection" insurance products with a single initial premium, which incorporate the possibility of having to repay (ultimately to customers) part of the placement fees received by the distributor, for the portion of the premium not received up front of an insurance contract terminated in advance of the contractual expiry date. This type of product therefore requires an estimate of the amount of commission not subject to repayment risk (hence the variable nature of the revenue), against an OP that has been fully fulfilled at the balance sheet date (placement of the insurance product);

- Performance fees provided for in asset management mandates, calculated as a percentage of the difference between the actual operating result and the benchmark result for the period. These commissions are determined quarterly or annually and recognised once the result of the managed line has been ascertained, which required them to be estimated at the end of the period;
- Commissions for marketing/partnership services provided by Banca di Sassari to Mastercard and Visa contain variable components: the total commission is in fact estimated on a quarterly basis with respect to the volumes of transactions reached on that date;
- Additional commission amounts on insurance products, which represent the additional remuneration of the bank's performance with respect to certain quality levels. The variable amount is based on the total placed and is estimated at the end of the year based on the degree of achievement of the objectives required to obtain it.

A.2 Distribution by segment: balance sheet

Based on the requirements established in IFRS 8, the balance sheet by segment contains the following information:

Captions	Retail	Private	Corporate	Large Corporate	Finance	Corporate centre	Other activities	Total
Financial assets measured at fair value	155,141	-	83,352	-	7,066,359	-	163,567	7,468,419
Loans to banks	132,263	-	939	-	14,087,610	-	131,919	14,352,731
- debt securities at amortised cost	-	-	-	-	4,496,133	-	-	4,496,133
- loans	132,263	-	939	-	9,591,477	-	131,919	9,856,598
Loans to customers	26,018,691	284,663	22,866,171	3,540,216	12,715,277	-	213,756	65,638,774
- debt securities at amortised cost	-	-	-	-	12,715,277	-	8,393	12,723,670
- loans	26,018,691	284,663	22,866,171	3,540,216	-	-	205,363	52,915,104
Other assets	1,288,739	29,126	317,499	36,802	79,321	3,537,173	302,254	5,590,914
Total Assets 31.12.2020	**27,594,834**	**313,789**	**23,267,961**	**3,577,018**	**33,948,567**	**3,537,173**	**811,496**	**93,050,838**
Total Assets 31.12.2019	**26,371,623**	**334,677**	**24,595,749**	**2,417,563**	**20,794,956**	**3,705,608**	**813,322**	**79,033,498**
Due to banks	-	-	310,675	-	19,869,582	-	742	20,180,999
Due to customers	37,827,292	4,044,295	13,845,963	1,711,404	-	-	885,048	58,314,002
Debt securities issued	1,001,872	46,704	3,613,073	20,541	-	-	-	4,682,190
Other liabilities and shareholders' equity	707,598	3,571	266,838	2,210	639,232	8,101,723	152,475	9,873,647
Total liabilities 31.12.2020	**39,536,762**	**4,094,570**	**18,036,549**	**1,734,155**	**20,508,814**	**8,101,723**	**1,038,265**	**93,050,838**
Total liabilities 31.12.2019	**37,002,907**	**3,681,207**	**15,730,873**	**1,786,918**	**12,486,892**	**7,401,319**	**943,382**	**79,033,498**

Balance sheet information has been allocated to the segments using the criteria adopted for the allocation of the income statement.

Financial information by geographical area

All the activities of the BPER Banca Group are essentially concentrated in Italy.

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Part M – Information on leases

Section 1 - Lessee

Qualitative information

With regard to the contracts entered into as lessee, the BPER Banca Group recognises both the leased right-of-use asset and the liability for the future lease instalments envisaged in the contract.
In the context of the elections allowed by IFRS 16, the BPER Banca Group decided not to recognise right-of-use assets or lease payables in relation to the following lease contracts:

- lease of intangible assets;
- short-term leases with less than 12 months remaining;
- lease of assets with a low unit value (as described further in the Explanatory notes – Part A – Accounting policies, an asset is deemed to have a low unit value if its fair value when new was not more than Euro 5 thousand).

Consequently, the lease instalments for these assets are charged to caption "190. Administrative expenses" on an accruals basis; for further information about this, see the Explanatory notes - Part C - Income statement, Table 12.5 “Other administrative expenses: breakdown”.

Quantitative information

Rights of use acquired through leases: see the Explanatory notes - Part B - Assets, table 9.1 “Property, plant and equipment used in operations: breakdown of assets measured at cost”.

Lease payables: see the Explanatory notes Part B - Liabilities, table 1.1 “Financial liabilities measured at amortised cost: breakdown by product of due to banks”, table 1.2 “Financial liabilities measured at amortised cost: breakdown by product of due to customers”, table 1.6 “Lease payables”.
Interest expense on lease payables: see the Explanatory notes - Part C – Income statement, table 1.3 “Interest and similar expense: breakdown”.

Other expenses associated with rights of use acquired through leases: see the Explanatory notes - Part C – Income statement, table 14.1 “Net adjustment to property, plants and equipment: breakdown”.

Income from sub-lease transactions: see the Explanatory notes - Part C – Income statement, table 1.1 “Interest and similar income: breakdown”.

1.1 Rights of use acquired through leases: changes of right of use relating to property, plant and equipment used in operations

Property, plant and equipment used in operations	Rights of use acquired through leases 31.12.2019	Depreciations of the year	Other changes of the year	Impairment losses of the year	Book value 31.12.2020
a) lands	-	-	-	-	-
b) buildings	265,213	(47,893)	2,728	(1,929)	218,119
c) furniture	-	-	-	-	-
d) electronic system	31,450	(8,955)	7,087	-	29,582
e) others	4,882	(2,529)	4,385	-	6,738
Total	**301,545**	**(59,377)**	**14,200**	**(1,929)**	**254,439**

As regards "Other changes during the year", the impact is mainly linked to the remeasurement of the rights of use mainly due to ISTAT adjustments, changes in the lease term on the opening and closing of contracts. No changes were made in 2020 due to the renegotiation of contractual terms because of the Covid-19 pandemic.

1.2 Costs and Gains relating to lease transactions other than right of use

	Total 31.12.2020	Total 31.12.2019
Costs relating to short-term leases	1,175	1,732
Costs relating to lease of assets with a low unit value (*)	14,270	13,126
Gains relating to finance sub-leases	2	1

(*) including VAT

1.3 Lease payables: changes

	Lease payables 31.12.2019	Interest expense	Lease instalments paid	Other changes	Book value 31.12.2020
Total lease payables	**306,909**	**2,225**	**(63,668)**	**12,127**	**257,593**

As regards "Other changes during the year", the impact is mainly linked to the remeasurement of the lease payables mainly due to ISTAT adjustments, changes in the lease term on the opening and closing of contracts. No changes were made in 2020 due to the renegotiation of contractual terms because of the Covid-19 pandemic.

Section 2 - Lessor

Qualitative information

The leasing contracts in which the BPER Banca Group is the lessor are classified as either finance leases or operating leases.
Finance leases transfer to the lessee substantially all the risks and benefits of ownership.
In substance, under finance leases, the lessee obtains the economic benefits deriving from use of the leased asset for the majority of its economic life, in exchange for a commitment to pay the lessor a consideration that approximates the fair value of the asset and the related financial charges. The lease contract is therefore recognised by the lessor in the following manner:

- the value of the credit granted is recognised as an asset, net of the principal element of lease instalments due and paid by the lessee;
- interest income is credited to the income statement.

Operating leases do not transfer to the lessee substantially all the risks and benefits of ownership, which remain with the lessor.
Under operating leases, the lessor credits the lease instalments to the income statement on an accruals basis.
See the Explanatory notes – Part A – Accounting policies for additional information.
Given the legal structure of finance leases, the credit risk faced by the Group is limited by maintaining ownership of the asset until the end-of-lease payment is made by the lessee. This factor is particularly important in relation to property leases and those in which the asset concerned is highly fungible. In particular, in order to limit more effectively the risk of losses and whenever indicated in the investigation report, the Group may request the customer to provide additional secured guarantees (typically pledged securities) and/or unsecured guarantees (personal or bank sureties). In addition, finance leases may also be secured by commitments to take over the lease or repurchase the asset (sometimes obtained from the supplier of the asset concerned).

Quantitative information

1. Balance sheet and Income statement information

Leasing loans: see the Explanatory notes - Part B - Assets, table 4.2 “Financial assets measured at amortised cost: breakdown by product of loans to customers”.

Interest income on leasing loans: see the Explanatory notes - Part C – Income statement, table 1.1 “Interest and similar income: breakdown”.

Other income from operating leases: see the Explanatory notes - Part C - Income statement, table 16.2 “Other operating income: breakdown”.

2. Finance leases

2.1 Breakdown by time bands of payments to be received and reconciliation with finance leases recorded as assets

Time bands	31.12.2020 Lease payments to be received	31.12.2019 Lease payments to be received
Up to 1 year	607,282	634,971
Over 1 year up to 2 years	442,409	424,561
Over 2 years up to 3 years	393,391	374,226
Over 3 years up to 4 years	347,238	317,497
Over 4 years up to 5 years	289,748	274,643
Over 5 years	1,257,915	1,254,510
Total lease payments to be received	**3,337,983**	**3,280,408**
Reconciliation with loans		
Not accrued gains (-)	410,337	388,858
Unguaranteed residual value (-)	-	-
Loans for leases	**2,927,646**	**2,891,550**

"Not accrued gains" derive from discounting the finance lease payments to be received.

2.2 Other information

2.2.1 Other information about finance leases: type and credit quality

	31.12.2020		31.12.2019	
	Performing exposures	Non-performing exposures	Performing exposures	Non-performing exposures
A - Real estate assets	**1,764,432**	**253,551**	**1,646,627**	**317,242**
Lands	-	-	-	-
Buildings	1,764,432	253,551	1,646,627	317,242
B - Operating assets	**411,487**	**22,975**	**356,584**	**30,076**
C - Movable assets	**280,672**	**4,214**	**243,291**	**6,001**
Motor vehicles	118,813	1,637	107,760	2,687
Aircraft and rolling stock	161,859	2,504	135,505	3,309
Others	-	73	26	5
D - Intangible assets	**190,078**	**13**	**158,345**	**60**
Trademarks	-	-	-	-
Software	-	-	-	-
Others	190,078	13	158,345	60
Total	**2,646,669**	**280,753**	**2,404,847**	**353,379**

2.2.2 Other information about finance leases: unexercised assets, assets withdrawn following termination, other assets

	31.12.2020			31.12.2019		
	Unexercised assets	Assets withdrawn following termination	Other assets	Unexercised assets	Assets withdrawn following termination	Other assets
A - Real estate assets	**447**	**46,522**	**1,965,337**	**447**	**65,828**	**1,894,488**
Lands	-	-	-	-	-	-
Buildings	447	46,522	1,965,337	447	65,828	1,894,488
B - Operating assets	**-**	**834**	**433,672**	**-**	**1,032**	**385,634**
C - Movable assets	**50**	**227**	**284,410**	**50**	**983**	**248,257**
Motor vehicles	-	-	120,321	-	54	110,376
Aircraft and rolling stock	50	227	164,089	50	929	137,881
Others	-	-	-	-	-	-
D - Intangible assets	**-**	**-**	**190,092**	**-**	**-**	**158,404**
Trademarks	-	-	-	-	-	-
Software	-	-	-	-	-	-
Others	-	-	190,092	-	-	158,404
Total	**497**	**47,583**	**2,873,511**	**497**	**67,843**	**2,686,783**

3. Operating leases

3.1 Breakdown of payments to be received by time bands

Time bands	31.12.2020 Lease payments to be received	31.12.2019 Lease payments to be received
Up to 1 year	7,279	7,217
Over 1 year up to 2 years	6,977	6,862
Over 2 years up to 3 years	5,927	6,520
Over 3 years up to 4 years	5,435	5,360
Over 4 years up to 5 years	4,860	4,825
Over 5 years	19,819	23,282
Total	**50,297**	**54,066**

3.2 Other information

For the disclosure required by IFRS 16 para. 92 please refer to the Directors' Report on Group operations in the section "Summary of activities and strategic direction of the BPER Banca Group” which details the activities in the real estate sector.

Attachments

Fees for audit and non-audit services

Information pursuant to art. 149-duodecies of CONSOB Issuers' Regulation

This schedule, prepared pursuant to art. 149-duodecies of CONSOB Issuers' Regulation (Resolution 11971 of 14 May 1999 and subsequent amendments), reports the 2020 fees for audit and non-audit services provided by the Independent Auditors and member firms of the same network. These fees represent the costs incurred and recorded in the consolidated financial statements, net of expenses, unrecoverable VAT and the CONSOB contribution.

(in thousands)

Type of services	Party providing the service	Recipient		Fees
Audit services	Deloitte & Touche s.p.a	Parent Company BPER Banca		754
	Deloitte & Touche s.p.a	Subsidiaries in Italy		424
	Deloitte Audit S.à r.l.	Subsidiaries in Luxembourg		92
Certification services	Deloitte & Touche s.p.a	Parent Company BPER Banca	(1a)	1,062
	Deloitte & Touche s.p.a	Subsidiaries in Italy	(1b)	104
	Deloitte Financial Advisory s.r.l.	Parent Company BPER Banca	(1c)	350
Other services	Deloitte & Touche s.p.a	Parent Company BPER Banca	(2a)	28
	Deloitte & Touche s.p.a	Subsidiaries in Italy	(2b)	23
	Deloitte Consulting s.r.l.	Parent Company BPER Banca	(2c)	960
	Deloitte Consulting s.r.l.	Subsidiaries in Italy	(2d)	22
Total				**3,819**

(1a) Certification services rendered to the Parent Company by Deloitte & Touche s.p.a.:
- activities performed in relation to the translation into English of the independent auditors' reports on the condensed consolidated half-year financial statements at 30 June 2020 and the separate and consolidated financial statements at 31 December 2020;
- activities performed as part of the covered bond issue programmes and EMTN programme;
- activities relating to the issue of fairness opinions on capital increase operations;
- activities to check the GHG Statement that will be attached to the CDP Questionnaire – Reporting on Climate Change;
- activities relating to the issue of fairness opinions on capital increase transactions;
- activities carried out for the issue of the compliance opinion on the Consolidated Non-Financial Statement (Consolidated Sustainability Report);
- certification for the derecognition of bad loans being sold;
- certification of TLTRO3 reports;
- activities carried out for the purpose of issuing the Report pursuant to art. 23 paragraph 7 Bank of Italy Regulation 5 December 2019 - Mifid II.
(1b) Certification services rendered to Group Companies by Deloitte & Touche s.p.a.:
- activities performed in relation to the translation into English of the independent auditors' report on the separate financial statements;
- activities carried out for the purpose of issuing an opinion pursuant to Article 2437 ter of the Italian Civil Code for the liquidation value of the preference shares of Banco di Sardegna;
- activities carried out for the purpose of issuing the Report pursuant to art. 23 paragraph 7 Bank of Italy Regulation 5 December 2019 - Mifid II.
(1c) Certification services rendered to the Parent Company by Deloitte & Financial Advisory s.r.l.:
- activity carried out for the purpose of issuing the forecast data report in relation to the October 2020 increase in capital.

(2a) Other services rendered to the Parent Company by Deloitte & Touche s.p.a.:
- activities carried out to verify the conformity of the 2020 tax returns and the supplementary 2019 tax returns.
(2b) Other services rendered to Group companies by Deloitte & Touche s.p.a.:
- activities carried out to verify the conformity of the 2020 tax returns and the supplementary 2019 tax returns.
(2c) Other services rendered to the Parent Company by Deloitte Consulting s.r.l.:
- methodological support for benchmarking against best practices as part of the assessment carried out prior to defining the new Client Relationship Management (CRM) ecosystem;
- methodological support for benchmarking against best practices and recognizing user requirements as part of the ongoing evolution of the Contact Centre – Everyday Bank;
- methodological support for identifying user requirements and benchmarking in the context of the Data Governance project;
- methodological support in the activity of factual recognition of business requirements and sources feeding the CRM and Marketing automation functions.
(2d) Other services rendered to Group companies by Deloitte Consulting s.r.l.:
- methodological support for benchmarking against best practices and recognizing user requirements as part of the ongoing evolution of the Contact Centre – Everyday Bank.

Public Disclosure - Country by country as at 31 December 2020

Information pursuant to Circular 285/2013 of the Bank of Italy

This information is disclosed following the introduction into Italian law, with the 4th update of the Bank of Italy's Circular 285 of 17 December 2013, of the rules laid down in article 89 of EU Directive 2013/36/EU (CRD IV) on Country by Country Reporting.

Name	Head office	Nature of the activity	Turnover (a)	Number of employees (FTE)	Profit (Loss) before tax (b)	Income taxes (c)	Government grants received
BPER Banca s.p.a.	Italy	Banking	1,688,358	9,581	22,340	115,328	3
Banco di Sardegna s.p.a.	Italy	Banking	317,261	2,042	49,464	(7,961)	-
Bibanca s.p.a.	Italy	Banking	98,327	125	17,366	(6,771)	-
Sardaleasing s.p.a.	Italy	Leasing	59,579	65	1,762	1,496	-
Emilia Romagna Factor s.p.a.	Italy	Factoring	18,752	48	6,879	(2,148)	-
Optima s.p.a. S.I.M.	Italy	Asset management	1,919	24	7,667	(2,182)	-
Arca Holding s.p.a.	Italy	Holding company	209,001	84	80,555	(23,888)	-
Finitalia s.p.a.	Italy	Consumer credit	63,158	76	8,437	(3,617)	-
Bper Credit Management s.cons.p.a.	Italy	Debt collection consortium	-	5	52	(60)	-
Numera s.p.a.	Italy	IT services	-	43	2,014	(412)	-
Nadia s.p.a.	Italy	Real estate	(3)	-	236	(675)	-
Tholos s.p.a.	Italy	Real estate	-	-	(320)	(143)	-
Modena Terminal s.r.l	Italy	Storage and safekeeping warehouse	-	29	1,050	(312)	-
Total Italy			**2,456,352**	**12,122**	**197,502**	**68,655**	**3**

Name	Head office	Nature of the activity	Turnover (a)	Number of employees (FTE)	Profit (Loss) before tax (b)	Income taxes (c)	Government grants received
BPER Bank Luxembourg s.a.	Luxembourg	Banking	11,696	20	6,120	(1,610)	-
Total Luxembourg			**11,696**	**20**	**6,120**	**(1,610)**	**-**
Total			**2,468,048**	**12,142**	**203,622**	**67,045**	**3**

Key:
(a) net interest and other banking income, in thousands of euro, net of inter-company eliminations where necessary.
(b) profit (loss) from current operations added to gains (losses) before tax on groups of assets classified as held for sale, in thousands of euro, net of inter-company eliminations where necessary.
(c) income taxes on current operations for the year and on assets classified as held for sale, in thousands of euro, net of inter-company eliminations where necessary.

Information on loans to third-party funds

Jessica Sardinian Urban Development Fund

The Autonomous Region of Sardinia and the European Investment Bank (EIB) signed a loan agreement for the creation of a JESSICA Sardinia Investment Fund to manage the resources available under Axes III and V of the ERDF Regional Operational Programme 2007-2013. Banco di Sardegna was selected for lot 1: Urban Renewal (Axis V).

In July 2012, the EIB and Banco di Sardegna signed the operational agreement for a loan of Euro 33.1 million that, based on the performance achieved, was supplemented in 2015 with an additional Euro 6.3 million. Pursuant to art. 2447 decies of the Italian Civil Code, separate equity allocated for a specific purpose was established within the Urban Development Fund (UDF) in order to manage JESSICA project loans.
The resources may be made available in the following ways:

- direct loans to authorities and public entities;
- loans to private companies;
- investment in the risk capital of private companies.

In October 2019, Banco di Sardegna was informed that it had successfully passed the EIB's assessment aimed at refinancing the Jessica Fund. It is waiting for the contractual proposal to complete the deal.

As of 31 December 2020, the Investment Committee of the UDF has approved the following loans and all of the resources available have been disbursed.

(in Euro)

	Investment	JESSICA loan	Investment in the capital of JESSICA	Agreement date	Disbursements - Loan	Disbursements - Risk capital
					Outstanding debt as at 31.12.2020	Disbursed and not yet paid back as at 31.12.2020
Purchase of 12 modern trolleybuses. Two loans	7,126,000	6,769,700	-	18.12.2013	5,115,807	-
Construction and management of a natural gas distribution network (*)	45,120,239	7,000,000	-	15.04.2014	6,727,662	-
Construction and management of a new cruise terminal at the "Molo Rinascita" in Cagliari. Two loans	715,000	534,173	-	18.12.2014 08.07.2016	427,457	-
Two projects involving the construction and management of a natural gas distribution network based on two separate catchment areas (*)	38,913,569	8,000,000	4,000,000	16.02.2015	7,742,100	4,000,000
Renovation and expansion of the Municipal Market of Oristano with adjacent parking	4,133,055	1,140,000	-	12.06.2015	760,000	-
Redevelopment of a building owned by the Municipality of Borutta destined to bar diner	265,000	251,750	-	22.06.2015	159,442	-
Construction of a residential and daytime comprehensive rehabilitation centre for the intellectually and relationally disabled in the Municipality of Selargius	2,150,000	1,432,695	-	31.08.2015	1,142,186	-

(cont.)

	Investment	JESSICA loan	Investment in the capital of JESSICA	Agreement date	Disbursements	
					Loan	Risk capital
					Outstanding debt as at 31.12.2020	Disbursed and not yet paid back as at 31.12.2020
Redevelopment of Alghero Town Hall	600,000	570,000	-	30.10.2015	380,000	-
Construction of the municipal indoor swimming pool in Alghero	2,100,000	1,915,026	-	30.05.2016	1,340,518	-
Redevelopment of the multi-purpose sports area in the Latte Dolce district of Sassari	560,000	532,000	-	24.06.2016	407,867	-
Redevelopment of the multi-purpose sports area in the Monte Rosello district of Sassari	750,000	712,500	-	24.06.2016	546,250	-
Redevelopment of the multi-purpose sports area in the Carbonazzi district of Sassari	600,000	570,000	-	24.06.2016	437,000	-
Redevelopment of the "Roberta Serradimigni" sports hall in Sassari	4,300,000	4,085,000	-	24.06.2016	3,131,833	-
Total	**107,332,863**	**33,512,844**	**4,000,000**		**28,318,122**	**4,000,000**

(*) The capital expenditure indicated only takes into account of the technical costs associated with the project. This excludes the financial costs of the operation (costs associated with working capital, interest, commissions, DSRA, etc. which still have to be financed during construction).

The following table shows simplified accounts for the JESSICA Urban Development Fund at 31 December 2020.

Balance sheet

(in Euro)

Assets		31.12.2020	31.12.2019
40.	Financial assets measured at amortised cost	4,760,708	3,458,175
	a) loans to banks	4,760,708	3,458,175
	Total assets	**4,760,708**	**3,458,175**

(in Euro)

Liabilities and shareholders' equity		31.12.2020	31.12.2019
10.	Financial liabilities measured at amortised cost	4,692,768	3,030,946
	a) due to banks	4,692,768	3,030,946
80.	Other liabilities	95,753	98,027
180.	Profit (Loss) for the year	(27,813)	329,202
	Total liabilities and shareholders' equity	**4,760,708**	**3,458,175**

Income statement

(in Euro)

Captions		31.12.2020	31.12.2019
10.	Interest and similar income	502,222	892,548
30.	**Net interest income**	**502,222**	**892,548**
50.	Commission expense	(530,035)	(563,346)
60.	**Net commission income**	**(530,035)**	**(563,346)**
300.	**Profit (Loss) for the year**	**(27,813)**	**329,202**

Sustainable Growth Fund

Banco di Sardegna, in association with Mediocredito Centrale (MCC) and other national banks, was awarded the Contract with the Ministry of Economic Development (MISE) to manage the interventions foreseen by the "Sustainable Growth Fund".

The endowment of the Fund will finance programmes and action that will have a significant impact on the competitiveness of the productive system at national level, with a particular focus on:

- promoting research, development and innovation of strategic importance in order to relaunch the competitiveness of the productive system, not least by consolidating the R&D centres and organisations of firms;
- strengthening the productive system, the reuse of productive plant and the relaunch of areas of national importance hit by complex crises, via the signature of programme agreements;
- promoting the international presence of businesses and attracting investment from abroad, partly in coordination with the actions to be implemented by ICE (Agency for the promotion abroad and internationalisation of Italian businesses).

Banco di Sardegna has an internal team dedicated to evaluating and granting the assistance and soft loans made available by the Fund.

The activities of the Fund are based on calls for applications and directives from the Ministry of Economic Development; at 31 December 2020 twenty-two calls for applications have already been made and the total value of the projects examined was about Euro 5.7 billion.

National Operational Programme (NOP) of Research and Innovation-MIUR-EIB Fund of Funds

As the Managing Authority for the National Operational Programme "2014-2020 Research and Innovation ", the Ministry of Education, Universities and Research ("MIUR"), signed an agreement with the EIB in December 2016 to manage a Fund of Funds financed by NOP resources. Banco di Sardegna was one of the financial intermediaries that won the EIB selection competition for the management of Euro 62 million. Separate equity allocated for a specific purpose was established in order to manage the Financial Instrument, pursuant to art. 2447 decies of the Italian Civil Code. After signing the operational agreement in August 2018, Banco di Sardegna started the selection and evaluation of research and innovation projects in areas eligible for loans and equity investments, to which about Euro 26.5 million may be associated under co-financing from Banco di Sardegna or other lenders introduced by that bank. The Investment Committee has approved nine loan applications at 31 December 2020 and all of the related contracts have been signed. A further five applications are under review.

The following is a simplified accounting report of the NOP Research and Innovation Fund of Funds at 31 December 2020.

Balance sheet

(in Euro)

Assets		31.12.2020	31.12.2019
40.	Financial assets measured at amortised cost	12,824,587	8,382,944
	a) loans to banks	12,824,587	8,382,944
	Total assets	**12,824,587**	**8,382,944**

(in Euro)

Liabilities and shareholders' equity		31.12.2020	31.12.2019
10.	Financial liabilities measured at amortised cost	12,794,044	8,452,800
	a) due to banks	12,794,044	8,452,800
80.	Other liabilities	71,275	14,157
180.	Profit (Loss) for the year	(40,732)	(84,013)
	Total liabilities and shareholders' equity	**12,824,587**	**8,382,944**

Income statement

(in Euro)

Captions		31.12.2020	31.12.2019
10.	Interest and similar income	16,386	-
30.	**Net interest income**	**16,386**	**-**
50.	Commission expense	(57,118)	(84,013)
60.	**Net commission income**	**(57,118)**	**(84,013)**
300.	**Profit (Loss) for the year**	**(40,732)**	**(84,013)**

Sardinia Business Emergency Fund - RAS-EIB

The Sardinia Region and the EIB on 26 May 2020 signed a Financing Agreement for the establishment of a Fund of Funds called "Sardinia Enterprise Emergency Fund" ("Sardinia FoF") for the management of resources relating to the 2014-2020 Regional Operational Program ("POR"), with the aim of addressing market failures further increased by the COVID-19 pandemic effects.

Banco di Sardegna was the winner of the EIB selection tender, due to the largest available ceiling, equal to Euro 66.66 million. Separate equity allocated for a specific purpose was established in order to manage the Financial Instrument, pursuant to art. 2447 decies of the Italian Civil Code.
The resources allocated are intended for companies operating in the Sardinian territory that have suffered damage from Covid-19. They will disbursed in the form of long, medium and short-term loans to support investments and working capital needs, as part of the "Temporary Framework for State aid measures in support of the economy in the current epidemic of COVID-19"of the EC and in particular under Articles 3.1 and 3.3.
Following the stipulation of the Operational Agreement with the EIB, signed on 1 September 2020, the Bank, as per the public notice of the Region, received the loan requests from 9 am on 14 September 2020. We then proceeded to analyse the applications received sorted by priority of arrival time and prioritizing those complete with the required documentation, ensuring that 40% of the ceiling was destined for tourism companies.

As at 31 December 2020, 150 applications were analysed, 60 of which were investigated and of these 55 were approved by the Investments Committee for a total of approximately Euro 48 million. Under these resolutions, 11 loans were stipulated for a total of Euro 9.56 million.

The following is a simplified accounting report of the Enterprise Emergency Fund at 31 December 2020.

Balance sheet

(in Euro)

Assets		31.12.2020	31.12.2019
40.	Financial assets measured at amortised cost	7,105,000	-
	a) loans to banks	7,105,000	-
	Total assets	**7,105,000**	**-**

(in Euro)

Liabilities and shareholders' equity		31.12.2020	31.12.2019
10.	Financial liabilities measured at amortised cost	7,105,000	-
	a) due to banks	7,105,000	-
80.	Other liabilities	18,615	-
180.	Profit (Loss) for the year	(18,615)	-
	Total liabilities and shareholders' equity	**7,105,000**	**-**

Income statement

(in Euro)

Captions		31.12.2020	31.12.2019
50.	Commission expense	(18,615)	-
60.	**Net commission income**	**(18,615)**	**-**
300.	**Profit (Loss) for the year**	**(18,615)**	**-**

Reconciliation between the Consolidated financial statements and the Reclassified consolidated financial statements as at 31 December 2020

(in thousands)

Circular no. 262/2005 6° update - Assets	31.12.2020	Reclassified balance sheet - Assets: Cash and cash equivalents	Financial assets: a) Financial assets held for trading	Financial assets: b) Financial assets designated at fair value	Financial assets: c) Other financial assets mandatorily measured at fair value	Financial assets: d) Financial assets measured at fair value through other comprehensive income	Financial assets: e) Debt securities measured at amortised cost - banks	Financial assets: e) Debt securities measured at amortised cost - customers	Loans: a) Loans to banks	Loans: b) Loans to customers	Loans: c) Financial assets measured at fair value	Hedging derivatives	Equity investments	Property, plant and equipment	Intangible assets	- of which: goodwill	Other assets
10. Cash and cash equivalents	482,192	482,192															
20. Financial assets measured at fair value through profit or loss	1,198,601																
a) financial assets held for trading	279,009		279,009														
b) financial assets designated at fair value	127,368			127,368													
c) other financial assets mandatorily measured at fair value	792,224				765,917						26,307						
30. Financial assets measured at fair value through other comprehensive income	6,269,818					6,269,818											
40. Financial assets measured at amortised cost	79,991,505																
a) loans to banks	14,352,731						4,496,133		9,856,598								
b) loans to customers	65,638,774			-				12,723,670		52,915,104							
50. Hedging derivatives	57,776											57,776					
70. Equity investments	225,558												225,558				
90. Property, plant and equipment	1,351,480	-												1,351,480			
100. Intangible assets	702,723														702,723		
of which:	-																
- goodwill	434,758															434,758	
110. Tax assets	2,007,073																
a) current	418,174																418,174
b) deferred	1,588,899																1,588,899
120. Non-current assets and disposal groups classified as held for sale	98,714									90,775				1,210			6,729
130. Other assets	665,398																665,398
Total assets	**93,050,838**	**482,192**	**279,009**	**127,368**	**765,917**	**6,269,818**	**4,496,133**	**12,723,670**	**9,856,598**	**53,005,879**	**26,307**	**57,776**	**225,558**	**1,352,690**	**702,723**	**434,758**	**2,679,200**

(in thousands)

Reclassified balance sheet - Liabilities and shareholders' equity

Circular no. 262/2005 6° update - Liabilities and shareholders' equity	31.12.2020	Due to banks	Direct deposits		Financial liabilities held for trading	Hedging derivatives	Other liabilities	Minority interests	Shareholders' equity pertaining to the Parent Company						
			a) Due to customers	b) Debt securities issued					a) Valuation reserves	b) Reserves	c) Equity instruments	d) Share premium reserve	e) Share capital	f) Treasury shares	g) Profit (Loss) for the year
10. Financial liabilities measured at amortised cost	83,177,191														
a) due to banks	20,180,999	20,180,999													
b) due to customers	58,314,002		58,314,002												
c) debt securities issued	4,682,190			4,682,190											
20. Financial liabilities held for trading	170,094				170,094										
40. Hedging derivatives	469,240					469,240									
60. Tax liabilities	74,748														
a) current	4,797						4,797								
b) deferred	69,951						69,951								
70. Liabilities associated with assets classified as held for sale	144,809		144,477				332								
80. Other liabilities	1,945,822						1,945,822								
90. Employee termination indemnities	148,199						148,199								
100. Provisions for risks and charges	589,981														
a) commitments and guarantees granted	62,334						62,334								
b) pension and similar obligations	148,357						148,357								
c) other provisions for risks and charges	379,290						379,290								
120. Valuation reserves	118,105								118,105						
140. Equity instruments	150,000										150,000				
150. Reserves	2,348,691									2,348,691					
160. Share premium reserve	1,241,197											1,241,197			
170. Share capital	2,100,435												2,100,435		
180. Treasury shares (-)	(7,259)													(7,259)	
190. Minority interests (+/-)	133,935							133,935							
200. Profit (Loss) for the year (+/-)	245,650														245,650
Total liabilities and shareholders' equity	**93,050,838**	**20,180,999**	**58,458,479**	**4,682,190**	**170,094**	**469,240**	**2,759,082**	**133,935**	**118,105**	**2,348,691**	**150,000**	**1,241,197**	**2,100,435**	**(7,259)**	**245,650**

(in thousands)

Circular no. 262/2005 6° update - Income statement	31.12.2020	Reclassified income statement: Net interest income	Net commission income	Dividends	Net income from financial activities	Other operating expense/income	Staff costs	Other administrative expenses	Net adjustments to property, plant and equipment and intangible assets	Net impairment losses to financial assets at amortised cost - loans	Net impairment losses to financial assets at amortised cost - financial assets	Net impairment losses to financial assets at fair value	Gains (Losses) from contractual modifications without derecognition	Net provisions for risks and charges	Contributions to SRF, DGS, IDPF - VS	Gains (Losses) on equity investments, disposal investments and impairment losses on goodwill	Income taxes on current operations for the year	Profit (Loss) for the year pertaining to minority interests	Profit (Loss) for the year pertaining to the Parent Company
10. Interest and similar income	1,431,109	1,431,109																	
20. Interest and similar expense	(192,233)	(192,233)																	
30. Net interest income	**1,238,876**																		
40. Commission income	1,246,875		1,246,875																
50. Commission expense	(174,361)		(174,361)																
60. Net commission income	**1,072,514**																		
70. Dividends and similar income	18,492			18,492															
80. Net income from trading activities	(14,220)				(14,220)														
90. Net income from hedging activities	(653)				(653)														
100. Gains (Losses) on disposal or repurchase of:	141,182																		
a) financial assets measured at amortised cost	130,513				130,513														
b) financial assets measured at fair value through other comprehensive income	10,356				10,356														
c) financial liabilities	313				313														
110. Net income on financial assets and liabilities measured at fair value through profit or loss	11,856																		
a) financial assets and liabilities designated at fair value	(3,683)				(3,683)														
b) other financial assets mandatorily measured at fair value	15,539				15,539														
120. Net interest and other banking income	**2,468,047**																		
130. Net impairment losses for credit risk relating to:	(542,239)																		
a) financial assets measured at amortised cost	(541,877)									(534,605)	(7,272)								
b) financial assets measured at fair value through other comprehensive income	(362)											(362)							
140. Gains (Losses) from contractual modifications without derecognition	(2,141)												(2,141)						
150. Net income from financial activities	**1,923,667**																		
180. Net income from financial and insurance activities	**1,923,667**																		
190. Administrative expenses:	(1,687,910)																		
a) staff costs	(960,719)						(960,719)												
b) other administrative expenses	(727,191)							(639,009)							(88,182)				
200. Net provisions for risks and charges	(21,029)																		
a) commitments and guarantees granted	(6,329)													(6,329)					
b) other net provisions	(14,700)													(14,700)					
210. Net adjustments to property, plant and equipment	(118,816)								(118,816)										
220. Net adjustments to intangible assets	(59,702)								(59,702)										
230. Other operating expense/income	169,491					40,974		139,969						(11,452)					
240. Operating costs	**(1,717,966)**																		
250. Gains (Losses) of equity investments	(2,945)															(2,945)			
280. Gains (Losses) on disposal investments	866															866			
290. Profit (Loss) from current operations before tax	**203,622**																		
300. Income taxes on current operations for the year	67,045																67,045		
310. Profit (Loss) from current operations after tax	**270,667**																		
330. Profit (Loss) for the year	**270,667**																		
340. Profit (Loss) for the year pertaining to minority interests	(25,017)																	(25,017)	
350. Profit (Loss) for the year pertaining to the Parent Company	**245,650**	**1,238,876**	**1,072,514**	**18,492**	**138,165**	**40,974**	**(960,719)**	**(499,040)**	**(178,518)**	**(534,605)**	**(7,272)**	**(362)**	**(2,141)**	**(32,481)**	**(88,182)**	**(2,079)**	**67,045**	**(25,017)**	**245,650**

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Certifications and other reports

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Certification of the consolidated financial statements at 31 December 2020 pursuant to art. 81-ter of Consob Regulation no. 11971 dated 14 May 1999 and subsequent additions and amendments

➢ The undersigned
- Alessandro Vandelli, as Chief Executive Officer,
- Marco Bonfatti, as the Manager responsible for preparing the Company's financial report,

of BPER Banca S.p.A., having considered the requirements of paras. 3 and 4 of art. 154-*bis* of Decree no. 58 dated 24 February 1998, confirm:

- the adequacy in relation to the characteristics of the Bank and
- the proper application,

during 2020, of the administrative and accounting procedures adopted for the preparation of the consolidated financial statements.

➢ This assessment of the adequacy of the administrative and accounting procedures adopted for the preparation of the consolidated financial statements at 31 December 2020 is based on a model developed by BPER Banca S.p.A., consistent with the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. These framework represent reference standards for systems of internal control that are generally accepted at an international level.

➢ It is also certified that:

- the consolidated financial statements at 31 December 2020:
  a) have been prepared in accordance with the applicable international accounting standards recognised within the European Union pursuant to European Parliament and Council Regulation (EC) no. 1606/2002 dated 19 July 2002, Decree 38/2005 and the enabling regulations for art. 9 of this Decree;
  b) agree with the underlying accounting records and entries;
  c) present a true and fair view of the financial position and results of operations of the Bank and of the companies included within the scope of consolidation;
- the report on operations includes a reliable analysis of performance and the results of operations, as well as of the position of the Bank and of the companies included within the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

Modena, 16 March 2021

Chief Executive Officer
Alessandro Vandelli

Manager responsible for preparing the Company's financial report
Marco Bonfatti

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INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
BPER Banca S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of BPER Banca S.p.A. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2020, and the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended, and the explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and to art. 43 of Italian Legislative Decree no. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of BPER Banca S.p.A. (the Bank) in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification of high-risk performing loans to customers measured at amortized cost	
Description of the key audit matter	As reported in paragraph "6.1 Balance sheet aggregates" of the Directors' report on Group operations and in the quantitative information relating to credit risk disclosed in Part E – Information on risks and related hedging policies in the explanatory notes as at December 31, 2020, performing loans to customers measured at amortized cost of BPER Banca Group show a gross amount of Euro 51,048 million, reduced by portfolio adjustments of Euro 172 million, to come to a net amount of Euro 50,876 million, resulting in a coverage ratio of 0.34%. As more widely described in the explanatory notes and in the Directors' report on operations, the trend in the world economy during 2020 was characterized by the effects of the COVID-19 pandemic, which significantly affected the Group's business processes for monitoring and measuring credit risk. The context was also characterized by new initiatives and concessions introduced by governments and monetary and tax authorities, whose impact on the Group's economic and financial situation are described in the explanatory notes in the following sections: • Part B - Information on the balance sheet – Section 4 – Financial assets measured at amortised cost , table 4.4a Loans measured at amortised cost subject to to Covid-19 support measures: gross values and total impairment losses; • Part C – Information on the income statement – Section 8 – Net impairment losses for credit risk, table 8.1a Net impairment losses for credit risk related to loans measured at amortized cost subject to measures applied in response to the COVID-19: breakdown; • Part E – Information on risks and related hedging policies – Section A – Credit quality, table A.1.3a Prudential Consolidation - Loans subject to Covid-19 support measures: transfers between different credit risk stages (gross values) and table A.1.5a Prudential Consolidation - Loans subject to Covid-19 support measures: gross and net values; as required by the supplement dated 15 December 2020 of the "Circular n. 262 – Banks' financial statements: schemes and compilation rules" issued by Bank of Italy, which introduced a specific disclosure concerning the effects of the COVID-19 pandemic and of the measures to support the economy on risk management strategies, objectives and policies, as well as on the economic and financial situation of banks.

As reported in the qualitative information relating to credit risk disclosed in Part E – Information on risks and related hedging policies in the explanatory notes as at December 31, 2020, as part of its policies for managing loans to customers, the Group adopted rules and processes for monitoring credit exposures, which have entailed, among other things, a structured action of classification into homogeneous risk categories. In particular on the basis of "rating" and "early warning" systems the Group identified, among performing loans to customers measured at amortized cost, those ones with a higher degree of risk.

In the paragraph "Accounting estimates – Overlay Approach applied in credit risk assessment" of Section 5 – Other aspects of part A – Accounting policies of the explanatory notes, the Group explains the actions taken, as a consequence of the contingency situation caused by the COVID-19 pandemic ("Overlay Approach"), on both the staging allocation model envisaged by the IFRS 9 accounting standard adopted by the Group, and on the identification of the macroeconomic scenarios used to determine the expected credit losses.

Given the complexity of the process of classifying loans to customers into homogeneous risk categories followed by the Group and the subjectivity of the Overlay Approach adopted in order to take into account the uncertainties arising from the COVID-19 pandemic, we considered the classification of high-risk performing loans to customers measured at amortized cost, with reference also to the effects of the application of the Overlay Approach adopted by the Group, a key audit matter of the consolidated financial statements of BPER Banca Group as at December 31, 2020.

Audit procedures performed

The main procedures carried out as part of our audit work were, among others, as follows:

- gaining an understanding of the internal regulations and processes implemented by the Group, as amended to take account also of the impacts of the COVID-19 pandemic, for classifying loans to customers measured at amortized cost and monitoring their quality, in order to verify the compliance with the regulatory framework;

- checking the implementation and operating effectiveness of the key controls identified in relation to those processes, also supported by IT processes and systems specialists of the Deloitte network, taking into account also the impacts on them of the COVID-19 pandemic;

- drawing qualitative and trend analysis of performing loans to customers measured at amortized cost by calculating appropriate qualitative and quantitative indicators in order to identify possible matters of interest, also in view of the COVID-19 pandemic;

- checking, on a sample basis, the classification of high-risk performing loans to customers measured at amortized cost in accordance with the regulatory framework;

- understanding and analysis of the actions taken by the Group, as a consequence of the contingency situation caused by the COVID-19 pandemic ("Overlay Approach"), on both the staging allocation model envisaged by the IFRS 9 accounting standard, and on the identification of the macroeconomic scenarios used in order to capture the uncertainties of the aforementioned context;

- checking the completeness and the compliance of the disclosures provided in the financial statements in accordance with the regulatory framework and applicable accounting standards, as well as the contents of the interpretative and supporting documents for the application of the accounting standards in relation to the impacts of the COVID-19 pandemic, issued by the national and European regulatory and supervisory bodies.

Classification and valuation of non-performing loans to customers measured at amortized cost classified as bad loans and unlikely to pay loans	
Description of the key audit matter	As reported in paragraph "6.1 Balance sheet aggregates" of the Directors' report on Group operations and in the quantitative information relating to credit risk disclosed in Part E – Information on risks and related hedging policies of the explanatory notes as at December 31, 2020, non-performing loans to customers measured at amortized cost of BPER Banca Group show a gross amount of Euro 4,343 million, reduced by impairment losses of Euro 2,213 million, resulting in a net amount of Euro 2,130 million. The Directors' report on Group operations also shows that the coverage ratio of non-performing loans to customers measured at amortized cost as at December 31, 2020 is equal to 50.95%. More specifically, the above-mentioned loans to customers, classified in accordance with IFRS 9 "Financial Instruments" as "Third Stage", include bad loans for a net value of Euro 727 million and a coverage ratio of 65.00% and unlikely to pay loans for a net value of Euro 1,294 million and a coverage ratio of 39.12%. Part A – Accounting policies of the explanatory notes describes: • the rules for classifying non-performing loans to customers measured at amortized cost followed by the Group in compliance with the current instructions of the Supervisory Authorities and the applicable accounting standards;

- the methods for determining their recoverable amount which are based on the estimate of the present value of expected cash flows deriving from an analytical valuation of bad loans and unlikely to pay loans whose exposure is higher than the thresholds established by internal regulations, and from a flat-rate approach for the remaining non-performing loans to customers measured at amortized cost. Furthermore the quantification of the recoverable amount of non-performing loans which are included in the Groups's strategy, which envisages the recovery of those loans through disposals, reflects also the estimate of their disposal value, duly weighting the probability of the "workout" and "disposal" scenarios;

- the modification made with reference to the analytical valuation of non performing loans to customers measured at amortized cost, consisting in reviewing the expected cash flows determined before the pandemic crisis, in order to take into account, in particular, the need to extend the judicial time of recovery of the credit exposure, leading to a general increase of the analytical provisions.

Given the significance of the amount of non-performing loans to customers measured at amortized cost recorded in the financial statements, the complexity of the valuation processes adopted by the Group, which entailed a structured action of classification into homogeneous risk categories, as well as the relevance of the discretionary components linked to the estimate of the recoverable amount (such as the estimate of expected cash flows, the time of recovery, the collaterals' value and the possible recovery strategies), we considered the classification of non-performing loans to customers measured at amortized cost classified as bad loans and unlikely to pay loans and their valuation a key audit matter of the consolidated financial statements of BPER Banca Group as at December 31, 2020.

Audit procedures performed

The main procedures carried out as part of our audit work were, among others, as follows:

- gaining an understanding of the internal regulations and processes implemented by the Group, as amended to take account also of the impacts of the COVID-19 pandemic, for classifying non-performing loans to customers measured at amortized cost classified as bad loans and unlikely to pay loans and determining their recoverable amount, in order to verify the relevant compliance with the regulatory framework and applicable accounting standards;

- checking the implementation and operating effectiveness of the key controls identified in relation to those processes, also supported by IT processes and systems specialists of the Deloitte network, taking into account also the impacts on them of the COVID-19 pandemic, if any;

- drawing qualitative and trend analysis of non-performing loans to customers measured at amortized cost classified as bad loans and unlikely to pay loans by calculating appropriate qualitative and quantitative indicators in order to identify possible matters of interest, also in view of the COVID-19 pandemic;

- checking on a sample of credit files, selected also on the basis of the matters of interest emerging from the analysis referred to in the previous point, the relevant classification and determination of the recoverable amount of non-performing loans to customers measured at amortized cost classified as bad loans and unlikely to pay loans in accordance with the regulatory framework, the applicable accounting standards and the impacts of the COVID-19 pandemic, if any, also by obtaining and examining written confirmations by the lawyers appointed for their collection;

- analysis and understanding of the valuation model adopted for the determination of impairment losses of non performing loans included in the Group's strategy which envisages the recovery of those loans through disposals and checking the reasonableness of the recoverable amount, determined also by taking into account the estimate of their disposal value, duly weighting the probability of the “workout” and “disposal” scenarios;

- checking the completeness and the compliance of the disclosures provided in the financial statements in accordance with the regulatory framework and applicable accounting standards, as well as the contents of the interpretative and supporting documents for the application of the accounting standards in relation to the impacts of the COVID-19 pandemic, issued by the national and European regulatory and supervisory bodies.

Accounting derecognition of portfolios of bad loans following the transfer through GACS-backed securitisation	
Description of the key audit matter	On June 18, 2020, BPER Banca S.p.A. and its subsidiaries Banco di Sardegna S.p.A. and Cassa di Risparmio di Bra S.p.A. finalized the securitisation of bad loans called “Spring”. In particular, a bad loans portfolio of a total Gross Book Value of about Euro 1,219 million, made of 57% of secured loans and 43% of unsecured loans, has been transferred to the securitisation vehicle Spring SPV s.r.l., pursuant to Law no. 130/99.

The Senior, Mezzanine and Junior notes issued by Spring SPV s.r.l. were initially subscribed by the originator banks. Subsequently Banco di Sardegna S.p.A. and Cassa di Risparmio di Bra S.p.A. sold to a third-party investor 100% of the Mezzanine and Junior notes respectively subscribed, while BPER Banca S.p.A. sold 78.78% of the Mezzanine and Junior subscribed notes, to a third-party investor. Therefore, at consolidated level, BPER Banca Group kept a net economic interest equal to 5% of the Mezzanine and Junior notes issued by the special purpose vehicle, in order to fulfill the obligation of retention required by the regulatory framework.
Following the completion of the sale of those notes, the conditions required by IFRS 9 for the accounting derecognition of the transferred loans from the balance sheet of the Group were met.
All the Senior notes remained in the portfolio of the originator banks. By the decree of the Minister for Economic and Finance signed on October 16, 2020, the state guarantee GACS was granted on these notes.
The negative economic impact of the securitisation “Spring” was Euro 16.4 million.

Subsequently, on December 30, 2020, BPER Banca S.p.A. and its subsidiary Banco di Sardegna S.p.A. finalized a further securitisation of bad loans called “Summer”. In particular, a bad loans portfolio of a total Gross Book Value of about Euro 270.8 million, made of 49% of secured loans and 51% of unsecured loans, has been transferred to the securitisation vehicle Summer SPV s.r.l., pursuant to Law no. 130/99.
The Senior notes issued by Summer SPV s.r.l. have been subscribed and retained by the originator banks, as well as 5% of the Mezzanine and Junior notes, while 95% of such notes have been subscribed by a third-party institutional investor.
Therefore, at consolidated level, BPER Banca Group kept a net economic interest equal to 5% of the Mezzanine and Junior notes issued by the special purpose vehicle, in order to fulfill the obligation of retention required by the regulatory framework.
Thus the conditions required by IFRS 9 for the accounting derecognition of the transferred loans from the balance sheet of the Group were met. On the Senior notes the state guarantee GACS has been requested by the Bank.
The negative economic impact of the “Summer” securitisation was Euro 16.6 million.

In paragraph “3.4 Progress of de-risking activities” of the Director’s report on Group operations and in the qualitative information on securitisation transactions of part E - Information on risks and the related hedging policies of the explanatory notes as at 31 December 2020, disclosures are provided on the above-described aspects with reference to the above-mentioned transactions.

Given the complexity of the transactions and the significance of the related accounting effects, we considered the accounting derecognition of portfolio of bad loans following the transfer through GACS-backed securitisation a key audit matter of the consolidated financial statements of BPER Banca Group as at December 31, 2020.

Audit procedures performed	The main procedures carried out as part of our audit work were, among others, as follows: • gaining an understanding of the structure and of the finalization process of the transfer transactions, through securitisation, by obtaining and analysing signed agreements and further available documentation, as well as through interviews with the management of BPER Banca S.p.A.; • gaining an understanding of the processes adopted by the Group with reference to the acknowledgement of the assumptions for the accounting derecognition of the securitised loans and testing the design and implementation of the related key controls; • analysis of the existence of the conditions required by the international accounting standard IFRS 9 for the accounting derecognition from the balance sheet of the Group of the securitised loans, also supported by specialists of the Deloitte network; • checking the completeness and the compliance of the disclosures provided in the financial statements in accordance with the regulatory framework and applicable accounting standards.
Impairment test of goodwill	
Description of the key audit matter	As reported in the consolidated financial statements as at December 31, 2020, intangible assets include goodwill in the amount of Euro 434.8 million allocated to the cash generating units ("CGUs") identified in the individual legal entities (BPER Banca S.p.A., Banco di Sardegna S.p.A., Emilia Romagna Factor S.p.A. and Arca Holding S.p.A.). Under IAS 36 "Impairment of assets", goodwill is not amortized but subjected to an impairment test at least once a year, by comparing the carrying amount with the relevant recoverable amount of each CGU. When preparing the impairment test, the Bank determines the recoverable amount of the CGUs in terms of value in use estimated on the basis of the "Dividend Discount Model". The process of determining the value in use adopted by the Bank is based on assumptions involving, among other things, a forecast of expected cash flows of the CGUs to which goodwill has been allocated, as well as the discount rate to be applied to the expected cash flows and the long-term growth rate.

In particular, the Bank has prepared the forecast of expected cash flows taking into account the current market context significantly influenced by the evolution of the health emergency due to the spread of the COVID-19 pandemic.

The impairment test carried out by the Bank, supported by a fairness opinion of an independent external expert, confirmed the recoverability of goodwill, as accounted for in the consolidated financial statements.

In Part A – Accounting Policies and in "Section 10 – Intangible Assets" of Part B – Information on the balance sheet of the consolidated explanatory notes, disclosures are provided on these aspects, as well as on the results of the sensitivity analysis performed.

Given the subjectivity of the estimates involved in determining the cash flows of the CGUs to which the goodwill has been allocated and the key variables of the impairment model, we considered the impairment test of goodwill a key audit matter of the consolidated financial statements of BPER Banca Group as at December 31, 2020.

Audit procedures performed

The main procedures carried out as part of our audit work were, among others, as follows:

- gaining an understanding, also supported by the specialists of the Deloitte network, of the valuation model and of the assumptions adopted by the Bank to carry out the impairment test;
- gaining an understanding of the process involved in carrying out the impairment test and verifying the implementation and operating effectiveness of the key controls identified in relation to that process;
- performing an analysis of reasonableness, carried out also by obtaining information from the Bank, of the main assumptions adopted to estimate cash flows, considering the current economic context characterized by the COVID-19 pandemic;
- performing an analysis, also supported by the specialists of the Deloitte network, of reasonableness of the key variables adopted in the valuation model, carried out also through in-depth analysis with the independent external expert;
- obtaining and reviewing the fairness opinion issued by the independent external expert, also through discussions with the Bank and the external expert himself;
- performing an analysis of actual figures compared with the original plans, in order to assess the nature of variances and the reliability of the process of determining the forecasts;

- verifying the clerical accuracy of the model used to determine the value in use of the CGUs to which the goodwill has been allocated, also supported by the specialists of the Deloitte network;

- reviewing the sensitivity analysis performed by the Bank;

- checking the completeness and the compliance of the disclosures provided in the financial statements in accordance with the regulatory framework and applicable accounting standards, as well as the contents of the interpretative and supporting documents for the application of the accounting standards in relation to the impacts of the COVID-19 pandemic, issued by the national and European regulatory and supervisory bodies.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and to art. 43 of Italian Legislative Decree no. 136/15 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Bank or for the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

- conclude on the appropriateness of Directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of BPER Banca S.p.A. has appointed us on November 26, 2016 as auditors of the Bank for the years from December 31, 2017 to December 31, 2025.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of BPER Banca S.p.A. are responsible for the preparation of the Directors' report on Group operations and the report on corporate governance and ownership structure of BPER Banca Group as at December 31, 2020, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the Directors' report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the consolidated financial statements of BPER Banca Group as at December 31, 2020 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned Directors' report on operations and some specific information contained in the report on corporate governance and ownership structure are consistent with the consolidated financial statements of BPER Banca Group as at December 31, 2020 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of BPER Banca S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Marco Benini
Partner

Bologna, Italy
March 29, 2021

This report has been translated into the English language solely for the convenience of international readers.

2020 FINANCIAL STATEMENTS

Directors' report on operations

1. The Bank in 2020

1.1 Introduction

To avoid repetition, the common disclosure along with the Directors' Report on Group operations is not being reproposed. Reference should be made to it as it is substantially valid for the stand-alone plan of the Parent Company as well.
To be more specific, reference is made to the content of the following paragraphs of the consolidated report:

- 1. The macroeconomic context;
- 3. Significant events and strategic transactions (including, in particular, the increase in capital carried out by the Bank in 2020 to service the project to acquire the Business Unit from Intesa Sanpaolo, the "Spring" and "Summer" GACS-backed sale of bad loans and management of the health emergency caused by the Covid-19 pandemic and the consequences it has had on the economy);
- 4. Summary of activities and strategic direction;
- 7. Principal risks and uncertainties (though some quantitative information that is specific to BPER Banca will be presented below).

1.2 Competitive positioning

Market positioning: deposits and loans
The trend in BPER Banca's market share of direct borrowing and lending on a national level are shown in the following tables.

Market shares - Direct borrowing

Period	Total Customers	Consumer households	Corporates	Producer households
31.10.2020	2.54%	1.93%	3.64%	4.63%
30.09.2020	2.41%	1.91%	3.55%	4.65%
31.08.2020	2.49%	1.95%	3.55%	4.65%
31.07.2020	2.42%	1.90%	3.51%	4.66%
30.06.2020	2.42%	1.91%	3.57%	4.69%
31.05.2020	2.51%	1.92%	3.57%	4.68%
30.04.2020	2.47%	1.94%	3.51%	4.66%
31.03.2020	2.39%	1.95%	3.49%	4.67%
29.02.2020	2.42%	1.92%	3.59%	4.65%
31.01.2020	2.42%	1.94%	3.58%	4.71%
31.12.2019	2.44%	1.94%	3.75%	4.73%
30.11.2019	2.51%	1.94%	3.93%	4.65%
31.10.2019	2.51%	1.95%	3.80%	4.45%

Market shares - Lending

Period	Total Customers	Consumer households	Corporates	Producer households
31.10.2020	2.50%	2.30%	3.06%	4.10%
30.09.2020	2.52%	2.30%	3.11%	4.09%
31.08.2020	2.48%	2.31%	3.05%	4.11%
31.07.2020	2.45%	2.32%	3.06%	4.11%
30.06.2020	2.53%	2.32%	3.10%	4.12%
31.05.2020	2.49%	2.30%	3.05%	4.08%
30.04.2020	2.46%	2.31%	3.05%	3.99%
31.03.2020	2.48%	2.31%	3.05%	3.99%
29.02.2020	2.49%	2.30%	3.11%	3.99%
31.01.2020	2.49%	2.30%	3.13%	3.99%
31.12.2019	2.55%	2.32%	3.24%	4.00%
30.11.2019	2.53%	2.33%	3.26%	3.97%
31.10.2019	2.54%	2.41%	3.32%	3.77%

Source: Market shares - Planus Corp. analysis of Regulatory Reports.

Branch network

The number of branches has decreased by 98 compared with 2019[1] due to the rationalisation carried out in two slots in May and October, as well as some closures following the reorganisation that followed the mergers of Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo into BPER Banca.
At 31 December 2020 there were 908[2] branches (including 9 limited service branches).

The Bank has a widespread presence of branches in 18 of Italy's 20 regions (Emilia-Romagna (293), Abruzzo (87), Campania (89), Lazio (73), Calabria (37), Lombardy (56), Apulia (37), Veneto (42), Basilicata (28), Sicily (33), Molise (10), Marche (13), Tuscany (30), Trentino-Alto Adige (4) Umbria (8), Liguria (8), Friuli Venezia Giulia (2) and Piedmont (58)).

1.3 Relations with customers

Commercial and service policies

Processes

BPER uses a Customer Relationship Management – CRM platform to coordinate customer contact activity by the network in various ways:

- with a top-down logic ("Air actions"), according to a centralised programming model that has allowed the diffusion of a homogeneous approach;
- through bottom-up programming ("Ground actions") identified at branch level;
- through Self actions ("Autoprogramming"), chosen directly by the Portfolio Manager.

The tasks and responsibilities of the principal functions within the Business Area, as well as the mechanisms for interactions among their managers (horizontal) and between the centre and the network (vertical), are defined in the commercial statement, which describes the methods, timing, tools and objectives for centre-network dialogue focused on the monitoring of performance.

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[1] *The change includes the branches resulting from the merger of Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo*
[2] *Excluding "virtual branches".*

Furthermore, the commercial planning process establishes a clear division of activities between the various areas that make up the commercial plan and ensures greater involvement on the part of segment managers in the development of the marketing plan, the training plan and the annual media plan.
In compliance with the European legislation on "Product Governance", BPER Banca has implemented a structured process to govern the development and approval of new products and services, for entering new markets and signing distribution agreements. The definition of BPER Banca's commercial offer is governed by the "Group Policy for the governance of non-compliance risk on Product Governance" and by the "Group Regulation for the development and approval of products and services on offer".
The objectives of the development process and approval of the commercial offer are:

- ensuring the improvement and timely evolution of products and services on offer in compliance with the needs of customers and in line with the company's strategy and objectives;
- ensuring the correct mapping, assessment and management of risks deriving from new operations, in line with BPER Banca's risk appetite;
- defining the customer groups to which the company intends to distribute new products and services in relation to their complexity and any existing regulatory constraints;
- assessing the structure of the products, with reference to the extent to which they are comprehensible to customers, their characteristics and risks, particularly for complex forms of remuneration and reimbursement;
- ensuring transparency and fairness in the marketing phase;
- ensuring full compliance in the development and approval of products and services on offer, by ensuring respect for the various stages envisaged and the involvement of various corporate functions.

As regards the consultancy and sales relationship between branches and customers, BPER has an advanced sales front-end (called "BStore"), available to all branch managers, which guides the user in proposing the principal services available to customers from the Group's computerised product catalogue. The procedure, previously only available for private customers, was extended to businesses in November 2019.

Listening to customers

Customer satisfaction is one of the main levers of the service quality planning and control system and a strategic competitive factor in the market. This principle has spawned a need for the construction of a system to monitor quality perceived by customers across all customer segments and the various points of the bank-customer relationship.
Since 2019, the BPER Group has developed a new customer listening system, which provides for continuous monitoring system of the entire customer base: the metric chosen is the Net Promoter Score (NPS), an indicator that measures the proportion of "promoters" (customers who would recommend the bank) to "detractors". E-mail is the principal contact channel used, in order to collect as much feedback as possible from customers, with the smallest effort in terms of cost and time, supported by the use of text messages also for customers who do not have an e-mail address. A total of about 80,000 interviews were carried out in 2020, confirming the data that emerged in 2019: the levels of customer satisfaction in the Family and Personal segments are aligned, while that of Small Economic Operators (SEO) is lower, albeit still positive. Analysis of the data collected shows that the number of contacts made by the contact person increases customer satisfaction, while customers without a contact person (or who do not perceive having one) are the least satisfied. The NPS project also seeks to capture customers' reaction soon after certain specific activities have taken place. To date, the ones that are active are: underwriting of insurance policies, mortgages and loans, underwriting of policies combined with financing, contact centre assistance service and use of Smart Web in the smartphone version.

Customer satisfaction surveys were introduced for Companies and Private Banking customers as well in 2020. A survey was carried out on Companies in July: satisfaction is stable overall compared with the previous survey, though it is slightly higher for Corporate than for SMEs, while the NPS is growing for both service models. The survey of Private Banking customers was carried out in November: the level of satisfaction showed a significant increase compared with the previous survey and the NPS was again positive, considering the high expectations and more sophisticated needs of the audience.

The contact channels

The BPER Banca Group Contact Centre only responds from Italy as this tends to favour national employment and provides customers with a better service. It is able to provide assistance to customers in 6 languages, as well as Italian: English, French, Spanish, Romanian, Portuguese and Arabic.
The Contact Centre has obtained the following certifications: ISO 9001 and ISO 18295 (formerly ISO 15838).
WhatsApp is also used as a contact channel and, by integrating it with the Live Person platform, enables the Bank to provide a service of excellence in its relationship with remote customers through a certified Business profile.
The Digital Loans service, in its Self and Remote Offering components, allows an ever greater number of customers to request a personal loan autonomously, via Smart Web or Mobile App, or with support from a Contact Centre specialist, receiving the final result digitally, 24/7, directly on the move. In addition to significantly improving the customer experience, this activity has made a significant contribution to the achievement of specific business objectives.
Since September 2019, the Smart Web and Smart Mobile Banking services have been offering customers a safe and quick way to access their accounts and authorise payments, using either a PIN or biometric recognition. In compliance with the European Payment Services Directive (PSD2), a simple and secure solution has been offered to customers.

Commercial agreements

After the signing of the Bancassurance Agreement with the UnipolSai Group for the distribution of the life and non-life insurance policies offered by Arca Vita, Arca Assicurazioni and Arca Vita International, in terms of commercial partnerships, 2020 was a year of consolidation and further enhancement of the Group's strategic agreements.
The agreements reached with the insurance partner pay particular attention to product innovation and technological innovation in order to improve noticeably the customer journey, making it possible to expand and strengthen the range of insurance products offered to customers, as well as to maximise the effectiveness of the BPER Banca Group's Bancassurance value proposition.
During the year, the Group signed an innovative agreement with UnipolSai S.p.A. for the distribution of UnipolSai's insurance products and the BPER Group's standardised banking products. With this agreement, two important objectives have been pursued: on the one hand, the range of insurance solutions offered by ARCA Assicurazioni to the Group's client companies has been substantially expanded, as they now have access to UnipolSai's catalogue and know-how to cover complex and specialised risks; on the other hand, the BPER's standardised banking offer has been extended to UnipolSai customers, with products being placed directly by UnipolSai agencies, reducing the research time and costs spent by customers.
As part of the partnership with the UnipolSai Group, two important initiatives - aimed at customer care - were activated in 2020 for the prevention and containment of the Covid-19 health crisis: Sicuriripartiamo and Test Covid Card. These are two solutions created by UniSalute, dedicated respectively to businesses and families.

During 2020, completion of a project saw the birth of Smart Bper Pos, an application to help all BPER's merchants manage their POS by squaring receipts and doing market comparisons. This application is part of a broader framework to create value-added services attributable to the POS area with a view to increasing customer satisfaction: to this end, the release of POS ANDROID was also encouraged, creating a special marketplace where various applications are available (such as GetYourBil, for electronic invoicing).
The following agreements were also signed in December:

- an agreement linked to the placement of the international charge card with Nexi, the new payment product which is more advanced compared with Bancomat/Vpay;
- a direct agreement with Telepass s.p.a. for them to issue their toll-payment devices without any intermediation by Nexi.

Products and commercial activities

Private

BPER Bank pays constant attention to the needs of customers at every stage of the business. In addition to the routine supervision and development of traditional banking activity, the Bank has continued to work on combination offers and rationalising current account options.
During 2020, a series of measures were developed to support private customers and households during the Covid-19 emergency: a Solidarity Fund for first-home mortgages, an ABI moratorium for all Private Customers' loans with instalment repayments, an ASSOFIN moratorium for consumer credit.
With the same objective in 2020 too, BPER Banca developed initiatives to update the products and services on offer, introducing a higher level of digitisation, flexibility of use with respect to customer needs and streamlining sales processes.
In 2020, BPER Banca also prepared a complete offer to support its customers in carrying out the building modernisation works linked to the 110% Superbonus. Special pre-financing products have been developed to initiate and complete interventions based on the progress of the project, insurance products and a specialised technical and fiscal consultancy service. BPER Banca also offers its customers to receive liquidity through the sale of the tax credit generated by such projects.

Wealth Management

In recent years, the BPER Banca Group has embarked on an important expansion plan in the field of Wealth Management, which involved the production and distribution of products and services to expand their range and quality. The project was leveraged by the reorganisation of Optima SIM (as a single investment centre), thanks to the entry of new professionals and significant technological investments through the integration of BlackRock's Aladdin Wealth platform.
On the financial advisory side, the commitment to a complete review of the product range continued in order to adapt the offer to the changed economic context, in order to select the best opportunities for customers.
In particular, the range offered by BPER International SICAV was completely revised with the aim of transforming it into a multi-manager SICAV, adding some products to be managed on behalf of UBS and hiring some excellent new account managers. The guided open architecture that has been created as a result guarantees a high level of quality and allows constant monitoring of the investment strategies, making it possible to fill any gaps in the product range. The catalogue and supporting materials were revised and training was provided to the network.

To support customers with advanced medium/long-term planning requirements, the commercial proposition was focused on "container" products such as Portfolio Management and Multi-Branch Insurance Policies.
One of the main lines of activity was to provide customers with constant support during the Covid-19 emergency, reinforcing the dissemination and use of digital channels for relationships and of digital tools for remote operations.
The Bank also focused on the more advanced segment of Private Banking customers with the creation of the Private Banking Key Client service model, dedicated to Ultra High Net Worth Individuals, customers with high levels of cash and a need for tailor-made solutions. The structure is now made up of a team of 11 professionals with offices in Modena, Milan and Rome.
A dedicated communication campaign was launched for the first time with the aim of strengthening BPER Banca's positioning in the Wealth Management industry. The aim was to disseminate content to increase training and knowledge of issues related to asset management and wealth planning. The podcast "Fornelli e Finanza" was launched on Spotify" to address such issues in an engaging way for a vast audience.

Corporate

Business customers were supported during 2020 by multiple developments that were promoted by commercial campaigns designed to increase the quality of lending and expand the range of services offered to them.
In particular, new customers with high creditworthiness were acquired and companies that were already customers were made even more loyal by proposing financial support operations and specialist consultancy.
Above all, during 2020, there were the support activities to help companies contrast the economic emergency caused by the Covid-19 health crisis. BPER Banca provided this assistance by setting up and refining numerous innovative short, medium and long-term financial support operations, specifically designed to support Italian companies in a time of serious shortage of liquidity, in line with the regulatory provisions introduced by the Government.

Business company loan

In the first phase of the pandemic, pending the issuance of the regulatory provisions to support companies during the Covid-19 emergency, BPER Banca introduced a Company Loan with a duration of 18 months up to a maximum of Euro 1,000,000 or, as an alternative, the possibility for companies to obtain a temporary overdraft facility.
In other words, at the height of the health and economic-financial crisis, our Bank provided important provisional but timely support for the financial needs of Companies, followed by more structured financial interventions for longer periods of time.

Loans with MCC guarantee

BPER Banca introduced new loans backed by the guarantee of the Central Guarantee Fund of MCC (Banca del Mezzogiorno-MedioCredito Centrale), combining this type of guarantee not only with medium/long-term financial support (as was done up to 2019), but also with short-term lines of credit.
What's more, up until 2019, transactions of this kind were only carried out for considerable amounts, whereas in 2020 a new type of loan was set up, still backed by this guarantee, for an amount of Euro 30,000, specifically for small businesses.

The intention was to widen as much as possible the type of financing that could access this important form of guarantee, which allows the company to obtain important economic benefits in terms of borrowing conditions and access to credit.

Loans with ISMEA guarantee

As regards farm loans guaranteed by ISMEA, the conversion of the Liquidity Decree into law introduced some changes to what was initially envisaged, but without affecting the 100% guarantee provided by ISMEA.

The main changes concerned: enlargement of the perimeter of those considered eligible; increase in the maximum amount that could be granted to Euro 30,000; new drivers for determining the amount that could be financed; new benchmarks for determining the rate of interest.

The decision of the European Commission on 20 July 2020 which extended the maximum duration of loans up to Euro 30,000 to 10 years, also for those guaranteed by ISMEA, made it possible to request an adjustment of the duration up to a maximum of 10 years for loans backed by an ISMEA guarantee already paid within the scope of application of the Liquidity Decree.

SACE - Covid-19

Thanks to the provisions of Decree Law 23 of 8 April 2020, BPER introduced new medium-term loans, with a duration of between 2 and 6 years, backed by a SACE guarantee, in favour of companies hit by Covid-19.

Moratoria and loans outstanding with BPER Banca

Micro, small and medium-sized enterprises (including self-employed workers and professionals with VAT numbers) who self-certified that they had suffered a temporary liquidity shortage as a direct consequence of Covid-19, in 2020 were able to apply for a moratorium on loans and lines of credit already granted, also at the BPER Banca. These concessions were applied to the financial support stipulated by companies before 17 March 2020 (the date that the “Cura Italia” decree came into force).

To be more precise, during 2020 BPER Banca granted:

- moratoria for more than 46,000 loans, relating to Private customers, for a gross exposure of Euro 3.3 billion;
- moratoria for more than 28,000 corporate loans, relating to Corporate customers, for a gross exposure of over Euro 5 billion.

At 31 December 2020, the moratoria still active amounted to Euro 5.7 billion[3] (defaults on loans for which the moratorium has not been renewed are marginal).

Even before publication of the Liquidity Decree, the "BPER Banca per l’Italia" initiative was launched, with the creation of two funds amounting respectively to Euro 100 million (for private individuals, professionals, craftsmen and shopkeepers) and Euro 1 billion (for firms to gain access to liquidity and short/medium-term loans). In order to help businesses in crisis, the Group has strengthened its commitment to enable applicant customers to access the guarantee fund for SMEs and other loans backed by public guarantees. At 31 December 2020, loans guaranteed by the State totalling more than Euro 3.1 billion had been granted.

[3] *For details on the Covid-19 moratoria in effect at 31 December 2020, please refer to the details contained in the Explanatory Notes, Part B - Assets, Section 4.*

Again with a view to strengthening the commercial action in favour of business customers, support for the international footprint of Italian industrial groups continued during 2020.
This activity, guaranteed by the important network of relationships with several thousand correspondent banks and companies around the world, was supported by the use of BPER Estero, a dedicated portal through which BPER Banca is able to provide analyses and reports to help companies develop a growth strategy, especially abroad.
In addition to providing assistance in developing international growth plans, the BPER Banca Group makes available suitably trained specialists who can provide all the support and advice companies might need on basic and complex transactions in the field of Trade & Export Finance (from documentary transactions to post-financing and forfeiting), as well as cash management services designed to improve the efficiency of payments and collections and liquidity management in general.

1.4 Human resources

Key data

During 2020, 219 new employees were hired, including no. 49 apprentices.
Agreements for contract staff (to meet temporary needs) were in place for no. 147 persons at the end of 2020 (with an average of 95 during the year).
In 2020, BPER Banca offered internships for no. 6 undergraduates and graduates from three-year degree courses and longer specialist courses.
During the course of 2020, 614 people terminated their employment with the Bank[4]. The number of employees in active service at the end of 2020 was 10,355 (excluding 24 who were on leave).
Overall, 160 Bank employees have been seconded to other companies within the Group; conversely, 302 people from other Group banks are on secondment with BPER Banca.

Industrial relations

In 2020, the methods of discussion and negotiation with the trade unions, in continuity with what happened in previous years, confirmed a correct system of trade union relations, based on constructive dialogue between the parties despite the difficulties caused by different factors, including a difficult context due to the elements of instability in the political-social scene and the spread of the Covid-19 pandemic.
The procedure for transferring the Business Complex from the Intesa Sanpaolo Group to BPER Banca was managed in the complex scenario described above and was concluded with the trade union agreement of 30 December 2020. It involved opening various projects contained in the 2019-2021 Business Plan with repercussions on personnel at the Parent Company and Group level and consequent discussions mainly with the Group's trade union delegations.

Of the main agreements reached at Group level, the following are worthy of mention because of their importance:

- access to the ordinary benefits of the Solidarity Fund because of Covid-19 (11 May 2020): to cope with the health emergency caused by the spread of the Covid-19 virus, the BPER Banca Group and the trade unions agreed to use the ordinary benefits of the Solidarity Fund for a period of 9 weeks (from 9 March 2020 to 10 May 2020);

[4] *Including those effective from 1 January 2020, i.e. those for whom 31 December 2019 was their last working day.*

- rationalisation of the Group's Branch Network - BPER "Slot 3" and BDS "Slot 1" branches (24 June 2020), Rationalisation of the Group's Branch Network - BPER "Slot 4" and BDS "Slot 2" branches and Business Centres (22 December 2020): following the rationalisation of BPER Banca and Banco di Sardegna branches by slots and the activation of the Business Centres in BPER, the BPER Banca Group and the trade unions identified the measures relating to geographical/professional mobility and other specific safeguards, to handle the effects on the members of staff involved in these projects;
- Solidarity Time Bank (28 October 2020): the Agreement provides for setting up a Solidarity Time Bank for the whole of 2021 so that members of staff can take leave of absence - donated partly by the Company, partly by the workers - to help those who, for various reasons, need more support at certain times in their lives;
- Insurance agents (29 October 2020): specific professional paths and ad hoc protections have been envisaged for the role of Insurance Agent;
- transfer of the Business Complex from the Intesa Sanpaolo Group to BPER Banca (30 December 2020): this negotiation, in some respects unique in the banking sector, involved three companies and three trade union delegations of the Group. The agreement, which will allow 5,107 employees of Ubi Banca and Intesa Sanpaolo to enter BPER Banca, provides that they will maintain their current conditions of employment until 31 December 2021. There are plans to harmonise the conditions of employment of all 2nd-level members of staff in the transferring and transferee companies during the course of 2021 The agreement defined distinct provisions in terms of occupational protection (hiring of 50% of the staff involved in the Ubi Banca/Intesa Sanpaolo deal), maintenance of some of the items in the regulatory background of the staff transferred (supplementary pension, health care, agreements on the components of fixed remuneration), part-time work, special conditions for banking services, territorial mobility.

The transitional agreement regarding the absorption of Unipol Banca was extended on 27 November 2020. Some of the conditions applied at Unipol Banca were retained in 2021 until such time that agreement was found on harmonisation of their employment conditions with those applied at BPER Banca and Banco di Sardegna.
Agreements were also signed with a view to harmonising the conditions applied at Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo which were absorbed by BPER Banca on 27 July 2020.
At Parent Company level, rules were defined to govern the variable portion of employee remuneration (not least the introductory bonus to important corporate welfare changes and the special welfare bonus) and access to FBA (Fondo Banche Assicurazioni) contributions to finance most of the Bank's training activities.

Protected categories pursuant to Law 68/1999

As regards the obligations under Law 68/1999, for the years 2020 and 2021 BPER Banca obtained a suspension of employment obligations linked to the staff reduction plan. At 31 December 2020 the Bank has 690 employees with disabilities or who are in other protected categories.

Welfare Plan

The year 2020 was considerably affected by the Covid-19 health emergency, so the welfare plan was also affected by the pandemic.
During 2020, the welfare plan was expanded with services to help the staff deal with the situation, such as the possibility of using the welfare credit, in compliance with current regulations. They were able to ask for reimbursement of the cost of buying a computer for their children who had to attend school from

school. And thanks to Unisalute, health coverage was extended, providing daily allowances in case of home quarantine for compulsory isolation in addition to an extra paid day-off for all employees in addition to what is foreseen in Italian law. The Welfare Plan of the BPER Group consists of:

- benefits paid for by the Company. The main benefits include the supplementary pension fund, a defined-contribution scheme to which both the bank and the employee contribute, the health and dental policy, long-term care, coverage for accidents, luncheon vouchers that went from paper to electronic in 2020, gift vouchers and staff conditions;
- benefits made available by the company, which employees can buy for themselves or their family using the Welfare Credit (part of the company bonus that employees can allocate to welfare and other welfare payments) such as the reimbursement of education and family assistance expenses, supplementary health backpacks, payments to the pension fund for themselves or for fiscally dependent members of the family, reimbursement of public transport season tickets, purchase of shopping and petrol vouchers, vouchers for recreational, sporting and cultural activities, etc.

Each employee can realise the value of the benefits that the company makes available to them through the My Total Welfare page on the corporate welfare portal.

The Sustainable Mobility Area was created as part of the Welfare Plan to combine people's well-being with attention to the environment of the cities in which they live and work. It groups together information, initiatives and special transport arrangement.

This area contains:

- an intercompany car pooling platform, so that several people can share the same car when commuting;
- an area reserved for Mobility Management, including the Home/Work Transfer Plan, presented to the Municipality of Modena, which groups together the mobility initiatives of the BPER Banca Group, the Bank for employees who live and work in the city of Modena;
- an area reserved for mobility agreements.

In 2020, as a result of the health emergency, the "Agile-Hub Working" project was superseded and, in compliance with the new regulations, emergency agile working allowed more than 5,000 employees to work on a remote basis from home, which reduced the amount that people moved around, as well as their physical presence in the office or branch.

At the same time, a daily shuttle service was activated from Modena Station to the Service Centre in Modena, while the Modena/Bologna/Ferrara connections were suspended as no longer needed to facilitate the movement of those living outside Modena, who use public transport to limit urban traffic entering and leaving the city.

Always with a view to preserving the environment that surrounds us and the health of employees and citizens, additional columns for recharging electric cars were installed inside the new covered car park, powered by solar panels, at the Service Centre in Modena.

To spread the culture of the bicycle and encourage its use in the commute from home to work, there are bicycle repair kits available from the doorkeeper of all larger offices.

BPER Infant Centre

In 2020 the Infant Centre continued its activities, namely as a nursery, which opened in 2008, and as a kindergarten, which was inaugurated in 2009. The two structures work together to maximise the well-being of their little guests.

The teaching and educational side of the project is decided in close collaboration with the families concerned; during 2020, the children were followed by the teachers both face to face and at home, using IT support.

The structure consists of spacious and bright rooms, with play areas and "soft" furnishings designed specifically for children's safety in the nursery, whereas the kindergarten has separate environments equipped for independence, exploration and research.
The Centre is surrounded by a large garden where the children can play, explore and be involved in outdoor physical activities.

1.5 Environment

2020 was a fundamental year for BPER Banca's initiatives to contain energy consumption, confirming a constant commitment to environmental sustainability. In particular, two important projects were completed that will allow BPER Banca to strengthen its commitment to respect the environment: the first saw the start of a building automation system at the most energy-intensive branches and office buildings, which will make it possible to limit waste and to manage their plant systems on a remote basis; the second, which saw the light a few days before the end of the year, is one of the largest photovoltaic parks in Emilia Romagna, built on the roof of the company car park at the Modena Service Centre. Configured in this way, the system will help the Via Aristotele hub, the most energy-intensive of the whole Group, to lower its energy consumption by almost a quarter, producing energy from renewable sources and contributing positively to the reduction of harmful emissions into the atmosphere.
For further information, please refer to the consolidated non-financial statement (“consolidated NFS”) of the BPER Banca Group, prepared pursuant to Legislative Decree no. 254/16 for the 2020 financial year, as well as to the Directors' Report on Group operations in relation to the overall ESG risk (paragraph 7.1 "Identification of risks, the uncertainties that characterise them and the approach to managing them”).

2. Results of banking activities

2.1 Introduction

This paragraph provides a summary, in thousands of Euro, of the main economic and financial results of the Parent Company as at 31 December 2020, compared with the figures at 31 December 2019[5].

The Bank closed 2020 with a profit before tax of Euro 28.5 million; income taxes have a positive effect on the result for Euro 115.3 million, leading to a profit for the year of Euro 143.9 million (Euro 386.7 million at 31 December 2019).

Operating income amounts to Euro 1,870.7 million, an increase of 7.73% compared with 31 December 2019 (Euro 1,736.5 million), mainly due to the increased size following the merger with Unipol Banca, which took place on 1 July 2019.

Operating costs, Euro 1,294.0 million, are more or less stable compared with 31 December 2019.

Net impairment losses for credit risk come to Euro 445.9 million (Euro 302.9 million at 31 December 2019).
The cost of credit at 31 December 2020, calculated only on loans to customers, is 100 bps (71 bps at 31 December 2019) and includes a precautionary estimate of the foreseeable impact on credit of the deterioration in the macroeconomic scenario as a result of the pandemic.

In terms of the balance sheet, the results at 31 December 2020 can be summarised as follows:

- net loans to customers, just for the portion measured at amortised cost, total Euro 43,586.3 million (+2.74% compared with 31 December 2019);
- direct deposits, Euro 51,471.8 million, have increased by 8.82% compared with 31 December 2019;
- indirect deposits, Euro 92,441.0 million, have increased by 3.45% compared with the previous year (Euro 89,355.3 million at 31 December 2019);
- Shareholders' equity, including the profit for the year, amounts to Euro 5,915.6 million, up by 18.69% compared with 2019, mainly for the cash increase in capital to service the acquisition of the Business Complex from the Intesa Sanpaolo Group.

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[5] In order to ensure comparability with 2020, the figures at 31 December 2019 have been restated, but only in this report on operations unless stated otherwise, with respect to those in the report on operations that accompanied the financial statements for that year. The purpose of this restatement is to simulate the effects of the mergers of Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a. on 27 July 2020, effective for accounting and tax purposes from 1 January 2020, as though the mergers had taken effect on 1 January 2019 (for further details on how the 2019 figures were restated for comparative purposes only, please refer to the section at the end of this Directors' report on operations).

2.2 Performance ratios[6]

Financial ratios	31.12.2020	31.12.2019 (*)
Structural ratios		
Net loans to customers/total assets	51.75%	59.89%
Net loans to customers/direct deposits from customers	84.68%	89.69%
Financial assets/total assets	27.13%	24.26%
Gross non-performing loans/gross loans to customers	6.62%	9.85%
Net non-performing loans/net loans to customers	3.27%	4.94%
Texas ratio[7]	42.78%	64.42%
Profitability ratios		
ROE[8]	2.77%	8.91%
ROTE[9]	3.05%	9.67%
ROA[10]	0.17%	0.55%
Cost to income ratio[11]	69.17%	74.51%
Cost of credit risk[12]	1.00%	0.71%

(*) The comparative ratios have been calculated on the figures at 31 December 2019, restated to take into account the effects of the mergers of Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a. carried out on 27 July 2020 with effect accounting and tax purposes on 1 January 2020, as if they had taken effect from 1 January 2019 (for further details on how the 2019 figures were restated, please refer to the section at the end of this Directors' report on operations).

[6] *The information provided is consistent with the ESMA document of 5 October 2015 "Guidelines - Alternative performance indicators", aimed at promoting the usefulness and transparency of Alternative Performance Indicators included in prospectuses or regulated sources of information. To construct ratios, reference was made to the balance sheet and income statement figures of the reclassified statements prepared from a management point of view as mentioned in chapter "2.3 Balance sheet aggregates" and "2.4 Income statements aggregates" of this report.*

[7] *The texas ratio is calculated as total gross non-performing loans on net tangible equity increased by impairment provisions for non-performing loans.*

[8] *ROE has been calculated as net profit for the year on average shareholders' equity not including net profit.*

[9] *ROTE has been calculated as net profit for the year on average shareholders' equity not including net profit and intangible assets.*

[10] *ROA has been calculated as net profit for the year on total assets.*

[11] *The Cost to income ratio has been calculated on the basis of the layout of the reclassified income statement (operating costs/operating income); when calculated on the basis of the layout provided by the 6th update of Bank of Italy Circular no. 262, the Cost to income ratio is at 73.42% (76.42% at 31 December 2019 as per the Financial statements as at 31 December 2019).*

[12] *The Cost of credit risk has been calculated as net impairment losses to loans to customers on net loans to customers.*

(cont.)

Financial ratios	31.12.2020	31.12.2019 (*)
Own Funds (Phased in)[13] *(in thousands of Euro)*		
Common Equity Tier 1 (CET1)	5,669,110	4,549,409
Own Funds	6,788,120	5,495,458
Risk-weighted assets (RWA)	26,988,877	27,346,785
Capital and liquidity ratios		
Common Equity Tier 1 Ratio (CET1 Ratio) - Phased in	21.01%	16.64%
Tier 1 Ratio (T1 Ratio) - Phased in	21.56%	17.18%
Total Capital Ratio (TC Ratio) - Phased in	25.15%	20.10%
Common Equity Tier 1 Ratio (CET1 Ratio) - Fully Phased	19.03%	14.51%
Leverage Ratio - Phased in[14]	8.0%	7.2%
Leverage Ratio - Fully Phased[15]	7.2%	6.3%

(*) The comparative ratios have been calculated on the figures at 31 December 2019 as per the Financial Statements as at 31 December 2019; they are not restated to take into account the effects of the mergers of Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a.

[13] Items have been calculated according to the provisions of Regulation (EU) 2395/2017, which amends the Regulation (EU) 575/2013 (CRR) relating to "Transitional provisions to mitigate the impact of IFRS 9 on Own Funds". Regulation introduced the transitional arrangement (or so-called "Phased In") giving banks a chance to spread the effect on Own Funds over a period of 5 years (from March 2018 to December 2022), sterilizing the impact on CET1 by applying decreasing percentages over time. The BPER Banca Group chose to adopt the so-called "static approach" to be applied to the impact from comparing the IAS 39 adjustments at 31 December 2017 and the IFRS 9 adjustments at 1 January 2018.

[14] The ratio has been calculated according to the provisions of Regulation (EU) 575/2013 (CRR), as amended by the Commission Delegated Regulation (EU) 62/2015.

[15] See previous note.

2.3 Balance sheet aggregates

The most important consolidated balance sheet aggregates and captions at 31 December 2020 are shown below with comparative figures at 31 December 2019, in thousands of Euro, with the changes between periods in absolute and percentage terms.
To ensure comparability with 2020 (only in this Report on operations), the figures at 31 December 2019 have been restated with respect to those in the Report on operations that accompanied the previous year's financial statements to simulate the mergers of Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a. which took place on 27 July 2020 with effect for accounting and tax purposes from 1 January 2020, as if they had taken effect from 1 January 2019 (for further details on how the 2019 figures were restated for comparative purposes only, please refer to the disclosure at the end of this Directors' report on operations).

For additional clarity in presenting the results for the year, the formats envisaged in the 6th update to Bank of Italy Circular 262/2005 are presented below on a reclassified basis[16], in particular:

- debt securities measured at amortised cost (caption 40 *"Financial assets measured at amortised cost"*) have been reclassified to "*Financial assets*";
- *"Other assets"* include captions 100 "Tax assets", 110 *"Non-current assets and disposal groups classified as held for sale"* and 120 "Other assets";
- *"Other liabilities"* include captions 60 *"Tax liabilities"*, 80 *"Other liabilities"*, 90 *"Employee termination indemnities"* and 100 *"Provisions for risks and charges"*.

[16] *For further details on the methods of presentation of the reclassified statements, please refer to the attachment entitled "Reconciliation between the Financial statements and the Reclassified Financial statements as at 31 December 2020".*

Assets

(in thousands)

Assets	31.12.2020	31.12.2019	Change	% Change
Cash and cash equivalents	365,864	444,601	(78,737)	-17.71
Financial assets	22,855,992	17,185,617	5,670,375	32.99
a) Financial assets held for trading	310,818	303,794	7,024	2.31
b) Financial assets designated at fair value	123,370	126,947	(3,577)	-2.82
c) Other financial assets mandatorily measured at fair value	523,261	479,894	43,367	9.04
d) Financial assets measured at fair value through other comprehensive income	6,051,222	6,378,748	(327,526)	-5.13
e) Debt securities measured at amortised cost	15,847,321	9,896,234	5,951,087	60.13
- banks	4,511,133	2,759,570	1,751,563	63.47
- customers	11,336,188	7,136,664	4,199,524	58.84
Loans	55,519,675	47,596,699	7,922,976	16.65
a) Loans to banks	11,907,036	5,148,470	6,758,566	131.27
b) Loans to customers	43,586,332	42,422,442	1,163,890	2.74
c) Financial assets measured at fair value	26,307	25,787	520	2.02
Hedging derivatives	57,695	81,869	(24,174)	-29.53
Equity investments	2,008,146	1,998,278	9,868	0.49
Property, plant and equipment	806,384	833,602	(27,218)	-3.27
Intangible assets	480,782	446,590	34,192	7.66
- of which: goodwill	*230,366*	*230,366*	-	-
Other assets	2,136,634	2,251,241	(114,607)	-5.09
Total assets	**84,231,172**	**70,838,497**	**13,392,675**	**18.91**

Loans to customers

Net loans to customers only include the loan component allocated to caption 40 b) *"Financial assets measured at amortised cost - loans to customers"* in the assets section of the balance sheet.

(in thousands)

Captions	31.12.2020	31.12.2019	Change	% Change
Current accounts	4,697,324	6,018,116	(1,320,792)	-21.95
Mortgage loans	30,544,535	28,034,515	2,510,020	8.95
Leases and factoring	14,782	17,215	(2,433)	-14.13
Other transactions	8,329,691	8,352,596	(22,905)	-0.27
Net loans to customers	**43,586,332**	**42,422,442**	**1,163,890**	**2.74**

Loans to customers, net of impairment provisions, total Euro 43,586.3 million (Euro 42,422.4 million at 31 December 2019) up by Euro 1,163.9 million.
Among the various technical forms, the increase particularly affects mortgage loans for Euro 2,510.0 million, while current accounts have decreased by Euro 1,320.8 million. The increase in mortgage loans is also attributable to the disbursements made to support the economy during the health crisis, including those guaranteed by the State, mainly to the retail and small business segment.

(in thousands)

Captions	31.12.2020	31.12.2019	Change	% Change
Gross non-performing exposures	**2,998,231**	**4,421,953**	**(1,423,722)**	**-32.20**
Bad loans	1,326,248	2,463,892	(1,137,644)	-46.17
Unlikely to pay loans	1,618,665	1,846,503	(227,838)	-12.34
Past due loans	53,318	111,558	(58,240)	-52.21
Gross performing exposures	**42,283,744**	**40,449,449**	**1,834,295**	**4.53**
Total gross exposure	**45,281,975**	**44,871,402**	**410,573**	**0.91**
Impairment provisions for non-performing exposures	**1,574,119**	**2,326,739**	**(752,620)**	**-32.35**
Bad loans	902,478	1,687,033	(784,555)	-46.51
Unlikely to pay loans	659,827	625,024	34,803	5.57
Past due loans	11,814	14,682	(2,868)	-19.53
Impairment provisions for performing exposures	**121,524**	**122,221**	**(697)**	**-0.57**
Total impairment provisions	**1,695,643**	**2,448,960**	**(753,317)**	**-30.76**
Net non-performing exposures	**1,424,112**	**2,095,214**	**(671,102)**	**-32.03**
Bad loans	423,770	776,859	(353,089)	-45.45
Unlikely to pay loans	958,838	1,221,479	(262,641)	-21.50
Past due loans	41,504	96,876	(55,372)	-57.16
Net performing exposures	**42,162,220**	**40,327,228**	**1,834,992**	**4.55**
Total net exposure	**43,586,332**	**42,422,442**	**1,163,890**	**2.74**

In detail, the impairment provisions for non-performing loans amount to Euro 1,574.1 million (Euro 2,326.7 million at 31 December 2019; -32.35%), for a coverage ratio of 52.50% (52.62% at 31 December 2019), while the provisions made for performing loans amount to Euro 121.5 million (Euro 122.2 million at 31 December 2019; down by 0.57%), leading to a coverage ratio of 0.29% (0.30% at 31 December 2019).
Considering the direct write-offs of bad loans still outstanding, Euro 171.9 million (Euro 288.3 million at 31 December 2019), the coverage ratio of non-performing loans increases to 55.08% (55.52% at 31 December 2019).

The total coverage ratio is therefore 3.74%, versus 5.46% at 31 December 2019. Based on the same considerations made above concerning direct write-offs, the total effective coverage of loans comes to 4.11% (6.06% at 31 December 2019).

Net non-performing loans total Euro 1,424.1 million, being 3.27% of total net loans to customers (4.94% at 31 December 2019), while gross non-performing loans represent 6.62% of gross loans to customers (9.85% at 31 December 2019).
More specifically, net bad loans amount to Euro 423.8 million (-45.45% compared with 31 December 2019), net unlikely to pay loans amount to Euro 958.8 million (-21.50% compared with 31 December 2019) and net past due loans amount to Euro 41.5 million (-57.16% compared with 31 December 2019).
The coverage of non-performing loans, 52.50%, is substantially in line with 52.62% at the end of 2019.
The reduction in gross and net non-performing loans as a proportion of total loans is largely due to the “Spring” and “Summer” securitisations of bad loans in the second half of the year for a gross book value at the date of sale of Euro 1.1 billion.

Net bad loans amount to Euro 423.8 million (-45.45% compared with 31 December 2019), representing 0.97% of total net loans to customers (1.83% at 31 December 2019), whereas, on a gross basis, the ratio of bad loans to total loans to customers comes to 2.93% (5.49% at 31 December 2019). The coverage of bad loans is 68.05% (68.47% at 31 December 2019).

Net unlikely to pay loans total Euro 958.8 million (-21.50% compared with 31 December 2019), representing 2.20% of total net loans to customers (2.88% at 31 December 2019), while on a gross basis the ratio is 3.57% (4.12% at 31 December 2019). The coverage of unlikely to pay loans is 40.76%, compared with 33.85% at 31 December 2019.

The net amount of past due loans of Euro 41.5 million (-57.16% compared with 31 December 2019) represents 0.10% of total net loans to customers (0.23% at 31 December 2019), whereas, on a gross basis, the ratio of past due loans to total loans to customers is 0.12% (0.25% at 31 December 2019). The coverage of past due loans is 22.16% (13.16% at 31 December 2019).

The provisions for performing loans, Euro 121.5 million, represent 0.29% of the gross amount of performing loans (0.30% at the end of the previous year).

The table below shows the amount of loan disbursements to resident non-financial companies at the year-end, broken down by the debtors' industry sector according to the Bank of Italy's ATECO classification. The sectors that received the most funding were manufacturing (14.15%), followed by the wholesaling and retailing of cars and motorcycles (7.53%), real estate (4.61%) and construction (3.81%).

(in thousands)

Distribution of loans to residential non-financial corporates	31.12.2020	%
A. Agriculture, forestry and fishing	658,043	1.51
B. Mining and quarrying	27,278	0.06
C. Manufacturing	6,160,788	14.15
D. Provision of electricity, gas, steam and air-conditioning	683,175	1.57
E. Provision of water, sewerage, waste management and rehabilitation	305,879	0.70
F. Construction	1,662,696	3.81
G. Wholesaling and retailing, car and motorcycle repairs	3,282,165	7.53
H. Transport and storage	1,219,695	2.80
I. Hotel and restaurants	971,164	2.23
J. Information and communication	243,909	0.56
L. Real estate	2,010,722	4.61
M. Professional, scientific and technical activities	685,565	1.57
N. Rentals, travel agencies, business support services	916,718	2.10
O. Public administration and defence, compulsory social security	1,684	-
P. Education	25,354	0.06
Q. Health and welfare	313,388	0.72
R. Arts, sport and entertainment	114,392	0.26
S. Other services	120,271	0.28
Total loans to residential non-financial corporates	**19,402,886**	**44.52**
Individuals and other not included above	15,869,366	36.41
Financial corporates	6,243,134	14.32
Governments and other public entities	2,030,710	4.66
Insurance companies	40,236	0.09
Total loans	**43,586,332**	**100.00**

Financial assets and equity investments

Among financial assets, debt securities measured at amortised cost are represented solely by the bond component allocated to balance sheet captions 40 a) and b) “Financial assets measured at amortised cost – loans to banks and loans to customers”.

(in thousands)

Captions	31.12.2020	31.12.2019	Change	% Change
Financial assets measured at fair value through profit or loss	957,449	910,635	46,814	5.14
- of which derivatives	*153,911*	*154,440*	*(529)*	*-0.34*
Financial assets measured at fair value through other comprehensive income	6,051,222	6,378,748	(327,526)	-5.13
Debt securities measured at amortised cost	15,847,321	9,896,234	5,951,087	60.13
a) banks	4,511,133	2,759,570	1,751,563	63.47
b) customers	11,336,188	7,136,664	4,199,524	58.84
Total financial assets	**22,855,992**	**17,185,617**	**5,670,375**	**32.99**

Financial assets totalled Euro 22,856.0 million (+32.99% compared with 31 December 2019), of which Euro 22,051.3 million (96.48% of the total) are represented by debt securities: of these, Euro 10,416.7 million refer to the Public Administration, and Euro 8,131.1 million refer to Banks.
Equities come to Euro 374.8 million (1.64% of the total), inclusive of Euro 230.8 million of stable equity investments classified in the FVOCI portfolio.
"Financial assets held for trading" include derivatives of Euro 153.9 million, almost stable compared with 31 December 2019, consisting of interest rate and currency derivatives intermediated with customers, derivatives relating to securitisation transactions, as well as forward currency transactions (intermediated with customers and/or used in the management of the foreign exchange position).

(in thousands)

Captions	31.12.2020	31.12.2019	Change	% Change
Equity investments	2,008,146	1,998,278	9,868	0.49

"Equity investments", which comprise holdings in banks, subsidiaries and companies over which the Bank has significant influence, amount to Euro 2,008.1 million, up by Euro 9.9 million on 31 December 2019.
The increases mainly refer to:

- the purchase of no. 60,000 ordinary shares of SIFA'- Società Italiana Flotte Aziendali s.p.a. for Euro 8.2 million. BPER Banca now holds 100% of the company;
- the purchase of no. 169,389 ordinary shares of Emilia Romagna Factor s.p.a. for Euro 4.1 million;
- the purchase of no. 231,327 preference shares of Banco di Sardegna received after exercising the option and pre-emption rights over the shares involved in the conversion of the savings shares and for purchases from third-party shareholders, for a total of Euro 2.0 million.

The decreases mainly refer to:

- Cassa di Risparmio di Fossano s.p.a., on which an impairment loss of Euro 3.5 million was charged;
- reduction in the value of the equity investment in Immobiliare Oasi nel Parco following the distribution of capital reserves for Euro 1.1 million.

Fixed assets

(in thousands)

Captions	31.12.2020	31.12.2019	Change	% Change
Property, plant and equipment	806,384	833,602	(27,218)	-3.27
of which owned land and buildings	*398,355*	*412,927*	*(14,572)*	*-3.53*
of which rights of use acquired with leasing	*278,924*	*330,043*	*(51,119)*	*-15.49*

(in thousands)

Captions	31.12.2020	31.12.2019	Change	% Change
Intangible assets	480,782	446,590	34,192	7.66
of which goodwill	*230,366*	*230,366*	-	-

Intangible assets include amounts of goodwill for a total of Euro 230.4 million, unchanged compared with the end of the previous year.
The BPER Banca CGU includes goodwill arising from bank acquisitions and subsequent mergers by absorption, as well as goodwill relating to purchases of bank branches from the Unicredit Group.
The impairment tests carried out in accordance with IAS 36 did not reveal any need to write down goodwill. For more details, please refer to Part B of the Explanatory Notes.

Interbank and liquidity position

(in thousands)

Net interbank position	31.12.2020	31.12.2019	Change	% Change
A. Loans to banks	**11,907,036**	**5,148,470**	**6,758,566**	**131.27**
1. Current accounts and deposits	1,076,614	1,367,724	(291,110)	-21.28
2. Reverse repurchase agreements	1,413,573	1,937,367	(523,794)	-27.04
3. Other	9,416,849	1,843,379	7,573,470	410.85
B. Due to banks	**24,095,097**	**15,737,498**	**8,357,599**	**53.11**
Total (A-B)	**(12,188,061)**	**(10,589,028)**	**(1,599,033)**	**15.10**

Due to banks, Euro 12,188.1 million greater than the loans allocated to caption 40 a) “Loans to banks”, includes the accounts with Group banks linked to the centralised management of their liquidity; funds are managed in a careful and dynamic manner, paying particular attention to the overall liquidity ratio, which is managed at Group level.
To these relationships are added the important refinancing operations carried out with the European Central Bank, complete details of which are provided in the following table. Since 31 December 2019, the bank has benefited from the additional financial instruments made available by the ECB by repaying in advance the TLTRO-II loans expiring subsequent to 30 June 2020 and arranging two new tranches of TLTRO-III and currency loans.

(in million)

Refinancing transactions with the European Central Bank	Capital	Maturity
1. Targeted Long Term Refinancing Operation (TLTRO-III)	14,000	28.06.2023
2. Targeted Long Term Refinancing Operation (TLTRO-III)	2,710	27.09.2023
3. Currency loan through auction	100	21.01.2021
4. Currency loan through auction	100	04.02.2021
5. Currency loan through auction	100	11.02.2021
Total	**17,010**	

The Bank has therefore subscribed for Euro 16,710 million of TLTRO III loans (Euro 9,665 million of TLTRO II loans at 31 December 2019; +76%), which is 100% of its participation limit.

Liabilities

(in thousands)

Liabilities and shareholders' equity	31.12.2020	31.12.2019	Change	% Change
Due to banks	24,095,097	15,737,498	8,357,599	53.11
Direct deposits	51,471,778	47,301,234	4,170,544	8.82
a) due to customers	46,793,064	41,593,232	5,199,832	12.50
b) debt securities issued	4,678,714	5,708,002	(1,029,288)	-18.03
Financial liabilities held for trading	182,981	176,485	6,496	3.68
Hedging derivatives	456,447	283,792	172,655	60.84
Other liabilities	2,109,301	2,355,451	(246,150)	-10.45
Shareholders' equity	5,915,568	4,984,037	931,531	18.69
a) Valuation reserves	(54,799)	(138,366)	83,567	-60.40
b) Reserves	2,342,135	2,024,685	317,450	15.68
c) Equity instruments	150,000	150,000	-	-
d) Share premium reserve	1,241,197	1,002,722	238,475	23.78
e) Share capital	2,100,435	1,565,597	534,838	34.16
f) Treasury shares	(7,253)	(7,253)	-	-
g) Profit (Loss) for the year	143,853	386,652	(242,799)	-62.80
Total liabilities and shareholders' equity	**84,231,172**	**70,838,497**	**13,392,675**	**18.91**

Deposits

(in thousands)

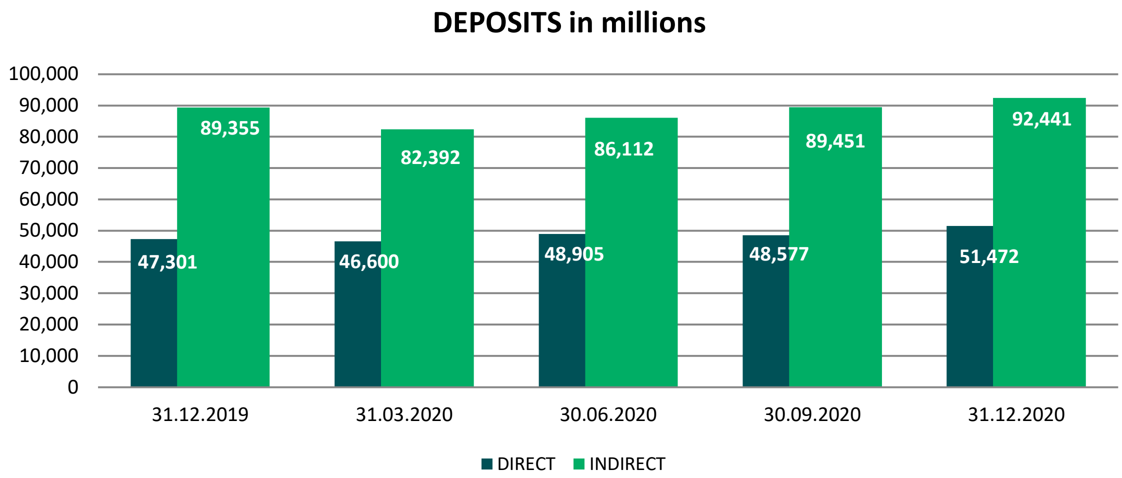
Captions	31.12.2020	31.12.2019	Change	% Change
Current accounts and demand deposits	43,860,126	37,600,002	6,260,124	16.65
Time deposits	118,496	917,264	(798,768)	-87.08
Repurchase agreements	149,286	88,537	60,749	68.61
Lease liabilities	270,044	322,191	(52,147)	-16.19
Other short-term loans	2,395,112	2,665,238	(270,126)	-10.14
Bonds	4,430,511	5,026,285	(595,774)	-11.85
- subscribed by institutional customers	3,565,484	3,278,364	287,120	8.76
- subscribed by ordinary customers	865,027	1,747,921	(882,894)	-50.51
Certificates	2,175	36,541	(34,366)	-94.05
Certificates of deposit	246,028	645,176	(399,148)	-61.87
Direct deposits from customers	**51,471,778**	**47,301,234**	**4,170,544**	**8.82**
Indirect deposits (off-balance sheet figure)	**92,440,968**	**89,355,334**	**3,085,634**	**3.45**
- of which managed	22,090,289	21,409,180	681,109	3.18
- of which administered	70,350,679	67,946,154	2,404,525	3.54
Customer funds under administration	**143,912,746**	**136,656,568**	**7,256,178**	**5.31**
Bank borrowing	24,095,097	15,737,498	8,357,599	53.11
Funds under administration or management	**168,007,843**	**152,394,066**	**15,613,777**	**10.25**

Direct deposits from customers, Euro 51,471.8 million, are up on the previous year (+8.82%). Among the various technical forms, compared to 31 December 2019, time deposits have decreased by Euro 798.8 million (-87.08%), certificates of deposit by Euro 399.1 million (-61.87%) and bonds by Euro 595.8 million (-11.85%), particularly the issues subscribed by ordinary customers.

On the other hand, current accounts and demand deposits are showing a significant increase of Euro 6,260.1 million (+16.65%), mainly attributable to the deposits of retail and corporate customers, and

repurchase agreements for Euro 60.7 million (68.61%). The trends within this aggregate show that customers have a preference for more liquid forms of deposit.
Indirect deposits from customers, marked to market, come to Euro 92,441.0 million, up by 3.45% on 31 December 2019 (Euro 89,355.3 million). A recovery by the markets and net inflows to assets under management during the year made it possible to completely reabsorb the decline at the end of the first quarter of 2020 caused by market tensions regarding Covid-19.
Total funds under administration or management by the Parent Company, including deposits from banks (Euro 24,095.1 million) amount to Euro 168,007.8 million.

The graph shows the dynamics of direct and indirect deposits in the last five quarters:



Direct deposits include subordinated liabilities:

(in thousands)

Captions	31.12.2020	31.12.2019	Change	% Change
Non-convertible subordinated liabilities	926,443	761,177	165,266	21.71
Total subordinated liabilities	**926,443**	**761,177**	**165,266**	**21.71**

The subordinated loans outstanding, with a book value of Euro 926.4 million, have increased by 21.71% compared with 31 December 2019. Subordinated loans IT0004893852 and IT0004642465, which at 31 December 2019 had a carrying amount of Euro 6.8 million, expired during 2020, while subordinated loan IT0005108060, which at 31 December 2019 had a carrying amount of Euro 225.3 million was repaid in advance; on the other hand, in November 2020 a new subordinated loan (XS2264034260) was issued to institutional customers for a nominal amount of Euro 400 million and subordinated loan IT0004699044 of Euro 1.4 million was acquired on the absorption of Cassa di Risparmio di Bra by BPER Banca.
There are non-convertible subordinated liabilities at 31 December 2020 (same as at 31 December 2019).

Indirect deposits do not include the placement of insurance policies; the stock of customer assets invested in insurance products has increased by 7.18% since 31 December 2019. If life insurance premiums are added to the managed portion of indirect deposits, the total comes to Euro 28,434.1 million, which represents 28.78% of the overall total of indirect deposits and life insurance premiums (Euro 98,784.8 million).

(in thousands)

Bancassurance	31.12.2020	31.12.2019	Change	% Change
Insurance premiums portfolio	**6,439,823**	**6,008,285**	**431,538**	**7.18**
- of which life sector	*6,343,814*	*5,919,004*	*424,810*	*7.18*
- of which non-life sector	*96,009*	*89,281*	*6,728*	*7.54*

2.4 Income statement aggregates

The following are the key figures (in thousands of Euro) from the income statement for the period ended 31 December 2020, with comparative figures for the period ended 31 December 2019, together with an indication of the changes between periods in absolute and percentage terms.
To ensure comparability with 2020 (only in this Report on operations), the figures at 31 December 2019 have been restated with respect to those in the Report on operations that accompanied the previous year's financial statements to simulate the mergers of Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a. on 27 July 2020 with effect for accounting and tax purposes from 1 January 2020, as if they had taken effect from 1 January 2019 (for further details on how the 2019 figures were restated for comparative purposes only, please refer to the section at the end of this Directors' report on operations).
Lastly, it should be noted that the figures at 31 December 2019 include the contribution by Unipol Banca s.p.a. only for the second half of the year, as the company was acquired by BPER Banca on 31 July 2019 and subsequently absorbed with effect for accounting and tax purposes on 1 July 2019.

The results presented here have been reclassified with respect to the formats envisaged in the 6th update to Bank of Italy Circular 262/2005[17]. The principal reclassifications relate to the following captions:

- *"Net income from financial activities"* includes items 80, 90, 100 and 110 in the standard reporting format;
- indirect tax recoveries, allocated for accounting purposes to caption 200 "*Other operating expense/income*", have been reclassified as a reduction in the related costs under "*Other administrative expenses*" (Euro 111,003 thousand at 31 December 2020 and Euro 109,247 thousand at 31 December 2019);
- "*Net provisions for risks and charges*" include Euro 11,452 thousand relating to the valuation of the profit-sharing clause in the contract for the acquisition of Nuova Carife, allocated to caption 200 "*Other operating expense/income*" in the standard reporting format;
- *"Net adjustments to property, plant and equipment and intangible assets"* include captions 180 and 190 in the standard reporting format;
- "*Gains (Losses) on equity investments, disposal of investments and impairment losses on goodwill*" include captions 220, 240 and 250 in the standard reporting format;
- "*Contributions to the SRF, DGS and IDPF-VS funds*" has been shown separately from the specific accounting technical forms to give a better and clearer representation, as well as to leave the "*Other administrative expenses*" as a better reflection of the trend in the Group's operating costs. In particular, at 31 December 2020, this caption represents the component allocated for accounting purposes to administrative expenses in relation to:
  - the 2020 contribution to the SRF (European Single Resolution Fund) of Euro 23,241 thousand;
  - additional contribution requested by the SRF (European Single Resolution Fund) for 2018 from Italian banks for Euro 7,342 thousand;
  - 2020 contribution to the DGS (Deposit Guarantee Scheme) for Euro 33,788 thousand;
  - contribution to the SRF for the settlement of irrevocable commitments previously guaranteed by cash collateral equal to Euro 10,939 thousand.

[17] *For further details on the methods of presentation of the reclassified statements, please refer to the attachment entitled "Reconciliation between the Financial statements and the Reclassified Financial statements as at 31 December 2020".*

Reclassified income statement as at 31 December 2020

(in thousands)

Captions		31.12.2020	31.12.2019	Change	Change %
10+20	Net interest income	901,513	819,466	82,047	10.01
40+50	Net commission income	754,299	711,423	42,876	6.03
70	Dividends	24,645	34,415	(9,770)	-28.39
80+90+100+110	Net income from financial activities	113,264	88,030	25,234	28.67
200	Other operating expense/income	76,962	83,169	(6,207)	-7.46
	Operating income	**1,870,683**	**1,736,503**	**134,180**	**7.73**
160 a)	Staff costs	(751,764)	(789,917)	38,153	-4.83
160 b)	Other administrative expenses	(388,699)	(361,030)	(27,669)	7.66
180+190	Net adjustments to property, plant and equipment and intangible assets	(153,562)	(142,962)	(10,600)	7.41
	Operating costs	**(1,294,025)**	**(1,293,909)**	**(116)**	**0.01**
	Net operating income	**576,658**	**442,594**	**134,064**	**30.29**
130 a)	Net impairment losses to financial assets at amortised cost	(443,433)	(301,755)	(141,678)	46.95
	- loans to customers	(436,240)	(299,325)	(136,915)	45.74
	- other financial assets	(7,193)	(2,430)	(4,763)	196.01
130 b)	Net impairment losses to financial assets at fair value	(348)	979	(1,327)	-135.55
140	Gains (Losses) from contractual modifications without derecognition	(2,076)	(2,145)	69	-3.22
	Net impairment losses for credit risk	**(445,857)**	**(302,921)**	**(142,936)**	**47.19**
170	Net provisions for risks and charges	(24,513)	(8,307)	(16,206)	195.09
###	Contributions to SRF, DGS, IDPF - VS	(75,310)	(50,660)	(24,650)	48.66
220+240+250	Gains (Losses) on equity investments, on disposal of investments and impairment losses on goodwill	(2,452)	(19,668)	17,216	-87.53
245	Gain on a bargain purchase	-	329,433	(329,433)	-100.00
260	**Profit (Loss) from current operations before tax**	**28,526**	**390,471**	**(361,945)**	**-92.69**
270	Income taxes on current operations for the year	115,327	(3,819)	119,146	--
300	**Profit (Loss) for the year**	**143,853**	**386,652**	**(242,799)**	**-62.80**

Reclassified income statement by quarter as at 31 December 2020

(in thousands)

Captions	1st quarter 2020	2nd quarter 2020	3rd quarter 2020	4th quarter 2020	1st quarter 2019	2nd quarter 2019	3rd quarter 2019	4th quarter 2019
Net interest income	216,852	220,798	235,829	228,034	195,049	191,257	225,139	208,021
Net commission income	192,505	175,903	188,196	197,695	153,516	154,250	200,482	203,175
Dividends	789	18,233	4,526	1,097	519	29,679	3,790	427
Net income from financial activities	(7,985)	39,225	39,587	42,437	19,594	7,051	34,308	27,077
Other operating expense/income	24,658	20,175	15,876	16,253	17,481	19,292	22,829	23,567
Operating income	**426,819**	**474,334**	**484,014**	**485,516**	**386,159**	**401,529**	**486,548**	**462,267**
Staff costs	(200,574)	(196,054)	(168,190)	(186,946)	(166,147)	(165,198)	(182,157)	(276,415)
Other administrative expenses	(86,116)	(91,036)	(93,161)	(118,386)	(73,802)	(79,975)	(92,302)	(114,951)
Net adjustments to property, plant and equipment and intangible assets	(35,559)	(38,386)	(36,418)	(43,199)	(29,620)	(29,751)	(35,210)	(48,381)
Operating costs	**(322,249)**	**(325,476)**	**(297,769)**	**(348,531)**	**(269,569)**	**(274,924)**	**(309,669)**	**(439,747)**
Net operating income	**104,570**	**148,858**	**186,245**	**136,985**	**116,590**	**126,605**	**176,879**	**22,520**
Net impairment losses to financial assets at amortised cost	(123,122)	(124,413)	(96,063)	(99,835)	(49,302)	(55,111)	(122,795)	(74,547)
- loans to customers	*(123,464)*	*(120,585)*	*(94,702)*	*(97,489)*	*(48,134)*	*(55,152)*	*(121,373)*	*(74,666)*
- other financial assets	*342*	*(3,828)*	*(1,361)*	*(2,346)*	*(1,168)*	*41*	*(1,422)*	*119*
Net impairment losses to financial assets at fair value	116	(972)	366	142	383	(390)	452	534
Gains (Losses) from contractual modifications without derecognition	(376)	(369)	63	(1,394)	(735)	(75)	(477)	(858)
Net impairment losses for credit risk	**(123,382)**	**(125,754)**	**(95,634)**	**(101,087)**	**(49,654)**	**(55,576)**	**(122,820)**	**(74,871)**
Net provisions for risks and charges	(991)	(15,133)	(6,076)	(2,313)	(5,054)	(3,082)	3,958	(4,129)
Contributions to SRF, DGS, IDPF - VS	(28,990)	(1,593)	(24,243)	(20,484)	(20,094)	(8,577)	(19,948)	(2,041)
Gains (Losses) on equity investments, on disposal of investments and impairment losses on goodwill	524	(3,427)	101	350	43	(1,276)	(118)	(18,317)
Gain on a bargain purchase	-	-	-	-	-	-	345,590	(16,157)
Profit (Loss) from current operations before tax	**(48,269)**	**2,951**	**60,393**	**13,451**	**41,831**	**58,094**	**383,541**	**(92,995)**
Income taxes on current operations for the year	14,283	83,511	5,434	12,099	(7,985)	3,098	2,515	(1,447)
Profit (Loss) for the year	**(33,986)**	**86,462**	**65,827**	**25,550**	**33,846**	**61,192**	**386,056**	**(94,442)**

In order to ensure the comparability of the individual quarters, the figures have been restated to reflect the mergers of Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a., carried out on 27 July 2020 with accounting and tax effect from 1 January 2020, as if they had taken effect for accounting purposes from 1 January 2019.

Net interest income

Net interest income comes to Euro 901.5 million, an increase of 10.1% (Euro 819.5 million at 31 December 2019), mainly due to the increased size of the Bank following the absorption of Unipol Banca, which took place with effect from 1 July 2019.
The result also includes the interest (at negative rates) from participating in the TLTRO II refinancing operations (repaid on 24 June 2020) for Euro 18.9 million and TLTRO III for Euro 80.8 million.
In addition to recalling the dynamics of loans and interest-bearing deposits, already highlighted in paragraph 2.3 *"Balance sheet aggregates"* (which feature a growth in volumes), an indication of the trend in average lending/funding rates is given below for a better understanding of the trend in net interest income:

- the average interest rate for the period, based on the Bank's lending rates to customers, was 1.95% (both performing and non-performing elements), a decrease of around 0.12% compared with the average rate in the previous year;
- the average cost of direct funding from customers was 0.31%, which is down by about 11 bps on 2019 (0.42%);
- total interest-bearing liabilities involved a cost of 0.10%, a decrease of 22 bps compared with 0.32% the previous year;
- The spread between lending and borrowing rates of the Bank's relationships with customers came to 1.64% (1.65% at 31 December 2019);
- the overall spread between the average annual rate of return on interest-bearing assets and the average annual cost of interest-bearing liabilities amounts to 1.27% (1.29% at 31 December 2019).

Net commission income

Net commission income, Euro 754.3 million, has increased compared with 31 December 2019 (Euro 711.4 million, +6.03%). This positive performance was supported mainly by the following segments: indirect deposits and "Bancassurance" (+7.97%), cards, collections and payments (+5.67%) and customer loans (+10.26%), also influenced by the increase in size in the second half of 2019, as well as the internal growth that characterised 2020.

Net income from financial activities

Net income from financial activities (including dividends of Euro 24.6 million) was positive for Euro 137.9 million, an increase compared with the previous year (Euro 112.4 million) mainly due to higher gains on sale of securities on the market.
This net result was determined in particular by:

- gains on the disposal of financial assets for Euro 94.8 million;
- losses on the disposal of loans for Euro 18.3 million;
- net unrealised gains on financial assets for Euro 32.9 million, of which Euro 20.6 million relates to a single equity instrument held in portfolio;
- other positive elements for Euro 3.9 million.

Operating income

Taking account of Other operating expense/income of Euro 77.0 million (Euro 83.2 million at 31 December 2019), Operating income came to Euro 1,870.7 million (+7.73% on the previous year).

Operating costs

Operating costs amount to Euro 1,294.0 million, more or less the same as at 31 December 2019. The main components of operating costs are as follows.

Staff costs amount to Euro 751.8 million, down by 4.83% compared with 31 December 2019. The previous year's result was influenced by the provision for leaving incentives and the Solidarity Fund for a total of Euro 70.1 million, recorded as a result of the agreement signed with the Trade Unions on 29 October 2019.

Other administrative expenses, shown net of recoveries of indirect taxes (Euro 111.0 million) and the contributions paid to the system funds (Euro 75.3 million), amount to Euro 388.7 million, up by 7.66% compared with the previous year.

Performance was influenced by the Covid-19 healthcare emergency: non-recurring expenses were incurred for the purchase of hygiene-sanitary materials, licences and technical support for remote working, advertising and publicity, gifts and donations, and building maintenance; by contrast, some savings were made with respect to budget, due to the suspension or reduction of activities as a result of the ongoing emergency (travel, training courses, cash collections).

The result was also influenced by non-recurring expenses incurred for the implementation of extraordinary transactions that affected BPER Banca during the year, such as the acquisition of the Business Complex from the Intesa San Paolo Group.

Net adjustments to property, plant and equipment and intangible assets amount to Euro 153.6 million (Euro 143.0 million in 2019) and were affected by impairment on properties owned for Euro 6.3 million. The caption includes adjustments to rights of use acquired through leases for a total of Euro 60.6 million, of which Euro 1.9 million for impairment losses on contracts terminated early, while the difference is depreciation.

Net operating income therefore comes to Euro 576.7 million (Euro 442.6 million at 31 December 2019).

Net impairment losses for credit risk

Net impairment losses for credit risk amount to Euro 445.9 million (Euro 302.9 million at 31 December 2019), including a precautionary estimate of the foreseeable effects on credit of the macroeconomic scenario following the pandemic.

More specifically, the net impairment losses on financial assets measured at amortised cost came to Euro 443.4 million (Euro 301.8 million at 31 December 2019), while net impairment losses on debt securities measured at fair value through other comprehensive came to Euro 0.3 million.

The overall cost of credit at 31 December 2020, calculated only on loans to customers, amounts to 100 bps (71 bps at 31 December 2019), including the interventions made because of the uncertainty caused by the pandemic, such as: i) a top-down "corrective", substantially aimed at the inclusion, in the ECL model adopted by the Group, of specific monitoring of the probable deterioration in credit quality expected at the end of the government measures to support the economy, ii) some refinements (partly "expert") of the Stage 2 classification model of positions that have shown a significant increase in credit risk (SICR), iii) updated recovery times for non-performing exposures[18].

[18] *For more details about the interventions carried out on the valuation criteria for Loans to customers, please refer to the Explanatory Notes, Part A.1, Section 4, para."Accounting estimates - Overlay approach applied in the assessment of credit risk".*

Net provisions for risks and charges

Net provisions for risks and charges come to Euro 24.5 million (Euro 8.3 million at 31 December 2019). Similarly to what was said about "Net impairment losses for credit risk", this caption includes the increase in ECL on endorsement credits and commitments to disburse funds, accounted to reflect the deterioration in the macroeconomic context caused by the Covid-19 health emergency; it includes provisions for indemnities on guarantees given in securitisations, as well as write-backs which lead to net adjustments of Euro 3 million (at 31 December 2019 there were Euro 5.9 million of net write-backs).
Other provisions for risks and charges amount to Euro 21.5 million (Euro 14.2 million at 31 December 2019). These mainly reflect adjustment of the "profit sharing" element payable to the National Resolution Fund under the agreements for the acquisition of Nuova Carife s.p.a. (Euro 11.5 million payable to the seller following the recovery of prior-year tax losses transferred as part of Nuova Carife's absorption by BPER Banca in 2017), in addition to other provisions relating to legal risks on disputes.

Contributions to the SRF, DGS and IDPF-VS Funds

The total amount of contributions paid during the year was Euro 75.3 million (Euro 50.7 million at 31 December 2019). This amount comprises the ordinary contribution for 2020 paid to the SRF (European Single Resolution Fund), Euro 23.2 million (Euro 20.1 million at 31 December 2019), the additional contribution requested by the SRF for 2018, Euro 7.3 million (Euro 8.6 million at 31 December 2019), the ordinary contribution paid to the DGS (Deposit Guarantee Fund), Euro 33.8 million (Euro 22 million at 31 December 2019) and the settlement of irrevocable commitments previously guaranteed by cash collateral to the SRF for a total of Euro 10.9 million.

Gains (Losses) on equity investments, on disposal of investments and impairment losses on goodwill

The caption registered a net loss totalled Euro 2.5 million (net loss totalled Euro 19.7 million at 31 December 2019), mainly due to the results of the impairment tests carried out pursuant to IAS 36, which required the investment in Cassa Risparmio di Fossano to be written down by Euro 3.5 million).
The result was also influenced by net income from the sale of investments for Euro 0.8 million and by the profit deriving from Conform's exit from the shareholder structure (Euro 0.2 million).

Profit (Loss) for the year

The profit from current operations before tax amounts to Euro 28.5 million (Euro 390.2 million at 31 December 2019, which included the gain on a bargain purchase ("badwill") of Euro 329.4 million deriving from the business combination with Unipol Banca s.p.a.)
Income taxes for the year, Euro 115.3 million, were determined by applying the regulations in force at 31 December 2020 and, therefore, considering the changes introduced by the "Cura Italia"[19] Decree, in particular, the transformation into tax credits of the deferred tax assets on tax losses and excess ACE on the disposal of non-performing exposures. The regulation also envisages the transformation of deferred tax assets not already recognised. For the purposes of this transformation, tax losses and excess ACE can be considered up to a maximum of 20% of the nominal value of the loans sold. The positive impact on the income statement of this transformation was Euro 53 million.
During the year, the Bank also did the "step-up" pursuant to Law Decree 185/2008 of the goodwill allocated at a consolidated level to the Arca Holding CGU and the intangible assets deriving from the fair

[19] *Law Decree no. 18 of 17 March 2020.*

value valuation of the client relationship of Unipol Banca. This had a positive impact on the income statement of Euro 33.9 million, recognised on the occasion of the respective Purchase Price Allocations which were definitively presented in the financial statements as at 31 December 2019.
No deferred tax assets have been recognised on temporary differences due to reverse after the five-year time horizon considered for the probability test (2021-2025). As a result of the test, deferred tax assets on tax losses were recognised for the portion transferred to the tax consolidation.

The overall result, net of taxes, was a profit of Euro 143.9 million (Euro 386.7 million at 31 December 2019).

Services provided and work statistics

Added to the difficult scenario that has persisted since last year, there is also the wave of economic difficulties caused by the pandemic, which is still not over; another not insignificant factor was the merger of the two Piedmontese banks in the middle of the year. Despite these premises, which have tested the Bank's resilience, it continues to make a huge effort to monitor customer relationships in the most effective and appropriate way.
The main work statistics for 2020 are shown below, together with comparative figures for the previous year[20]:

- current accounts, no. 1,669,576 (-1.21%); no. 115,490 new accounts were opened in 2020, while no. 137,577 were closed;
- a total of no. 290.8 million current account transactions were carried out (+15.97% compared with last year);
- no. 28 million bills and notes were presented for collection, totalling Euro 25.2 billion (-2.20% compared with last year);
- self-liquidating advances against Italian invoices amounted to Euro 31.4 billion (-3.73%);
- 6.4 million bills and notes were paid at branches, totalling Euro 17.4 billion (respectively -3.10% and -6.36%);
- endorsement credits and financial and commercial guarantees amounted to Euro 3.3 billion;
- no. 90,853 mortgages were granted (+242.45%), for a total of Euro 7.3 billion (+47.61%);
- loans granted (personal, business and assignements of one fifth of salary) numbered 35,034, for a total of Euro 828.2 million (-22.59% and -22.61% respectively);
- about no. 22.9 million standing order instructions were carried out on behalf of customers, for a total of Euro 4.4 billion (+32.43% and +5.68% respectively);
- bank transfers made totalled Euro 168.2 billion (+17.50%), while those received from third parties amounted to Euro 168.8 billion (+20.93%);
- no. 1,151 Bancomat ATMs were operational at the end of 2020 (1,175 in 2019) and they were used to make no. 26.1 million withdrawals (-5.91%) for a total of Euro 5.1 billion (+8.72%);
- commercial foreign exchange transactions outside the SEPA totalled Euro 11.6 billion (-15.39%);
- there are now no. 92,954 POS terminals installed in shops or public service locations (no. 1,360 more than in 2019, a growth of 1.48%) and they were used for 106 million transactions (+13.97%) for a total of Euro 6.74 billion (+17.07%);

[20] *Management figures. In determining the differences with respect to the previous year, the figures at 31 December 2019 were used, including those of Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo.*

- the active connections relating to the Corporate Banking service have risen to no. 133,524 (no. 8,893 more than in 2019, up 7.14%);
- a total of no. 905,365 Internet banking contracts (+12.28%) have been signed for the provision of information and/or the placement of instructions;
- the number of BPER Cards issued to customers of the Bank now comes to no. 445,319 (+4.85%).

2.5. Shareholders' equity and capital ratios

2.5.1 Shareholders' equity

At the end of the previous year the Bank's shareholders' equity, excluding the profit (loss) for the year, amounted to Euro 4,611.4 million. It increased by Euro 1,160.3 million during the year, due to the following changes:

- Euro +385.4 million following the allocation of 2019 profit;
- Euro +773.3 million following the full execution of the cash increase in capital to service the acquisition of the Business Complex from the Intesa Sanpaolo Group;
- Euro +2.9 million following the execution of the reserved cash increase in capital for the absorption of Cassa di Risparmio di Bra S.p.A.;
- Euro +79.6 million for the net changes in the valuation reserve, net of the tax effect, created in connection with financial assets measured at fair value through other comprehensive income;
- Euro +4.3 million to adjust the reserve for actuarial gains or losses, net of the tax effect;
- Euro -57.3 million on the disposal of financial assets measured at fair value through other comprehensive income;
- Euro -15.8 million for changes resulting from the absorption of Cassa di Risparmio di Bra S.p.A. and Cassa di Risparmio di Saluzzo S.p.A.;
- Euro -12.1 million, for the recognition of other changes.

Shareholders' equity therefore comes to Euro 5,771.7 million, up by 25.16% on 31 December 2019. Taking into account the profit for the year 2020 (Euro 143.9 million), shareholders' equity comes to Euro 5,915.6 million (+18.39% on the figure at 31 December 2019).
At 31 December 2020, the share capital was Euro 2,100,435,182.40, consisting of 1,413,263,512 shares; of these, 455,458 are treasury shares, the same as in December 2019.

As regards the profits from unrealised capital gains (net of tax) as per art. 6 of Legislative Decree 38/2005, which in 2019 amounted to Euro 14,546.6 thousand, they were assigned to the "Non-distributable reserve pursuant to art. 6, paragraph 1, letter a) of Legislative Decree 38/2005". This non-distributable reserve at 31 December 2020 comes to Euro 23,854.0 thousand.

2.5.2 Own funds and capital ratios

(in thousands)

	31.12.2020 Phased in	31.12.2019 Phased in	Change	% Change
Common Equity Tier 1 capital - CET1	**5,669,110**	**4,549,409**	**1,119,701**	**24.61**
Additional Tier 1 capital - AT1	150,000	150,000	-	-
Tier 1 capital - Tier 1	**5,819,110**	**4,699,409**	**1,119,701**	**23.83**
Tier 2 capital - Tier 2 - T2	969,010	796,049	172,961	21.73
Total Own Funds	**6,788,120**	**5,495,458**	**1,292,662**	**23.52**
Total Risk-weighted assets (RWA)	**26,988,877**	**27,346,785**	**(357,908)**	**-1.31**
CET1 Ratio (CET1/RWA)	**21.01%**	**16.64%**	**+437 bps**	
Tier 1 Ratio (Tier 1/RWA)	**21.56%**	**17.18%**	**+438 bps**	
Total Capital Ratio (Total Own Funds/RWA)	**25.15%**	**20.10%**	**+505 bps**	
RWA/Total assets	**32.04%**	**39.43%**	**-739 bps**	

The comparative figures at 31 December 2019 have not been restated to take into account the mergers of Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo as though they had taken effect from 1 January 2019, but agree with the figures in the Financial statements as at 31 December 2019.

3. Principal risks and uncertainties

3.1 Identification of risks, the uncertainties that characterise them and the approach to manage them

Please refer to the consolidated financial statements for information on risk management and related uncertainties, because, being an activity that is coordinated at Group level, the same considerations made in the relevant section of the Directors' report on Group operations are also valid for the Bank.

3.2 Disclosure of exposures to sovereign debt held by listed companies

Details are provided below of bonds issued by central and local governments and by government entities, as well as loans granted to them as required by CONSOB Communication DEM/11070007 of 5 August 2011 (and by the letter sent to listed Banking Issuers dated 31 October 2018).

Debt securities

(in thousands)

Issuer	Rating	Cat	Nominal value	Book value	Fair Value	OCI Reserves	%
Governments:			**9,451,730**	**9,614,300**	**9,965,954**	**7,673**	**92.30%**
Italy	BBB-		**6,284,855**	**6,487,810**	**6,779,453**	**6,203**	**62.28%**
		FVTPLT	2,682	2,743	2,743	#	
		FVO	100,000	120,711	120,711	#	
		FVTPLM	65,000	65,816	65,816	#	
		FVOCI	263,825	290,017	290,017	6,203	
		AC	5,853,348	6,008,523	6,300,166	#	
Spain	A-		**1,407,500**	**1,467,795**	**1,505,479**	**-**	**14.09%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	-	-	-	-	
		AC	1,407,500	1,467,795	1,505,479	#	
	AAA		**790,000**	**632,360**	**629,263**	**-**	**6.07%**
U.S.A.		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	-	-	-	-	
		AC	790,000	632,360	629,263	#	
European Stability Fund	AA		**324,000**	**359,953**	**369,158**	**1,400**	**3.46%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	95,000	112,766	112,766	1,400	
		AC	229,000	247,187	256,392	#	

(cont.)

Issuer	Rating	Cat	Nominal value	Book value	Fair Value	OCI Reserves	%
China	A+		**185,000**	**162,774**	**167,787**	**25**	**1.56%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	10,000	8,175	8,175	25	
		AC	175,000	154,599	159,612	#	
France	AA		**100,000**	**134,097**	**134,049**	**-**	**1.29%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	-	-	-	-	
		AC	100,000	134,097	134,049	#	
Others	_		**360,375**	**369,511**	**380,765**	**45**	**3.55%**
		FVTPLT	1,375	1,274	1,274	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	10,000	8,202	8,202	45	
		AC	349,000	360,035	371,289	#	
Other public entities :			**779,136**	**802,371**	**810,907**	**27**	**7.70%**
Italy	-		**6,236**	**6,380**	**6,380**	**114**	**0.06%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	6,236	6,380	6,380	114	
		AC	-	-	-	#	
Germany	-		**327,000**	**352,038**	**356,057**	**-**	**3.38%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	-	-	-	-	
		AC	327,000	352,038	356,057	#	
France	-		**230,400**	**230,422**	**232,919**	**59**	**2.21%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	31,000	34,776	34,776	59	
		AC	199,400	195,646	198,143	#	
Others	-		**215,500**	**213,531**	**215,551**	**(146)**	**2.05%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	89,000	86,258	86,258	(146)	
		AC	126,500	127,273	129,293	#	
Total debt securities as at 31.12.2020			**10,230,866**	**10,416,671**	**10,776,861**	**7,700**	**100.00%**

The ratings indicated are those of Fitch Ratings at 31 December 2020.

Loans

(in thousands)

Issuer	Rating	Cat	Nominal value	Book value	Fair value	OCI Reserves	%
Governments:			**1,883,543**	**1,883,543**	**2,462,743**	**-**	**92.75%**
Italy	BBB+		**1,883,543**	**1,883,543**	**2,462,743**	**-**	**92.75%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	-	-	-	-	
		AC	1,883,543	1,883,543	2,462,743	#	
Other public entities:			**147,167**	**147,167**	**159,929**	**-**	**7.25%**
Italy	-		**147,167**	**147,167**	**159,929**	**-**	**7.25%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	-	-	-	-	
		AC	147,167	147,167	**159,929**	#	
Total loans as at 31.12.2020			**2,030,710**	**2,030,710**	**2,622,672**	**-**	**100.00%**

The ratings indicated are those of Scope Rating at 31 December 2020.

Based on their "Book value", repayment of these positions is distributed as follows:

(in thousands)

	on demand	until 1 year	1 to 5 years	over 5 years	Total
Debt securities	-	489,299	3,980,520	5,946,852	10,416,671
Loans	85,008	53,229	5,167	1,887,306	2,030,710
Total	**85,008**	**542,528**	**3,985,687**	**7,834,158**	**12,447,381**

Control over the risks inherent in the portfolio is maintained by the directors who monitor the effects on profitability, liquidity and the Group's capital base, also through sensitivity analyses. No critical elements have been identified on the basis of these analyses.

3.3 IBOR Reform

Benchmark interest rates (such as the rates applied to interbank deposits – IBOR) play a fundamental role in the global financial markets as they are used to index numerous financial instruments (loans, securities, derivatives, etc.) with a turnover of trillions of dollars. Attempts to manipulate some of these reference parameters, combined with the liquidity crisis in the markets in the period following the economic crisis, have undermined confidence in the integrity, reliability and robustness of the principal market benchmarks. In this context, the G20 appointed the Financial Stability Board (FSB) to carry out a structural review of the main reference rates, coordinating the transition plans of the various jurisdictions and guaranteeing alternative benchmark rates that were solid and usable by the various market operators. The authorities in many jurisdictions have transposed the FSB's indications into national and EU regulations (such as the EU Benchmark Regulation - BMR in Europe), laying down road maps to replace current benchmark rates that are considered "critical" with "alternative interest rates".

The impacts on market participants deriving from the scope of the reform, as well as the uncertainty that still exists concerning the long-term availability of certain benchmark rates (including GBP Libor, USD Libor, Euribor, CHF Libor and JPY Libor) represent a challenge for financial institutions that will have to deal with various issues over the next few months, mainly related to the revision of contracts and measurement of the financial instruments that have been affected.

Given this situation, in 2020 the Parent Company BPER Banca activated a specific assessment project dedicated to IBOR Reform in order to identify:

- the extent of the BPER Banca Group's exposure to each of the benchmark rates affected;
- the types of product/instrument/service directly or indirectly affected by IBOR Reform;

considering that:

- pursuant to the BMR, the BPER Banca Group is affected solely as a user (and not as a contributor) of benchmark/risk-free rates (RFR);
- the reform could affect (or not) the retail customers of Group banks/companies;

and, based on the principal effects identified, lay down an action plan to address each of them, with a timeline for the measures to be taken.

With reference to the Bank's exposure to the benchmark rates in question, the analyses identified:

- limited exposure to EONIA, solely in relation to banking operations with institutional counterparties;
- significant exposure to EURIBOR, both for banking operations and those with customers (based on the number of contracts/accounts within the scope);
- reduced exposure to other LIBORs (GBP and USD), mostly in relation to banking operations with institutional counterparties.

At the end, this situation should be read in light of the process of adapting to the new method of calculating Euribor (so-called "hybrid Euribor"), recognized as compliant with the BMR by the Financial Services and Markets Authority (FSMA) and currently in force since 29 November 2019.
Moreover, following the assessment carried out in 2020, the Bank plans to start a new project to lay down detailed plans for each area that has been affected, ensuring that all of the measures required by the Reform are introduced and that they all comply with the guidelines being established by the Working Groups in the various jurisdictions.
The accounting effects of the IBOR Reform and consequent adoption of Regulation (EU) 2020/34 (amendments made to IFRS 9, IFRS 7 and IAS 39) are described in the Explanatory Notes, Part E – Section 3 Derivatives and hedging policies, paragraph 3.2 Accounting hedges.

4. Other information

4.1 Corporate events

Shareholders' Meeting of the Parent Company:

- *Shareholders' Meeting of 22 April 2020*

The Shareholders' Meeting di BPER Banca, held in ordinary session on 22 April 2020, approved the proposal made by the Board of Directors to allocate the entire profit for 2019, Euro 385,435,201.37, to reserves. This proposal was approved by the Board of the Bank on 1 April 2020 in response to the strong recommendation expressed by the European Central Bank on 27 March 2020 (the effects of which were extended to 1 January 2021 with the recommendation of the European Central Bank of 27 July 2020) *"to avoid the payment of dividends and any irrevocable commitments to pay dividends for 2019 and 2020".* This recommendation reflects the consideration made by the ECB that banks should enhance their capital adequacy in support of lending to households and firms, in a context marked by the serious repercussions of the Covid-19 healthcare emergency.

This meeting, in an extraordinary session, also approved the proposal to grant the Board of Directors the power under art. 2443 of the Italian Civil Code, to be exercised by 31 March 2021, to increase the share capital in one or more increments, against payment, for a total maximum amount of Euro 1,000,000,000, including any share premium, by issuing ordinary shares without par value to be offered under option to those entitled to them under art. 2441 of the Italian Civil Code. On 29 September 2020, the Bank's Board of Directors resolved to increase the share capital against payment, based on the aforementioned mandate; details of this transaction are provided in paragraph 3.1 of the Directors' report on operations of the BPER Banca Group.

- *Shareholders' Meeting of 6 July 2020*

The Shareholders' Meeting of BPER Banca, held in ordinary and extraordinary session on 6 July 2020, approved the following proposals:

- integration of the Board of Directors for the rest of the three-year period 2018-2020 by appointing a Director to replace the one who has resigned; Silvia Elisabetta Candini was elected to replace Roberta Marracino, who resigned for personal reasons on 3 June 2020, with effect from 30 June 2020, as detailed below in this report;
- Approval of the merger plan for Cassa di Risparmio di Saluzzo S.p.A. and Cassa di Risparmio di Bra S.p.A. to be absorbed by BPER Banca S.p.A. and increase in capital to service the merger of Cassa di Risparmio di Bra S.p.A. with consequent amendment of art. 5 of the Articles of Association.

With the amendments approved by the Extraordinary Shareholders' Meeting of 22 April 2020 and 6 July 2020, the Articles of association of BPER Banca were updated on 8 September 2020 and were made available, in accordance with current legislation, at the head office and filed with Borsa Italiana s.p.a. and on the Bank's website www.bper.it > Sito Istituzionale.

- *Shareholders' Meeting of 29 January 2021*

The Shareholders' Meeting of BPER Banca, which met in an extraordinary session on 29 January 2021, approved the proposal of the Board of Directors to amend articles 5, 11, 14, 17, 18, 19, 20, 22, 24, 27 , 28, 29, 31, 32, 33, 34, 36, 37 and 45 of the Articles of Association; to repeal articles 21 and 23 and insert a new article 28, with consequent renumbering of the Articles of Association.
With the changes approved by the Extraordinary Shareholders' Meeting, the Articles of Association of BPER Banca were updated and, in addition to being filed with the Register of Companies and CONSOB in accordance with current legislation, they have been made available in the storage mechanism 1INFO and on the Bank's website www.bper.it > Sito Istituzionale - Governance Section - Documents.
For further details, please refer to chapter 3.6 “Subsequent events to the 31 December 2020” of the Directors' report on Group operations accompanying the consolidated financial statements as at 31 December 2020.

4.2 Intercompany and related-party transactions

Relations between the various companies included in the scope of consolidation and with associates and related parties were all of a routine nature and were conducted properly.
For details, as required by art. 2497 bis of the Italian Civil Code and by the CONSOB Communication DEM 6064293 dated 28 July 2006, reference should be made to Part H of the Explanatory Notes to the financial statements.

In accordance with CONSOB's Regulation 17221/10 and subsequent amendments, issued on the subject of related-party transactions, the BPER Banca Group has adopted specific internal rules to ensure transparency and substantial and procedural correctness of transactions with related parties.
In this context, BPER Banca adopted the "Group policy for the governance of non-compliance risk concerning conflicts of interest with related parties and risk activities with associated persons", which was also implemented by the other Group Banks and Companies. This Policy also complies with the Bank of Italy's requirements in terms of "Risk activities and conflict of interest versus related parties and associated persons" as contained in the 34th update on 22 September 2020 of Circular 285 dated 17 December 2013.
The document is published on BPER Banca's website (www.bper.it, in the "Information and Regulations"/"Associated persons" section) and on the websites of the other Group banks.

Without prejudice to the disclosure requirements of IAS 24 (explained in Part H of the Explanatory Notes, in relation to the scope of application of the international accounting standard), the following is a summary of transactions with related parties, for which information is provided under Regulation no. 17221/10.

a) Most significant individual transactions concluded during the reference period:

No.	Company that initiated the transaction	Name of the counterparty	Nature of the relationship with the counterparty	Object of the transaction	Consideration for each transaction completed (Euro/000)	Other information
1	BPER Banca S.p.A.	Alba Leasing S.p.A.	Directly associated company	Renewal Funds	625,500	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
2	BPER Banca S.p.A.	Alba Leasing S.p.A.	Directly associated company	Renewal Funds	625,500	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
3	BPER Banca S.p.A.	Sardaleasing S.p.A.	Directly controlled subsidiary	Credit line	715,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
4	BPER Banca S.p.A.	Sardaleasing S.p.A.	Directly controlled subsidiary	Credit line	402,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
5	BPER Banca S.p.A.	Sardaleasing S.p.A.	Directly controlled subsidiary	Credit line	353,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
6	BPER Banca S.p.A.	Optima S.p.A. SIM	Directly controlled subsidiary	Credit line	300,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
7	BPER Banca S.p.A.	Emilia Romagna Factor S.p.A.	Directly controlled subsidiary	Credit line	1,050,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221

(cont.)

No.	Company that initiated the transaction	Name of the counterparty	Nature of the relationship with the counterparty	Object of the transaction	Consideration for each transaction completed (Euro/000)	Other information
8	BPER Banca S.p.A.	Banco di Sardegna S.p.A.	Directly controlled subsidiary	Credit line	400,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
9	BPER Banca S.p.A.	Bibanca S.p.A.	Directly controlled subsidiary	Credit line	1,100,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
10	BPER Banca S.p.A.	Sardaleasing S.p.A.	Directly controlled subsidiary	Credit line	715,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
11	BPER Banca S.p.A.	Sardaleasing S.p.A.	Directly controlled subsidiary	Credit line	402,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
12	BPER Banca S.p.A.	Sardaleasing S.p.A.	Directly controlled subsidiary	Credit line	353,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
13	Banco di Sardegna S.p.A.	BPER Banca S.p.A.	Direct parent company	Credit line	4,000,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
14	Banco di Sardegna S.p.A.	BPER Banca S.p.A.	Direct parent company	Credit line	300,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
15	Banco di Sardegna S.p.A.	BPER Banca S.p.A.	Direct parent company	Credit line	950,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221

b) Other individual transactions with related parties as defined under article 2427[21], second paragraph, of the Italian Civil Code, carried out during period, that could have had a material impact on the companies' financial position and results

As required by CONSOB Regulation 17221/10 with regard to other transactions with related parties, it is confirmed that no transactions have had a significant effect on the balance sheet or results of the company. The merger deed for the absorption of Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a. by BPER Banca s.p.a. was signed on 22 July 2020. The transaction, which takes effect for legal purposes on 27 July 2020, takes effect for accounting and tax purposes from 1 January 2020.

c) Changes or developments in related-party transactions disclosed in the last annual report that could have had a material effect on the companies' financial position or results during the period

During the period, there have been no changes or developments in the related-party transactions described in the last annual report that would have an effect on the financial position or results of the Company.

4.3 Information on atypical, unusual or non-recurring transactions

During 2020 there were no atypical or unusual transactions, as defined by CONSOB Communication DEM 6064293 dated 28 July 2006.
Where considered significant, the information on the impacts that the non-recurring events or transactions have had on the economic and financial situation of the Bank is provided in the specific sections of the Explanatory Notes.
For further details, please refer to the "Directors' report on Group operations" contained in the consolidated financial statements.

4.4 Information on the ownership structure - (art. 123-bis of Legislative Decree 58/1998)

The information required by article 123-bis of CFA is detailed in a specific report issued by the Board of Directors ("Report on corporate governance and ownership structure"). This report, pursuant to the aforementioned art. 123-bis, paragraph 3, together with the separate financial statements, is made available to the public on the Bank's website www.istituzionale.bper.it in the Governance - Documents section, as well as on the website of the authorised storage system managed by Computershare s.p.a. (www.1info.it).

[21] Art. 2427 of the Italian Civil Code was amended by Legislative Decree 139/2015 that, inter alia, amended art. 2426 of the Italian Civil Code by adding regulations to the second paragraph governing other individual transactions with related parties during the period that had a significant effect on the financial position or results of the companies concerned.

4.5 Treasury shares

No quotas or shares in the Bank are held through trust companies or other third parties; furthermore, such parties were not used during the period to buy or sell shares or quotas in the Bank.

Shares of BPER Banca S.p.A.	Number of shares	Total par value
Total as at 31.12.2020	455,458	7,253,180
Total as at 31.12.2019	455,458	7,253,180

4.6 Application of the MiFID

During the first few months of 2020, the Bank proceeded to refine the operating systems and the protection model, in order to achieve the compliance required by CONSOB as part of normal dialogue.

Since October 2020, BPER Banca has been subject to an inspection by CONSOB to ascertain the state of compliance with the new MiFID II regulation following the transposition of Directive 2014/65/EU into Italian law.

The inspection was still underway at the date this document was being prepared.

4.7 Establishment of the VAT Group

The BPER Banca VAT Group is operational from 1 January 2019 as a VAT payer regulated by the EU legislation introduced into Italian law (Law 232 of 11 December 2016). This taxpayer replaces the individual participants, limited to the scope of application of value added tax, which otherwise retain distinct legal status from a legal, accounting and fiscal standpoint.
Arca Holding s.p.a., Arca Fondi SGR s.p.a. and Finitalia s.p.a. became members of the BPER Banca VAT Group with effect from 1 January 2020. In fact, BPER Banca had acquired control over these companies, as defined in art. 2359, para. 1.1 of the Italian Civil Code during 2019. They were able to join the VAT Group because both of the constraints envisaged in art. 70-bis of D.P.R. 633/1972 were satisfied.
The scope of the IVA Group also changed following the mergers by absorption into the Parent Company that took place in July 2020, which resulted in the cessation of the subsidiaries Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo.

5. Remuneration of the Board of Directors

We bring to your attention the topic of the determination of the amount of Directors' emoluments, as provided for by art. 11 of the Articles of Association.
The Shareholders' Meeting held on 22 April 2020 established that the amount of fees payable to Directors, in accordance with art. 11 of the Articles of Association, for the 2019 financial year was a total of Euro 1,700 thousand and that this amount was for the payment of emoluments of the members of the Board of Directors as well as additional emoluments payable to the Executive Committee and other internal Committees. Excluded, however, were Directors' attendance fees for participation at meetings of the Board of Directors and the additional emoluments payable to Directors appointed to particular positions in compliance with the Articles of Association (specifically Chairman, Vice Chairmen and Chief Executive Officer): pursuant to art. 11 of the Articles of Association, this remuneration was established, in fact, by the Board of Directors, on the proposal of the Remuneration Committee and after hearing the opinion of the Board of Statutory Auditors.
The total amount of fees, determined as indicated and charged to the income statement of the year on an accruals basis, in compliance with IAS 19 under "Staff costs – Directors and Statutory Auditors", was Euro 1,673.8 thousand (Euro 1,608 thousand at 31 December 2019), below the set limit of Euro 1,700 thousand. In detail, this amount includes the fees due to members of the Board of Directors of Euro 1,124 thousand (Euro 1,081 thousand at 31 December 2019), the fees due to members of the Executive Committee of Euro 170 thousand (Euro 162.7 thousand at 31 December 2019), the fees for participation in various Internal Committees set up to meet the obligations of Corporate Governance of Euro 379.8 thousand (Euro 364.3 thousand at 31 December 2019).
In addition to these amounts, there were also attendance fees for Directors taking part in meetings of the Board of Directors of Euro 171.6 thousand (Euro 134.2 thousand at 31 December 2019), additional emoluments payable to the Chairman and Deputy Chairman of Euro 365 thousand (the same as at 31 December 2019) and to the Chief Executive Officer of Euro 600 thousand (Euro 850 thousand at 31 December 2019).
The total amount is therefore Euro 2,810.4 thousand, compared with Euro 2,957.2 thousand for 2019.

Having explained the remuneration for 2020, the proposed remuneration to be paid to the Directors for the year 2021 amounts to Euro 1,700 thousand, of which Euro 1,125 thousand to be allocated to the members of the Board of Directors and Euro 575 thousand to be allocated as additional remuneration for the members of the other Committees.
An attendance fee for each meeting of Euro 500 per head is also proposed: lastly, attendance fees are shown as a separate item because it is very difficult to estimate their total amount, which varies according to the number of meetings that are held.
The proposal, net of a slight increase in the attendance fee of Euro 100, confirms the amount of remuneration already proposed and approved for the years 2019 and 2020.

6. Proposal for allocation of the profit for the year

Having completed our presentation of the results of operations and the various events that took place in the year just ended, we now submit to you the proposed allocation of profit, Euro 143,852,776.68, which follows the criteria of prudence and attention to the strengthening of capital, in line with the guidance provided by the Supervisory Authorities. The proposed allocation of profit envisages the preliminary allocation, pursuant to art. 42 (paragraph 2) of the Articles of Association, of Euro 6,744,944.91, to the non-allocatable reserve under Legislative Decree 38/2005 (art. 6, paragraph 1.a) for unrealised gains, net of the related tax effects.

Accordingly, there is a residual balance of Euro 137,107,831.77 to be allocated, comprising an allocation of Euro 6,855,391.59 to the legal reserve in line with the minimum requirements of law (5%).

Taking account of the capital adequacy of the Parent Company and the Group, in accordance with parameters established by prudential supervision regulations and decisions made by the European Central Bank and in line with the communications issued thereby concerning dividend distribution policy, we submit to you the proposed payment of a dividend of Euro 0.04 for each of the 1,413,263,512 shares representing the share capital, excluding those held in portfolio at the ex-dividend date (there were 455,458 at 31 December, the same as there are today). The total amount allocated for dividends therefore comes to Euro 56,530,540.48, i.e. 39.30% of the profit for the year.

The portion of profit for the year that can be allocated to capital therefore amounts to Euro 87,322,236.20.

Trusting that you will grant your consent, we therefore present in accordance with the Articles of Association the following proposed allocation of the profit for the year:

Profit for the year	**Euro**	**143,852,776.68**
Preliminary allocation (Art. 42, paragraph 2, of the Articles of Association):		
- to the non-allocatable reserve - art. 6, para. 1, letter (a of Legislative Decree 38/05	Euro	6,744,944.91
Residual profit to be distributed	**Euro**	**137,107,831.77**
- to the legal reserve (5%)	Euro	6,855,391.59
- to the extraordinary reserve	Euro	73,721,899.70
- to the Shareholders as a dividend of Euro 0.04 for the 1,413,263,512 shares making up the share capital	Euro	56,530,540.48

According to Borsa Italiana s.p.a.'s calendar, payment of the proposed dividend will take place as from 26 May 2021. As regards its market price, BPER's stock will go ex-coupon on Monday, 24 May 2021, while the record date is scheduled for Tuesday, 25 May 2021.

It is important to remember that the dividend is subject to withholding tax or forms part of taxable income to a varying extent depending on the status of the recipients. It should be noted that pursuant to the Ministerial Decree of 26 May 2017, for taxation purposes, the dividend is to be considered formed with profits produced up to the year in course at 31 December 2007 for Euro 16,598,843 and with profits produced from 1 January 2008 up to the year in course at 31 December 2016 for Euro 39,931,697.

7. Outlook for operations

The economic prospects are still affected by how the pandemic evolves and how this affects the behaviour of households and businesses. In the fourth quarter, the second wave of infections caused a further contraction in the economy, after a strong recovery in the summer. The beginning of vaccination campaigns should however create the conditions for us to gradually overcome the emergency and, helped by the massive steps taken by governments and central banks to support the liquidity and incomes of families and businesses, this could generate a strong recovery in the Italian economy, especially from the second half of 2021. In the coming months, BPER Banca will complete its purchase of the Business Complex from Intesa Sanpaolo, which will lead to a significant growth in size, an improvement in the competitive position in Italy and a significant increase in the customer base. This acquisition will provide important support to revenues in terms of both interest income and commission, especially in asset management and bancassurance; it will also make it possible to accelerate the improvement in asset quality, despite the context of high uncertainty, and at the same time to reduce the Group's cost-income ratio (estimates of the impact of the Business Complex are provided in paragraphs 3.1 and 3.2 of the Directors' report on Group operations accompanying the consolidated financial statements) . All these factors should provide support for the Bank's profitability outlook for the current year, making it possible to maintain solid capital ratios and increase shareholders' remuneration to an appreciable extent in the future.

8. Acknowledgements

In the reflections on the year just ended, the theme of change as the engine of growth emerges once again as the key topic, but this time it takes on a profile that in some ways is unique in the recent history of our Bank.
In fact, 2020 will be remembered for the turning point that made it stand out: the acquisition of an important business complex that will soon allow the Bank to expand into strategic areas, especially in the North West of Italy and in Lombardy, but also in the Marche and other Regions. In this way, BPER Banca will increase in size considerably, especially for the number of branches, overall funding and total assets, to become the third Banking Group in the country.
The goal is to preserve the network of contacts that we will acquire from the first months of 2021 and enhance the value of the members of staff who already work there with a high level of professionalism. This will confirm the historical approach of the Bank, which has always grown putting first and foremost its relationship with households, companies and institutions, maintaining a spirit that is typical of the old cooperative model, even after its transformation into a joint-stock company.
We want to become a point of reference for these new areas by offering quality products and services, and the recent increase in capital, which was fully subscribed by the shareholders, reflects the fact that we want to complete this strategic operation in the best way possible.
Having said this, I would like to emphasise that the new activities - by which I mean not only the acquisition of this important business complex, but more generally everything that distinguishes our approach to banking in all the geographical areas in which we operate - have been continued with extraordinary commitment and dedication by the Bank's structures and functions in a very particular year, marked by a constant health emergency, which has had serious repercussions all over the world.
In such a delicate situation, the banking system is playing an indispensable role in supporting businesses and households. This has required changes in business and service models, lean digital procedures and ways of working that are different from the past, an intelligent use of data to assess risks and guide decisions.
Our Group has worked promptly and efficiently to ensure continuity of service, paying maximum attention to the health of employees and all those who, for various reasons, come into contact with the Bank. On the solidarity front, I would also like to recall the "United beyond expectations" initiative, with which the BPER Group has donated substantial resources to help cope with the Covid-19 emergency, largely the result of an internal fundraising campaign. The amount raised was earmarked for scientific research and health care, aid to families and the fight against new types of poverty, contributions to ease the educational emergency and facilitate distance learning.
Now we are being called upon to face more challenges, but with these positive premises I am sure that we will be up to the task. In the meantime, I should also underline the positive things that were achieved during the year, continuing implementation of the Business Plan 2019-2021, now at an advanced stage of completion, with a series of interventions to develop the business, increase operational efficiency and accelerate derisking. Put briefly, the Bank was able to achieve high levels of profitability, demonstrating an ability to generate revenues and hold down costs, while at the same time further improving its quality of credit and already solid capital position.
In addressing the numerous commitments that I have mentioned, the BPER Banca Group has been able to count on the contribution of a wide range of players. Above all, our Shareholders and Customers, who more and more frequently show their tangible appreciation. We also wish to thank the Chairmen, Directors, Statutory Auditors, Senior Managers and all members of the general management teams of the

Banks and Companies belonging to the Group. Special thanks goes to the Chief Executive Officer and the General Management team as a whole. We would like to express our gratitude and esteem for all those who went into retirement during the year.
Greetings go to the Governor and Directorate of the Bank of Italy, to the Management of the Central Administration, as well as to the branch managers and staff of the Supervisory Authority and, in particular, to the representatives of the ECB with whom we have had a profitable and constructive dialogue. Also a thought for CONSOB and Borsa Italiana, which runs the Italian Stock Exchange. Lastly, we would like to thank the auditors and their staff, with whom we have had positive and effective exchange of views that was respectful of the different roles and functions.
We now turn with renewed commitment to the future that awaits us, hopeful that - with the combined efforts of all the Institutions concerned - we can overcome this difficult phase and lay the foundations for a new period of growth.

Modena, 16 March 2021

The Board of Directors
The Chairman
Pietro Ferrari

Restatement of the Reclassified financial statements of the Parent Company as at 31 December 2019

Below are the reclassified financial statements of BPER Banca at 31 December 2019, restated to show the effects of the mergers of Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a. in the comparative balances set out in the chapter 2. “Results of banking activities", as if the mergers had taken effect on 1 January 2019.

(in thousands)

Assets	BPER Banca 31.12.2019	CR BRA 31.12.2019	CR SALUZZO 31.12.2019	Consolidation adjustments	BPER Banca 31.12.2019 restated
Cash and cash equivalents	429,141	7,808	7,652	-	444,601
Financial assets	16,829,319	110,072	273,171	(26,945)	17,185,617
a) Financial assets held for trading	311,681	882	29	(8,798)	303,794
b) Financial assets designated at fair value	126,947	-	-	-	126,947
c) Other financial assets mandatorily measured at fair value	475,384	3,592	918	-	479,894
d) Financial assets measured at fair value through other comprehensive income	6,202,401	105,598	70,779	(30)	6,378,748
e) Debt securities measured at amortised cost	9,712,906	-	201,445	(18,117)	9,896,234
- banks	2,777,687	-	-	(18,117)	2,759,570
- customers	6,935,219	-	201,445	-	7,136,664
Loans	46,446,686	1,100,826	661,265	(612,078)	47,596,699
a) Loans to banks	5,591,416	76,422	92,710	(612,078)	5,148,470
b) Loans to customers	40,829,483	1,024,404	568,555	-	42,422,442
c) Financial assets measured at fair value	25,787	-	-	-	25,787
Hedging derivatives	81,869	-	50	(50)	81,869
Equity investments	2,138,421	-	-	(140,143)	1,998,278
Property, plant and equipment	802,101	17,231	12,210	2,060	833,602
Intangible assets	438,239	6	2	8,343	446,590
- of which: goodwill	*225,792*	-	-	*4,574*	*230,366*
Other assets	2,181,972	53,675	16,494	(900)	2,251,241
Total assets	**69,347,748**	**1,289,618**	**970,844**	**(769,713)**	**70,838,497**

(in thousands)

Liabilities and shareholders' equity	BPER Banca 31.12.2019	CR BRA 31.12.2019	CR SALUZZO 31.12.2019	Consolidation adjustments	BPER Banca 31.12.2019 restated
Due to banks	15,749,542	391,805	206,238	(610,087)	15,737,498
Direct deposits	45,859,374	783,122	685,005	(26,267)	47,301,234
a) Due to customers	40,300,602	681,701	610,929	-	41,593,232
b) Debt securities issued	5,558,772	101,421	74,076	(26,267)	5,708,002
Financial liabilities held for trading	176,219	719	10	(463)	176,485
Hedging derivatives	283,792	132	-	(132)	283,792
Other liabilities	2,282,040	47,678	27,315	(1,582)	2,355,451
Shareholders' equity	4,996,781	66,162	52,276	(131,182)	4,984,037
a) Valuation reserves	(135,730)	2,854	2,951	(8,441)	(138,366)
b) Reserves	2,039,723	(8,277)	15,461	(22,222)	2,024,685
c) Equity instruments	150,000	-	-	-	150,000
d) Share premium reserve	1,002,722	13,386	-	(13,386)	1,002,722
e) Share capital	1,561,884	57,330	33,280	(86,897)	1,565,597
f) Treasury shares	(7,253)	-	-	-	(7,253)
g) Profit (Loss) for the year	385,435	869	584	(236)	386,652
Total liabilities and shareholders' equity	**69,347,748**	**1,289,618**	**970,844**	**(769,713)**	**70,838,497**

(in thousands)

Captions	BPER Banca 31.12.2019	CR BRA 31.12.2019	CR SALUZZO 31.12.2019	Consolidation adjustments	BPER Banca 31.12.2019 restated
Net interest income	786,682	19,828	12,951	5	819,466
Net commission income	689,601	13,341	8,467	14	711,423
Dividends	34,363	37	15	-	34,415
Net income from financial activities	82,597	3,648	1,785	-	88,030
Other operating expense/income	89,564	335	313	(7,043)	83,169
Operating income	**1,682,807**	**37,189**	**23,531**	**(7,024)**	**1,736,503**
Staff costs	(763,894)	(12,992)	(13,081)	50	(789,917)
Other administrative expenses	(350,994)	(9,253)	(7,715)	6,932	(361,030)
Net adjustments to property, plant and equipment and intangible assets	(134,999)	(1,289)	(930)	(5,744)	(142,962)
Operating costs	**(1,249,887)**	**(23,534)**	**(21,726)**	**1,238**	**(1,293,909)**
Net operating income	**432,920**	**13,655**	**1,805**	**(5,786)**	**442,594**
Net impairment losses to financial assets at amortised cost	(288,945)	(12,206)	(604)	-	(301,755)
- loans to customers	*(286,571)*	*(12,202)*	*(552)*	-	*(299,325)*
- other financial assets	*(2,374)*	*(4)*	*(52)*	-	*(2,430)*
Net impairment losses to financial assets at fair value	941	13	25	-	979
Gains (Losses) from contractual modifications without derecognition	(1,981)	(142)	(22)	-	(2,145)
Net impairment losses for credit risk	**(289,985)**	**(12,335)**	**(601)**	**-**	**(302,921)**
Net provisions for risks and charges	(8,071)	25	(261)	-	(8,307)
Contributions to SRF, DGS, IDPF - VS	(49,109)	(780)	(771)	-	(50,660)
Gains (Losses) on equity investments, on disposal of investments and impairment losses on goodwill	(24,951)	(6)	8	5,281	(19,668)
Gain on a bargain purchase	329,433	-	-	-	329,433
Profit (Loss) from current operations before tax	**390,237**	**559**	**180**	**(505)**	**390,471**
Income taxes on current operations for the year	(4,802)	310	404	269	(3,819)
Profit (Loss) for the year	**385,435**	**869**	**584**	**(236)**	**386,652**

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Financial statements

Balance sheet as at 31 December 2020

(in Euro)

Assets		31.12.2020	31.12.2019
10.	Cash and cash equivalents	365,864,228	429,140,529
20.	Financial assets measured at fair value through profit or loss	983,755,711	939,798,981
	a) financial assets held for trading	310,818,252	311,680,510
	b) financial assets designated at fair value	123,369,539	126,947,304
	c) other financial assets mandatorily measured at fair value	549,567,920	501,171,167
30.	Financial assets measured at fair value through other comprehensive income	6,051,221,746	6,202,400,784
40.	Financial assets measured at amortised cost	71,340,688,922	56,133,804,676
	a) loans to banks	16,418,169,271	8,369,102,973
	b) loans to customers	54,922,519,651	47,764,701,703
50.	Hedging derivatives	57,695,357	81,869,065
70.	Equity investments	2,008,145,615	2,138,421,477
80.	Property, plant and equipment	806,384,207	802,101,137
90.	Intangible assets	480,782,016	438,238,711
	of which:		
	- goodwill	230,366,046	225,791,895
100.	Tax assets	1,689,110,011	1,644,102,744
	a) current	402,665,798	456,289,901
	b) deferred	1,286,444,213	1,187,812,843
110.	Non-current assets and disposal groups classified as held for sale	3,194,490	3,127,653
120.	Other assets	444,329,775	534,741,143
	Total assets	**84,231,172,078**	**69,347,746,900**

(in Euro)

Liabilities and shareholders' equity		31.12.2020	31.12.2019
10.	Financial liabilities measured at amortised cost	75,566,875,570	61,608,915,532
	a) due to banks	24,095,097,223	15,749,541,579
	b) due to customers	46,793,064,024	40,300,601,766
	c) debt securities issued	4,678,714,323	5,558,772,187
20.	Financial liabilities held for trading	182,980,703	176,218,890
40.	Hedging derivatives	456,447,398	283,792,394
60.	Tax liabilities	47,135,863	43,633,070
	a) current	-	81
	b) deferred	47,135,863	43,632,989
80.	Other liabilities	1,500,564,108	1,594,540,569
90.	Employee termination indemnities	107,415,766	123,302,176
100.	Provisions for risks and charges:	454,185,916	520,563,838
	a) commitments and guarantees granted	49,251,375	46,067,687
	b) pension and similar obligations	147,828,970	159,719,757
	c) other provisions for risks and charges	257,105,571	314,776,394
110.	Valuation reserves	(54,799,474)	(135,730,150)
130.	Equity instruments	150,000,000	150,000,000
140.	Reserves	2,342,134,582	2,039,722,751
150.	Share premium reserve	1,241,196,867	1,002,721,965
160.	Share capital	2,100,435,182	1,561,883,844
170.	Treasury shares (-)	(7,253,180)	(7,253,180)
180.	Profit (Loss) for the year (+/-)	143,852,777	385,435,201
	Total liabilities and shareholders' equity	**84,231,172,078**	**69,347,746,900**

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Income statement as at 31 December 2020

(in Euro)

	Captions	31.12.2020	31.12.2019
10.	Interest and similar income	1,096,963,446	1,040,034,432
	of which: interest income calculated using the effective interest method	1,088,006,801	1,017,060,173
20.	Interest and similar expense	(195,450,471)	(253,352,136)
30.	**Net interest income**	**901,512,975**	**786,682,296**
40.	Commission income	817,033,871	741,170,526
50.	Commission expense	(62,735,302)	(51,570,400)
60.	**Net commission income**	**754,298,569**	**689,600,126**
70.	Dividends and similar income	24,645,402	34,362,715
80.	Net income from trading activities	(14,884,143)	(2,899,349)
90.	Net income from hedging activities	(577,359)	(1,392,484)
100.	Gains (Losses) on disposal or repurchase of:	117,312,506	82,775,082
	a) financial assets measured at amortised cost	108,076,515	18,697,809
	b) financial assets measured at fair value through other comprehensive income	8,920,230	63,840,232
	c) financial liabilities	315,761	237,041
110.	Net income on financial assets and liabilities measured at fair value through profit or loss	11,412,672	4,112,792
	a) financial assets and liabilities designated at fair value	(3,683,690)	(8,435,818)
	b) other financial assets mandatorily measured at fair value	15,096,362	12,548,610
120.	**Net interest and other banking income**	**1,793,720,622**	**1,593,241,178**
130.	Net impairment losses for credit risk relating to:	(443,780,324)	(288,004,444)
	a) financial assets measured at amortised cost	(443,432,821)	(288,945,258)
	b) financial assets measured at fair value through other comprehensive income	(347,503)	940,814
140.	Gains (Losses) from contractual modifications without derecognition	(2,075,560)	(1,980,666)
150.	**Net income from financial activities**	**1,347,864,738**	**1,303,256,068**
160.	Administrative expenses:	(1,326,775,565)	(1,269,401,462)
	a) staff costs	(751,763,706)	(763,894,458)
	b) other administrative expenses	(575,011,859)	(505,507,004)
170.	Net provisions for risks and charges	(13,061,694)	(8,070,469)
	a) commitments and guarantees granted	(3,036,447)	5,766,470
	b) other net provisions	(10,025,247)	(13,836,939)
180.	Net adjustments to property, plant and equipment	(99,116,107)	(85,467,251)
190.	Net adjustments to intangible assets	(54,445,791)	(49,531,856)
200.	Other operating expense/income	176,511,810	194,970,013
210.	**Operating costs**	**(1,316,887,347)**	**(1,217,501,025)**
220.	Gains (Losses) on equity investments	(3,268,845)	(25,978,775)
245.	Gain on a bargain purchase	-	329,432,742
250.	Gains (Losses) on disposal of investments	816,812	1,028,449
260.	**Profit (Loss) from current operations before tax**	**28,525,358**	**390,237,459**
270.	Income taxes on current operations for the year	115,327,419	(4,802,258)
280.	**Profit (Loss) from current operations after tax**	**143,852,777**	**385,435,201**
300.	**Profit (Loss) for the year**	**143,852,777**	**385,435,201**

	Earning per share (Euro) 31.12.2020	Earning per share (Euro) 31.12.2019
Basic EPS	0.212	0.778
Diluted EPS	0.197	0.754

Statement of other comprehensive income

(in Euro)

Captions	31.12.2020	31.12.2019
10. Profit (Loss) for the year	**143,852,777**	**385,435,201**
Other comprehensive income, after tax, that will not be reclassified to profit or loss	**68,681,809**	**(85,332,171)**
20. Equity instruments measured at fair value through other comprehensive income	65,758,540	(55,957,988)
40. Hedging of equity instruments designated at fair value through other comprehensive income	(1,385,292)	-
70. Defined benefit plans	4,308,561	(29,374,183)
Other comprehensive income, after tax, that may be reclassified to profit or loss	**14,885,159**	**40,554,922**
120. Cash-flow hedges	(358,239)	(143,416)
140. Financial assets (no equity instruments) measured at fair value through other comprehensive income	15,243,398	40,698,339
170. Total other comprehensive income after tax	**83,566,968**	**(44,777,249)**
180. Comprehensive income (Captions 10+170)	**227,419,745**	**340,657,952**

Statement of changes in shareholders' equity

(in thousands)

	Balance as at 31.12.19	Changes in opening balances	Balance as at 1.1.20	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes during the year: Changes in reserves	Transactions on shareholders' equity: Issue of new shares	Transactions on shareholders' equity: Purchase of treasury shares	Transactions on shareholders' equity: Extraordinary distribution of dividends	Transactions on shareholders' equity: Changes in equity instruments	Transactions on shareholders' equity: Derivatives on treasury shares	Transactions on shareholders' equity: Stock options	Other comprehensive income as at 31.12.20	Shareholders' equity as at 31.12.20
Share capital:	**1,561,884**	**-**	**1,561,884**	**-**	**-**	**-**	**538,551**	**-**	**-**	**-**	**-**	**-**	**-**	**2,100,435**
a) ordinary shares	1,561,884	-	1,561,884	-	-	-	538,551	-	-	-	-	-	-	2,100,435
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**1,002,722**	**-**	**1,002,722**	**-**	**-**	**-**	**238,475**	**-**	**-**	**-**	**-**	**-**	**-**	**1,241,197**
Reserves:	**2,039,723**	**-**	**2,039,723**	**385,435**	**-**	**(82,185)**	**(838)**	**-**	**-**	**-**	**-**	**-**	**-**	**2,342,135**
a) from profits	1,539,867	-	1,539,867	385,435	-	(65,192)	-	-	-	-	-	-	-	1,860,110
b) other	499,856	-	499,856	-	-	(16,993)	(838)	-	-	-	-	-	-	482,025
Valuation reserves	**(135,730)**	**-**	**(135,730)**	**-**	**-**	**(2,636)**	**-**	**-**	**-**	**-**	**-**	**-**	**83,567**	**(54,799)**
Equity instruments	**150,000**	**-**	**150,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**150,000**
Treasury shares	**(7,253)**	**-**	**(7,253)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,253)**
Profit (Loss) for the year	**385,435**	**-**	**385,435**	**(385,435)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**143,853**	**143,853**
Shareholders' equity	**4,996,781**	**-**	**4,996,781**	**-**	**-**	**(84,821)**	**776,188**	**-**	**-**	**-**	**-**	**-**	**227,420**	**5,915,568**

	Balance as at 31.12.18	Changes in opening balances (*)	Balance as at 1.1.19	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes during the year: Changes in reserves	Transactions on shareholders' equity: Issue of new shares	Transactions on shareholders' equity: Purchase of treasury shares	Transactions on shareholders' equity: Extraordinary distribution of dividends	Transactions on shareholders' equity: Changes in equity instruments	Transactions on shareholders' equity: Derivatives on treasury shares	Transactions on shareholders' equity: Stock options	Other comprehensive income as at 31.12.19	Shareholders' equity as at 31.12.19
Share capital:	**1,443,925**	**-**	**1,443,925**	**-**	**-**	**-**	**117,959**	**-**	**-**	**-**	**-**	**-**	**-**	**1,561,884**
a) ordinary shares	1,443,925	-	1,443,925	-	-	-	117,959	-	-	-	-	-	-	1,561,884
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**930,073**	**-**	**930,073**	**-**	**-**	**-**	**72,649**	**-**	**-**	**-**	**-**	**-**	**-**	**1,002,722**
Reserves:	**1,797,104**	**(382)**	**1,796,722**	**244,204**	**-**	**41,571**	**(42,774)**	**-**	**-**	**-**	**-**	**-**	**-**	**2,039,723**
a) from profits	1,296,134	(382)	1,295,752	244,204	-	(89)	-	-	-	-	-	-	-	1,539,867
b) other	500,970	-	500,970	-	-	41,660	42,774	-	-	-	-	-	-	499,856
Valuation reserves	**(82,514)**	**-**	**(82,514)**	**-**	**-**	**(8,439)**	**-**	**-**	**-**	**-**	**-**	**-**	**(44,777)**	**(135,730)**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**150,000**	**-**	**-**	**-**	**150,000**
Treasury shares	**(7,253)**	**-**	**(7,253)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,253)**
Profit (Loss) for the year	**306,715**	**-**	**306,715**	**(244,204)**	**(62,511)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**385,435**	**385,435**
Shareholders' equity	**4,388,050**	**(382)**	**4,387,668**	**-**	**(62,511)**	**33,132**	**147,834**	**-**	**-**	**150,000**	**-**	**-**	**340,658**	**4,996,781**

(*) the change in opening balances relating to reserves from profits is due to the first time adoption of IFRS 16 international standard entered into force on 1 January 2019 as detailed in Part A of Explanatory Notes in Financial statements as at 31 december 2019.

Statement of cash flows as at 31 December 2020

Indirect method

(in thousands)

A. Operating activities	31.12.2020	31.12.2019
1.Operations	**765,634**	**796,583**
- profit (loss) for the year (+/-)	143,853	385,435
- gains/losses from financial assets held for trading and financial assets/liabilities measured at fair value through profit and loss (-/+)	(33,440)	(40,601)
- gains (losses) from hedging activities (-/+)	577	1,392
- impairment losses/write-backs for credit risk (+/-)	541,915	388,919
- impairment losses/write-backs to property, plant and equipment and intangible assets (+/-)	153,563	134,999
- net provisions for risks and charges and other expense/income (+/-)	30,787	144,300
- unsettled taxes (+/-)	(75,140)	4,797
- other adjustments (+/-)	3,519	(222,658)
2. Cash generated/absorbed by financial assets	**(14,260,438)**	**2,027,562**
- financial assets held for trading	23,219	12,677
- financial assets designated at fair value	(106)	77,979
- other financial assets mandatorily measured at fair value	(28,395)	93,279
- financial assets measured at fair value through other comprehensive income	492,329	1,850,083
- financial assets measured at amortised cost	(14,864,113)	(108,858)
- other assets	116,628	102,402
3. Cash generated/absorbed by financial liabilities	**12,837,170**	**(2,014,560)**
- financial liabilities measured at amortised cost	13,113,953	(2,087,290)
- financial liabilities held for trading	6,033	25,373
- other liabilities	(282,816)	47,357
Net cash generated/absorbed by operating activities	**(657,634)**	**809,585**

B. Investment activities	31.12.2020	31.12.2019
1. Cash generated by	**26,471**	**36,880**
- disposal of equity investments	272	6,706
- dividends collected on equity investments	6,280	20,469
- disposal of property, plant and equipment	19,919	11,371
- disposal of business lines	-	(1,666)
2. Cash absorbed by	**(205,613)**	**(865,379)**
- purchase of equity investments	(14,344)	(463,629)
- purchase of property, plant and equipment	(94,288)	(79,034)
- purchase of intangible assets	(96,981)	(102,716)
- purchase of business lines	-	(220,000)
Net cash generated/absorbed by investment activities	**(179,142)**	**(828,499)**

C. Funding activities	31.12.2020	31.12.2019
- issues/purchases of treasury shares	773,313	-
- issues/purchases of equity investments	-	180,000
- distribution of dividends and other scopes	-	(62,511)
Net cash generated/absorbed by funding activities	**773,313**	**117,489**
Net cash generated/absorbed in the year	**(63,463)**	**98,575**

Key:
(+) generated
(-) absorbed

Reconciliation

Captions	31.12.2020	31.12.2019
Cash and cash equivalents at the beginning of the year	429,141	330,609
Total net cash generated/absorbed in the year	(63,463)	98,575
Cash and cash equivalents: effect of change in exchange rate	186	(43)
Cash and cash equivalents at the end of the year	**365,864**	**429,141**

Explanatory notes

Key to abbreviations in tables:

FV: Fair value
FV: Fair value excluding variations due to changes in the credit worthiness of the issuer since the issue date*
NV: Nominal or notional value
BV: Book value
L1: Fair value hierarchy – Level 1
L2: Fair value hierarchy – Level 2
L3: Fair value hierarchy – Level 3
X: not applicable

Part A – Accounting policies

A.1 – General information

Section 1 - Declaration of compliance with International Financial Reporting Standards

The financial statements for the year ended 31 December 2020 have been prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), endorsed by the European Commission, as provided by EU Regulation 1606 dated 19 July 2002, and currently in force, including the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

Reference was also made, where necessary, to the "Framework for the preparation and presentation of financial statements" and to the documents prepared by the Italian Accounting Body (OIC) and the Italian Banking Association (ABI).
In the absence of a standard or interpretation specifically applicable to a particular transaction, the Bank makes use of the professional opinion of its own staff, in particular the Administration and Reporting Department, to develop a rule for accounting recognition that makes it possible to provide reliable financial information and to ensure that the financial statements give a true and fair view of the financial position, result of operations and cash flows of the Bank, reflecting the economic substance of the transaction and its key aspects.
In formulating these accounting rules, reference is made as far as possible to International Accounting Standards and interpretations dealing with similar or comparable matters.

As required by IAS 8, the following table shows the new international accounting standards or amendments to standards already in force, with the related Approval Regulations, whose application is mandatory from 2020.

EC Approval Regulation	Title	In force from years beginning
2075/2019	The Commission Regulation (EU) No 2019/2075 of 29 November 2019, published in the Official Journal of the European Union L 316 on 6 December 2019, adopts amendments to references in the conceptual framework in International Financial Reporting Standards. The objective of the amendments is to update existing references in several standards and interpretations to previous frameworks with references to the revised Conceptual Framework.	1 January 2020
2104/2019	The Commission Regulation (EU) No 2019/2104 of 29 November 2019, published in the Official Journal of the European Union L 318 on 10 December 2019, adopts amendments to IAS 1 and IAS 8. The objective of the amendments is to clarify the definition of 'material' to make it easier for companies to make materiality judgements and to enhance the relevance of the disclosures in the Explanatory Notes to the financial statements.	1 January 2020

(cont.)

EC Approval Regulation	Title	In force from years beginning
34/2020	The Commission Regulation (EU) No 2020/34, published in the Official Journal of the European Union on 16 January 2020, adopts amendments to IAS 39, IFRS 9 and IFRS 7. The objective of the amendments is to provide temporary and narrow exemptions to the hedge accounting requirements so that companies can continue to meet the requirements assuming that the existing interest rate benchmarks are not altered because of the interbank offered rate reform.	1 January 2020
551/2020	The Commission Regulation (EU) No 2020/551, published in the Official Journal of the European Union on 22 April 2020, adopts amendments to Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 3. The objective of the amendments is to clarify the definition of a business with a view to facilitating its practical implementation.	1 January 2020
1434/2020	The Commission Regulation (EU) No 2020/1434 of 9 October 2020, published in the Official Journal of the European Union on 12 October 2020, adopts amendements to Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 16. The amendment to IFRS 16 provides optional, temporary COVID-19 related operational relief for lessees benefitting from lease payments holidays without undermining the relevance and usefulness of financial information reported by companies.	1 June 2020

With respect to the regulations that have been endorsed and that came into effect on 1 January 2020, the bank has not identified any significant impacts on the financial statements as at 31 December 2020.

On 28 October 2020, ESMA published a Public Statement with which it announced the priorities on which listed issuers will have to focus in preparing their IFRS-compliant financial statements for 2020, with particular attention to the impacts deriving from Covid-19.

The following table shows the new international accounting standards or amendments to standards already in force, whose application is mandatory from 1 January 2021 or later date (if the financial statements do not coincide with the calendar year).

EC Approval Regulation	Title	In force from years beginning
2097/2020	The Commission Regulation (EU) No 2020/2097 of 15 December 2020, published in the Official Journal of the European Union on 16 December 2020, adopts amendements to IFRS 4. The amendments to IFRS 4 aim to address the temporary accounting consequences of the different effective dates of IFRS 9 "Financial Instruments" and the forthcoming IFRS 17 "Insurance Contracts". In particular, the amendments to IFRS 4 extend the expiry date of the temporary exemption from applying IFRS 9 until 2023 in order to align the effective date of IFRS 9 with the new IFRS 17.	1 January 2021

No significant impacts are expected for the BPER Banca Group from application of these amendments.

Section 2 - Basis of preparation

In terms of the schedules presented and its technical form, these financial statements have been prepared on the basis of Circular 262/2005, as amended (most recently by the 6th amendment dated 30 November 2018, effective from 1 January 2019) – issued in implementation of art. 9 of Legislative Decree 38/2005 – and the additional instructions provided in separate communications not yet incorporated into the main document[22]. During preparation, account has been taken of the interpretative and support documents for the application of the accounting standards in relation to the impacts of Covid-19, issued by the Italian and European regulatory and supervisory bodies and by the standard setters, to the extent applicable[23].

Where not already included in these documents mentioned above, Italian laws on the financial statements of companies[24] and the Italian Civil Code have been taken into consideration.

The financial statements consist of the balance sheet, income statement, statement of other comprehensive income, drawn up in Euro (currency used for the preparation of the financial statements), the statement of changes in shareholders' equity, statement of cash flows and these explanatory notes. They are accompanied by the Directors' report on operations.

The currency used in the financial statements is the Euro. Figures are expressed in thousands of Euro[25].

The general criteria underlying the preparation of the financial statements are presented below:

- *Going Concern:* assets, liabilities and off-balance sheet transactions are measured in the context of continuity over time (see the comments in the "Going concern" paragraph of this Section).
- *Accrual Basis of Accounting:* costs and revenues are recognised on the accrual basis and in accordance with the matching principle, regardless of when they are settled.
- *Materiality and Aggregation:* each material class of similar items is presented separately in the financial statements. Items that are dissimilar in terms of their nature or use are only aggregated if they are individually immaterial.

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[22] *These include the indications contained in the communication of 15 December 2020 with provisions concerning the impacts of Covid-19 and the measures to support the economy and amendments to IAS/IFRS.*

[23] *Amongst others, the following are worth mentioning: the communication from the EBA of 25 March 2020 "Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID 19 measures", the communication of ESMA of 25 March 2020 "Public Statement. Accounting implications of the COVID 19 outbreak on the calculation of expected credit losses in accordance with IFRS 9", the document of the IFRS Foundation of 27 March 2020" IFRS 9 and Covid-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic", the letter from the ECB dated 1 April 2020" IFRS 9 in the context of the coronavirus (COVID 19) pandemic" addressed to all significant institutions, the EBA guidelines of 2 April 2020 "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis", the communication of ESMA of 20 May 2020 "Implications of the COVID-19 outbreak on interim financial reports", The EBA guidelines of 2 June 2020" Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID 19 crisis", the ESMA communication of 28 October 2020" European common enforcement priorities for 2020 annual financial reports", the EBA guidelines of 2 December 2020 "Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis" , the letter from the ECB dated 4 December 2020 "Identification and measurement of credit risk in the context of the coronavirus (COVID 19) pandemic" addressed to all significant institutions, Call for attention by CONSOB no. 1/21 of 16/02/2021 - COVID 19 - measures to support the economy.*

[24] *In particular, Legislative Decree 136 of 18 August 2015 - Implementation of Directive 2013/34 / EU relating to financial statements, consolidated financial statements and related reports of certain types of companies, amending Directive 2006/43 / EC of the European Parliament and of the Council and repealing Directives 78 / 660 / EEC and 83/349 / EEC, for the part relating to the annual accounts and consolidated accounts of banks and other financial institutions, as well as the publication of the accounting documents of branches, established in a Member State, of credit institutions and financial institutions with registered offices outside that Member State, which repeals and replaces Legislative Decree 87.*

[25] *As regards roundings, reference has been made to the instructions given in Circular 262/2005 BI and subsequent updates, entering the amount due to rounding in "Other assets/other liabilities" in the balance sheet and "Other operating expense/income" in the income statement.*

- *Offsetting:* assets and liabilities, income and expenses are not offset unless required or permitted by a standard or an interpretation, or by the Bank of Italy's regulations for the preparation of financial statements.
- *Frequency of disclosures:* information must be prepared annually or more frequently; if an entity changes its accounting reference date, the reason must be indicated together with the fact that the information provided is not comparable.
- *Comparative Information:* comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements, unless required otherwise by a standard or an interpretation.
- *Consistency of Presentation:* the presentation and classification of items is maintained over time to ensure that information is comparable, unless specified otherwise in new accounting standards or their interpretations, or unless a change is required to improve the meaningfulness and reliability of the amounts reported. The nature of changes in account presentation or classification is described, together with the related reasons; where possible, the new criterion is applied on a retroactive basis.

The Explanatory Notes and attachments to the 2020 financial statements provide additional information deemed useful for a complete, true and fair view of the company's situation, even if such information is not expressly required by the regulations.

Uncertainties in the use of estimates

The preparation of the Financial statements requires recourse to estimates and assumptions that may affect the amounts recorded in the balance sheet and the income statement, as well as the information about contingent assets and liabilities. The development of such estimates involves the use of available information and the adoption of subjective assessments, partly based on historical experience, in order to make reasonable assumptions for the recognition of operating events. By their nature, the estimates and assumptions used may change from period to period and, accordingly, it may be that the actual amounts recorded in the financial statements in subsequent periods are significantly different as a consequence of changes in the subjective assessments made.
The principal situations in which management is required to make subjective assessments include:

- quantification of the losses arising from the impairment of loans and, in general, other financial assets;
- determination of the fair value of financial instruments, in particular, the use of measurement models to determine the fair value of financial instruments that are not listed in active markets and those that are not routinely measured at fair value;
- quantification of the provisions for employee benefits and the provisions for risks and charges;
- estimates and assumptions about the recoverability of deferred tax assets;
- measurement of goodwill and other intangible assets.

The following paragraphs explain the accounting methods used to measure the main items in the financial statements, key assumptions and the valuation models used in preparing the financial statements.
With particular regard to the quantification of impairment losses on loans and financial assets, determination of the fair value of financial instruments, the results of the impairment test on goodwill,

the considerations made regarding the recoverability of deferred tax assets, the estimates and assumptions relating to them and used to prepare these financial statements as at 31 December 2020, they may be subject to amendment when new and potentially more reliable information gradually becomes available about the impacts deriving from the spread of Covid-19.
Referring to what is specified by the IASB in its document of 27 March 2020[26], the ordinary valuation models adopted by the BPER Banca Group (in particular the models used to calculate Estimated Credit Losses (ECL) and the Significant Increase in Credit Risk (SICR) within the ambit of IFRS 9 impairment) have not been applied "mechanically", given that the Covid-19 pandemic has brought about a very exceptional situation; valuations have therefore been carried out making reference, for some aspects, to alternative approaches (the so-called "overlay approach" explained in Section 4 below), it being understood that they too comply with IAS/IFRS.

Going Concern[27]

In preparing the financial statements for the year ended 31 December 2020, the Directors considered the going-concern assumption to be appropriate because they did not find any uncertainties related to events or circumstances that, individually or collectively, could give rise to doubts about the going concern.
This assessment took account of the capitalisation of the Bank, which has significant buffer capital with respect to the minimum requirement for 2020 established by the European Central Bank, as well as the liquidity position and related buffer with respect to the regulatory threshold, and the likely outlook for operations despite the uncertainties linked to the current emergency.

Investigations and audits

The Directors believe that the observations arising from the various inspection areas will not have a significant impact in terms of the Bank's results, assets and liabilities and cash flows. In any case, BPER Banca always prepares suitable action plans to implement the Supervisory Authority's recommendations as quickly as possible and discloses the matters in the Directors' report.

[26] *IASB 27 March 2020: "IFRS 9 and Covid-19 – Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of the current uncertainty resulting from the Covid-19 pandemic".*
[27] *As required by document No. 2 issued with joint signature by the Bank of Italy, CONSOB and ISVAP (now IVASS) on 6 February 2009.*

Section 3 – Subsequent events to the reporting date

These financial statements at 31 December 2020 were approved on 16 March 2021 by BPER Banca's Board of Directors, which at the same time authorised their publication.
Information on events falling within the scope of strategic actions and occurring after the reporting date is presented and commented on in the Directors' Report on Group operations in paragraph 3.6 "*Subsequent events to the 31 December 2020*". These events did not affect the financial statements pursuant to IAS 10.
In addition, it should be noted that in 2021 a binding purchase offer was received and accepted for the shares of Cedacri s.p.a. held by BPER Banca. This offer, which featured some conditions precedent, presents a higher value than the one used in preparing the financial statements as at 31 December 2020 as an expression of the value of a different type of investment from the one currently held (i.e. reflecting a new industrial project able to accelerate technological innovation and with the prospect of reducing costs for client banks). Management is therefore of the opinion that the price offered can be considered in determining the fair value of the shares in question, subject to fulfilment of the contractual conditions precedent. The internal valuation carried out by the BPER Banca when preparing the financial statements as at 31 December 2020 is based on the objectives defined in the latest strategic planning document approved by the current shareholders on the basis of a different industrial project from the offer mentioned above.

Section 4 – Other aspects

Risks, uncertainties and impacts of the Covid-19 pandemic

For an analysis of the effects of the pandemic on the risks and uncertainties to which the BPER Banca Group is exposed, please refer to the Chapter entitled "*Principal risks and uncertainties*" in the Directors' Report on Group operations accompanying the consolidated financial statements.

The change in the general and sector macroeconomic situations starting in the second quarter of 2020 has required banks to update their measurements of credit risk. This parameter has, in fact, been heavily affected by uncertainties linked to the spread of the Covid-19 pandemic and the related containment measures, as well as by the scale and duration of the public support measures.
The emergency has also imposed on BPER Banca the need to govern the impacts on credit risk and the balance sheet assessments connected to it.
In this regard, the Parent Company has carried out analyses to identify the best methods of intervention on the credit risk measurement and forecasting systems, aligning them with the current context and trying to avoid being excessively pro-cyclical in the definition of collective provisions, as indicated by the Regulators, among others (especially ESMA and ECB).
The BPER Banca has implemented the various instructions issued by the Italian government[28] (including the suspension of loan instalment payments – the "Covid-19 moratoria") and affirmed its commitment to support business and private customers, at the same time identifying the best methods of recognition

[28] *Decree Law 18 of 17 March 2020; Liquidity Decree 23 of 8 April 2020; Relaunch Decree of 13 May 2020.*

and presentation in the financial statements of these measures, in accordance with its accounting policies and instructions from the Regulators.
Below are some concepts relating to the recognition, classification, measurement and derecognition of "Financial assets measured at amortised cost", represented by loans disbursed, adopted for the preparation of the financial statements as at 31 December 2020, to which reference was made to direct the consequences of the Covid-19 pandemic. There is also an explanation of the method of application of the overlay approach, already introduced in the previous paragraph “Uncertainties in the use of estimates” in Section 2.

For the other methods used in the recognition, classification, measurement and derecognition of income statement items, please refer to Part A.2 of the Explanatory Notes.
In fact, the BPER Banca did not feel the need for further interventions on the valuation methods of the items in the financial statements regulated, in particular, by IFRS 16 (also based on what is discussed below in relation to the contractual modifications), by IAS 19 and by IFRS 2, deeming the effects of the Covid-19 pandemic on these measurements to be immaterial. In relation to the valuations governed by IAS 36, please refer to the comments on Intangible assets with an indefinite useful life, particularly the information provided in Part B concerning the impairment test of goodwill, performed using financial forecasts of the BPER Banca Group and the individual CGUs updated according to the most recent macroeconomic scenarios released by the leading Italian company specialising in the processing of such data, to which the Group refers.

Contractual modifications resulting from Covid-19

1) *Contractual modifications and accounting derecognition (IFRS 9)*

The accounting treatment adopted by the BPER Banca for contractual modifications made to financial assets already recognised in the financial statements generally requires reflection of the amendments made to exposures known to be in financial difficulty (classified as forborne exposures) in the value of the loan, with an impact on income statement caption "Gains/losses from contractual modifications without derecognition" (so-called "modification accounting").
As stated by the EBA in the "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis" dated 4 April 2020, moratoria granted to customers pursuant to the law and sector agreements (ABI agreements), are not considered indicators of financial difficulty for the purpose of classifying the individual positions concerned as forborne exposures (with consequent inclusion in Stage 2). The internal moratoria, granted to customers on the initiative of the BPER Banca, were agreed in a "standardised" manner on simple receipt of their applications. In this sense, the characteristics of the internal moratoria are similar to those of the law and, therefore, are not deemed to represent the provision of assistance for financial difficulties. In relation to all internal moratoria, the Parent Company carried out qualitative and quantitative analyses to check for earlier signs of temporary difficulty (considering the last six months of 2019) that would have required action for the mitigation of credit risk, with possible classification of the counterparties in Stage 2 and a related increase in ECL. The results of this analysis led to the identification of a series of debtors with potential financial difficulties that was fairly limited compared with the total exposures to counterparties subject to moratoria and confirmed that most of these customers were already classified in Stage 2 and therefore with ECL calculated with a probability of default assessed from a lifetime perspective.

In application of the BPER Banca policy, none of the Covid-19 moratoria qualify as forbearance measures and, therefore, have not been recognised in accordance with modification accounting.

2) *Amendment of IFRS 16*

The amendment to IFRS 16 concerning contractual modifications to lease payables made to take into account the situation caused by the Covid-19 pandemic did not have significant effects on the BPER Banca, as it did not make any modification to lease payables in the year 2020 due to spread of the pandemic.

Accounting estimates -Overlay approach applied in credit risk assessment

1) *Assessment of a significant increase in credit risk (SICR)*

The interventions resulting from the situation brought about by the pandemic on the SICR model adopted by the BPER Group consisted of the following:

- implementation of the EBA's recommendations made on various occasions during 2020 regarding the treatment of moratoria ("by law" and "by category"), with consistent indications incorporated into internal procedures and processes;
- interventions of "expert" classification in Stage 2 of counterparties operating in sectors of the economy most hit by the crisis, also with an intrinsic riskiness highlighted by higher internal ratings than the sector average, which was assessed as having encountered situations of financial difficulty on the basis of reasoned assumptions, taking into account the possible granting of Covid-19 moratoria; such interventions have gone to integrate the automatisms already foreseen by the SICR model.

More specifically, as regards implementation of the EBA's guidelines on moratoria in the Covid-19 era, the Group has regulated internally the methods of analysing counterparties requesting a moratorium or its renewal, with timely updates of EBA's publications, which took place in April, September and December 2020. Consequently, the processes needed for case-by-case identification of forbearance measures, suspended only for the “by law” and "by category" moratoria between March and September 2020, were then restored.

For the expert intervention for the attribution of Stage 2, a different approach was adopted according to the type of customer. For the Corporate Segment, the sectors with the greatest difficulties linked to the pandemic and its economic consequences (so-called "vulnerable sectors") were identified first, considering factors in this analysis indicative of a significant increase in credit risk that are as objective as possible (e.g. expected drop in turnover in 2020) and high internal ratings. In these cases, if the normal procedures had not already intercepted the riskiness of the counterparties, stage 2 was assigned. For the Retail Segment, the first loans to be considered were those that obtained a suspension of payments under the so-called "Gasparrini Law" which, due to the characteristics required for access (e.g. death of a joint holder, redundancy pay for at least 30 consecutive days, loss of job), was considered in itself an objective indicator of potential financial difficulty of the debtor, leading to the assignment of Stage 2 in this case too (if the counterparties had not already been intercepted by other automatisms of the staging model).

In addition, those exposures (in both the Retail and Corporate Segments) benefiting from Covid-19-related moratoria that presented a significant level of risk even before the outbreak of the pandemic

were also considered potentially attributable to stage 2. The methods of identifying "vulnerable sectors", on which the expert intervention focused, were verified by the Risk Management Department.
The "expert" interventions carried out to supplement the automatisms of the IFRS 9 staging model adopted by the Group were also accompanied by some further refinements made to the model. These referred, in particular, to the estimate of the expected loss on sight and short-term exposures, more effective identification of the original rating and recalibration of the interception threshold of the "PD delta".
This set of interventions raised the number of positions classified to Stage 2, which at 31 December 2020 reached a gross exposure of Euro 4.6 billion. In addition, the average coverage of this portfolio increased by approximately 8 bps compared with the equivalent figure in September.

2) *Measurement of expected losses*

Performing
When applying the ECL model used by the BPER Banca Group in preparing the financial statements as at 31 December 2020, a number of scenario simulations were carried out to identify the macroeconomic forecasts that could best help intercept the unexpressed riskiness of the Group's loan portfolio as a consequence of the fact that the credit monitoring system was not able to intercept all possible signs of deterioration in credit quality, also in consideration of the support measures that had been agreed; this in compliance with the indications and expectations of the Supervisory Authorities, being well aware that the effects of the pandemic will contaminate credit quality for a long time to come.
More specifically, the simulations took into considerations the most up-to-date macroeconomic scenarios with respect to the end of 2020, including those prepared by the ECB/Bank of Italy in December 2020 (intended as a "backstop" with respect to the recovery expectations), and the consequent updates as of the same date prepared by the leading company that specialises in the preparation of forecasts to which the Group refers. Both scenario hypotheses are based on a forward-looking approach which, although rigorous and/or stressed, still makes it possible to see, in the near future, an improvement with respect to the loss forecasts estimated and accounted for during the course of 2020 on the basis of the scenarios developed in the most acute period of the pandemic (published in June 2020), which included a foreseeable deterioration in the credit quality of customers which is thought not to have been fully manifest so far, thanks to government support measures.
Considering it appropriate to monitor the probable deterioration in credit quality, which is expected to start revealing itself once the support measures have expired, when progressively less robust customers will begin to show signs of insolvency, the BPER Banca Group has decided to intervene with a "top-down corrective", essentially designed to build into the model specific monitoring of the probable deterioration in credit quality; this intervention was made on the basis of the June 2020 macroeconomic scenario mentioned above, applied to a database that was in any case updated following the interventions carried out on the IFRS 9 staging criteria, as explained in the previous section.

Non-performing
As regards the analytical assessments applied to the non-performing portfolio, specifically to the category of bad and unlikely to pay loans, to take into account the substantial inactivity of the courts during the lock-down period and consequent lengthening of judicial recovery times of its credit exposures, the Group decided to intervene by reviewing the business plans formulated before the pandemic. This review led to a general increase in analytical adjustments on bad loans (particularly

positions with judicial execution already underway) and on unlikely to pay loans (assessed as a "gone concern").

These various interventions led to a final cost of credit of 100 bps on total loans to customers, which compares with a 2020 budget, prior to the spread of the pandemic, of 73 bps.

Domestic tax group election

BPER Banca has elected to establish a Domestic Tax Group, which was introduced by Legislative Decree 344/2003 and subsequent amendments and is governed by arts. 117-129 of the Consolidated Income Tax Law.
Under this arrangement, which is binding for three years, the subordinate members transfer their results to the parent, for fiscal purposes only, which then calculates a single consolidated taxable income or tax loss.
Finitalia s.p.a., Arca Fondi Sgr s.p.a. and Arca Holding s.p.a. have been included from 1 January 2020.
The renewal of Emilia Romagna Factor s.p.a. for the three-year period 2020-2022 was requested on 27 November 2020 at the time the consolidating company's income tax return was filed.
Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a. were absorbed by BPER Banca s.p.a. on 27 July 2020.

Consolidated companies	2018	2019	2020	2021	2022
Bibanca s.p.a.	x	x	x		
Banco di Sardegna s.p.a.		x	x	x	
Optima s.p.a. SIM		x	x	x	
Emilia Romagna Factor s.p.a.			x	x	x
Sardaleasing s.p.a.	x	x	x		
SIFA' - Società Italiana Flotte Aziendali s.p.a.	x	x	x		
BPER Trust Company s.p.a.		x	x	x	
Nadia s.p.a.		x	x	x	
Finitalia s.p.a.			x	x	x
Arca Fondi Sgr s.p.a.			x	x	x
Arca Holding s.p.a.			x	x	x

Information on public disbursements pursuant to art. 1, paragraph 125 of Law 124 of 4 August 2017 ("Annual market and competition law")

It has to be said by way of introduction that Law 124 of 4 August 2017 "Annual law for the market and competition" (hereafter Law 124/2017) introduced a series of measures designed to ensure transparency in the public disbursements system (art. 1, paragraphs 125[29] to 129). In particular, this law states that the companies must provide in the Explanatory Notes to the financial statements and in any consolidated Explanatory notes, information relating to "grants, contributions, remunerated offices and economic advantages of any type" (hereinafter referred to as "public disbursements") received from public administrations and other subjects indicated by the said law. Non-compliance with the disclosure

[29] *Paragraph expanded by art. 35 of Decree 34/2019. Paragraphs 126 to 129 not amended.*

requirement results in an administrative penalty of 1% of the amount received, with a minimum of Euro 2,000. At a later stage, the law requires return of the public disbursement[30].
In order to avoid the accumulation of insignificant information, the there is no disclosure requirement for public disbursements of less than Euro 10,000 received by the same party.

As of August 2017, the National State Aid Register is active in the Executive Board for incentives to companies of the Ministry of Economic Development, in which State aid and de minimis aid payments to any company by subjects that grant or manage such aid have to be published. For individual aid for BPER Banca Group companies, please refer to the "Transparency of the Register" section, which can be accessed by the public.
That said, in compliance with the provisions of art. 1, paragraph 125, of law 124 of 4 August 2017, the amounts collected during 2020 by the BPER Banca by way of "grants, contributions, remunerated offices and economic advantages of any type" are listed below.

BPER Banca Group companies	Type of grants	Amounts received in 2020
BPER Banca s.p.a.	Regulation for inter-professional funds for continuing education for the granting of exempted State aid pursuant to EC regulation 651/2014 and in a de minimis arrangement pursuant to EC regulation 1407/2013	586
BPER Banca s.p.a.	Ciematographic productions	540

The amounts received by BPER Banca include Euro 368 thousand relating to plans presented by Unipol Banca and paid to BPER Banca after the merger which took place in November 2019 and Euro 5 thousand relating to plans presented by CR Saluzzo and paid to BPER Banca after the merger which took place in July 2020.

Audit

The financial statements of BPER Banca S.p.A. have been audited by Deloitte & Touche s.p.a., which was appointed for the period 2017-2025 at the Shareholders' Meeting held on 26 November 2016, as required by Legislative Decree 39 of 27 January 2010.

[30] *As stated in Assonime Circular 32 dated 23 December 2019.*

A.2 – Main captions in the financial statements

Classification of Financial assets - Business Model and SPPI test (captions 20, 30 and 40)

IFRS 9 requires financial assets represented by loans and receivables and debt securities to be classified into three accounting categories, using the following criteria:

- the business model used to manage them;
- the contractual characteristics of the cash flows of financial assets (or SPPI tests).

The classification of financial assets depends on a combination of these two criteria, as indicated below:

- Financial assets measured at amortised cost (AC): assets that include the "Hold to collect" business model (HTC) and pass the SPPI test;
- Financial assets measured at fair value through other comprehensive income (FVTOCI): assets that include the “Hold to Collect & Sell” business model (HTCS) and pass the SPPI test;
- Financial assets measured at fair value through profit or loss (FVTPL): assets that provide for an "Other" business model or, on a residual basis, assets that cannot be classified in the previous categories due to the negative outcome of the SPPI test.

Business Model

The Bank has identified its own Business Models taking into consideration the core business sectors in which it operates, the strategies adopted to date in order to realise the cash flows of the assets in portfolio, as well as the strategic forecasts of business development.

The Bank's core business is related to the generation and management of credit relationships for the Retail and Corporate sectors (including Large Corporate) and, therefore, follows a logic of holding them presumably until they expire in order to collect the contractual cash flows. According to IFRS 9, this operation is attributable to a "Hold to Collect" type Business Model.

Another sector of activity for the Bank, supporting the pursuit of banking objectives, is the Finance sector which includes the balance sheet and income statement items of the Bank deriving from treasury activities, management of proprietary portfolios, access to financial markets and specialist operational support to the sales network.

For the purpose of identifying the Business Model in the Finance sector, the analysis linked the relevant activities carried on by the Bank finance department to management of the Bank's proprietary portfolios. It is therefore possible to identify the following proprietary portfolios:

- Investment Banking Book*,* consisting of the set of instruments managed collectively in order to reduce volatility on the interest margin. This type of portfolio mainly pursues a strategy of holding financial instruments to maturity, thereby sterilising market risk.

  The strategy of this portfolio therefore involves management of the principal risks such as credit risk, interest rate risk and sovereign risk.

  In application of IFRS 9, this portfolio has been included in the "Hold to Collect" Business Model.
- Liquidity Banking Book*,* consisting of a set of financial instruments whose strategy is aimed at holding them with the aim of managing liquidity and optimising the risk-return profile at Group level. This type of portfolio pursues investment strategies in order to:
  - optimise the interest margin;

  - increase the amount of assets that can be readily liquidated to mitigate the Group's exposure to liquidity risk;
  - diversify credit risk.

  The strategy of this portfolio therefore involves management of the principal risks such as credit risk, interest rate risk, market risk and sovereign risk.

  In application of IFRS 9, this portfolio has been included in the "Hold to Collect and Sell" Business Model.
- Trading portfolio, consisting of a set of financial instruments for trading purposes (government securities, ETFs, structured securities, UCITS units, ABS, etc.), guaranteeing the management of market risk. The profit purpose of this portfolio is mainly pursued through the change in the fair value of the instruments.

  The strategy of this portfolio therefore involves management of the principal risks such as credit risk, interest rate risk and sovereign risk.

  In application of IFRS 9, this portfolio has been included in the "Other" Business Model.
- Customer Trading Portfolio, consisting of financial assets repurchased from customers, or held to offer an investment service to them (residual portfolio).

  In application of IFRS 9, this portfolio has been included in the "Other" Business Model.
- Capital Market, consisting of financial instruments held for market making on securities (government, supranational, corporate, covered bond and government guaranteed debt securities), guaranteeing the management of market risk. The profit purpose of this portfolio is mainly pursued through the change in the fair value of the instruments. The strategy of this portfolio therefore involves management of the principal risks such as market risk, credit risk, interest rate risk and sovereign risk.

  In application of IFRS 9, this portfolio has been included in the "Other" Business Model.

IFRS 9 envisages the possibility of modifying the Business Model, highlighting that the situations that lead to this change are “very infrequent”, to be attributed to significant events (internal or external) that affect the management strategy (and therefore derive from decisions of Senior Management of the Entity); in addition, they must be adequately supported by resolutions and linked to events or objective facts evidenced also towards third parties.
The change in business model must also take place before the consequent reclassification of the assets affected by that change, which is possible only on the first day of the next reporting period.

Regarding the combination of frequency and significance thresholds, the Bank has defined quantitative limits (both in relative terms with respect to the portfolio size, and in absolute terms) to be applied to sales made on the “Hold to Collect” portfolio.
It also defines the concepts of "proximity to maturity", identifying the 12 months prior to the repayment date, and "increasing credit risk" in line with the staging criteria described below (classification in Stage 2 allows the sale of instruments).

SPPI Test

In order to analyse the characteristics of the contractual cash flows deriving from financial assets (loans and receivables, and debt securities), the BPER Banca has defined an SPPI test based on 12 decision-making trees, so as to consider all the contractual characteristics relevant to the test.
The BPER Banca has also adopted some assumptions regarding both the loan portfolio and the debt securities portfolio. The main choices are shown below.

- in relation to the debt securities portfolio, the mutual fund units, both open and closed-end, fail the SPPI test. In relation to the securities issued as part of securitisation transactions, for the purposes of credit risk assessment it has been assumed that the mezzanine and junior tranches generally bear a higher credit risk than the average risk of the underlying portfolio of instruments and, consequently, fail the test;
- in relation to the Benchmark Cash Flow Test (BCFT) required in situations of mismatch between "tenor" and periodicity of the "refixing" of interest rates, it was agreed that the change in the "time value of money element" should be considered significant for instruments indexed to parameters with a tenor higher than a year and, consequently, these fail the SPPI test.

The following are references to the accounting policies applied for the main items in the financial statements or transactions, where applicable, in preparing the financial statements.

1. Financial assets measured at fair value through profit or loss

Recognition

Financial assets represented by debt or equity instruments are initially recognised on the settlement date, while derivative contracts are recognised on the date of signature.
In particular, any changes in the fair value of the asset to be received between the settlement date and the earlier arrangement date are recognised at the time of settlement, in the same way in which the asset acquired is recorded.
Financial assets measured at fair value through profit or loss are initially recorded at fair value; unless stated otherwise, this is represented by the consideration paid for the transaction, without considering any related costs or income attributable to them, which are recorded directly in the income statement.

Classification

a) financial assets held for trading

Financial assets held for trading comprise those whose business model is defined as "Other". This business model applies to financial assets whose cash flows will be generated from their sale.
This also includes equity securities held for trading, for which it is not possible to exercise the irrevocable choice to present subsequent changes in fair value in the statement of other comprehensive income.
Additionally, the model includes investments in mutual funds that are held for trading.

b) financial assets designated at fair value

This category comprises the financial assets for which the fair value option has been exercised.

c) other financial assets mandatorily measured at fair value

This category includes financial assets whose business model is defined as "Hold to Collect" or "Hold to Collect & Sell", but which fail the SPPI test and therefore do not satisfy the requirements for classification therein.
It also includes equity instruments not held for trading for which no irrevocable election was made to recognise subsequent changes in fair value in the statement of other comprehensive income.
Additionally, the category includes investments in mutual funds that are not held for trading.

Measurement

Subsequent to initial recognition, these assets continue to be measured at fair value. If the fair value of derivatives classified as "financial assets held for trading" becomes negative, this caption is recognised as a financial liability.
The methods used to determine the fair value are reported in part A.4 "Information on fair value" of these Explanatory notes.

Derecognition

Financial assets are derecognised when the contractual rights to the cash flows deriving from them expire, when substantially all the risks/benefits associated with them are assigned, or when substantial changes are made to them.
If the Bank sells a financial asset classified among the "*Financial assets measured at fair value through profit or loss*", it is derecognised on the transfer date (settlement date).

Recognition of components affecting the income statement

The positive components of income, represented by the interest income deriving from financial assets classified as "Financial assets measured at fair value through profit or loss", are recognised on an accruals basis in the "interest" captions of the income statement.
Gains and losses deriving from changes in the fair value of "Financial assets measured at fair value through profit or loss – financial assets held for trading" are recognised in income statement caption "Net income from trading activities".
Gains and losses deriving from changes in the fair value of financial assets designated at fair value are recognised in income statement caption "Net results of financial assets and liabilities measured at fair value through profit or loss – assets and liabilities designated at fair value", while the financial assets that must be measured at fair value are recognised in caption "Net results of other financial assets and liabilities measured at fair value through profit or loss – other financial assets that must be measured at fair value".

2. Financial assets measured at fair value through other comprehensive income

Recognition

Financial assets represented by debt or equity instruments are initially recognised on the settlement date, while loans are recognised on the pay-out date.
On initial recognition, these financial assets are recorded at their fair value, which usually corresponds to the consideration paid, inclusive of the transaction costs or income directly attributable to the instruments concerned.

Classification

This category comprises:

- financial assets whose defined business model is "Hold to Collect & Sell" (HTC&S) and whose contractual terms pass the SPPI test;
- investments in equity instruments, not held in the context of a trading business model, for which an irrevocable election was made on initial recognition to record subsequent changes in fair value in the statement of other comprehensive income.

Measurement

Subsequent to initial recognition, these financial assets continue to be measured at fair value. Changes in the fair value of financial assets included in the HTC&S business model (debt securities) are classified in a specific equity reserve, net of Expected Credit Losses and the related tax effect. Changes in the fair value of investments in equity instruments for which the above irrevocable election was made are also classified in a specific equity reserve, net of the related tax effect.

Derecognition

Financial assets are derecognised when the contractual rights to the cash flows deriving from them expire, when substantially all the risks/benefits associated with them are assigned, or when substantial changes are made to them.

If the Bank sells a financial asset classified among the "Financial assets measured at fair value through other comprehensive income", it is derecognised on the transfer date (settlement date).

Recognition of components affecting the income statement

The components of income deriving from "Financial assets measured at fair value through other comprehensive income", excluding investments in equity instruments for which the above irrevocable election has been made, are recognised as described below:

- interest is calculated using the effective interest rate, i.e. the rate that exactly discounts cash flows over the expected life of the instrument (IRR rate). The IRR is determined taking into account any discounts or premiums on the acquisition, costs or commissions that are an integral part of the carrying amount;
- Expected Credit Losses recognised during the period are recorded in the caption "Net impairment losses for credit risk relating to: b) financial assets measured at fair value through other comprehensive income";
- on derecognition, the amount accumulated in the specific equity reserve is released to the income statement caption "Gains/losses on disposal/repurchase of: b) financial assets measured at fair value through other comprehensive income".

With regard to investments in equity instruments for which the above irrevocable election has been made, only the related dividends are recognised in the income statement, in the caption "Dividends and similar income". Changes in fair value subsequent to initial recognition are recorded in a specific equity reserve; on derecognition, the amount accumulated in the above reserve is not released to the income statement, but is reclassified among the profit reserves.

3. Financial assets measured at amortised cost

Recognition

Financial assets represented by debt instruments are initially recognised on the settlement date, while loans are recognised on the pay-out date; this caption includes:

- loans to banks;
- loans to customers.

The initial value reflects the fair value of the financial instrument, generally representing the amount of the loan granted inclusive of the costs/income directly attributable to each instrument, or the subscription price in the case of debt instruments.

Factoring operations give rise to exposures to assignors representing loans disbursed for with-recourse assignments and exposures to assigned debtors representing the fair value of the receivables purchased versus without-recourse assignments. The first registration of a loan takes place on the date of sale following the signing of the contract (in the case of without-recourse assignment) and coincides with the disbursement date for with-recourse assignments.

For the assignor and factor, this activity entails an assessment of the presence or not of the conditions required by IFRS 9 for derecognition (a company can cancel a financial asset from its financial statements only if, as the result of a sale, it has transferred the risks and benefits connected with the instrument sold, or if and only if: a) the financial asset is transferred and with it substantially all the contractual risks and rights to the cash flows deriving from the asset expire; b) the benefits connected to its ownership cease to apply and consequent recognition on the factor's side.

To assess effective transfer of risks and benefits, it is necessary to compare the assignor's exposure to the variability of the current value or of the cash flows generated by the financial asset transferred, before and after the sale. The assignor essentially maintains all the risks and benefits when its exposure to the 'variability' of the present value of the net future cash flows of the financial asset does not change significantly following its transfer. Instead, transfer occurs when the exposure to this 'variability' is no longer significant.

The most frequently used forms of transfer of a financial instrument may have profoundly different accounting effects:

- in the case of a without-recourse assignment (without any guarantee obligation), the assets transferred can be cancelled from the transferor's financial statements;
- in the case of a with-recourse transfer, it is to be assumed that in most cases the risk associated with the asset sold remains with the seller and therefore the sale does not meet the requirements for derecognition of the instrument in question; only the amounts paid to the assignor as an advance of the consideration will be recorded.

Verification of the derecognition criteria, in the context of the without-recourse assignments underlying the factoring activity, also takes into consideration the risk mitigation clauses adopted by the Bank through specific contractual provisions agreed with the assignors. These are clauses aimed at defining the limits on the individual debtors transferred, absolute and relative deductibles, so-called "bonus-malus" clauses and late payment.

Loans to customers also include receivables for finance leases (as lessor), including finance lease transactions involving assets under construction and those waiting to "earn income" in the case of contracts with transfer of risks (or in the event that the risks are transferred to the lessee prior to the taking over of the asset and the start of the lease contract).

Classification

This category comprises the financial assets whose defined business model is "Hold to Collect" and whose contractual terms pass the SPPI test.

The "Financial assets measured at amortised cost" caption includes loans to customers and loans to banks.

These captions comprise commercial loans, repurchase agreements, loans originated by finance leases (recognised using the "financial method" pursuant to IFRS 16) and debt securities.

The Bank has classified financial instruments (loans) purchased without recourse as "Financial assets measured at amortised cost", after checking that no contractual clauses prevent the transfer of substantially all risks and benefits. Advances paid to the assignor of portfolios purchased with recourse are also classified in that category.

Measurement

After initial recognition, loans are valued at their amortised cost, corresponding to the initially recognised amount less principal repayments, net adjustments and amortisation - calculated using the effective interest method – of the difference between the amount paid out and the amount repayable on maturity, which is generally attributable to the costs/income directly allocated to the individual loans.

The effective interest rate is the rate that discounts the flow of estimated payments over the expected duration of the loan back to its initial net book value, inclusive of directly-related costs and revenues. In financial terms, this method of recognition distributes the economic effect of these costs and revenues over the expected residual life of the loan.

The amortised cost method is not used in relation to short-term loans (up to 12 months), since the effect of discounting would be negligible. These loans are stated at historical cost.

Costs and revenues relating to loans without a fixed term or repayable on demand are recorded directly in the income statement.

At each reporting date, financial assets measured at amortised cost are adjusted for impairment by recognising any Expected Credit Losses. Any adjustments are recorded in the income statement.

The following items fall within this sphere, with specific assessment methods:

- Non-performing loans (in "Stage 3") which have been assigned the status of bad, unlikely to pay or past due loans in compliance with the current rules of the Bank of Italy's supervisory regulations, in line with IAS/IFRS and European supervisory regulations[31]. The amount of the adjustment of each balance is equal to the difference between its carrying value at the time of measurement (amortised cost) and the present value of expected future cash flows. The estimate of expected cash flows, also formulated in relation to possible recovery scenarios, comes from assessing analytically the position of bad loans and unlikely to pay loans with exposures above the thresholds set by internal procedures. The expected losses on UTP loans

[31] The scope of non-performing loans (or those in default) defined in art. 178 of EU Reg. 575/2013 (CRR) has been updated with reference to the EBA Guidelines for applying the definition of default and the subsequent EU Reg. 1845/2018. The BPER Banca has applied the "New Definition of Default – NDoD" using the "2-step approach" from October 2019. This has involved:

- *necessary alignment of internal classifications within the Group;*
- *application of the new materiality thresholds to credit obligations past due, without any offset between lines of credit;*
- *application of the new concept of "unlikely to pay", in relation to which a change in NPV of more than 1% following contractual modifications is considered substantial;*
- *application of the new "classification contagion" rules to counterparties that are associated with or belong to groups of connected customers;*
- *application of rules for managing the cure period that, in addition to an observation period of 12 months for forborne positions, envisages a minimum period of 3 months for other UTP positions.*

below the thresholds established by internal regulations and on past due loans are determined using statistical impairment methodologies. For further details on the models adopted by the BPER Banca Group to estimate the Expected Credit Losses (ECL) on non-performing loans, please refer to paragraph 22 below, entitled "Methods for determining impairment losses - Impairment". Any adjustments are recorded in the income statement.
The original value of loans is reinstated in subsequent periods, to the extent that the reasons for the provisions made cease to apply, on condition that this assessment is objectively linked with events that took place subsequent to such impairment loss. Possible write-backs, also recognised in the income statement, may not exceed the amortised cost that the loan would have had if no impairment losses had been recognised previously.
- Ordinary loans, classified as performing loans, feed "Stage 1" and "Stage 2"; the measurement is carried out periodically in a differentiated manner, according to ECL model adopted by the BPER Banca Group, at 12 months or lifetime, respectively, the characteristics of which are summarised in paragraph 22 “Method for determining the extent of impairment”.

Forborne exposures, which by their nature can be classified as either non-performing or performing, are subject to the same valuation methods described above. If these are performing loans, the classification is in Stage 2. In the case of forborne exposures, contractual modifications made subsequent to initial recognition generally result in a change in the amount of the loan, with an impact on income statement caption 140. "Gains (Losses) from contractual modifications without derecognition".
With regard to the procedures for identifying forborne loans, please refer to the indications provided in Part E - Credit risk of these Explanatory Notes.
As stated by the EBA in the "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis" dated 4 April 2020, moratoria granted to customers pursuant to the law and sector agreements (ABI agreements), are not considered indicators of financial difficulty for the purpose of classifying the individual positions concerned as forborne exposures (with consequent inclusion in Stage 2). The internal moratoria, granted to customers on the initiative of the BPER Banca, were agreed in a "standardised" manner on simple receipt of their applications. In this sense, the characteristics of the internal moratoria are similar to those of the law and, therefore, are not deemed to represent the provision of assistance for financial difficulties.
In application of the BPER Banca policy, none of the Covid-19 moratoria qualify as forbearance measures and, therefore, have not been recognised in accordance with modification accounting.

Derecognition

Financial assets are derecognised when the contractual rights to the cash flows deriving from them expire, when they are assigned with transfer of substantially all the risks/benefits associated with them, or when substantial changes are made to them (including, for example, change of the debtor, modification of the reference currency, modification of the technical form of disbursement, or introduction of clauses that could modify the positive outcome of the SPPI test).
If the Bank sells a financial asset classified among the "Financial assets measured at amortised cost", it is derecognised on the transfer date (settlement date).

Recognition of components affecting the income statement

The interest on instruments measured at amortised cost (loans to banks and loans to customers) is calculated using the effective interest method, i.e. using the rate (IRR) that discounts the related cash flows exactly over the expected life of the instrument concerned. The IRR and, therefore, the amortised

cost are determined having regard for any acquisition discounts or premiums, costs or commissions that are an integral part of the discounted cost.
Interest on non-performing loans is calculated on the net exposure of the Expected Credit Losses.
Write-downs or write-backs deriving from the model of adopted Expected Credit Losses are recognised in the income statement in the caption "Net impairment losses for credit risks".
Amounts deriving from alignment of the carrying amounts of financial assets to reflect changes in their contractual cash flows that do not result in accounting derecognition are recognised in income statement caption "Gains (Losses) from contractual modifications without derecognition".

4. Hedging operations

From 1 July 2020, the BPER Banca has adopted Chapter 6 Hedge Accounting of IFRS 9.

Recognition
Hedges are arranged to neutralise losses that may be incurred in relation to a given element or group of elements, as a consequence of a given risk, via profits that would be earned on another element or group of elements should that particular risk crystallise. There are two types of hedge:
- fair value hedges: arranged to hedge the exposure to changes in the fair value of a balance sheet caption;
- cash flow hedges: arranged to hedge the exposure to changes in future cash flows attributable to specific balance sheet captions.

Classification
Financial instruments are designated as hedges when the relationship between the hedged and the hedging instrument is adequately documented and formalised, if the hedge is effective both at the start and prospectively throughout its life.

Measurement
Hedging derivatives are measured at their fair value.
Specific tests are carried out to verify the effectiveness of the hedging operation. The effectiveness of the hedge depends on the extent to which changes in the fair value of the hedged instrument, generated by a change in the risk factor being hedged, are offset by those of the hedging instrument. For hedging to be effective, it must be carried out with an external counterparty.
The method of accounting for the gains and losses deriving from changes in fair value depends on the type of hedge:
- fair value hedge: the change in the fair value of the hedged element representing the hedged risk is recognised in the income statement, together with the change in the fair value of the derivative instrument; any difference, which represents the ineffective portion of the hedge, determines the consequent net economic effect.
- cash-flow hedge: to the extent that the hedge is effective, changes in the fair value of the derivative are recognised in shareholders' equity; they are only recognised in the income statement when changes in the cash flows from the hedged item need to be offset, or when the hedge becomes ineffective.

In application of the standard, hedging relationships must satisfy the following requirements:

- there has to be an economic relationship between the hedged item and the hedging instrument;
- there must not be a predominance of credit risk within the fair value changes relating to this economic relationship;
- the definition of a hedge ratio that identifies the quantities of hedged items and hedging instruments considered in the hedging relationship, so as not to create a mismatch that generates an element of ineffectiveness that does not correctly reflect the objectives of the hedge.

The BPER Banca monitors compliance with these requirements when defining the hedging strategy and throughout its duration; in particular, the presence of an economic relationship between the hedged item and the hedging instrument is identified in the first instance through a qualitative analysis of the characteristics of the two instruments and, in the event that they are imperfectly matched, a further quantitative analysis is carried out to verify the presence of a high degree of prospective correlation between the two (so-called "prospective hedge effectiveness testing" as explained below).

Even if not required by IFRS 9, for the sole purpose of further confirming the qualitative verification that there is an economic relationship between the hedged item and the hedging instrument, the BPER Banca has chosen to maintain the pre-existing system of quantitative tests to verify the effectiveness of hedging relationships (adapted to the new characteristics of the relationships) according to the so-called "Dollar Offset Method". This method involves comparing the change in fair value of the hedging instrument with that of the hedged instrument within a given time frame. The two changes must be attributable only to the type of risk being hedged.

The BPER Banca confirms the existence of the economic relationship when changes in the fair value of (or cash flows from) the hedging instrument, caused by the hedged risk factor, almost entirely offset those of the hedged instrument (the percentage limits fall into the range between 80% to 125%).
This monitoring is carried out on a quarterly basis, using:

- prospective tests that justify the application of hedge accounting, by demonstrating the expected effectiveness of the hedge, especially in situations of imperfect matching between the characteristics of the hedging instrument and the hedged item;
- retrospective tests that show the effectiveness of the hedge during the period under review. In other words, they measure by how much the actual results differ from the perfect hedge, even if they no longer provide binding elements with respect to maintaining the relationship.

Derecognition

If transactions do not meet the effectiveness test, hedge accounting - as described above - is terminated and the derivative contract is reclassified as an instrument held for trading, with recognition of the related impacts in the income statement. Hedge accounting is also terminated in the following situations:

- the hedged item is sold and redeemed;
- the hedging instrument expires, is sold, terminated or exercised.

Recognition of components affecting the income statement

Income elements are allocated to the relevant income statement captions on the following basis:

- differentials earned on derivatives that hedge interest-rate risk (and the interest on the hedged positions) are allocated to the "Interest and similar income" or "Interest and similar expense" captions;
- capital gains and losses deriving from the measurement of hedging instruments and the positions covered by fair value hedges are allocated to the "Net income from hedging activities" caption;
- capital gains and losses deriving from measurement of the effective part of cash flow hedges are allocated to a specific valuation reserve in equity called "Reserve for cash flow hedges", net of the related deferred tax effect. Gains and losses relating to the ineffective part of such hedges are recorded in "Net income from hedging activities" in the income statement.

In the case of hedging equity instruments for which the option for recognition in the statement of other comprehensive income of subsequent fair value changes has been irrevocably exercised, the capital gains and losses deriving from the measurement of hedging derivatives, relating to the hedged component, are allocated to the same equity caption.

5. Equity investments

Recognition

Equity investments are recognised on the settlement date. Equity investments are recorded at cost on initial recognition, including any costs and revenues directly attributable to the transaction.

Classification

This item includes interests in subsidiaries, associates and companies subject to joint control, and other low-value investments.

Measurement

IAS 27, IAS 28 and IFRS 11 require that subsidiaries, companies subject to joint control and associates shown in the company's financial statements should be measured either at cost, the solution that which the Bank has chosen, or at fair value, in compliance with IFRS 9, or according to the equity method.

If there is evidence that an investment in an associate may be impaired, its recoverable amount is estimated with reference to the present value of future cash flows, including the expected proceeds from the future sale of the investment.
If the recoverable amount is lower than the carrying amount, the difference is charged to the income statement under caption “Gains (Losses) on equity investments", as described in paragraph 22 “Method for determining the extent of impairment” below.
If the reasons for making the impairment loss cease to apply as a result of an event subsequent to recognition of the impairment loss, the related write-back is credited to the income statement without exceeding the amount of the impairment loss previously recorded.
The Parent Company's share of any losses of the investee, exceeding the book value of the investment, is recorded in a specific reserve to the extent that the company is required to fulfil legal or implicit obligations of the investee, or, in any case, to cover its losses.

Derecognition

Equity investments are derecognised on expiry of the contractual rights over the related cash flows or when the investment is sold with the transfer of essentially all the related risks and benefits of ownership.

Recognition of components affecting the income statement

Dividends are recorded in the "Dividends and similar income" caption when the right to collection is established.
Any impairment losses/write-backs relating to the impairment of equity investments and gains or losses on the disposal of equity investments are recorded in the "Gains (Losses) on equity investments" caption.

6. Property, plant and equipment

Recognition

Property, plant and equipment are initially recorded at purchase price, including all directly attributable costs of purchasing and bringing the asset to working condition.
Expenditure on improvements that will generate future economic benefits is added to the value of the assets concerned, while routine maintenance costs are charged to the income statement.
Leases (in which the Bank is the lessee) are recognised (pursuant to IFRS 16) using the "right of use" model. At the initial recognition date, the value of the right of use is equal to the initial recognition value of the lease liability (see the paragraph on Financial liabilities measured at amortised cost), adjusted for the following components:

- payments due for leases made on or before the effective date, net of lease incentives received;
- direct initial costs incurred by the lessee;
- an estimate of the costs that the lessee will incur for the dismantling and removal of the underlying asset and for the restoration of the site on which it is located or for the restoration of the underlying asset under the conditions set by the terms and conditions of the lease.

When the asset is made available to the Bank for its use (initial recognition date), the related right of use is recognised.

In identifying the rights of use, the Bank applies the "simplifications" permitted by IFRS 16; contracts with the following characteristics are therefore not considered:

- "Short-term", i.e. with a residual life of less than 12 months;
- "Low-value", i.e. with an estimated value of the asset of less than Euro 5,000.

As regards the other application choices adopted by the Bank, it should be noted that:

- with reference to the duration of the "property" leases, the Bank considers as "reasonably certain" only the first renewal period, subject to contractual clauses and specific circumstances that involve considering different contractual durations;
- as regards "Cars" and "Other contracts", the Bank makes use of the practical expedient by which the lessee is allowed to not separate the lease components from the other components, treating them as a single lease component. As regards property leases, the Bank considers the non-lease component as not material.

Classification

Property, plant and equipment comprise land, property used for operating purposes, installations, furniture, furnishings and all types of equipment.

These are tangible assets that will be used for more than one accounting period and which are held for use in the production of business or the supply of goods and services, for rental to third parties or for administrative purposes.

Rights of use acquired under leases (in the capacity of lessee) are included, if these rights relate to assets classified as property, plant and equipment.

This caption also includes assets awaiting finance lease and assets under construction intended for finance leasing (in the capacity of lessor), in the case of contracts "with retention of risks", as well as assets granted under operating leases (again as lessor).

This caption also includes certain real estate assets classified in accordance with IAS 2 "Inventories" as part of the Bank's property portfolio, including construction land, buildings under construction, completed buildings ready for sale and property development schemes held with a view to sale.

This caption also includes leasehold improvements, relating to identifiable and separable property, plant and equipment.

Measurement

Property, plant and equipment, including investment property and rights of use, are carried at cost less accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment are systematically depreciated over their useful lives, identified building by building on initial recognition, on a straight-line basis, except for:

- land acquired separately or included in the value of property (excluding value in use on buildings), since it has an indefinite useful life. The value of land included in property is deemed to be separable from the value of buildings; the allocation of value between land and buildings is based on independent appraisals carried out solely in relating to free-standing buildings;
- works of art, since the useful life of a work of art cannot be estimated and its value normally appreciates over time;
- inventories classified in accordance with IAS 2.

If there is any evidence at a reporting date that the value of an asset may be impaired, its carrying value is compared with its recoverable value, being the higher of its fair value net of any selling costs or its value in use, as represented by the present value of the cash flows generated by the asset, as explained in paragraph 22 "Method for determining the extent of impairment". Any adjustments are recorded in the income statement.

If the reasons for recognising an impairment loss cease to apply, the loss can be written back but without exceeding the carrying value that the asset would have had (net of depreciation) if no impairment losses had been recognised in prior years.

Assets recognised pursuant to IAS 2 are measured at the lower of cost or net realisable value. Any adjustments are recognised in the income statement.

Derecognition

Property, plant and equipment are derecognised on disposal, or when the assets concerned are permanently taken out of use and no further economic benefits are expected from their disposal.

Recognition of components affecting the income statement

Both the depreciation determined on a straight-line basis and any net adjustments are recorded in caption "Net adjustments to property, plant and equipment" of the income statement.
Disposal gains and losses are however recorded in caption 250 "Gains (Losses) on disposal of investments" of the income statement.

7. Intangible Assets

Recognition

Intangible assets other than goodwill are initially recognised at cost, as represented by the purchase price paid plus any directly-related costs incurred to obtain use of the assets concerned.
Goodwill may be recognised as an intangible asset when the positive difference between the acquisition cost of an equity interest (including related charges) and the fair value of the net assets acquired, including those identified as part of the Purchase Price Allocation (PPA), is representative of the investee's ability to generate income in the future (goodwill).
If the difference is negative (badwill) or the goodwill is not justified by the investee's ability to generate income in the future, the difference is recognised in the income statement.

Classification

Intangible assets are identifiable, non-monetary assets without physical form that are expected to generate economic benefits.
The qualifying characteristics of intangible assets are:

- identifiability;
- control over the resources concerned;
- expectation of economic benefits.

In the absence of any one of the above characteristics, the acquisition or internal production costs are expensed in the year incurred.
Goodwill is represented by the difference between the acquisition cost of an equity investment and the fair value, at the acquisition date, of the assets and liabilities acquired.
Other intangible assets are recognised if they are identifiable and reflect legal or contractual rights.
Among these, rights of use acquired under operating leases (in the capacity of lessee) and relating to the use of an intangible asset are not included since the BPER Banca Group, with respect to the faculty given by IFRS 16.4, has decided not to apply IFRS 16 to any operating leases on intangible assets other than those that can be acquired under licence.

Intangible assets include licensed software that satisfies the conditions specified in IAS 38. More specifically, with reference to the indications provided in the IFRIC Staff Paper dated November 2018 (Agenda ref 5 – Customer's right to access the supplier's software hosted on the cloud (IAS 38)), the Bank has identified the following conditions as significant for the recognition of purchased software as an intangible asset:

- existence of an exclusive right of use (linked to the user licence acquired);
- right and ability to obtain copies of the software ("download right");
- possession and real ability to use the copy of the software acquired, recognised if installed on the Bank's servers.

If these three conditions are satisfied in relation to purchased software, the Bank recognises it an intangible asset to be amortised over its estimated useful life. The initial expenses incurred (even in the form of external services) to set-up, customise and implement the software can also be considered part of the initial carrying amount of the intangible asset, if linked to the functional analyses and subsequent implementation phases.

By contrast, if the above conditions for the recognition of an intangible asset are not satisfied, the purchase will relate to services giving access to software that, in substance, remains in the possession of the provider (these situations generally arise in relation to Cloud software). These purchased services are recognised as Other administrative expenses on an accruals basis; when the initial cost incurred refers to a long-term time horizon it can be deferred (prepaid expenses – Other assets) and released to the income statement over the duration of the entire contract. If the total fee paid to the supplier for access to the software covers a variety of services, the cost will be allocated and recognised on an accruals basis with reference to each specific service.

Measurement

An intangible asset with an indefinite useful life, such as goodwill, is not amortised, but is tested periodically for impairment. An impairment test is performed annually, or whenever there is an indication of impairment, as explained in paragraph 22 "Method for determining the extent of impairment”. Any impairment loss is recognised in the income statement and the reversal thereof is prohibited.

In contrast to the treatment of goodwill, the cost of intangible assets with a finite useful life is amortised on a straight-line basis or by use of the reducing balance method based on the flow of economic benefits expected from the asset. If there is any evidence of impairment, it is envisaged that an asset would be assessed for impairment by comparing its fair value to its carrying amount.
An estimate of recoverable value is made if there is any evidence of asset impairment at the reporting date. The impairment loss, expensed to income, is the difference between the carrying value of an asset and its recoverable amount, if the latter is lower, as explained in paragraph 22 "Method for determining the extent of impairment)”.

Derecognition

Intangible assets are derecognised on disposal and when no further economic benefits are expected.

Recognition of components affecting the income statement

Both the amortisation charge and any net adjustments to intangible assets other than goodwill are recorded in the "Net adjustments to intangible assets" caption of the income statement.

Disposal gains and losses are however recorded in the "Gains (Losses) on disposal of investments" caption.
Any impairment losses to the value of goodwill are recorded in the caption "Impairment losses on goodwill".

8. Non-current assets and disposal groups classified as held for sale

Recognition and classification

Non-current assets and groups of assets/liabilities subject to a disposal process (tangible, intangible and financial assets) are classified in the asset caption "Non-current assets and disposal groups classified as held for sale" and the liability caption "Liabilities associated with assets classified as held for sale", when such sale is deemed to be highly likely.

Measurement

These assets and liabilities are measured at the lower of their carrying value, determined in accordance with IFRS, or their fair value, less costs to sell.

Recognition of components affecting the income statement

Income and charges (net of tax effect) relating to discontinued operations are classified in the"Gains (Losses) of ceased operating activities net of taxes" caption of the income statement.

9. Current and deferred taxation

Taxes for the year were calculated by applying the regulations in force at 31 December 2020, also taking into account the changes introduced by the latest Finance Act.

Deferred tax assets and liabilities are recorded following the positive outcome of the probability test required by IAS 12 relating to temporary changes and tax losses. The BPER Banca has adopted a time horizon of 5 years (2021-2025) when forecasting recoveries, consistent with other types of estimate made by projecting future results.

Recognition and classification

Current taxation comprises the net balance of income tax payable for the year and the current tax receivable due from the tax authorities consisting of advances and other withholding tax credits or other tax credits recoverable by future offset.

Current tax assets also include tax credits for which a request for reimbursement has been made to the tax authorities.

Deferred taxes represent the income taxes recoverable in future periods as a result of deductible temporary differences and past tax losses (deferred tax assets), and the income taxes payable in future periods as a result of taxable temporary differences (deferred tax liabilities).

Measurement

Deferred tax assets, representing the future tax benefit deriving from deductible temporary differences and tax losses carried forward, are recognised to the extent that their recovery is highly likely. The estimate is made by performing the "probability test", as required by IAS 12. This test is based on an economic forecast developed over a prospective 5-year horizon, adjusting the pre-tax profit to consider future temporary and permanent changes in accordance with the tax legislation in force at the measurement date, so as to arrive at an estimate of the future tax profits able to reabsorb the deferred tax assets.

Recognition of components affecting the income statement

Changes in tax assets and liabilities are normally recorded in the "Income taxes on current operations" caption.

As an exception, those deriving from transactions recognised directly in equity are treated in the same way, and those deriving from business combinations are included in the calculation of goodwill (or badwill).

10. Provisions for risks and charges

Recognition

The provisions for risks and charges cover liabilities whose timing and extent are uncertain, when all the following conditions are met:

- a current obligation exists at the balance sheet date, deriving from a past event. The origin of the obligation must either be legal (deriving from a contract, regulation or the provisions of law) or implicit (arising when the business causes third parties to expect that commitments will be met, even if these do not fall into the category of legal obligations);
- a financial outflow is likely;
- the extent of the obligation can be estimated reliably.

No provision is recognised for liabilities that are only possible and not probable, but information on the related contingencies is provided in the Explanatory notes.

Classification

This caption includes the provisions relating to long-term benefits and post-employment benefits governed by IAS 19, discussed in paragraph "Employee benefits" below, and the provisions for risks and charges governed by IAS 37.

Sub-caption "commitments and guarantees granted" comprises the credit risk provisions for funding commitments and financial guarantees given that are subject to the impairment rules of IFRS 9 (see para. 2.1, letter e); para. 5.5; appendix A), as well as the provisions for other commitments and guarantees not subject to those impairment rules.

Measurement

Where the time element is significant, the provisions are discounted using current market rates. Provisions are charged to the income statement.

The measurement of "commitments and guarantees granted" is described in section 22. Method for determining the extent of impairment.

Recognition of components affecting the income statement

Impairment losses and write-backs of commitments and guarantees granted are recorded in caption 170 a) "Net provisions for risks and charges – commitments and guarantees granted" of the income statement.

Provisions for risks and charges and the related write-backs, including the effects of the passage of time, are classified in caption 170 b) "Net provisions for risks and charges – Other net provisions" of the income statement. The provisions for employee remuneration recognised pursuant to IAS 19 are classified in income statement caption 160 a) Administrative expenses - Staff costs".

Provisions are made on the basis of the best estimate of the amount that the company would reasonably pay to settle the obligation or to transfer it to third parties at 31 December 2020. When the financial effect of time is significant and the payment dates of obligations can be reliably estimated, the provision is calculated by discounting the expected future cash flows taking into account the risks associated with the obligation; the increase in the provision due to the passage of time is recognised in the income statement.

11. Financial liabilities measured at amortised cost

Recognition

These liabilities are initially recognised at their fair value, usually corresponding to the amount collected or the issue price, plus any additional costs/proceeds directly attributable to the individual funding transaction or issue.

This caption includes:

- due to banks;
- due to customers;
- debt securities issued;
- lease payables.

On the start date, the lessee measures the lease payable at the present value of the related payments not already paid at that date. Lease payables are discounted using the interest rate implicit in the lease contract, if readily determinable, or at the marginal financing rate that, for the Bank, is the Internal Transfer Rate (ITR) of funding.

The future payments to be considered in determining the lease payable are:

- fixed payments, net of any lease incentives to be received;
- variable payments due for leasing that depend on an index or a rate;
- amounts that are expected to be paid by the lessee as guarantees of the residual value;
- the exercise price of the purchase option, if the lessee has the reasonable certainty of exercising the option;
- lease penalty payments, if the lease term takes into account the exercise of the lease termination option by the lessee.

Classification

"Due to banks", "Due to customers" and "Debt securities issued" comprise the various forms of interbank and customer funding. These captions also include liabilities recognised by the lessee under finance leases, as well as funding through certificates of deposit and debt securities in issue, net of any repurchases.

Measurement

Following initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for current liabilities given the negligible effect of the time factor. Modifications to the contractual conditions of the medium-long term items (also including lease payables) will entail the adjustment of the book value based on discounting the flows envisaged by the contract modified to the original effective interest rate, without prejudice to the changes made to lease payables which, as

indicated by IFRS 16, involve the use of the updated rate (for example: a modification of the lease term or of the lease instalments).
Debt securities issued are recorded net of the repurchased amount.

Derecognition

Financial liabilities are derecognised when they expire or are settled. The repurchase of debt securities in issue in prior periods results in their derecognition.
In the event of a change in the contractual conditions, if the discounting of the new flows would lead to a change in the carrying amount of the liability greater than 10%, the change is deemed by the BPER Banca Group to be "substantial" and relevant for the purpose of derecognition of the original liability.
The difference between the carrying amount of the liability and the amount paid to repurchase it is recorded in the income statement.

Recognition of components affecting the income statement

The negative elements of income represented by interest and similar expense are recorded in the interest captions of the income statement on an accruals basis, using the effective interest method.
Costs/revenues relating to short-term payables are recorded directly in the income statement.
The difference between the carrying amount of a liability and the amount paid to acquire it is recorded in income statement caption "Gains (Losses) on disposal or repurchase of financial liabilities".

12. Financial liabilities held for trading

Recognition

These financial instruments are recognised at their fair value on the subscription or issue date, without considering any transaction costs or income directly attributable to them.

Classification

This category of liabilities includes trading derivatives with a negative fair value, as well as derivatives with negative fair value that are embedded in complex contracts - in which the primary contract is a financial liability - but not closely correlated with them and therefore they are represented separately in the financial statements.

Measurement

All financial liabilities held for trading are measured at fair value.

Derecognition

Financial liabilities held for trading are derecognised on expiry of the contractual rights over the related cash flows, or when the financial liability is assigned with the transfer of substantially all the risks and benefits deriving from its ownership.

Recognition of components affecting the income statement

The criteria applied for the recognition of income components of financial assets held for trading are adopted with suitable modifications.

13. Financial liabilities designated at fair value

Recognition

These liabilities are initially recognised at fair value, net of transaction costs or revenues.

Classification

A financial liability is designated at fair value if one of the following conditions applies:

- classification in this category eliminates "accounting asymmetries";
- they are part of groups of liabilities, or of assets and liabilities, managed together whose performance is measured at fair value, according to a documented risk-management strategy.

Measurement

Subsequent to initial recognition, these assets continue to be measured at fair value the methodologies used in this regard are described in Part A.4 of these Explanatory notes.
The accounting treatment required by IFRS 9 for such liabilities requires that changes in fair value associated with the creditworthiness of the issuer must be recognised as a contra-entry to a specific equity reserve. The standard also establishes that the amount recognised in the specific equity reserve must not be "released" to the income statement, even if the liability is settled or expires.

Derecognition

Financial liabilities designated at fair value are derecognised when they expire or are settled.
The repurchase of debt securities in issue in prior periods results in their derecognition.
The renewed placement of treasury securities subsequent to their repurchase is deemed to represent a new issue, with the recognition of a new placement price, without any effect on the income statement.

Recognition of components affecting the income statement

The negative elements of income represented by interest are recorded in the interest captions of the income statement on an accruals basis.
The results of the assessment (for components other than the creditworthiness of the issuer) are booked to the caption “Net income on financial assets and liabilities measured at fair value through profit or loss - financial assets and liabilities designated at fair value", as are the gains or losses arising on their settlement.

14. Currency transactions

Recognition

On initial recognition, foreign currency transactions are recorded in the reporting currency, by translating the foreign currency amounts using the exchange rates prevailing on the transaction dates.

Measurement

At each reporting date, the amounts originally denominated in a foreign currency are measured as follows:

- monetary items are translated using the closing rate for the period;
- non-monetary items carried at historical cost are translated using the exchange rate on the date of the transaction;

- non-monetary items carried at fair value are translated at the rates at the end of the reporting period.

Classification
These comprise all assets and liabilities not denominated in euro.

Derecognition
The criteria applying to the balance sheet captions concerned are used. The exchange rate applying on the settlement date is used.

Recognition of components affecting the income statement
Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period in which they arise.
When gains or losses relating to a non-monetary item are recorded in shareholders' equity, the related exchange differences are also recorded in shareholders' equity. Conversely, when gains or losses are recorded in the income statement, the related exchange differences are also recorded in the income statement.

15. Other information

Treasury shares
Treasury shares held following repurchase are stated at purchase cost and shown with a negative sign in "Treasury shares" under liabilities in the balance sheet. Profits or losses deriving from their subsequent sale are recorded as changes in shareholders' equity in the "Share premium reserve" caption.

Leasehold improvements
These costs have been classified as "Other assets", since they cannot be recorded as part of "Property, plant and equipment", as required by Bank of Italy instructions. The related amortisation is recorded in the "Other operating expenses (income)" caption.

16. Income statement: Revenues

In addition to the information about the principal balance sheet captions provided above in the sections on the "Recognition of components affecting the income statement", revenue from contracts with customers is recognised, as required by IFRS 15, at an amount equal to the consideration that the Bank is entitled to collect in exchange for the transfer of goods or services to the customer. Revenues may be recognised:

- at a specific point-in-time, when the entity fulfils the obligation to transfer the promised goods or services to the customer, or
- over time, as the entity fulfils the obligation to transfer the promised goods or services to the customer.

In this context, goods are transferred when, or over the period in which, the customer obtains control over them.

The price of the transaction is the amount of consideration that the entity is entitled to receive in exchange for the transfer to the customer of the promised goods or services, excluding any amounts collected on behalf of third parties (e.g. sales taxes). In order to determine the price of the transaction, the Bank considers the contract terms and conditions and its normal business practices, including all the following elements to the extent applicable:

- variable consideration, if it is highly likely that the amount will not be adjusted in future;
- restrictions on the estimates of variable consideration;
- existence in the contract of a significant financial component;
- non-monetary consideration;
- consideration payable to the customer.

The Bank has identified types of revenue linked to services provided to customers only as regards the content of "Commissions income"; the breakdown of revenue, information on execution of the performance obligation, the possible existence of variable fees and the related assessment methods, as well as the additional disclosure required by IFRS 15 are contained in Part C of the Explanatory notes to these financial statements.
BPER Banca has not identified significant situations in this regard:

- to fees relating to various performance obligations given to customers;
- costs incurred and suspended to obtain and fulfil contracts with customers.

Other types of revenue, such as interest and dividends, are recognised applying the following criteria:

- interest on instruments measured at amortised cost is calculated using the effective interest method;
- dividends are recognised when the shareholders' right to receive payment is determined.

17. Income statement: Costs

In addition to the information about the principal balance sheet captions provided above in the sections on the "Recognition of components affecting the income statement", costs are recognised in the income statement on an accruals basis; as already highlighted, no costs were identified for obtaining and fulfilling contracts with customers to be recognised in the income statement in a manner correlated with the related revenue.
Marginal costs and revenues directly attributable to the acquisition of an asset or issue of a financial liability measured at amortised cost are recognised in the income statement together with the interest on the financial asset or liability using the effective interest method.

18. Employee benefits

Classification
Employee benefits, excluding short-term amounts such as wages and salaries, comprise:

- post - employment benefits;
- other long-term benefits.

Post-employment benefits are, in turn, divided into defined-contribution plans and defined benefit plans, depending on the nature of the benefits envisaged:

- under defined contribution plans, the employer makes fixed contributions and has no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employee benefits;
- defined benefit plans are all post-employment benefit plans other than defined contribution plans.

Pursuant to Law 296 dated 27 December 2006 (2007 Finance Law):

- the employee termination indemnities earned from 1 January 2007 are deemed to be a defined contributions plan for which no actuarial calculations are required;
- the employee termination indemnities already earned up to the date indicated above, on the other hand, continue to be treated as a defined benefits plan, even though such benefits have already been fully earned. As a consequence, the actuarial value of the liability must be restated at every accounting date subsequent to 31 December 2006.

Other long-term benefits comprise employee benefits that are not due entirely within twelve months of the end of the year in which employees accumulated their right to them.

Recognition and measurement

The value of a defined-benefit obligation is represented by the present value of the future payments necessary to settle the obligations deriving from work performed by employees in the current and prior years.

This present value is determined using the "Projected Unit Credit Method".

The employee benefits included as other long-term benefits, such as long-service bonuses that are paid on reaching a pre-determined level of seniority, are recorded for an amount determined at the reporting date using the "Projected Unit Credit Method".

Employee termination indemnities are recorded as a separate liability, while the other post-employment benefits and long-term benefits are recorded among the "Provisions for risks and charges".

Recognition of components affecting the income statement

Service costs are recorded as staff costs, together with the related accrued interest.

Actuarial gains and losses (remeasurements) relating to post-employment, defined benefit plans are recorded in shareholders' equity in the year they are identified. These actuarial gains and losses are reported in the "Statement of other comprehensive income", as required by IAS 1.

The actuarial gains and losses (remeasurements) relating to other long-term benefits are recognised in full as part of staff costs in the year in which they arise. On this last point, in 2012 the Bank has standardised the orientation expressed by the National Institute of Actuaries in Circular 35 dated 21 December 2012, valid with effect from the measurements carried out at 31 December 2012. This document confirmed the guidelines already issued with the previous Circular dated 22 May 2012, in which it was expected that the component represented by interest cost had to be calculated using the rate of the curve corresponding to the duration of the liability, instead of the 1-year rate of the same curve used up to 31 December 2011.

19. Share-based payment plans

In general, share-based payments to employees (or other equivalent parties) represent consideration for services received.

In 2019, the BPER Banca Group approved its first share-based payment plan. This plan envisages granting without charge a certain number of ordinary shares in the Bank to beneficiaries who are considered Material Risk Takers at BPER Banca level, without any increase in capital and therefore by using outstanding shares temporarily purchased by the Parent Company for this purpose (by contrast, no stock option plans have been activated).
In accordance with IFRS 2 - Share-based payments, the cost of employee compensation plans based on own equity instruments is recognised in the income statement with reference to their fair value on the grant date, spreading the related charge over the vesting period.
Since it is difficult to measure reliably the fair value of the services received in exchange for the equity instruments, reference is made to the fair value of the latter, determined on the grant date. Based on the instructions contained in IFRS 2, this date corresponds to the moment in which the parties to the agreement become aware of its existence.
The charges relating to share-based compensation plans are recognised on an accruals basis as a cost in income statement caption 160 a) “Administrative expenses: staff costs”, with a matching entry to equity caption 140 “Reserves”.

Long-Term Incentive Plan – LTI of BPER Banca Group

The 2019-2021 LTI Plan approved at the Ordinary Shareholders' Meeting held on 17 April 2019 is a share-based incentive plan for the "Material Risk Takers (MRTs)" of the Bank and other Group companies. This Plan is designed to award beneficiaries an incentive that will be paid exclusively in BPER ordinary shares, in compliance with the relevant regulations and consistent with the 2019-2021 Business Plan.
In the context of the compensation policies adopted by the Group for 2019, the Plan was approved with the following objectives:

- align management's interests with the creation of long-term shareholder value;
- motivate management to achieve the objectives of the Business Plan 2019-2021, within a framework of healthy, prudent risk management and ESG sustainability;
- strengthen key persons' sense of belonging in order to implement the Group's medium-long term strategy.

Implementation of the Plan is subject to achieving predetermined access conditions that guarantee not only profitability, but also the Group's capital stability and liquidity.
The bonus recognised at the end of the performance period - the size of which also depends on the achievement of specific objectives in terms of results, stock performance and sustainability - is paid by means of a free allocation of BPER Banca ordinary shares, subject to deferral and retention clauses.
Between 55% and 60% of the bonus is deferred, depending on the amount awarded at the end of the three-year period 2019-2021 (whether or not less than the “particularly high variable amount” defined in the compensation policies for 2021). Deferral lasts for five years (2022-2026), during which the deferred portion is allocated in five annual instalments of the same amount, subject to verification of the malus conditions. Each portion that is allocated, whether up-front or deferred, is then subjected to a retention period of one year. Including the retention period, the Plan will end in 2027.

The LTI Plan of the BPER Banca Group is an operation with payment settled using equity instruments and, therefore, is governed by IFRS 2.
The overall cost of the plan is equal to the sum of the cost of each tranche, calculated with reference to the fair value of BPER Banca shares at the grant date (considering in each case the period until the expected vesting date), multiplied by the number of shares that may vest in relation to the performance condition, the probability of satisfying the service condition and achievement of the entry gate condition.

This cost is allocated over the vesting period of 8 years, starting from the date on which the parties become aware of its existence or, in the specific case of the BPER Banca plan, the date on which the individual plan beneficiaries were informed about their participation. The cost of the services (work) provided by the employees/recipients only includes the costs associated with the LTI Plan from that date. The costs recognised are matched by a specific equity reserve.

20. Targeted Longer-Term Refinancing Operation – TLTRO-III

Generally speaking, Targeted Longer-Term Refinancing Operations (TLTRO) have since their introduction offered banks in the Eurozone loans with multi-year maturities designed to improve the functioning of the monetary policy transmission mechanism, supporting the provision of bank credit to the real economy.
In March 2019 the Governing Council of the ECB announced a third series of Targeted Longer-Term Refinancing Operations (TLTRO-III) to be carried out on a quarterly basis from September 2019 to December 2021 (with the ECB's decision of 10 December 2020, three new operations were scheduled between June and December 2021) .
During the course of 2020, starting from March, the Governing Council of the ECB, faced by the Covid-19 emergency, introduced more favourable conditions for the operations in question, which were first expected to be applied from 24 June 2020 to 23 June 2021 and then extended from December 2020 until June 2022.
Each of these operations has a duration of three years; counterparties whose net eligible loans, between 1 March 2020 and 31 March 2021, are at least equal to their benchmark net lending will be granted a reduction in the rate to the same level as that on deposits with the central bank during the respective operation, except for the period between 24 June 2020 and 23 June 2021 when a reduction of 50 bps will apply. With the ECB's decision of December 2020, this reduction will also be extended to the period between 24 June 2021 and 23 June 2022 for counterparties whose net eligible loans between 1 October 2020 and 31 December 2021 are at least equal to their benchmark net lending.

The characteristics of the TLTRO-III operations are such that it is impossible to equate them easily to cases specifically dealt with in IAS/IFRS; to identify the accounting treatment of the following situations in particular:

- change in the estimates of achievement of the objectives,
- recording of economic effects, "special interests" in particular,
- management of early repayments,

it is thought that reference can be made by analogy to “IAS 20 - Accounting for government grants and disclosure of public assistance” or to “IFRS 9 - Financial instruments”.
The choice made by the BPER Banca in accounting for such transactions is to refer to IFRS 9, given that the funding to which banks have access through the ECB's TLTRO is at market conditions. In our opinion, in fact, the ECB rates can be considered as "market rates" since it is the ECB itself that establishes the level, keeping this level in line with the lending objectives to be achieved (monetary policy operations). The ECB also has the power to change the TLTRO III interest rate at any time. This right of modification by the ECB has to be traced back to what is indicated in para. B5 4.5 of IFRS 9 (floating rate loans), resulting in a change in the Internal Rate of Return (IRR) of the loan to reflect changes in the benchmark rate. On the other hand, the situation is different where the lending rate gets changed because of a modification of the forecasts of whether the benchmark will be reached in terms of net lending; in this

situation, with the same IRR, a modification in the future flows can only lead to measurement of the loan at amortised cost.
In relation to the methods of determining the IRR, likening the refinancing operations to loans at variable rates has led the BPER Banca to apply different rates over the life of the operation, depending on the economic conditions expected from time to time.
Moreover, the conditions under which the interest develops depend on the likelihood of the net lending benchmark being achieved[32].

21. Purchase of tax credits originating as part of the benefits mentioned in the "Cura Italia" and "Relaunch" Decree Laws (the so-called "Ecobonus" and "Sismabonus")

In order to counter the negative effects of the pandemic, with Law 77 of 17 July 2020 which converted with amendments Decree Law 34 of 19 May 2020 (the so-called "Relaunch" Decree) containing urgent measures in the field of health, support for work and the economy, as well as social policies related to the Covid-19 emergency, Parliament issued a series of measures which, among other things, make it possible under certain conditions to benefit from a deduction of the expenses incurred for specific interventions (e.g. interventions to increase the level of energy efficiency of existing buildings or reduce their seismic risk can attract a deduction of 110% of the costs incurred).
The law also introduces the possibility for taxpayers to opt, instead of direct use of the deduction, for an advance contribution in the form of a discount from the suppliers of goods or services (so-called "discount in invoice") or, alternatively, to sell the credit corresponding to the deduction to other subjects, including banks and other financial intermediaries; as part of its commercial policies, the BPER Banca has decided to offer itself as a buyer of tax credits from its customers.
The buying bank can, in turn, sell the tax credit, whereas credits that cannot be sold on can be used to offset tax payments through the F24 form. The tax credit can be used with the same breakdown into annual instalments with which the deduction would have been used by the seller (for example in five annual instalments of the same amount). The portion of the tax credit not used during the year cannot be used in subsequent years and cannot be requested as a refund.
As regards the responsibilities as to the existence of the credit, the law provides that:

- suppliers and buyers of credits are liable only for any use of the tax credit that is irregular or for a larger amount than the tax credit received;
- if the Revenue Agency finds out that one does not have all or some of the requisites that give the right to a tax deduction, it will recover the amount of the deduction not due from those to whom the bonus was granted (i.e. the seller).

The buying bank is therefore not exposed to any risk that the credit does not exist and will be able to offset it without limits in annual instalments against its tax payables in the F24 form. On the other hand, it is still exposed to the risk of not calculating correctly the amount of credits that it will be able to offset in any one year, i.e. the risk of buying more credits than it could absorb during the year. In this case, it is exposed to the risk of making a loss (not due to counterparty risk, but because it would be impossible to recover all of the credits due to the rules on tax compensation); a loss equal to the amount of the credit purchased and not offset during the year or, in the event of a subsequent sale, for an amount equal to the additional discount that might have to be conceded to the next buyer.

[32] *This accounting choice is consistent with the Public Statement issued by ESMA on 6 January 2021 dedicated to "[...] the third series of the ECB's Targeted Longer-Term Refinancing Operations (TLTRO III)"*

With reference to the accounting treatment to be adopted in the financial statements of the buying bank, since the case in question is not subject to clear instructions in the IAS/IFRS, in application of the provisions of IAS 8, paras. 10 and 11, various possible scenarios were assessed concerning the applicability of the following international accounting standards by analogy:

- IAS 20 "Accounting for government grants and disclosure of government assistance";
- IAS 12 "Income Taxes";
- IAS 38 "Intangible Assets";
- IFRS 9 "Financial Instruments".

The choice made by the BPER Banca is to refer by analogy to the indications of IFRS 9[33], considering that these tax credits are in essence financial assets, as they can be:

- used to pay off a debt (e.g. a tax debt);
- exchanged for other financial assets at conditions that could be potentially favourable to the entity;
- classified in an HTC business model, or with a hold-to-maturity strategy, even if considered as Other assets.

Furthermore, the tax credits are bought by the bank at a price that discounts both the time value of money and the ability to use them within a certain time limit. So at the time of initial recognition the tax credit is recognised at the price of the individual transaction - equating it to the fair value of a Level 3 instrument, as there are no official markets or comparable transactions - and thereby satisfy the condition set by IFRS 9 according to which financial assets and liabilities are to be initially recognised at fair value.
Subsequent valuation (or remeasurement) of this asset, again in line with IFRS 9, is envisaged at amortised cost, considering: i) the time value of money; ii) the use of a correct effective interest rate; and iii) the uses made of the tax credit through offsets.
The effective interest rate is originally set so that the discounted cash flows of the estimated future offsets over the expected duration of the tax credit equal the purchase price of the tax credits.

In addition, if the Bank were to revise its estimates of the use of the tax credit through offsets, it would have to adjust the gross carrying amount of the tax credit to reflect the estimated, actual and restated uses of the tax credit through offsets. In such situations, the Bank would recalculate the gross carrying amount of the tax credit as the present value of the new estimated uses of the tax credit through offsets discounted back to the original effective interest rate. In this restatement, taking into account that there is no chance of reimbursement by the counterparty (i.e. the Treasury), an impairment loss due to any failure to use the tax credits bought would be included. Moreover, as part of the remeasurement at amortised cost, not finding a counterparty credit risk as realising the instrument takes place exclusively through offsetting against tax payables and not by receiving money from the counterparty, the IFRS 9 rules on Expected Credit Losses are not applicable.

The treatment described is consistent with paragraph B5.4.6 of IFRS 9[34], which requires the entity to review its cash flow estimates periodically and adjust the gross carrying amount of the financial asset to

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[33] *The approach adopted is consistent with what is indicated in the Bank of Italy/CONSOB/IVASS Document no. 9 - Coordination table between the Bank of Italy, CONSOB and IVASS on the application of IAS/IFRS.*
[34] *If the entity revises its payment or collection estimates (excluding modifications in accordance with paragraph 5.4.3 and changes in ECL estimates), the entity has to adjust the gross carrying amount of the financial asset or the amortised cost of the financial liability (or group of financial instruments) to reflect the actual and restated estimated contractual cash flows. The entity recalculates the gross carrying amount of the financial asset or the amortised cost of the financial liability as the present value of*

reflect the actual and restated cash flows. This accounting treatment also makes it possible to allocate income (in the form of interest income) on an accrual basis during the life of the tax credit, as well as to recognise any losses from the transaction immediately.

22. Method for determining the extent of impairment[35]

A. Financial assets

Impairment models

The calculation of adjustments of financial assets according to the Expected Credit Losses (ECL model envisaged by IFRS 9 is the result of a complex process of estimates that includes numerous subjective variables regarding the criteria used to identify a significant increase in credit risk, for the purpose of allocating financial assets to the stages provided for in the Standard; it also involves defining models for measuring expected losses, with the use of assumptions and parameters, which take into account current and future (or "forward-looking") macroeconomic information including, for non-performing exposures, possible sale scenarios where the Bank's strategy envisages recovery of the loans by selling them.

In accordance with the instructions contained in the standard, the impairment model adopted by the BPER Banca is based on the concept of "forward-looking" evaluation, i.e. on the concept of expected loss, whether calculated for the next 12 months (Stage 1) or for the residual life of the instrument (Stage 2 and Stage 3), based on the concept of a Significant Increase in Credit Risk (SICR) with respect to the date of origin of the instrument. According to the Expected Credit Loss model, the losses must be recorded not only on the basis of objective evidence of impairment losses already manifest as of the reporting date, but also on the basis of the expectation of future losses in value not yet manifest as of the reporting date, and must reflect:

- the probability of occurrence of the various system scenarios;
- the discounting effect using the effective interest rate;
- historical experiences and current and future assessments.

To this end, the BPER Banca has adopted a model for calculating the expected lifetime loss of the financial instrument, applied to instruments classified in Stage 2, which takes into consideration the following multi-period parameters:

$$LtEL_t = \sum_{t=1}^{T} PDF_t \text{ x } LGD_t \text{ x } EaD_t \text{ x } D_t$$

where,

- PDF_t is the Probability of Default Forward between 1 and t,
- LGD_t is the Loss Given Default at a forward default event between 1 and t,
- EaD_t is the Exposure at Default at time t,

the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate (or at the adjusted effective interest rate for the credit for non-performing financial assets purchased or originated) or, where applicable, at the revised effective interest rate calculated in accordance with paragraph 6.5.10. The adjustment is recognised as income or expense in profit or loss for the year.

[35] *As required by document No. 2 issued with joint signature by the Bank of Italy, CONSOB and ISVAP (now IVASS) on 6 February 2009*

- D_t is the discounting factor for the expected loss at time t, up to the current reporting date, determined using the effective interest rate,
- T is the contract maturity date.

The calculation parameters contained in the Lifetime Expected Loss formula, as they are multi-period, they evolve over time, or in the time frame coinciding with the expected life of the exposure that must be evaluated. In particular, the criteria adopted by the Bank envisage that:

- the EaD evolves in accordance with the amortisation plans, if they exist, and with the contractual repayment plans in general, possibly amended by "behavioural" hypotheses (e.g. loans with pre-payment options);
- the PD and LGD parameters evolve as a result of the changes in the credit quality observed over time and represented by the transition or migration matrices (e.g. migrations between rating classes or for situations such as Danger Rate).

The calculation of the expected 12-month loss (applied to instruments classified in Stage 1) can therefore be considered as the sum of expected multi-period losses for the first prospective year, or less if the deadline is within 12 months, of the Lifetime Expected Loss:

$$EL = EaD \text{ x } LGD \text{ x } PD \text{ x } D$$

where,

- EaD is Exposure at Default,
- LGD is the Loss Given Default,
- PD is the 12-month Probability of Default,
- D is the discounting factor for the expected loss, discounted for 12 months from the first period subsequent to the reporting date.

Lastly, for loans already classified in Stage 3 whose amount is lower than the threshold set in the Bank's internal regulations for analytical assessment, a statistical write-down is applied using the following formula:

$$LtEL_t = EaD \text{ x } LGD$$

where,

- EaD is Exposure at Default,
- LGD is the loss resulting from a default event, which can differ according to the administrative status at the calculation date.

For the purposes of a homogeneous application of the impairment model described to the financial asset portfolios of the Bank, the same methods of calculating the value adjustments described above are applied, in addition to the on- and off-balance sheet scope of the loans, also to the portfolio of debt securities. With regard to the latter portfolio, it should be noted that, where the risk information deriving from internal models (PD and LGD) is missing, external information from qualified info providers was used.

The Expected Credit Loss (ECL) model adopted by the BPER Banca is based on the use of risk parameters estimated for regulatory purposes (the disclosure of which is given in Part E of the Explanatory Notes, to which reference should be made), appropriately amended to guarantee complete consistency with the requirements of IFRS 9. The main changes concerned the following aspects:

- introduction of "point-in-time" elements in the regulatory parameters estimated according to "through-the-cycle" logic;
- implementation of components based on forecast information (scenario analysis);
- extension of the time horizon (multi-year) of the credit risk parameters.

Estimate of the PD parameter

The introduction of a Lifetime Expected Loss model implies the need to estimate the probability of default not only in the twelve months following the reporting date, but also in subsequent years.
For this purpose, multi-year PD dynamics accumulated by rating class based on the product among the matrices of Point-In-Time (PIT) migrations conditioned to the expected economic cycle were defined for each model of the internal rating system.
More specifically, the cumulative PD curves are determined, for the first three years from the reporting date, by multiplying future PIT matrices derived from the conditioning of PIT matrices, according to the application of satellite models, to different weighted macro-economic scenarios with the relative probabilities of occurrence. From the fourth year onwards, long-term matrices Through-The-Cycle (TTC) are used, obtained as the average of historical PIT migration matrices.
Furthermore, specific PD curves are defined for the mortgage loan component.

Estimate of the LGD parameter

The need to implement a long-term approach, also through the inclusion of “forward looking” factors has involved the removal of the corrective components required for regulatory purposes (“down turn” and indirect costs) and the conditioning to the economic cycle of elements such as the value of the property guarantees and, via satellite models ("Merton method"), the loss rate of unsecured bad positions and migrations between default states.

EAD Estimate

The concept of exposure (EAD) considered in the various future payment moments foreseen in the amortisation plan is based on the residual debt, increased by any unpaid or overdue instalments.
With reference to off-balance sheet exposures (guarantees and margins), EAD is determined by applying a credit conversion factor (CCF) to the nominal value of the exposure.

As required by IFRS 9, the Bank's impairment model is reflected in the risk parameters used to calculate the ECL (and the stage assignment explained below):

- current conditions in the economic cycle (Point-in-Time risk measures);
- forward-looking information about risks, considering the dynamics of the (external) macroeconomic factors that affect the lifetime expected loss;
- the probability that three possible scenarios might occur (Probability weighted).

Therefore, all the risk parameters (with the exception of Exposure at Default, for which no significant relationship with macro-economic variables has been found) are conditioned by macro economic scenarios.

With reference to the multiple prospective scenarios similar to those used to estimate the ECL, the BPER Banca Group has decided to use the same scenarios used by the Bank's main processes such as Planning and Budget, Risk Appetite Framework (RAF) and Lending Policies, limiting the forward-looking time horizon to a maximum of 3 years following the date of each assessment[36].

In the context of the performing loan portfolio and the related impairment model adopted by the BPER Banca, the risk parameters for certain technical forms, including finance leases, factoring loans and consumer credit, are determined differently.

As described in the ITG "Inclusion of cash flows expected from the sale on default of loans" from the staff of the IFRS Foundation and in the "Guidelines for banks on non-performing loans (NPL)" published by the ECB in March 2017 to encourage their pro-active management, the BPER Banca has included forward-looking factors in the assessment of non-performing loans (classified in particular as bad and UTP loans) by forecasting recoveries on a multi-scenario basis. More specifically, in line with the current recovery processes of non-performing assets which also envisage realisation through sale on the market, the impairment model has integrated a sales scenario (the so-called "Disposal Scenario), as defined in its "2019-2021 NPE Strategy" as a possible way to recover exposures and as an alternative to internal recovery (so-called "Workout Scenario").

When envisaged and possible, loans classified in Stage 3 are therefore measured by weighting their estimated realisable value determined under the two possible scenarios (“workout” and “disposal”) by applying a probability of occurrence to each. To this end, the BPER Banca has adopted a model for calculating the multi-scenario net value of impaired financial assets, which considers the following parameters:

$$\mathrm{NBV_{Multiscenario}} = \mathrm{FMV\ x\ Disposal\ Scenario\ \%} + \mathrm{NBV_{Workout}\ x\ (1\text{-}Disposal\ Scenario\ \%)}$$

where,

- FMV is the best estimate of the "disposal" price;
- $\mathrm{NBV_{Workout}}$ is the net book value of the loan according to internal management logic ("workout");
- Disposal Scenario% is the probability of occurrence of the disposal scenario;
- (1 – Disposal Scenario %) is the probability of occurrence of the workout scenario.

This methodology for measuring Stage 3 exposures provides the best representation of possible recoveries from, on the one hand, the application of routine internal procedures and, on the other, market disposals in implementation of the specific strategies (NPE Strategy 2019-2021) and targets that the BPER Banca has committed to achieve in communications with the financial community.

The measurement process therefore retains unchanged the methodology for identifying recoverable value under the workout scenario, but is supplemented by an assessment based on market parameters under the disposal scenario. The two measurement processes are carried out in parallel and their results are summarised by determining a weighted average based on the relative probabilities of occurrence.

The resulting impairment model requires the parameters used for both scenarios to be updated constantly. Specifically with regard to the workout scenario, the internal assessment of the recoverability of the exposure is revised constantly,based on the strategies/rescheduling/recovery actions

[36] *Please refer to what was said above in Section 5 - Other aspects of the Explanatory Notes for more details on the approach taken when preparing the consolidated financial statements as at 31 December 2020 (application of the overlay approach following the situation caused by the Covid-19 pandemic).*

implemented in application of a methodology that is both customised and "expert"; with reference to the disposal scenario, the FMV is updated regularly (every quarter) with reference to the information available about disposal conditions until the selling prices are matched by a "welcome" binding offer from a potential purchaser (probability of disposal close to 100%). The best estimate of the disposal price of the individual positions is determined by considering, where available, the potential market value of the portfolio concerned and, where unavailable, the likely disposal value of each position under a mark-to-model approach.

The probability of disposal is determined with reference to the estimated disposal date (probability decreases as the estimated time to complete the operation increases), the type of operation envisaged (distinguishing, in particular, the securitisations assisted by "GACS" guarantees from other type of market disposal) and the administrative status of the positions concerned (probability of disposal greater for those classified as bad loans, than for UTP positions, given that an "active" market only exists for the former).
The probabilities associated with the workout and disposal scenarios for each position are not fixed over time, but in turn are subject to amendments and changes due, principally, to conditions in the NPE market and cumulative achievement of the objectives established in the current Parent Company NPE Strategy. Dynamic management of the Group's non-performing portfolio in fact requires the addition of new positions and the exclusion of others initially identified for disposal, depending on the interest of operators in the NPE market and the internal assessments carried out by BPER Banca management; these circumstances must be recognised as entirely physiological and unavoidable in such a dynamic context, with accounting consequences in terms of loan impairment losses and write-backs.

Notably, during the time dedicated to the selection of disposal opportunities and completion of the operation, the positions concerned are still managed in accordance with the normal workout procedures that, understandably, often result in resolution of the problem before the positions are actually sold. It follows that the ideal disposal perimeter identified originally must be updated constantly, in terms of quality, quantity and provisions, to keep it aligned with the objectives established in the NPE Strategy.

Criteria for the classification of financial instruments in Stages

The Stage Assignment Framework adopted by the BPER Banca Group establishes the requirements for classifying financial instruments with reference to the actual "deterioration" of credit risk, consistent with the requirements of IFRS 9, applying an approach that is consistent among the various portfolios and within the Banking Group. This classification in stages of increasing risk is determined using all the significant information contained in Parent Company processes, as supported where applicable by updates and the credit monitoring processes.
Specifically, financial assets are classified into three stages of risk, each of which applies a different method to calculate the related impairment adjustments, while consistently applying the "Expected Loss" or "Expected Credit Losses" (ECL) concept:

- Stage 1: comprises all performing loans (originated or acquired) without any "significant increase in credit risk" (SICR) since initial recognition; the impairment adjustments reflect the expected losses that might arise on default within the next 12 months (12-month ECL);
- Stage 2: comprises all performing loans with a "SICR" since initial recognition; the impairment adjustments reflect the expected losses that might arise on default at any time in the life of the financial instrument (lifetime ECL);
- Stage 3: comprises all accounts in default at the reporting date, the impairment adjustments for which consider the lifetime ECL.

articular, regarding the classification of loans in Stage 2, it is essential to identify correctly the SICR criteria used in the stage assignment process. For this purpose, the Parent Company has structured a framework designed to identify the increase in credit risk before the credit lines granted show clear signs of impending default.

While the distinction between performing and non-performing is made at counterparty level, classification into stages of risk is carried out at account level. In order to distinguish loans within the performing portfolio that do not show SICR (Stage 1) from those that do (Stage 2), the Parent Company has decided to use all the following available significant factors as criteria for the analysis of credit quality:

- Relative quantitative criteria, such as the definition of internal thresholds of change between the PD identified on originating the contractual relationship and the PD at the measurement date, that identify a significant increase in credit risk. In this context, in order to identify the changes in PD and the related thresholds, the framework adopted by the Parent Company makes reference to the Lifetime PD curves, which contain forward-looking information, so that due consideration is given to macroeconomic factors and other elements, such as market type, sector of activity, type of financial instrument and the residual duration of the instrument concerned. The PD deltas defined and the related SICR thresholds have been reduced to a downgrade rating system based on comparison, differentiated by ageing clusters, between rating classes originating with respect to rating classes with a given valuation ("notching" between rating classes) ;
- Absolute qualitative criteria that, via the identification of a risk threshold, identify the transactions to be classified in Stage 2 based on the specific risk information available. This category includes the adverse events impacting credit risk that are identified by the Early Warning credit performance monitoring system ("watchlist"). In order to avoid overlapping, some qualitative counterparty information has not been included among the staging criteria, as it is already considered in the rating models;
- backstop indicators, including:
  - the presence of exposures with a significant past due balance for more than 30 days;
  - the presence of a regulatory probation period of 24 months for forbearance measures;
  - the absence of a rating or the presence of a default status at the credit origination date.

To date, the BPER Banca has not envisaged the possibility of a manual override of the classification resulting from application of the staging rules (except as indicated in the paragraph dedicated to the Overlay Approach in response to the situation caused by the Covid-19 pandemic).

For a homogeneous application of the impairment model between portfolios of the BPER Banca, the classification criteria in stages for the portfolio of debt securities were taken, where possible, from the staging logic applied to the loan portfolio. To be more specific, the Parent Company has defined a staging model for debt securities based on the following features:

- management of an “inventory” of debit securities for staging purposes, applying the FIFO method to relieve sold tranches from the portfolio;
- model for identifying significant increases in credit risk, in order to classify debt securities in Stage 1 or Stage 2, based on the following criteria:
  - primary use of the internal rating model and, if unavailable, reference to an external rating agency;

    - the determination of the rating downgrade threshold based on a comparison of rating classes at origination with rating classes at the measurement date (notching between rating classes);
- classification in Stage 3 of all debt securities in default at the reporting date, applying the definition of default contained in the ISDA document entitled "Credit Derivatives Definition" of 2003.

The standard also envisages the possible use of a practical expedient, intended to reduce the implementation burden for transactions that, at the measurement date, have a *low credit risk* and can be classified in Stage 1 without first carrying out the SICR test. The standard considers an asset to have a low credit risk if the debtor is well able to meet the short-term cash flow requirements deriving from its contractual obligations and adverse changes in the long-term economic situation might reduce that ability, but not necessarily.
The BPER Banca has decided not to adopt this practical expedient.

Should the conditions giving rise to the SICR cease to apply at a subsequent measurement date, the financial instrument is once again measured with reference to the 12-month ECL, which might result in a write-back to the income statement. It should be noted, however, that in the event of reclassification of a loan from non-performing (Stage 3) to performing, the Bank does not deem necessary a forced classification in Stage 2 with the application of a Lifetime ECL, since no probation period has been set for the return from Stage 3 to Stage 1. In this case, the stage assignment approach mentioned previously will be valid. In line with this approach and with the regulatory requirements, also in the event of a return from Stage 2 to Stage 1, probation periods are not envisaged as the combination of the various SICR rules implemented already permits an adequate level of prudence in the case of a return to Stage 1. The only exception to this relates to any contractual modifications and/or renegotiations of financial instruments, for which the Parent Company envisages classification as "forborne", which acts as a Stage 2 trigger and therefore requires the application of Lifetime ECL to the credit line. Furthermore, the official rating valid on the day that a loan is classified as forborne cannot be changed until twelve months have elapsed.

B. Purchased Originated Credit Impaired (POCI) financial assets

If a credit exposure (including those acquired through business combinations) classified at the time of initial recognition in the balance sheet caption 30 *"Financial assets measured at fair value through other comprehensive income"* or in caption 40 *"Financial assets measured at amortised cost"* becomes impaired, it is identified as "Purchased Originated Credit Impaired - POCI".
By convention, POCI financial assets are classified in Stage 3 on initial recognition.
Should these assets become performing, following an improvement in the creditworthiness of the counterparty, they are reclassified to Stage 2.
They can never be classified in Stage 1, as the expected credit loss must always be calculated over the residual duration.
In addition to what was said above, the BPER Banca identifies as POCI financial assets any credit exposures originating from the restructuring of impaired exposures that resulted in the granting of significant new funds, either in absolute terms or in proportion to the amount of the original exposure.

C. Intangible assets with an indefinite useful life

As regards testing goodwill for impairment, when preparing the financial statements, the BPER Banca carries out specific impairment tests on an annual basis as required by the accounting standards,

normally at 31 December of each year, unless there have been changes or there are completely new situations that are likely to have had a material impact on the carrying amounts of assets and on the assumptions used the previous time the assets were measured (particularly the assumptions used to calculate the discount rate (*Ke*) and profit forecast (budget and business plans) of the Companies or CGUs whose goodwill is to be tested, i.e. subsidiaries and associates).
Para. 9 of IAS 36 requires an assessment to be made on each accounting reference date about whether or not an asset may be impaired; in addition, paras. 12 to 14 of IAS 36 describe certain situations that might be evidence of impairment.
In the case of goodwill, the cash generating unit (CGU) to which it has been allocated is tested for impairment. Any reduction in the value of goodwill is based on the difference between the recovery amount of the CGU and its carrying amount if the latter is higher, up to the amount of goodwill on the books. The recoverable amount is the higher of the cash-generating unit's fair value, net of any selling costs, or its related value in use. The difference between the book value and the value in use is recognised in the income statement as "Net adjustments to intangible assets"

D. Equity investments

The Bank's equity investments are also subjected to impairment testing. In particular, the impairment test is carried out on an annual basis as required by the accounting standards, normally as of 31 December each year, unless there are changes or situations of discontinuity of particular importance with respect to the values and assumptions taken as a point of reference in the previous test (in particular as regards the assumptions used to calculate the discount rate -Ke and income prospects -budgets and business plans - of the investee companies); it provides for calculation of the recoverable amount, represented by the greater of the fair value net of selling costs and the value in use. The measurement methodologies used to calculate fair value less selling costs are described in part A.4 of these Explanatory Notes.
Value in use represents the present value of the cash flows expected to derive from the assets subject to impairment testing; this involves estimating the cash flows expected from the asset, possible changes in the timing and/or extent of such flows, the time value of money, and the price that remunerates the specific risks associated with the asset, together with such other factors as the size of the market for the asset, which might affect operators' assessments of the quality of the expected cash flows.
The estimate of value in use, being the present value of the cash flows expected to derive from the asset determined using a Discounted Cash Flow (DCF) method such as the DDM configured for banks, Excess Capital Method, identifies the value of a business in relation to its ability to generate cash flow and thus its financial solidity.
Value in use is therefore determined by discounting the cash flows identified in the business plan, the time horizon for which must be sufficiently long for "fair" forecasts to be made; in financial practice, the time period covered by the forecast flows is at least three years. Where business plans are not prepared directly by the investees, long-term inertia-based plans are developed based on the companies' results and financial position, as well as market projections.
Shareholders' equity and earnings performance are only referred to on a residual basis, for the measurement of minority equity investments.

E. Property, plant, equipment and intangible assets with a finite useful life

Property, plant, equipment and intangible assets with a finite useful life are subjected to impairment testing if there is evidence that their carrying amounts may no longer be recoverable. Recoverable value is determined with reference to the fair value of the property, plant and equipment or intangible asset, net of disposal costs, or to its value in use if this can be determined and exceeds fair value.
As regards property, plant and equipment, impairment is only recognised if their carrying amount exceeds their fair value less selling costs or, if greater, their value in use.
The full value of individual property is determined using the market value criterion and comprises the market value of both the asset and the related land on which it is built. To determine the market value, in relation to the characteristics, intended uses and potential, one or more of the following approaches are adopted:

- comparative method;
- capitalisation method;
- cash flow discounting method.

If valuations are negative, showing impairment losses with respect to the carrying amount, the assets are written down as a result.
In order to identify a single way to identify the circumstances that trigger impairment when market value is lower than the net carrying amount, reference thresholds have been identified (distinguishing type of property and use and considering adverse changes in market value compared with the net carrying amount) to flag potentially critical situations; if exceeded, these lead to a supplementary investigation, which could result in the assets being written down.

Any write-down must be carried out up to the total market value and attributed primarily to the property element.

As with property owned by the Bank, the right-of-use assets recognised in relation to leased buildings (IFRS 16) are also subjected to periodic impairment tests that consider their expected use (decisions to close branches and related contract amendments already carried out) and suitable market indications regarding the costs to be incurred in order to rent them out.

23. Business combinations: purchase price allocation

Introduction

The following description covers the general process required by IFRS 3 for the recognition of business combinations, being transactions or other events in which a company acquires control over one or more business activities and expects to consolidate the assets, liabilities and contingent liabilities acquired at their respective fair values, including any identifiable intangible assets not already recorded in the financial statements of the acquired business.
According to IFRS 3[37], a specific analysis to identify the characteristics of "Company's Business", has to be carried out with respect to the acquired entity, in order to identify a business combination to be accounted for according to the Acquisition Method.
The BPER Banca then proceeds with a qualitative analysis of the characteristics of what has been acquired to verify the simultaneous presence of i) Factors of production, ii) Processes, iii) Production as defined in IFRS 3, especially with respect to the concept of substantial process.

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[37] The amendments made to IFRS 3 with Endorsement Regulation 2020/551 have i) modified para. 3 and ii) introduced paras. B7 - B12D, substantially revising the definition of "business" for the purpose of identifying transactions that can be classified as "business combinations".

Subsequently, on the basis of the Acquisition Method and with reference to the date of acquisition of control, the price of the combination must be allocated (Purchase Price Allocation - PPA) by recognising the assets acquired and liabilities assumed (including contingent liabilities) at fair value, as well as any minority interests, in addition to identifying the implicit intangible assets previously not accounted for in the accounts of the acquired company. Any differences that emerge between the price paid for the acquisition (also measured at fair value and considering any "potential consideration") and the fair value (net of tax effect) of the assets and liabilities acquired are, if positive, recognised as goodwill in the balance sheet and, if negative, credited to the income statement as badwill (or "gain on a bargain purchase").
IFRS 3 allows for the final allocation of the cost of the business combination to be made within twelve months of the acquisition date.

Fair value of the assets and liabilities acquired

When accounting for a business combination, the Bank determines the fair value of the assets, liabilities and contingent liabilities acquired. Such amount is only identified separately if, at the acquisition date, the following criteria are met:

- in the case of assets other than intangible assets, it is likely that the purchaser will obtain any future economic benefits;
- in the case of liabilities other than contingent liabilities, it is likely that their settlement will require the use of resources capable of producing economic benefits;
- in the case of an intangible asset (IAS 38) or a contingent liability (IAS 37), the related fair value can be measured in a reliable manner.

Financial assets and liabilities must be measured at their fair value on the date of the business combination, even if they are measured using other criteria in the financial statements of the acquired company. The fair value of financial instruments not listed in active markets is determined in the manner described in Part A.4 below, applying the internal measurement model that is most appropriate for the instrument concerned.

Identification of intangible assets

Depending on the characteristics of the business acquired, an analysis is performed to identify any unrecorded assets that should be recognised separately, for example customer-related intangibles or client relationship, and marketing-related intangibles (brand name).

Customer-related intangible assets: these are recognised as intangible assets when they are separable and can be measured reliably, even though they may not always derive from contractual rights such as marketing-related intangibles.
This category includes:

- client lists: these comprise all the information held about clients (database containing: names, addresses, transaction history, demographic information etc.) that has a recognised market value, on condition that it can be rented or exchanged; such information cannot be treated as an intangible asset if it is considered so confidential that the combination agreement forbids its sale, rental or exchange in other forms;
- contracts with clients and the client relationships established as a consequence: contracts with clients satisfy the contractual/legal requirement for the recognition of an intangible asset, even if the combination contract forbids their sale or transfer separately from the business acquired; this category also includes long-established contacts with clients, even if there is no formal

contract, and all other non-contractual relationships that can be separated and measured on their own;

- non-contractual relations with clients: this category includes all intangible assets that, being separable and transferable independently of the business acquired, may be valued individually and recognised as intangibles.

Marketing-related intangible assets: trademarks, commercial names, service brands, collective names and quality marks that derive from contractual rights or which are usually separable. Such assets reflect the collection of productive conditions that are economically correlated with the commercial name, the relationship with the market, and the reach of distribution.
An intangible asset must be measured initially at cost. If acquired as part of a business combination, its cost is its fair value at the time control is obtained.
Fair value, in this context, reflects market expectations about the likelihood that the owner will obtain the future economic benefits deriving from the asset. The entity must assess the probability of obtaining future economic benefits using reasonable and justifiable assumptions that reflect Management's best estimate of the economic conditions that will apply over the useful life of the asset.
The accounting standards do not specify the methodology to be used to measure the fair value of such assets but, among the possible alternatives, preference is given to those making reference to observable market prices. Failing this, the accounting standards allow the use of valuation models that include assumptions which are generally used and recognised by the market.
The fair value of customer-related intangible assets is determined by discounting the profit flows generated by deposits over the expected residual period of the relationships outstanding at the time of acquisition.
In general, brands are valued using market methods as well as methods based on the flows deriving from their management or a royalty recognised by the market.

Determination of goodwill (or badwill)

Goodwill represents the unallocated amount of purchase cost, being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired (including those intangibles and contingent liabilities that satisfy the requirements for recognition in the financial statements).
This represents the consideration recognised by the purchaser in exchange for the future economic benefits deriving from assets that cannot be identified individually and recognised separately. In substance, this includes the value of the expected synergies, the corporate image of the company acquired, its know how, its professionalism, its procedures and other non-specific factors.
The goodwill acquired as a result of a business combination is not amortised. The Bank verifies each year, or at the end of the period in which a business combination was carried out and whenever there is evidence of possible impairment, that the recorded value of goodwill has not been impaired (impairment test).
If the residual amount allocated to the purchase value is negative, it is recognised as a benefit in the income statement under caption 245 "Gain on a bargain purchase".

A.3 – Information on transfers of financial assets between portfolios

No financial assets were reclassified during the year.

A.4 – Information on fair value

Qualitative information

A.4.1 Fair value Levels 2 and 3: measurement techniques and inputs used

Techniques for the determination of fair value

Paragraph 9 of IFRS 13 defines fair value as *"the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date"*.
When determining whether the fair value at initial recognition equals the transaction price, it is necessary to take into account factors specific to the transaction and to the asset and liability. It follows that, if the transaction price (consideration) differs from fair value, the difference should be recognised in the income statement.
It is also established that fair value includes transport costs, but excludes transaction costs.
In addition to the measurement of stand-alone financial instruments at fair value, the Bank may also measure groups of similar assets and liabilities at fair value, where it is permitted to do so.
Measurement at fair value assumes that the transaction to sell an asset or transfer a liability takes place in a principal market, defined as the market with the greatest volume and level of trading for the asset or liability to be measured. In the absence of a principal market, reference should be made to the most advantageous market, which is the market that maximises the amount that would be received to sell an asset or minimises the amount that would be paid to transfer a liability, after taking into account transaction costs.

Identification of active markets
The process for measurement of fair value starts with determining whether there is an active market with regularly available quoted prices.

In order to consider a market as active, the Parent Company takes account of the following factors:

- number of participants;
- frequency of price quotations or price updates;
- the presence and size of a bid-ask spread;
- trading volume.

Whether a financial instrument qualifies as traded on an active market can only be determined through extensive research of all the existing markets in order to identify the principal or most advantageous

market, taking into account "all information that is reasonably available" (IFRS 13 § 17). This needs to be done for each financial instrument for which the fair value has to be determined.
To determine whether, based on the information that is available, a market can be considered to be active, the Bank assesses the importance and relevance of factors that include the following:

- low level of recent trading activity;
- available prices are not current;
- available prices vary significantly over time or between market-makers;
- it can be demonstrated that indices that previously had a close correlation with the fair value of an asset or a liability no longer have this correlation based on recent indications of fair value of that asset or liability;
- the presence of a significant increase in the embedded risk premiums (or default rates) of the transactions being considered or in quoted prices;
- the presence of a wide bid-ask spread or of a significant increase in it;
- a significant decline in the level of trading activity;
- a lack of publicly available information.

If compliance with the necessary requirements is verified periodically, a financial instrument can be considered to be traded on one or more active markets. Within the possible markets, a search is undertaken to identify the principal market or, in the absence of a principal market, the most advantageous market.
Fair value is determined with reference to:

- the closing bid price for assets held or liabilities to be issued;
- the closing ask price for liabilities already issued or assets to be purchased.

Closing bid and ask prices are the bid and ask prices referred to by the entity that regulates the market on which an instrument is traded.
In the absence of reference bid and ask prices, the last price set by the entity which regulates the market could be taken, provided that this price has the following features: advertising, liquidity, prompt adaptation to changing conditions and availability as envisaged by the standards.
For assets and liabilities with offsetting positions in market risks, the average of the bid and ask price can be used, provided that this is commonly used by market participants and is consistent with the objective of measuring fair value in accordance with IFRS 13.

In the case of open-ended mutual funds, the BPER Banca considers the Net Asset Value (NAV) as the best expression of the fair value of the instrument. No adjustments are made to the NAV to take into account the interval between the date redemption is requested and the actual redemption date (considered insignificant).
In the case of listed closed-end funds, the fair value is derived from the market quotation.

With regard to foreign shares, if these are listed on regulated stock exchanges, then they are considered to be traded in an active market. The price provided for this type of share, if the bid-ask spread is not available, is the last price. On the contrary, equity trading in OTC markets is not considered to take place in an active market.

Listed derivatives are measured using the last prices supplied by the clearing house.

Financial instruments listed on non-active markets are considered as "unlisted" instruments.

With regard to bonds not listed on regulated markets, in view of the role played by the Bank in the institutional market for financial instruments, the Bloomberg Professional system has been identified as an active market for front office operations, if the prices recorded therein have the appropriate features mentioned above.

Identification of the fair value of financial instruments not listed on active markets

If the market for a financial instrument does not meet the conditions required to qualify as an active market, the fair value of the instrument is determined through the use of valuation techniques.
Valuation techniques indicated by international accounting standards are:

- market approach: this uses prices and other relevant information generated by market transactions involving comparable assets;
- cost approach: this reflects the amount that would be required currently to replace the service capacity of an asset ("current replacement cost");
- income approach: this converts future cash flows or income and expenses to a single current amount.

For the Bank purposes, the following valuation techniques are valid:

- market approach for identical or comparable assets and liabilities;
- use of matrix pricing;
- present value techniques;
- option pricing models;
- the multi-period excess earnings method.

These techniques may be used if:

- they maximise the use of market data, while minimising the use of Bank estimates and assumptions;
- they reasonably reflect how the market expects the price to be determined;
- the fair value measurement is determined on the basis of the value indicated by current market expectations and the risk and yield of the instrument being valued;
- they reflect the assumptions that market participants would use when pricing an asset or liability;
- they are consistent with commonly accepted methodologies;
- they are periodically subjected to verification and calibration to verify their capability to determine a fair value in line with actual trading prices for the instrument being valued.

In summary, the Bank's preference is to adopt a market approach for the determination of fair value, even if an active market does not exist. Only in the event that it is not possible to apply the above valuation techniques, quantitative valuation methods may be used.

It is apparent that regulations governing valuation techniques do not authorise a neutral and objective use of quantitative methods. However, their use should be understood to be the development by the Bank of an internal process that matches the fair value measurement with a price at which an instrument could be exchanged in a market transaction at current conditions.
As part of this process, it would thus appear necessary to give priority to the use of recent transaction prices (prices on non-active markets, prices provided by third-party participants), or the prices of similar instruments. In this context, quantitative methods can provide a benchmark to supplement, or correct,

any differences between the instrument being valued and that observed in the market, or to reflect the impact of changes in the economic environment on market transactions.

Valuation techniques used to measure fair value are applied consistently. A change in a valuation technique or its application is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if any of the following events take place:

- new markets develop;
- new information becomes available;
- information previously used is no longer available;
- valuation techniques improve;
- market conditions change.

Valuation techniques

Specific techniques are applied in relation to particular types of financial instrument, in order to correctly identify their characteristics.

Equity instruments

For all unlisted shares, the valuation methodologies set out above apply. Failing this, they are measured at cost.

For unlisted shares, other than equity investments, the methods used the most for fair value measurement fall into the following categories:

- discounted cash flow;
- the use of multiples.

These methods require the availability of a significant amount of data to estimate future cash flows generated by a company or to identify the correct market multiples. They use uncertain estimates of various parameters (cash flows, dividends, beta, risk premium, cost of capital, asset values, etc.), the measurement of which is subjective and which do not always reflect market conditions. This leads to a valuation of a distribution of theoretical fair values. Where it is not possible to reliably determine the fair value with the above methods, securities and instruments are measured at cost.

As an alternative to the valuation techniques above, the value of the share may be based on book value, computed as the ratio between equity and the number of issued ordinary shares.

Plain vanilla debt securities

With regard to plain vanilla debt securities, the valuation technique applied is discounted cash flow analysis. There are three steps:

- mapping of cash flows: recognition of the cash flows expected from the instrument and their distribution of the duration of the contract;
- selection of the discounting curve, having regard for the risk factors affecting the cash flows;
- calculation of the present value of the instrument at the measurement date.

Having identified the cash flows, the appropriate discounting curve is calculated using the discount rate adjustment approach, which takes account of both rate risk and credit risk. This information is used to calculate the instrument's fair value, as the sum of the present values of its cash flows.

Structured debt securities

Given the non-determinant nature of the future cash flows from structured securities, their fair value is calculated by breaking them down into a portfolio of elementary instruments using the replica portfolio technique. The fair value of the structured product is obtained by summing the individual values obtained for elementary instruments comprising the product.

The Bank started issuing protection certificates in 2013. They combine two financial instruments:

- a zero coupon bond;
- an option which seeks to replicate the performance of an underlying asset and to protect, partially or completely, the amount invested.

The methods used for the calculation of fair value are similar to those described above for structured debt securities.

Closed-end funds

In order to take into account certain specific problems of unlisted closed-end real estate funds, such as the underlying's lack of liquidity, the absence of a liquid market and the specificity of the underlying, the most up-to-date NAV available (normally with reference to the end of the previous half-year) may be corrected by a difference that takes account of credit risk, non-disposal risk and market risk.

Private equity funds

Closed-end private equity funds are first measured at the NAV determined from time to time by the SGR concerned. In addition, the NAV determined using the principles envisaged by the Bank of Italy for the preparation of management reports is compared periodically with the NAV determined by calculating the fair market value of the initiatives underlying[38] the fund, in order to identify any differences that might be reflected immediately in market value, but not in the NAV calculated in the normal way. Should the market value of a fund be lower than the official NAV, further analyses are required in order to correct the NAV and determine the fair value to be recognised in the financial statements.

Funds that specialise in managing NPLs

In order to take into consideration some specific problems of unlisted closed-end funds that invest in non-performing loans (NPLs), such as the fair value measurement of the underlying and the absence of a liquid market, the most up-to-date NAV available is used as input, together with the other market parameters generally used in measuring this type of asset at fair value (mainly the expected rate of return), in a model that is able to simulate the perspective of an operator in the NPL market, considering its limited liquidity.

Asset-Backed Securities (ABS)

With regard to the Asset-Backed Securities (ABS) held in the portfolio, the Group has defined specific measurement criteria that maximise the use of market information, applying the following hierarchy:

- "qualified" contributions (contribution approach);
- method based on market information (comparable approach);
- internal measurement model (waterfall).

Derivatives

The fair value of derivatives is determined using quantitative models that differ depending on the type of instrument concerned. In particular, a distinction is made between:

[38] *Fair market value included, for example, in the EVCA reports.*

- Over-The-Counter (OTC) options represented by either stand-alone options or options embedded in complex financial instruments. Pricing techniques include:
    - options with pay-off that can be calculated precisely, priced using models generally accepted by the market (e.g. Black & Scholes and variants);
    - options with pay-off that cannot be calculated precisely, usually priced using "Montecarlo" simulation techniques".
- Interest Rate Swaps (IRS): the fair value of IRS is determined using net discounted cash flow analysis. In the case of a structured IRS, the instrument is decomposed into a plain component and an optional component ("building blocks"), so that their separate values can be determined and summed;
- Forward Outright contracts: the fair value measurement of FX Forward Outrights is given by the amount to be traded forward times the strike price, adjusted for the current difference between the spot exchange rate and the forward exchange rate;
- Credit default swaps (CDS): for the fair value measurement of CDS, the Standard ISDA model (v1) developed by Markit Group Ltd. is used

Forward currency transactions

These transactions are measured with reference to the forward rates at period end for maturities corresponding to those of the contracts to be priced.

Balance sheet items measured at amortised cost

For financial instruments measured at amortised cost, the fair value is determined for the sole purpose of providing appropriate information in the financial statements.

The fair value of loans with a contractual duration of less than twelve months is estimated to be their book value; the fair value of other loans is obtained by discounting the contract cash flows, net of the expected losses determined with reference to the credit rating of the borrower, using the corresponding rate curve for their maturities.

Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA)

Current regulations state that the pricing of a derivative, in addition to being based on market factors, should also reflect the Credit risk of the counterparty determined by a Credit Valuation Adjustment (CVA) and a Debit Valuation Adjustment (DVA).
To assess the credit risk of the counterparty, the BPER Banca adopts the following methodology.
The term Credit Valuation Adjustment (CVA) refers to an adjustment to reflect the credit risk of the derivative counterparty made on the valuation of an OTC derivative (on positions with a positive fair value) entered into by the Bank with an external counterparty and may be considered to be the market value of a potential loss amount derived from changes in market prices, due to a worsening of the credit or default risk of the counterparty.

Conversely, the term Debit Valuation Adjustment (DVA) refers to an adjustment to reflect the Bank's own default risk made on the valuation of an OTC derivative (on positions with a negative fair value) entered into by the Bank with an external counterparty, i.e. the market value of a potential gain derived from changes in market prices, due to a worsening of the BPER Banca's credit or default risk.

For the quantification of a CVA and a DVA, under certain conditions, IFRS 13 refers to a calculation that must be made by netting set or by counterparty and, thus, based on net exposure and not at individual contract level. In addition, it is necessary to consider whether any collateral has been provided or if there are any netting agreements.
The Parent Company currently makes use of bilateral agreements for the netting of derivative contracts, in accordance with which the reciprocal mark to market receivable and payable positions are offset automatically on a daily basis, leading to a single net balance, without any novation: this results in margin settlement being made solely by the net creditor. The foregoing has led to a considerable reduction in exposure to credit risk and, consequently, the impact of CVAs and DVAs on fair value.

IFRS 13 does not indicate a specific methodology for the calculation of CVAs and DVAs, but it requires the use of valuation techniques that, on the one hand, must be appropriate for the data available and, on the other hand, maximise the use of observable market data. In order to align with best market practices, the Parent Company was decided to use bilateral CVA methodology that considers the presence of two components to the calculation, with the aim of including the potential loss/gain arising from changes in the credit risk of the counterparty/Bank, but taking into account the joint probability of default by counterparties.

Market parameters
The following types of yield curve are used:

- "par swap" curves;
- bond curves derived from baskets of bonds;
- corporate curves by issuer, rating, and sector.

The following are derived from the "par swap" curves:

- zero coupon curves;
- forward rate curves;
- discount factor curves.

The zero coupon rate curves are obtained using the bootstrapping technique. These are used to extrapolate the discount factors used to determine the present value of the cash flows generated by the financial instruments to be priced. The forward rates are implicit in the zero coupon curve are determined with reference to the non-arbitrage theory.
The issuer curves are obtained by adding to the par swap rates the spreads that reflect the credit rating of the instrument's issuer. These are used to price unlisted bonds.
The credit rating curve of the BPER Banca is obtained by creating a basket of issues by banking issuers that have similar characteristics and ratings. This is used to price all issued bonds.
The prices thus obtained are applied daily to organised systems of trading for the bonds issued by the Group Banks (HI-MTF) that are reflected in the fair value valuation in the financial statements.

Volatility and other parameters
Volatilities and correlations are used principally to price unlisted derivatives. The volatilities are classified as follows:

- historical volatilities, estimated as the standard deviation of a time series of daily observations of the logarithm of the yields of the underlying concerned;
- contributed volatilities, obtained from information providers;

- implicit volatilities, obtained from the market prices of listed options.

With regard to the correlations, multi-variant derivatives are priced using historical correlations.

A.4.2 Measurement process and sensitivity

Financial assets and liabilities measured at fair value and classified in Level 3 of the fair value hierarchy mainly consist of:

- minority equity investments (unlisted Equity instruments), often held in order to preserve local roots, or for the development of commercial relationships (measured at fair value mainly on the basis of equity methods);
- investments in asset-backed securities (ABS) classified as "Financial assets measured at fair value through profit or loss - other financial assets mandatorily measured at fair value"[39];
- investments in closed-end real estate investment funds, classified as "Financial assets measured at fair value through profit or loss - other financial assets mandatorily measured at fair value" and acquired in exchange for real estate sales;
- investments in closed-end real estate investment funds, classified as "Financial assets measured at fair value through profit or loss - other financial assets mandatorily measured at fair value" and acquired in exchange for sales of UTP loans.

IFRS 13 requires that an analysis of the sensitivity of the fair value measurement to changes in unobservable inputs be provided for instruments measured at fair value on a recurring basis and classified in Level 3 of the fair value hierarchy. The following analysis is provided for ABS instruments, Real Estate Funds and NPL Funds measured at fair value:

Financial asset/liability	Non-observable parameter	Change in parameter	Sensitivity (in thousands)	Change in parameter	Sensitivity (in thousands)
Investments in Asset Backed Securities	Credit Spread*	+50 bps	(159)	-50 bps	162
Investmensts in Real Estate Founds	Financial charges**	+50 bps	(268)	-50 bps	268
Investmensts in Non-performing Loans Founds	Financial charges**	+50 bps	(307)	-50 bps	307

* Asset-Backed Securities: the unobservable parameter used to construct the sensitivity is the credit spread used in the construction of the rate used to discount future cash flows;

** Real Estate Funds and Non-performing Loans Funds: the unobservable parameter used to construct the sensitivity is the opportunity cost considered in the construction of the NAV adjustment component dedicated to the appreciation of the liquidity risk of the instruments.

For the other instruments in portfolio (derivatives and equity instruments, in particular), no quantitative sensitivity analysis of the fair value was carried out with respect to the change in unobservable inputs, as either the fair value was drawn from third-party sources without making any adjustment, or it is the

[39] *For the sake of completeness, it should be noted that the portfolio contains ABS securities measured at amortised cost as they are part of the Hold To Collect (HTC) business model and with technical-financial characteristics such as to have passed the SPPI test required by IFRS 9. The fair value is also calculated for these instruments and provided for disclosure purposes only.*

result of a model whose inputs are specific to the entity being valued (for example, the company's equity figures) and for which it is not reasonably conceivable to provide alternative amounts.

A.4.3 Fair value hierarchy

The Parent Company classifies its financial assets and liabilities by decreasing degree of fair value quality on the basis of the following principles:

- Fair value Level 1. Measurement is based on the price of the financial instrument concerned, being a quoted price in an active market.
- Fair value level 2. Measurement is not based on quoted prices in active markets for the financial instrument concerned, but on meaningful prices obtained from non-active markets or reliable info-providers, or on prices determined using an appropriate valuation technique largely based on observable market parameters, including credit spreads, derived from quotations of instruments that are substantially similar in terms of risk factors considered. The objective of the use of valuation techniques is to reaffirm the aim of obtaining a closing price at the valuation date from the point of view of a market participant that holds the financial instrument.
- Fair value level 3. Measurement is based on various inputs that include subjective parameters, that is, parameters whose value cannot be derived from quoted prices observable in active markets. Since the parameters are not observable directly in the market, it follows that the value is required to make estimates and assumptions.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorised within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

BPER Banca has defined the analyses to be carried out in the event of:[40]

- the analyses to be performed in the event of changes in valuation techniques used to measure fair value;
- the policy for determining when transfers between fair value hierarchy levels are deemed to have occurred and which is constantly adhered to.

As a general principle, to be allocated to Level 1 of the fair value hierarchy, if there is a quoted price in an active market for an asset or a liability, that price should be used without adjustment when measuring fair value. In fact, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.
An allocation to Levels 2 and 3 depends on how the inputs used for the fair value measurement of an asset or liability are categorised within different levels of the fair value hierarchy: in those cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Assessing the significance of a particular input to the entire measurement requires judgement, taking into account factors specific to the asset or liability.

[40] *Please refer to the set of regulations that the Group has adopted: Group Guidelines for the application of the Fair Value Option, Group Guidelines for fair value measurement of financial instruments, Group Regulation for determining the fair value of financial instruments and Manual of valuation techniques for financial instruments of the BPER Banca Group.*

The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate valuation techniques.

A.4.4 Other information

IFRS 13 requires an entity to "disclose information that helps users of its financial statements to assess the following:

a) *for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements;*
b) *for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period."*

The Parent Company has a procedure in place to:

- identify transfers between levels;
- analyse and document the reasons for such transfers;
- monitor and control the reliability of the fair value of financial instruments.

In particular, for assets and liabilities measured at fair value on a recurring and non-recurring basis, adequate disclosure is made of the following aspects:

- the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement;
- the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3);
- for assets and liabilities categorised within Level 2 or 3, a description of the valuation techniques and inputs used and the reasons for any changes in valuation techniques used.

The BPER Banca provides, for assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the policy for determining when transfers between levels are deemed to have occurred, while, for those categorised on a recurring basis within Level 3 of the fair value hierarchy, a reconciliation is provided from the opening balances to the closing balances.

Information is also provided on the policy for determining when transfers between fair value hierarchy levels are deemed to have occurred.

For assets or liabilities categorised within Level 3 of the fair value hierarchy, the following disclosures are provided:

- quantitative information about the significant unobservable inputs used in the fair value measurement;
- for recurring fair value measurements, the amount of the total gains or losses for the period included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period, and the caption(s) in profit or loss in which those unrealised gains or losses are recognised;
- a description of the valuation processes used for recurring and non-recurring fair value measurements;

- a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement.

For financial assets and liabilities measured at amortised cost (not thus measured at fair value, but with fair value disclosure obligations) the following information is provided:

- the fair value hierarchy level;
- a description of the valuation techniques adopted for Levels 2 and 3, as well as the inputs used;
- if there has been any change in the valuation technique, a description of the change and the reason for it.

For own financial liabilities measured at fair value with credit enhancement (e.g. inseparable guarantees), information is provided on the existence of credit enhancement and the impact thereof on the determination of the fair value of the liability.

The application of the fair value option to loans and receivables and financial liabilities requires disclosure of the change in fair value attributable solely to changes in the credit risk associated with the instrument.
As mentioned, the risk factors are included in the discount curve using the discount rate adjustment approach.
This approach involves making separate and independent estimates of the various risk components (rate risk and credit risk), so that the partial fair value can be determined considering the changes in just one risk factor.

The following factors are considered in relation to credit risk:

- the risk-free market rate observed at the valuation date;
- the credit spread observed at the initial recording date or the previous valuation date;
- the credit spread observed at the valuation date.

The market fair value at the measurement date is compared with the fair value calculated using the credit risk observed at the initial recording date (or, alternatively, at the previous valuation date). This makes it possible to determine the changes in fair value due solely to changes in credit risk on a cumulative or periodic basis.

Quantitative information

A.4.5 Fair value hierarchy

A. 4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value levels

Assets/Liabilities measured at fair value	31.12.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	248,636	391,879	343,241	231,782	419,868	288,149
a) Financial assets held for trading	125,579	158,254	26,985	101,258	195,987	14,436
b) Financial assets designated at fair value	-	122,702	668	-	125,864	1,083
c) Other financial assets mandatorily measured at fair value	123,057	110,923	315,588	130,524	98,017	272,630
2. Financial assets measured at amortised cost	5,412,193	404,070	234,959	5,508,810	475,247	218,344
3. Hedging derivatives	-	57,695	-	-	81,869	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	5,660,829	853,644	578,200	5,740,592	976,984	506,493
1. Financial liabilities held for trading	9	174,527	8,445	1,137	168,606	6,476
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	456,447	-	-	283,792	-
Total	9	630,974	8,445	1,137	452,398	6,476

Transfers of assets from Level 2 to Level 1 of the fair value hierarchy during the period amounted to Euro 10,782 thousand and those from Level 1 to Level 2 amounted to Euro 62,980 thousand.
The former were marked by an improvement in the market negotiability of the instruments in terms of the volume, breadth and depth of the prices quoted and the number of contributors. The latter are due to the reduction in the number of contributors below the minimum threshold.

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	**288,149**	**14,436**	**1,083**	**272,630**	**218,344**	**-**	**-**	**-**
2. Increases	**104,757**	**12,562**	**-**	**92,195**	**49,524**	**-**	**-**	**-**
2.1. Purchases	59,850	275	-	59,575	6,993	-	-	-
2.2. Gains recognised to:	39,799	12,287	-	27,512	41,418	-	-	-
2.2.1. Income statement	39,799	12,287	-	27,512	-	-	-	-
- of which capital gains	37,296	12,287	-	25,009	-	-	-	-
2.2.2. Shareholders'equity	-	X	X	X	41,418	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	5,108	-	-	5,108	1,113	-	-	-
3. Decreases	49,665	13	415	49,237	32,909	-	-	-
3.1. Sales	13,669	12	-	13,657	779	-	-	-
3.2. Refunds	12,064	1	-	12,063	4,515	-	-	-
3.3. Losses recognised to:	23,909	-	415	23,494	27,594	-	-	-
3.3.1. Income statement	23,909	-	415	23,494	-	-	-	-
- of which capital losses	10,848	-	415	10,433	-	-	-	-
3.3.2. Shareholders'equity	-	X	X	X	27,594	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	23	-	-	23	21	-	-	-
4. Closing balance	**343,241**	**26,985**	**668**	**315,588**	**234,959**	**-**	**-**	**-**

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Opening balance	**6,476**	**-**	**-**
2. Increases	**1,969**	**-**	**-**
2.1 Issues	-	-	-
2.2. Losses recognised to:	1,969	-	-
2.2.1. Income statement	1,969	-	-
- of which capital losses	1,969	-	-
2.2.2. Shareholders' equity	X	-	-
2.3. Trasferts from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**-**	**-**	**-**
3.1. Refunds	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits recognised to:	-	-	-
3.3.1. Income statement	-	-	-
- of which capital gains	-	-	-
3.3.2. Shareholders' equity	X	-	-
3.4. Trasferts from other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**8,445**	**-**	**-**

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2020				31.12.2019			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	71,340,689	15,345,450	298,221	60,149,675	56,133,805	9,141,168	283,629	48,067,390
2. Property, plant and equipment held for investment	79,578			78,261	84,570			88,196
3. Non-current assets and disposal groups classified as held for sale	3,194			3,194	3,128			3,128
Total	**71,423,461**	**15,345,450**	**298,221**	**60,231,130**	**56,221,503**	**9,141,168**	**283,629**	**48,158,714**
1. Financial liabilities measured at amortized cost	75,566,875	3,410,099	1,141,413	71,134,189	61,608,916	3,231,215	1,862,426	56,623,325
2. Liabilities related to non-current assets classified as held for sale								
Total	**75,566,875**	**3,410,099**	**1,141,413**	**71,134,189**	**61,608,916**	**3,231,215**	**1,862,426**	**56,623,325**

Key:
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.5 – Information on "day one profit/loss"

In the case of Level 3 transactions, the fair value according to the model may differ from the transaction price: in the case of a positive difference (day-one profit), this is amortised over the residual life of the instrument; in case of a negative difference (day-one loss), it is charged to the income statement for prudence sake.

There were no differences at 31 December 2020 between the value of transactions and their corresponding fair values.

Part B – Information on the balance sheet

Assets

Section 1 - Cash and cash equivalents Caption 10

1.1 Cash and cash equivalents: breakdown

	Total 31.12.2020	Total 31.12.2019
a) Cash	365,864	429,141
b) On demand deposits with Central banks	-	-
Total	**365,864**	**429,141**

Section 2 – Financial assets measured at fair value through profit or loss
Caption 20

2.1 Financial assets held for trading: breakdown by product

Description/Amounts	Total 31.12.2020			Total 31.12.2019		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	66,644	29,993	-	41,776	52,906	-
1.1 Structured securities	37,763	1,562	-	27,060	1,571	-
1.2 Other debt securities	28,881	28,431	-	14,716	51,335	-
2. Equity instruments	58,923	1,315	32	59,475	3,416	32
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	**125,567**	**31,308**	**32**	**101,251**	**56,322**	**32**
B. Derivative instruments						
1. Financial derivatives	12	126,946	26,953	7	139,665	14,404
1.1 trading	12	126,946	26,953	7	139,665	14,404
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 others	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total (B)	**12**	**126,946**	**26,953**	**7**	**139,665**	**14,404**
Total (A+B)	**125,579**	**158,254**	**26,985**	**101,258**	**195,987**	**14,436**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of the Explanatory Notes to these financial statements.

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

2.2 Financial assets held for trading: breakdown by borrowers/issuers/counterparties

Description/Amounts	Total 31.12.2020	Total 31.12.2019
A. Cash assets		
1. Debt securities	96,637	94,682
a) Central Banks	-	-
b) Public Administrations	4,017	16,166
c) Banks	33,640	43,862
d) Other financial companies	52,661	31,389
of which: insurance companies	481	1,327
e) Non financial companies	6,319	3,265
2. Equity instruments	60,270	62,923
a) Banks	14,414	16,102
b) Other financial companies	4,298	4,854
of which: Insurance companies	717	2,105
c) Non financial companies	41,558	41,967
d) Other issuers	-	-
3. UCITS units	-	-
4. Loans	-	-
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non financial companies	-	-
f) Households	-	-
Total (A)	**156,907**	**157,605**
B. Derivative instruments	-	-
a) Central counterparties	-	-
b) Others	153,911	154,076
Total (B)	**153,911**	**154,076**
Total (A+B)	**310,818**	**311,681**

2.3 Financial assets designed at fair value: breakdown by product

Description/Amounts	Total 31.12.2020			Total 31.12.2019		
	L1	L2	L3	L1	L2	L3
1.Debt securities	-	122,702	668	-	125,864	1,083
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	122,702	668	-	125,864	1,083
2. Loans	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	-
2.2 Others	-	-	-	-	-	-
Total	**-**	**122,702**	**668**	**-**	**125,864**	**1,083**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of the Explanatory Notes to these financial statements.

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

2.4 Financial assets designated at fair value: breakdown by borrowers/issuers

Description/Amounts	Total 31.12.2020	Total 31.12.2019
1. Debt securities	**123,370**	**126,947**
a) Central Banks	-	-
b) Public Administrations	120,711	123,901
c) Banks	1,991	1,963
d) Other financial companies	-	-
of which: Insurance companies	-	-
e) Non financial companies	668	1,083
2. Loans	**-**	**-**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: Insurance companies	-	-
e) Non financial companies	-	-
f) Households	-	-
Total	**123,370**	**126,947**

2.5 Other financial assets mandatorily measured at fair value: breakdown by product

Description/Amounts	Total 31.12.2020			Total 31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**110,923**	**52,672**	**-**	**98,017**	**57,600**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	110,923	52,672	-	98,017	57,600
2. Equity instruments	**1,808**	**-**	**81,857**	**2,277**	**-**	**59,640**
3. UCITS units	**121,249**	**-**	**154,752**	**128,247**	**-**	**129,603**
4. Loans	**-**	**-**	**26,307**	**-**	**-**	**25,787**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	26,307	-	-	25,787
Total	**123,057**	**110,923**	**315,588**	**130,524**	**98,017**	**272,630**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of the Explanatory Notes to these financial statements.

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

2.6 Other financial assets mandatorily measured at fair value: breakdown by borrowers/issuer

	Total 31.12.2020	Total 31.12.2019
1. Equity instruments	**83,665**	**61,917**
of which: banks	22,020	22,017
of which: other financial companies	7,715	8,976
of which: non-financial companies	53,930	30,924
2. Debts securities	**163,595**	**155,617**
a) Central Banks	-	-
b) Public Administrations	65,816	51,859
c) Banks	29,792	29,720
d) Other financial companies	67,987	72,999
of which: insurance companies	-	-
e) Non financial companies	-	1,039
3. UCITS Units	**276,001**	**257,850**
4. Loans	**26,307**	**25,787**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	26,307	25,787
of which: insurance companies	26,307	25,787
e) Non financial companies	-	-
f) Households	-	-
Total	**549,568**	**501,171**

2.6 bis UCITS units breakdown

Description	31.12.2020	31.12.2019
1. Equities	17,249	19,464
2. Property - closed end	25,092	28,774
3. Equities - open end	20,686	21,135
4. Balanced - open end	7,180	4,666
5. Bonds - open end	4,358	4,351
6. Equities closed end	33,112	37,572
7. Speculative securities	3,120	5,265
8. Bonds - short term	-	-
9. Bonds - long term	10,899	9,095
10. Other	154,305	127,528
Total	**276,001**	**257,850**

Section 3 – Financial assets measured at fair value through other comprehensive income Caption 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by product

Description/Amounts	Total 31.12.2020			Total 31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Debts securities	**5,410,871**	**401,827**	**7,695**	**5,508,794**	**472,870**	**11,796**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	5,410,871	401,827	7,695	5,508,794	472,870	11,796
2. Equity instruments	**1,322**	**2,243**	**227,264**	**16**	**2,377**	**206,548**
3. Loans	-	-	-	-	-	-
Total	**5,412,193**	**404,070**	**234,959**	**5,508,810**	**475,247**	**218,344**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of the Explanatory Notes to these financial statements.

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by borrowers/issuers

Description/Amounts	Total 31.12.2020	Total 31.12.2019
1. Debt securities	**5,820,393**	**5,993,460**
a) Central Banks	-	-
b) Public Administrations	546,574	449,767
c) Banks	3,554,571	4,045,678
d) Other financial companies	1,078,100	1,013,206
of which: insurance companies	42,580	41,878
e) Non financial companies	641,148	484,809
2. Equity instruments	**230,829**	**208,941**
a) Banks	27,519	28,155
b) Other issuers:	203,310	180,786
- other financial companies	168,685	153,490
of which: insurance companies	143,900	104,330
- non financial companies	34,619	27,290
- others	6	6
3. Loans	**-**	**-**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non financial companies	-	-
f) Households	-	-
Total	**6,051,222**	**6,202,401**

3.3 Financial assets measured at fair value through other comprehensive income: gross value and total impairment provisions

	Gross value				Total impairment provisions			Total partial write-off
	First stage	of which: low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	5,476,770	-	348,408	26	3,357	1,446	8	-
Loans	-	-	-	-	-	-	-	-
Total 31.12.2020	**5,476,770**	**-**	**348,408**	**26**	**3,357**	**1,446**	**8**	**-**
Total 31.12.2019	**5,693,375**	**-**	**304,428**	**26**	**3,302**	**1,059**	**8**	**-**
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

At 31 December 2020 none of the debt securities classified in Stage 3 has been written off.
For the approach used in the presentation of the gross value and total impairment provisions of impaired financial assets, reference should be made to Part A of these Explanatory Notes.

3.3a Loans measured at fair value through other comprehensive income subject to Covid-19 support measures: gross value and total impairment provisions

No table is provided in these financial statements as the circumstances do not apply.

Section 4 - Financial assets measured at amortised cost Caption 40

4.1 Financial assets measured at amortised cost: breakdown by product of loans to banks

Type of transaction/ Amounts	Total 31.12.2020						Total 31.12.2019					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: purchased or originated impaired financial assets	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated impaired financial assets	L1	L2	L3
A.Loans to Central Banks	**8,353,243**	**-**	**-**	**-**	**-**	**8,353,243**	**1,079,578**	**-**	**-**	**-**	**-**	**1,079,578**
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirement	8,353,243	-	-	X	X	X	1,068,684	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Others	-	-	-	X	X	X	10,894	-	-	X	X	X
B.Loans to banks	**8,064,926**	**-**	**-**	**4,460,005**	**152,222**	**3,553,793**	**7,289,525**	**-**	**-**	**2,628,345**	**192,862**	**4,511,838**
1. Loans	3,553,793	-	-	-	-	3,553,793	4,511,838	-	-	-	-	4,511,838
1.1 Current accounts and demand deposits	362,556	-	-	X	X	X	756,392	-	-	X	X	X
1.2. Time deposits	714,058	-	-	X	X	X	850,977	-	-	X	X	X
1.3 Other loans:	2,477,179	-	-	X	X	X	2,904,469	-	-	X	X	X
- Repurchase agreements	1,413,573	-	-	X	X	X	2,148,132	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Others	1,063,606	-	-	X	X	X	756,337	-	-	X	X	X
2. Debts securities	4,511,133	-	-	4,460,005	152,222	-	2,777,687	-	-	2,628,345	192,862	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	4,511,133	-	-	4,460,005	152,222	-	2,777,687	-	-	2,628,345	192,862	-
Total	**16,418,169**	**-**	**-**	**4,460,005**	**152,222**	**11,907,036**	**8,369,103**	**-**	**-**	**2,628,345**	**192,862**	**5,591,416**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of the Explanatory Notes to these financial statements.

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Financial assets measured at amortised cost: breakdown by product of loans to customers

Type of transaction/Amounts	Total 31.12.2020						Total 31.12.2019					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: purchased or originated impaired financial assets	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated impaired financial assets	L1	L2	L3
1. Loans	**42,162,220**	**1,424,112**	**846,750**	**-**	**-**	**47,547,532**	**38,877,918**	**1,951,565**	**969,244**	**-**	**-**	**41,997,657**
1.1.Current accounts	4,458,785	238,539	126,589	X	X	X	5,432,320	347,431	142,754	X	X	X
1.2. Repurchase agreements	83,949	-	-	X	X	X	93,002	-	-	X	X	X
1.3. Mortgages	29,609,290	935,245	613,361	X	X	X	25,663,285	1,260,876	714,798	X	X	X
1.4. Credit cards, personal loans and assignments of one-fifth of salary	617,106	7,673	3,861	X	X	X	659,290	12,921	4,582	X	X	X
1.5. Financial leasing	4,825	4,531	9	X	X	X	6,022	305	-	X	X	X
1.6. Factoring	3,177	2,249	-	X	X	X	10,827	61	-	X	X	X
1.7. Other loans	7,385,088	235,875	102,930	X	X	X	7,013,172	329,971	107,110	X	X	X
2. Debt securities	**11,336,188**	**-**	**-**	**10,885,445**	**145,999**	**695,107**	**6,935,219**	**-**	**-**	**6,512,823**	**90,767**	**478,317**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	11,336,188	-	-	10,885,445	145,999	695,107	6,935,219	-	-	6,512,823	90,767	478,317
Total	**53,498,408**	**1,424,112**	**846,750**	**10,885,445**	**145,999**	**48,242,639**	**45,813,137**	**1,951,565**	**969,244**	**6,512,823**	**90,767**	**42,475,974**

The sub-caption "Other loans" of performing loans includes: Euro 4,983 million of bullet loans (+27.12%), Euro 1,657 million of advances on invoices and bills subject to collection (-20.83%), Euro 568 million of import/export advances (-27.92%), Euro 23 million of credit assignments (-46.51%) and Euro 154 million of other miscellaneous items (-8.88%).
An explanation of the fair value hierarchy used for classification has been given in Part A.4 of the Explanatory Notes to these financial statements.

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.3 Financial assets measured at amortised cost: breakdown by borrowers/issuers of loans to customers

Type of transaction/Amounts	Total 31.12.2020			Total 31.12.2019		
	First and second stage	Third stage	of which: purchased or originated impaired financial assets	First and second stage	Third stage	of which: purchased or originated impaired financial assets
1. Debt securities	**11,336,188**	**-**	**-**	**6,935,219**	**-**	**-**
a) Public Administration	9,679,553	-	-	5,996,103	-	-
b) Other financial companies	1,345,874	-	-	820,472	-	-
of which: insurance companies	15,016	-	-	4,990	-	-
c) Non financial companies	310,761	-	-	118,644	-	-
2. Loans:	**42,162,220**	**1,424,112**	**846,750**	**38,877,918**	**1,951,565**	**969,244**
a) Public Administration	2,027,459	3,251	2,747	2,069,160	10,226	4,855
b) Other financial companies	6,196,517	86,853	70,398	5,828,132	106,691	75,641
of which: insurance companies	40,236	-	-	40,558	-	-
c) Non financial companies	18,395,159	1,007,727	558,181	16,533,791	1,386,572	623,799
d) Households	15,543,085	326,281	215,424	14,446,835	448,076	264,949
Total	**53,498,408**	**1,424,112**	**846,750**	**45,813,137**	**1,951,565**	**969,244**

The classification of loans to customers between Stage 1 and Stage 2 and Stage 3 is shown below, analysed by type of product and counterparty.

Type of Product/Counterparty	Public Administration			Other financial companies		
	Gross exposure	Total impairment provisions	Net exposure	Gross exposure	Total impairment provisions	Net exposure
Loans						
Current accounts	**45,959**	**(2,728)**	**43,231**	**2,330,504**	**(10,872)**	**2,319,632**
of which First stage	21,222	(128)	21,094	2,307,100	(1,461)	2,305,639
of which Second stage	22,343	(271)	22,072	7,809	(434)	7,375
of which Third stage	2,394	(2,329)	65	15,595	(8,977)	6,618
Repurchase agreements	**-**	**-**	**-**	**84,053**	**(104)**	**83,949**
of which First stage	-	-	-	84,053	(104)	83,949
of which Second stage	-	-	-	-	-	-
of which Third stage	-	-	-	-	-	-
Mortgages	**1,910,174**	**(1,639)**	**1,908,535**	**1,247,685**	**(47,387)**	**1,200,298**
of which First stage	1,895,752	(1,160)	1,894,592	1,137,353	(6,488)	1,130,865
of which Second stage	12,744	(243)	12,501	38,658	(642)	38,016
of which Third stage	1,678	(236)	1,442	71,674	(40,257)	31,417
Other loans	81,005	(2,061)	78,944	2,743,275	(63,784)	2,679,491
of which First stage	73,531	(45)	73,486	2,614,782	(1,376)	2,613,406
of which Second stage	5,553	(1,839)	3,714	17,767	(500)	17,267
of which Third stage	1,921	(177)	1,744	110,726	(61,908)	48,818
Total	**2,037,138**	**(6,428)**	**2,030,710**	**6,405,517**	**(122,147)**	**6,283,370**

(cont.)

Type of Product/Counterparty	Non-financial companies			Households			Total net exposure
	Gross exposure	Total impairment provisions	Net exposure	Gross exposure	Total impairment provisions	Net exposure	
Loans							
Current accounts	**2,285,549**	**(362,621)**	**1,922,928**	**470,966**	**(59,433)**	**411,533**	**4,697,324**
of which First stage	1,523,917	(3,957)	1,519,960	258,394	(928)	257,466	4,104,159
of which Second stage	219,173	(6,333)	212,840	115,444	(3,105)	112,339	354,626
of which Third stage	542,459	(352,331)	190,128	97,128	(55,400)	41,728	238,539
Repurchase agreements	**-**	**-**	**-**	**-**	**-**	**-**	**83,949**
of which First stage	-	-	-	-	-	-	83,949
of which Second stage	-	-	-	-	-	-	-
of which Third stage	-	-	-	-	-	-	-
Mortgages	**13,366,161**	**(563,788)**	**12,802,373**	**14,791,851**	**(158,522)**	**14,633,329**	**30,544,535**
of which First stage	10,913,053	(10,357)	10,902,696	12,108,711	(5,923)	12,102,788	26,030,941
of which Second stage	1,293,322	(32,345)	1,260,977	2,287,785	(20,930)	2,266,855	3,578,349
of which Third stage	1,159,786	(521,086)	638,700	395,355	(131,669)	263,686	935,245
Other loans	5,060,296	(382,711)	4,677,585	864,496	(39,992)	824,504	8,260,524
of which First stage	4,086,418	(5,751)	4,080,667	703,761	(669)	703,092	7,470,651
of which Second stage	430,134	(12,115)	418,019	104,965	(4,420)	100,545	539,545
of which Third stage	543,744	(364,845)	178,899	55,770	(34,903)	20,867	250,328
Total	**20,712,006**	**(1,309,120)**	**19,402,886**	**16,127,313**	**(257,947)**	**15,869,366**	**43,586,332**

4.4 Financial assets measured at amortised cost: gross value and total impairment provisions

	Gross value				Total impairment provisions			Total partial write-off
	First stage	of which: low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	15,826,576	-	27,467	-	6,630	92	-	-
Loans	49,644,021	-	4,555,718	2,998,231	47,307	83,176	1,574,119	171,882
Total 31.12.2020	**65,470,597**	**-**	**4,583,185**	**2,998,231**	**53,937**	**83,268**	**1,574,119**	**171,882**
Total 31.12.2019	**51,133,705**	**-**	**3,175,411**	**4,123,336**	**48,511**	**78,365**	**2,171,771**	**272,430**
of which: purchased or originated credit-impaired financial assets	X	X	185,977	1,160,156	X	2,084	497,299	2,355

For the approach used in the presentation of the gross value and total impairment provisions of impaired financial assets, reference should be made to Part A of these Explanatory Notes. Note that default interest is only recorded at the time of actual collection.

4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross value and total impairment provisions

	Gross value				Total impairment provisions			Total partial write-off
	First stage	of which: low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
1. Loans subject to forbearance measures compliant with GL	4,512,283	-	1,114,101	37,646	4,483	15,580	8,709	-
2. Loans subject to other forbearance measures	-	-	2,362	1,992	-	25	505	-
3. New loans	2,844,418	-	256,930	6,901	1,228	1,106	237	-
Total	**7,356,701**	**-**	**1,373,393**	**46,539**	**5,711**	**16,711**	**9,451**	**-**

Section 5 – Hedging derivatives
Caption 50

5.1 Hedging derivatives: breakdown by type of hedge and level

	FV 31.12.2020			NV	FV 31.12.2019			NV
	L1	L2	L3	31.12.2020	L1	L2	L3	31.12.2019
A. Financial derivatives								
1. Fair Value	-	53,714	-	1,926,422	-	80,648	-	2,640,430
2. Cash flows	-	3,981	-	54,446	-	1,221	-	54,446
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair Value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**57,695**	**-**	**1,980,868**	**-**	**81,869**	**-**	**2,694,876**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of the Explanatory Notes to these financial statements.

Key:
NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

5.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transactions/ Type of hedge	Fair Value							Cash-flow hedges		Foreign investments
	Specific						General	Specific	General	
	debt securities and interest rates	equity instruments and stock indexes	currencies and gold	credit	goods	others				
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	335	X	-	-	X	X	X	3,981	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other operations	-	-	-	-	-	-	X	-	X	-
Total assets	335	-	-	-	-	-	-	3,981	-	-
1. Financial Liabilities	53,379	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	53,379	-	-	-	-	-	-	-	-	
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 6 – Change in value of macro-hedged financial assets
Caption 60

There are no amounts to be disclosed in this section.

Section 7 - Equity investments
Caption 70

7.1 Equity investments: information on shareholdings

Company name	Registered head office	Operational head office	% Holding	% Available votes
A. Wholly-owned companies				
Direct:				
1 Adras s.p.a.	Milan	Milan	100.000	
2 Arca Holding s.p.a.	Milan	Milan	57.061	
3 Bibanca s.p.a.	Sassari	Sassari	78.548	
4 BPER Bank Luxembourg S.A.	Lussemburgo	Luxembourg	100.000	
5 Banco di Sardegna s.p.a.	Cagliari	Sassari	99.124	100.000
6 BPER Credit Management s.cons.p.a.	Modena	Modena	70.000	
7 BPER Trust Company s.p.a.	Modena	Modena	100.000	
8 Emilia Romagna Factor s.p.a.	Bologna	Bologna	99.057	
9 Estense Covered Bond s.r.l.	Conegliano	Conegliano	60.000	
10 Estense CPT Covered Bond s.r.l.	Conegliano	Conegliano	60.000	
11 Finitalia s.p.a.	Milan	Milan	100.000	
12 Italiana Valorizzazioni Immobiliari s.r.l.	Milan	Milan	100.000	
13 Modena Terminal s.r.l.	Campogalliano	Campogalliano	100.000	
14 Nadia s.p.a.	Modena	Modena	100.000	
15 Optima s.p.a. S.I.M.	Modena	Modena	100.000	
16 Sardaleasing s.p.a.	Sassari	Milan	52.741	
17 SIFA' - Società Italiana Flotte Aziendali s.p.a.	Trento	Milan/Reggio Emilia	100.000	
B. Companies subject to joint control				
C. Companies subject to significant influence				
1 Alba Leasing s.p.a.	Milan	Milan	33.498	
2 Atriké s.p.a.	Modena	Modena	45.000	
3 Cassa di Risparmio di Fossano s.p.a.	Fossano	Fossano	23.077	
4 Cassa di Risparmio di Savigliano s.p.a.	Savigliano	Savigliano	31.006	
5 CAT Progetto Impresa Modena s.c.r.l.	Modena	Modena	20.000	
6 Co.Ba.Po. Consorzio Banche popolari dell'Emilia Romagna	Bologna	Bologna	23.587	
7 Immobiliare Oasi nel Parco s.r.l.	Milan	Milan	36.800	
8 Lanciano Fiera - Polo Fieristico d'Abruzzo Consorzio	Lanciano	Lanciano	25.000	
9 Resiban s.p.a.	Modena	Modena	20.000	
10 Unione Fiduciaria s.p.a.	Milan	Milan	24.000	

The "% Available votes" column is only used if the actual share of votes exercisable at the Ordinary Shareholders' Meeting is different from the interest held in the company's share capital.

7.2 Significant equity investments: book value, fair value and dividend received

Please read the consolidated financial statements.

7.3 Significant equity investments: accounting information

Please read the consolidated financial statements.

7.4 Non-significant equity investments: accounting information

Please read the consolidated financial statements.

Impairment tests of equity investments

As required by IAS/IFRS, the carrying amount of each equity investment was subjected to impairment testing in order to check that it was reasonable with respect to its recoverable value.

Impairment testing has to be performed by comparing the carrying amount of an asset with its recoverable value, where the recoverable value is the higher of its fair value less costs to sell and its value in use.

The recoverable value of each equity investment is deemed to be the pro rata value in use of the investee company, given that each entity is independently capable of generating cash flows. Consistency at CGU level was maintained between the separate and the consolidated financial statements when performing the impairment test, even though the effects on the two sets of financial statements may differ, essentially due to the different carrying amounts involved. “Section 10 – Intangible assets” of the consolidated Explanatory Notes discuss the elements supporting the projections made and the assumptions underlying the estimated recoverable value of the principal subsidiaries and associates.

7.5 Equity investments: annual changes

	Total 31.12.2020	Total 31.12.2019
A. Opening balance	**2,138,421**	**1,747,684**
B. Increases	**14,793**	**685,749**
B.1 Purchases	14,344	685,107
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	449	642
C. Decreases	**145,068**	**295,012**
C.1 Sales	272	6,706
C.2 Impairment losses	3,519	26,026
C.3 Depreciations	-	-
C.4 Other changes	141,277	262,280
D. Closing balance	**2,008,146**	**2,138,421**
E. Total revaluations	**-**	**-**
F. Total adjustments	**246,589**	**243,070**

The Increases (caption B.1) mainly refer to:
- the purchase of 60,000 ordinary shares of SIFA'- Società Italiana Flotte Aziendali s.p.a. for Euro 8.2 million. BPER Banca now holds 100% of the company;
- the purchase of 169,389 ordinary shares of Emilia Romagna Factor s.p.a. for Euro 4.1 million;
- the purchase of 231,327 preference shares of Banco di Sardegna received after exercising the option and pre-emption rights over the shares involved in the conversion of the savings shares and for purchases from third-party shareholders, for a total of Euro 2 million.

"Sales" (caption C.1) refer to BPER Banca's withdrawal as a member of CONFORM - Consulenza Formazione e Management s.c.a.r.l.
"Impairment losses" (caption C.2) refer to impairment test carried out on Cassa di Risparmio di Fossano s.p.a. (Euro 3.5 million).
The caption "Other changes" (caption C.4) mainly refers to the equity investments in Cassa di Risparmio di Bra s.p.a. (Euro 95.5 million) and Cassa di Risparmio di Saluzzo s.p.a. (Euro 44.7 million) which were both absorbed during the year, in addition to the distribution of the capital reserves of Immobiliare Oasi nel Parco for Euro 1.1 million.

7.6 Commitments referred to equity investments in companies subject to joint control

Please read the consolidated financial statements.

7.7 Commitments referred to equity investments in companies subject to significant influence

Please read the consolidated financial statements.

7.8 Significant restrictions

Please read the consolidated financial statements.

7.9. Other information

Please read the consolidated financial statements.

Section 8 – Property, plant and equipment Caption 80

8.1 Property, plant and equipment used in operations: breakdown of assets measured at cost

Description/Amounts	Total 31.12.2020	Total 31.12.2019
1. Assets owned	**447,882**	**392,708**
a) lands	92,285	87,950
b) buildings	226,492	216,696
c) furniture	23,757	23,321
d) electronic system	52,446	20,767
e) other	52,902	43,974
2. Rights of use acquired through leases	**278,924**	**324,823**
a) lands	-	-
b) buildings	250,005	297,620
c) furniture	-	-
d) electronic system	24,729	23,854
e) other	4,190	3,349
Total	**726,806**	**717,531**
of which: arising from the recovery of guarantees received	-	-

8.2 Property, plant and equipment held for investment: breakdown of assets measured at cost

Description/Amounts	Total 31.12.2020				Total 31.12.2019			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Assets owned	**79,578**	**-**	**-**	**78,261**	**84,570**	**-**	**-**	**88,196**
a) lands	26,563	-	-	22,574	26,184	-	-	22,757
b) buildings	53,015	-	-	55,687	58,386	-	-	65,439
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) lands	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**79,578**	**-**	**-**	**78,261**	**84,570**	**-**	**-**	**88,196**
of which: arising from the recovery of guarantees received	-	-	-	-	-	-	-	-

The BPER Banca Group has opted to measure at cost both property, plant and equipment used in operations and property, plant and equipment held for investment.
An explanation of the fair value hierarchy used for classification has been given in Part A.4 of Explanatory Notes in chapter "Techniques for the determination of fair value".

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

8.3 Property, plant and equipment used in operations: breakdown of revalued assets

There are no amounts to be disclosed in this section.

8.4 Property, plant and equipment held for investment: breakdown of assets measured at fair value

There are no amounts to be disclosed in this section.

8.5 Inventories of property, plant and equipment governed by IAS 2: breakdown

There are no amounts to be disclosed in this section.

8.6 Property, plant and equipment used in operations: annual changes

	Lands	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**87,950**	**701,678**	**174,151**	**150,170**	**298,914**	**1,412,863**
A.1 Total net value adjustments	-	187,362	150,830	105,549	251,591	695,332
A.2 Net opening balance	**87,950**	**514,316**	**23,321**	**44,621**	**47,323**	**717,531**
B. Increases:	**4,457**	**53,987**	**3,665**	**52,630**	**38,264**	**153,003**
B.1 Purchases	-	16,772	2,241	48,348	21,657	89,018
B.2 Capitalised expenditure on improvements	-	5,270	-	-	-	5,270
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value allocated to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfer from property, plant and equipment held for investment	350	853	-	-	-	1,203
B.7 Other changes	4,107	31,092	1,424	4,282	16,607	57,512
C. Decreases:	**122**	**91,806**	**3,229**	**20,076**	**28,495**	**143,728**
C.1 Sales	3	14,784	44	1,497	122	16,450
C.2 Depreciations	-	57,742	2,709	15,336	13,475	89,262
C.3 Impairment losses allocated to	-	3,688	-	-	-	3,688
a) shareholders' equity	-	-	-	-	-	-
b) profit or loss	-	3,688	-	-	-	3,688
C.4 Negative chages in fair value allocated to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	119	1,151	-	-	-	1,270
a) transfer to property, plant and equipment held for investment	119	1,151	-	-	-	1,270
b) non-current assets and groups of assets held for sale	-	-	-	-	-	-
C.7 Other changes	-	14,441	476	3,243	14,898	33,058
D. Net closing balance	**92,285**	**476,497**	**23,757**	**77,175**	**57,092**	**726,806**
D.1 Total net value adjustments	-	242,682	157,627	116,971	269,823	787,103
D.2 Gross closing balance	**92,285**	**719,179**	**181,384**	**194,146**	**326,915**	**1,513,909**

The Other changes in Increases include the values of property, plant and equipment deriving from the mergers of Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a.
The determination of the fair value of property, held for whatever purpose, which is also useful in revealing any impairment, is usually done based on generally accepted valuation methods and principles. At 31 December 2020, the valuation of the Bank's real estate holdings was subjected to update by an independent expert. The appraisals identified the need to adjust certain properties, resulting in the recognition of an impairment losses totalling Euro 3.7 million, of which Euro 1.8 million relating to buildings owned by the Bank and Euro 1.9 million to rights-of-use acquired through leases deriving from the early closure of certain branches.

8.7 Property, plant and equipment held for investments: annual changes

	Total	
	Lands	Buildings
A. Gross opening balance	**26,184**	**83,796**
A.1 Total net value adjustments	-	25,410
A.2 Net opening balance	**26,184**	**58,386**
B. Increases	**1,988**	**5,524**
B.1 Purchases	-	-
B.2 Capitalised expenditure on improvements	-	1,772
B.3 Positive changes in fair value	-	-
B.4 Write-backs	-	-
B.5 Positive exchange differences	-	-
B.6 Transfer from property, plant and equipment held for investment	119	1,151
B.7 Other adjustments	1,869	2,601
C. Decreases	**1,609**	**10,895**
C.1 Sales	29	3,440
C.2 Amortizations	-	1,688
C.3 Negative changes in fair value	-	-
C.4 Impairment losses	1,063	3,415
C.5 Negative exchange difference	-	-
C.6 Transfer to:	517	2,352
a) transfer to property, plant and equipment held for investment	350	853
b) non-current assets and group of assets held for sale;	167	1,499
C.7 Other adjustments	-	-
D. Net closing balance	**26,563**	**53,015**
D.1 Total net value adjustments	-	26,772
D.2 Gross closing balance	**26,563**	**79,787**
E. Measured at fair value	22,574	55,687

The updated valuation at fair value of the real estate holdings, as mentioned previously, resulted in the recognition of an impairment losses of Euro 4.5 million.
The Other changes in Increases include the values of tangible assets deriving from the mergers of Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a.

Useful life of the main fixed asset categories

Category	Useful life
Land	not depreciated
Property	based on the useful lives identified from specific appraisals
Office furniture and machines	100 months
Furnishings	80 months
Lifting equipment	160 months
Motor vehicles	48 months
Alarm systems	40 months
IT hardware	60 months

8.8 Inventories of property, plant and equipment governed by IAS 2: annual changes

There are no amounts to be disclosed in this section.

8.9 Commitments to purchase property, plant and equipment

There are no amounts to be disclosed in this section.

Section 9 – Intangible assets Caption

9.1 Intangible assets: breakdown by asset type

Description/Amounts	Total 31.12.2020		Total 31.12.2019	
	Finite duration	Undefinite duration	Finite duration	Undefinite duration
A.1 Goodwill	X	230,366	X	225,792
A.2 Other intangible assets	**250,416**	**-**	**212,447**	**-**
A.2.1 Assets measured at cost	250,416	-	212,447	-
a) intangible assets generated internally	-	-	-	-
b) other assets	250,416	-	212,447	-
A.2.2 Assets measured at fair value	-	-	-	-
a) intangible assets generated internally	-	-	-	-
b) other assets	-	-	-	-
Total	**250,416**	**230,366**	**212,447**	**225,792**

All intangible assets are stated at cost.
"Other intangible assets" mainly comprise applications software measured at cost and amortised on a straight-line basis over a period, not exceeding five years, that depends on the degree of obsolescence involved.
"Other intangible assets" mainly consist of intangibles recognised in previous Purchase Price Allocation for Euro 36.3 million, of which Euro 24.9 million relating to the acquisition of Unipol Banca.
Goodwill includes goodwill arising from bank acquisitions and subsequent mergers by absorption, as well as goodwill relating to purchases of bank branches from the Unicredit Group.

Impairment test on goodwil

In recent years, BPER Banca has been subject to a series of internal reorganisation measures, including the merger of a number of former subsidiary banks, namely: Banca Popolare di Lanciano e Sulmona s.p.a., Banca Popolare di Aprilia s.p.a., CARISPAQ – Cassa di Risparmio della Provincia dell'Aquila s.p.a, Banca Popolare di Ravenna s.p.a., Banca della Campania s.p.a., Banca Popolare del Mezzogiorno s.p.a. and Meliorbanca s.p.a., and more recently Cassa di Risparmio di Bra s.p.a and Cassa di Risparmio di Saluzzo s.p.a. These mergers meant that any goodwill previously recognised in the individual legal entity being recognised in the separate financial statements of BPER Banca as part of the "Goodwill" shown under "Intangible assets".

The characteristics of the individual business units merged, which were fully absorbed by BPER Banca's organisation and its structure, in terms of both the commercial network and risk management, led to the identification of the Bank as a whole as a single CGU, being the lowest level at which Management checks the profitability of an investment. In addition, planning processes and reporting systems are managed at the level of individual legal entity.

The goodwill recorded in the Bank's assets for a total of Euro 230.4 million, an increase of Euro 4.6 million compared with the previous year due to the absorption of the former CR Bra CGU (Cassa di Risparmio di Bra), is therefore verified on the basis of cash flows potentially distributable by the Bank as a whole. Accordingly, the goodwill that was previously verified at individual entity level is now tested as a whole with reference to the Bank's post-merger perimeter.

On account of the fact that intangible assets with an indefinite useful life recognised in the separate financial statements coincide in substance with the same assets recognised in the consolidated financial statements of the BPER Banca CGU, the analyses performed and the results of impairment tests performed for the preparation of the consolidated financial statements have been considered valid also for the separate financial statements.

Details of the criteria used for the calculation of the recoverable amounts of CGUs, of the assumptions underlying the valuation models used and of the sensitivity analyses are provided in "Section 10 – Intangible assets" of the consolidated Explanatory Notes.

9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		FIN	UNDEFIN	FIN	UNDEFIN	
A. Opening balance	**280,236**	**-**	**-**	**284,151**	**-**	**564,387**
A.1 Total net value adjustments	54,444	-	-	71,704	-	126,148
A.2 Net opening balance	**225,792**	**-**	**-**	**212,447**	**-**	**438,239**
B. Increases	**4,574**	**-**	**-**	**92,415**	**-**	**96,989**
B.1 Purchases	4,574	-	-	92,407	-	96,981
B.2 Increases in internal intagible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- profit or loss	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	8	-	8
C. Decreases	**-**	**-**	**-**	**54,446**	**-**	**54,446**
C.1 Sales	-	-	-	-	-	-
C.2 Adjustments	-	-	-	54,446	-	54,446
- Depreciations	X	-	-	54,446	-	54,446
- Impairment losses	-	-	-	-	-	-
+ shareholders' equity	X	-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.3 Positive changes in fair value	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- profit or loss	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differrences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	**230,366**	**-**	**-**	**250,416**	**-**	**480,782**
D.1 Total net value adjustments	54,444	-	-	126,150	-	180,594
E. Gross closing balance	**284,810**	**-**	**-**	**376,566**	**-**	**661,376**

All intangible assets are stated at cost.
In the Goodwill column, the caption "B.1 Purchases" refers to the goodwill in Cassa di Risparmio di Bra, absorbed by BPER Banca during the current year, in line with what is shown in the consolidated financial statements.
The impairment tests carried out in accordance with IAS 36 did not identify any need to recognise an impairment loss on the carrying amount of these assets.

Key:
FIN: finite useful life
UNDEFIN: indefinite useful life

9.3 Intangible assets: other information

There is no other information to be provided, apart from what has already been provided in this section.

Section 10 - Tax assets and liabilities Asset caption 100 and liability caption 60

10.1 Deferred tax assets: breakdown

	IRES	IRAP	Total 31.12.2020	Total 31.12.2019
Impairment losses on loans to customers	532,547	51,157	583,704	642,492
Impairment losses on equity investments and securities	3,403	8,949	12,352	15,591
Goodwill convertible into tax credits	150,253	30,788	181,041	189,080
Non-convertible goodwill	46,755	9,470	56,225	915
Personnel provisions	70,813	6,180	76,993	95,061
Endorsement credits, revocatory action during bankruptcy proceedings and outstanding lawsuits	51,871	4,330	56,201	59,433
Impairment losses on loans to customers FTA IFRS 9	113,913	23,073	136,986	130,681
Non-convertible tax losses	17,814	-	17,814	-
Tax losses convertible into tax credits	86,093	8,804	94,897	-
ACE reportable	30,364	-	30,364	21,163
Other deferred tax assets	36,739	3,128	39,867	33,397
Total	**1,140,565**	**145,879**	**1,286,444**	**1,187,813**

"Deferred tax assets" are determined on the basis of IRES and IRAP tax rates which are expected to be in force at the time of their recovery.
The total includes tax assets under Law 214/2011 for an amount of Euro 859.6 million.
The other deferred tax assets, Euro 426.8 million, mainly relate to temporary differences of Euro 378.6 million, non-convertible tax losses, Euro 17.8 million, and ACE surpluses, Euro 30.4 million; these were recognised following the outcome of the probability test required by IAS 12. The time horizon used for the forecasts is 5 years; the future taxable income considered is consistent with the financial forecasts last updated in 2020.
The increase in "non-convertible goodwill" reflects the recognition of deferred tax assets after stepping up the goodwill attributed to the Arca Holding CGU.
The caption in deferred tax assets for "Tax losses convertible into tax credits" refers to tax losses of the current year, as they derive from the reversal during the year of the deferred tax assets pursuant to Law 214/2011.
The position at 31 December 2020 also includes tax losses for which no deferred tax assets (DTAs) have been recognised. These include Euro 251.4 million subject to the full rate of 27.50%, that would result in DTAs of Euro 69.1 million, and Euro 1,085.8 million to which the additional rate of 3.5% would apply, resulting in DTAs of Euro 38.0 million. With regard to ACE, deferred tax assets of Euro 138.3 million were not recorded, to which the additional rate of 3.5% is applicable and to which there are DTAs of Euro 4.8 million. In addition, deferred tax assets have not been recognised on the portions of the FTA of IFRS 9 recoverable beyond the time horizon for the probability test, amounting to Euro 241.9 million, which would result in DTAs of Euro 80.0 million.

10.2 Deferred tax liabilities: breakdown

	IRES	IRAP	Total 31.12.2020	Total 31.12.2019
Gains from equity instruments and securities	26,140	12,062	38,202	29,738
Staff costs	1,578	-	1,578	1,578
Gains from the sale of property, plant and equipment	2,466	432	2,898	-
Depreciation of property, plant and equipment and intangible assets	950	192	1,142	9,464
Goodwill	1,751	355	2,106	-
Other deferred taxes	1,141	69	1,210	2,853
Total	**34,026**	**13,110**	**47,136**	**43,633**

"Deferred tax liabilities" are determined on the basis of IRES and IRAP tax rates that are expected to be in force at the time of their reversal.
At 31 December 2020, there are no temporary differences relating to investments in subsidiaries, branches, associates and companies under joint control for which deferred tax liabilities have not be recognised.

10.3 Changes in deffered tax assets (through profit or loss)

	Total 31.12.2020	Total 31.12.2019
1. Initial amount	**1,135,795**	**1,045,063**
2. Increases	**273,683**	**201,828**
2.1 Defferred tax assets recognized in the year	236,567	92,428
a) related to previous years	27,492	26,136
b) due to changes in accounting criteria	-	-
c) value recoveries	-	-
d) others	209,075	66,292
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	37,116	109,400
- of which: business combinations	-	108,403
3. Decreases	**167,940**	**111,096**
3.1 Defferred tax assets derecognized in the year	167,940	109,091
a) reversals	167,464	82,955
b) write-offs	-	-
c) due to changes in accounting criteria	-	-
d) others	476	26,136
3.2 Decreases in tax rates	-	-
3.3 Other decreases:	-	2,005
a) changes into tax credits	-	-
b) others	-	2,005
4. Final amount	**1,241,538**	**1,135,795**

The amount reported in caption 2.1 a) "Increases relating to prior years" includes the adjustments made on the FTA of IFRS 9, recoverable in 2025 and recognised during the year after passing the probability test.
Caption d) "Other" increases mainly includes deferred tax assets on convertible tax losses for Euro 94.9 million, non-convertible tax losses for Euro 17.8 million, provisions on legal disputes and endorsement credits for Euro 10.7 million, ACE for Euro 9.2 million, goodwill stepped up for Euro 56.2 million (with the step-up of Arca Holding's goodwill in 2020), provisions for employee benefits Euro 7.9 million.
Caption 2.3 Other Increases for Euro 37.1 million refers to deferred tax assets that came on the merger of Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo.
The amount in 3.1 a) Decrease in "Reversals" includes DTAs referring to reversals of deferred tax assets pursuant to Law 214/2011 related to impairment losses on loans and goodwill for Euro 94.9 million, DTAs on the impairment recorded at the FTA of IFRS 9 for Euro 28.6 million, DTAs on the provision for risks and charges for Euro 15.7 million and provisions for employee benefits of Euro 24.2 million.

10.3 bis Changes in deferred tax assets pursuant to Law 214/2011

	Total 31.12.2020	Total 31.12.2019
1. Initial amount	**831,571**	**738,721**
2. Increases	**122,967**	**92,850**
- of which: business combinations	-	-
3. Decreases	**94,896**	**-**
3.1 Reversals	94,896	-
3.2 Changes into tax credits	-	-
a) from losses for the year	-	-
b) from fiscal losses	-	-
3.3 Other decreases	-	-
4. Final amount	**859,642**	**831,571**

Law 214/2011 introduced the chance to transform into tax credits any DTAs recognised in the financial statements for the part of IRES tax losses arising from the deduction of impairment losses on loans and goodwill during the year, art. 106 of the TUIR.
Subsequently, Law 214/2013 (Stability Law 2014) extended the conversion of IRAP DTAs relating to impairment losses on loans, goodwill and other intangible assets, also in the case of "negative net value of production".
This table shows the changes that took place during the year limited to this category of DTAs (called "noble").
The increases reported in point 2 refer to deferred tax assets generated in 2020 on the tax loss resulting from the deduction during the year of the impairment losses on receivables and goodwill pursuant to art.106 of the TUIR, in addition to "noble" DTAs acquired following the merger of Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo.
Point 3.1 shows the reversals for the year resulting from the deduction during the year of impairment losses on loans and goodwill pursuant to art.106 of the TUIR, whereas there have been no transformations into tax credits, as mentioned previously.
These rules therefore ensure the recovery of the DTAs also if a tax loss is recorded (as well as in the case of a loss in the statutory accounts), explaining the reasons that justify full recognition of Euro 859.6 million of deferred tax assets.

10.4 Changes in deffered tax liabilities (through profit or loss)

	Total 31.12.2020	Total 31.12.2019
1. Initial amount	**20,787**	**9,272**
2. Increases	**7,116**	**22,366**
2.1 Defferred tax liabilities recognized in the year	5,393	6
a) related to previous years	595	-
b) due to changes in accounting criteria	-	-
c) others	4,798	6
2.2 New taxes or tax rates increases	-	-
2.3 Other increases	1,723	22,360
- of which: business combinations	-	22,214
3. Decreases	**11,194**	**10,851**
3.1 Defferred tax liabilities derecognized in the year	11,194	8,257
a) reversals	1,730	8,257
b) due to changes in accounting criteria	-	-
c) others	9,464	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	2,594
4. Final amount	**16,709**	**20,787**

Caption 2.3 "Other increases" refers to the deferred tax assets that came on the merger of Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo.
The caption 3.1 c) Decreases "others" mainly refers to the step-up of intangible assets connected to the Customer Relationship detected during the Unipol Banca's Purchase Price Allocation for Euro 9.5 million, which brought the tax and book values into line with each other.

10.5 Changes in deffered tax assets (through shareholders' equity)

	Total 31.12.2020	Total 31.12.2019
1. Initial amount	**52,018**	**54,561**
2. Increases	**5,724**	**23,989**
2.1 Defferred tax assets recognized in the year	4,727	19,459
b) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) others	4,727	19,459
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	997	4,530
- of which: business combinations	-	2,479
3. Decreases	**12,836**	**26,532**
3.1 Defferred tax assets derecognized in the year	12,836	26,532
a) reversals	11,586	26,532
b) write-offs	-	-
c) due to changes in accounting criteria	-	-
d) others	1,250	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
4. Final amount	**44,906**	**52,018**

Caption 2.1 c) Increases “others” refers to deferred tax assets recognised on the valuation of securities, Euro 4.7 million.
Caption 2.3 "Other increases" refers to the merger of Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo.
Caption 3.1 a) Decreases “reversals” mainly refers to reversals of deferred tax assets recognised on the valuations of non-current securities for Euro 9.5 million.

10.6 Changes in deffered tax liabilities (through shareholders' equity)

	Total 31.12.2020	Total 31.12.2019
1. Initial amount	**22,846**	**22,145**
2. Increases	**16,459**	**12,373**
2.1 Defferred tax liabilities recognized in the year	16,261	9,255
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) others	16,261	9,255
2.2 New taxes or tax rates increases	-	-
2.3 Other increases	198	3,118
- of which: business combinations	-	670
3. Decreases	**8,878**	**11,672**
3.1 Defferred tax liabilities derecognized in the year	8,878	11,672
a) reversals	7,316	11,672
b) due to changes in accounting criteria	-	-
c) others	1,562	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
4. Final amount	**30,427**	**22,846**

Caption 2.1 c) Increases "others" refers to deferred tax assets recognised on the valuation of non-current securities, Euro 15.6 million.
Caption 2.3 "Other increases" refers to deferred tax assets that came on the merger of Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo.
Caption 3.1 c) Decreases "reversals" principally relates to the valuation of securities.

10.7 Other information

Current tax assets

	31.12.2020	31.12.2019
IRES provisions	-	148
IRAP provisions	95	-
Additional provisions	150	-
Other assets and withholdings	403,665	458,889
Gross current tax assets	**403,910**	**459,037**
Offset current tax liabilities	1,244	2,747
Net current tax assets	**402,666**	**456,290**

Current tax liabilities

	31.12.2020	31.12.2019
Tax debt for IRES	375	375
Tax debt for IRAP	869	2,372
Other current tax liabilities on income	-	-
Gross current tax liabilities	**1,244**	**2,747**
Offset current tax assets	-	2,747
Net current tax liabilities	**1,244**	**-**

Changes in gross current tax liabilities

	31.12.2020	31.12.2019
Balance at the end of the prior year	**2,747**	**4,856**
Decreases	**2,696**	**4,856**
- uses for payment of income taxes	1,485	4,856
- uses for payment of other taxes	-	-
- other decreases	1,211	-
Increases	**1,193**	**2,747**
- provisions:	**-**	**1,485**
- income taxes: parent company	-	-
- income taxes: members of domestic tax group	-	-
- flat-rate tax: art. 1.150 Law 147/2013	-	-
- flat-rate tax: art. 15.10 Legislative Decree 185/2008	-	-
- flat-rate tax: art. 1.48 Law 244/2007	-	-
- other increases	1,193	1,262
Total gross current tax liabilities	**1,244**	**2,747**

Section 11 - Non-current assets and disposal groups classified as held for sale and related liabilities
Asset caption 110 and liability caption 70

11.1 Non-current assets and disposal groups classified as held for sale: breakdown by type of asset

	31.12.2020	31.12.2019
A. Assets held for sale		
A.1 Financial assets	-	-
A.2 Equity investments	-	-
A.3 Property, plant and equipment	3,194	3,128
of which: arising from the recovery of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**3,194**	**3,128**
of which measured at cost	3,194	3,128
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortized cost	-	-
B.4 Equity investments	-	-
B.5 Property, plant and equipment	-	-
of which: arising from the recovery of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which measured at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-

(cont.)

	31.12.2020	31.12.2019
C. Liabilities related to assets classified as held for sale		
C.1 Deposits	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total C	**-**	**-**
of which measured at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
D. Liabilities related to discontinued operations		
D.1 Financial liabilities measured at amortized cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total D	**-**	**-**
of which measured at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-

11.2 Other information

There are no information to be disclosed other than those already provided in this section.

Section 12 – Other assets
Caption 120

12.1 Other assets: breakdown

	31.12.2020	31.12.2019
Taxes withheld on interest, withholdings and tax credits on dividends, advance taxation	110,236	122,495
Sundry amounts to be charged to customers	71,656	117,913
Bank charges to be debited to customers or banks	72,571	55,862
Cheques being processed	19	40
Cheques drawn on other banks	89,109	112,809
Items relating to securities transactions	5,697	40,339
Leasehold improvement expenditure	5,581	6,948
Gold, silver and precious metals	1,517	1,897
Accrued income and prepaid expenses	8,567	6,757
Other items for sundry purposes	71,707	62,510
Receivables from group companies	7,670	7,171
Total	**444,330**	**534,741**

From the analysis carried out for the purposes of IFRS 15, no contract assets have been identified.

Liabilities

Section 1 – Financial liabilities measured at amortised cost
Caption 10

1.1 Financial liabilities measured at amortised cost: breakdown by product of due to banks

Type of transaction/Amounts	Total 31.12.2020				Total 31.12.2019			
	B V	Fair Value			B V	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to Central Banks	**16,873,779**	X	X	X	**9,414,867**	X	X	X
2. Due to banks	**7,221,318**	X	X	X	**6,334,675**	X	X	X
2.1 Current accounts and demand deposits	4,093,958	X	X	X	3,473,519	X	X	X
2.2 Deposits to maturity	129,701	X	X	X	160,135	X	X	X
2.3 Loans	2,980,975	X	X	X	2,516,195	X	X	X
2.3.1 Repurchase agreements	2,866,239	X	X	X	2,364,330	X	X	X
2.3.2 Others	114,736	X	X	X	151,865	X	X	X
2.4 Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease payables	12,334	X	X	X	14,031	X	X	X
2.6 Other payables	4,350	X	X	X	170,795	X	X	X
Total	**24,095,097**	**-**	**-**	**24,095,097**	**15,749,542**	**-**	**-**	**15,749,542**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of Explanatory Notes in chapter "Techniques for the determination of fair value".
The fair value is assumed to be the same as the book value since they are sight or short-term transactions.

Key:
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

1.2 Financial liabilities measured at amortised cost: breakdown by product of due to customers

Type of transaction/Amounts	Total 31.12.2020				Total 31.12.2019			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	43,860,126	X	X	X	36,366,341	X	X	X
2. Time deposits	118,496	X	X	X	875,135	X	X	X
3. Loans	2,011,525	X	X	X	2,005,387	X	X	X
3.1 Repurchase agreements	149,286	X	X	X	88,537	X	X	X
3.2 Others	1,862,239	X	X	X	1,916,850	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease payables	270,044	X	X	X	316,441	X	X	X
6. Other payables	532,873	X	X	X	737,298	X	X	X
Total	**46,793,064**	**-**	**-**	**46,793,064**	**40,300,602**	**-**	**-**	**40,300,602**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of Explanatory Notes in chapter "Techniques for the determination of fair value".
The fair value is assumed to be the same as the book value since they are sight or short-term transactions.

Key:
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

1.3 Financial liabilities measured at amortised cost: breakdown by product of debt securities issued

Type of transaction/Amounts	Total 31.12.2020				Total 31.12.2019			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	4,430,511	3,410,099	1,139,221	-	4,949,480	3,231,215	1,825,659	430
1.1 structured	-	-	-	-	-	-	-	-
1,2 others	4,430,511	3,410,099	1,139,221	-	4,949,480	3,231,215	1,825,659	430
2. other securities	248,203	-	2,192	246,028	609,292	-	36,767	572,751
2.1 structured	2,175	-	2,192	-	36,541	-	36,767	-
2.2 others	246,028	-	-	246,028	572,751	-	-	572,751
Total	**4,678,714**	**3,410,099**	**1,141,413**	**246,028**	**5,558,772**	**3,231,215**	**1,862,426**	**573,181**

"Bonds" include Euro 926,443 thousand of subordinated loans, none of which are convertible into shares. In the "Level 3" column of point 2.2, the fair value is assumed to be the same as the book value as these are short-term transactions.
An explanation of the fair value hierarchy used for classification has been given in Part A.4 of Explanatory Notes in chapter "Techniques for the determination of fair value".

Key:
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

1.4 Breakdown of subordinated securities

	Book value 31.12.2020	Nominal value 31.12.2020	Book value 31.12.2019	Nominal value 31.12.2019
B.P.E.R. Lower Tier II subordinated non-convertible bond 5.81%, 2013-2020	-	-	2,513	2,389
B.P.E.R. Tier II subordinated non-convertible bond 4.25%, 2015-2025 callable	-	-	225,271	224,855
BPER Banca Tier II subordinated non-convertible bond 4.60%, 2016-2026 callable	12,024	12,000	12,023	12,000
BPER Banca EMTN Tier II subordinated non-convertible bond 5.125%, 2017-2027 callable	513,490	500,000	513,252	500,000
BPER Banca EMTN Tier II subordinated non-convertible bond 3.625%, 2020-2030 callable	399,513	400,000	-	-
CARISPAQ Lower Tier II subordinated non-convertible bond floating rate, 2010-2020	-	-	4,267	4,250
Cassa di Risparmio di Bra s.p.a. Lower Tier II subordinated bond fixed-rate, 2011-2021 with amortising nom. 7,000,000	1,416	1,400	-	-
Total non-convertible bonds	**926,443**	**913,400**	**757,326**	**743,494**
Total bonds	**926,443**	**913,400**	**757,326**	**743,494**

There are no convertible subordinated bonds outstanding at 31 December 2020 (as was the case in December 2019) .

1.5 Breakdown of structured debts

There are no amounts to be disclosed in this section.

1.6 Lease payables

Time bands	Present value 31.12.2020	Present value 31.12.2019
Up to 3 months	13,884	15,656
Over 3 months up to 1 year	40,102	44,196
Over 1 year up to 5 years	165,974	189,095
Over 5 years	62,418	81,525
Total	**282,378**	**330,472**

Section 2 – Financial liabilities held for trading Caption 20

2.1 Financial liabilities held for trading: breakdown by product

Type of transactions/Amounts	Total 31.12.2020					Total 31.12.2019				
	NV	Fair Value			Fair Value *	NV	Fair Value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Other securities	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Others	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivative instruments										
1. Financial derivatives	X	9	173,915	8,445	X	X	1,137	166,923	6,476	X
1.1 Trading	X	9	155,499	8,445	X	X	1,137	144,740	6,476	X
1.2 Connected with the fair value option	X	-	18,333	-	X	X	-	21,017	-	X
1.3 Others	X	-	83	-	X	X	-	1,166	-	X
2. Credit derivatives	X	-	612	-	X	X	-	1,683	-	X
2.1 Trading	X	-	612	-	X	X	-	1,683	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Others	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**9**	**174,527**	**8,445**	**X**	**X**	**1,137**	**168,606**	**6,476**	**X**
Total (A+B)	**X**	**9**	**174,527**	**8,445**	**X**	**X**	**1,137**	**168,606**	**6,476**	**X**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of the Explanatory Notes in the chapter "Techniques for the determination of fair value".

Key:
NV = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3
Fair value = Fair value excluding variations due to changes in the creditworthiness of the issuer since the issue date*

2.2 Breakdown of “Financial liabilities held for trading”: subordinated liabilities

There are no amounts to be disclosed in this section.

2.3 Breakdown of “Financial liabilities held for trading”: structured debts

There are no amounts to be disclosed in this section.

Section 3 -Financial liabilities designated at fair value through profit or loss
Caption 30

There are no amounts to be disclosed in this section.

Section 4 – Hedging derivatives
Caption 40

4.1 Hedging derivatives: breakdown by type of hedge and hierarchy levels

	Fair value 31.12.2020			NV	Fair value 31.12.2019			NV
	L1	L2	L3	31.12.2020	L1	L2	L3	31.12.2019
A. Financial derivatives	**-**	**456,447**	**-**	**6,256,205**	**-**	**283,792**	**-**	**5,015,514**
1) Fair value	-	450,462	-	6,206,205	-	278,047	-	4,965,514
2) Cash flows	-	5,985	-	50,000	-	5,745	-	50,000
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**456,447**	**-**	**6,256,205**	**-**	**283,792**	**-**	**5,015,514**

An explanation of the fair value hierarchy used for classification has been given in Part A.4 of Explanatory notes in Chapter "Techniques for the determination of fair value”.

Key:
NV = nominal value
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Operations/Type of hedge	Fair Value							Cash flow		Foreign investments
	Specific						General	Specific	General	
	debt securities and interest rates	equity instruments and stock indexes	currencies and gold	credit	goods	others				
1. Financial assets measured at fair value through other comprehensive income	190,853	1,446	-	-	X	X	X	5,985	X	X
2. Financial assets measured at amortised cost	258,068	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other operations	95	-	-	-	-	-	X	-	X	-
Total assets	**449,016**	**1,446**	**-**	**-**	**-**	**-**	**-**	**5,985**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 5 - Change in value of macro-hedged financial liabilities Caption 50

There are no amounts to be disclosed in this section.

Section 6 - Tax liabilities Caption 60

Please refer to the information provided in section 10 of Assets.

Section 7 - Liabilities associated with assets classified as held for sale Caption 70

Please refer to the information provided in section 11 of Assets.

Section 8 – Other liabilities Caption 80

8.1 Other liabilities: breakdown

	31.12.2020	31.12.2019
Amounts due to banks	11,140	133,282
Amounts due to customers	523,976	521,563
Net adjustments on collection of receivables for third parties	416,472	364,960
Staff emoluments and related social contributions	40,967	41,258
Amounts due to third parties for coupons, securities and dividends to be collected	5,319	23,782
Amounts due to the tax authorities on behalf of customers and personnel	127,116	134,390
Bank transfers for clearance	21,056	16,863
Advances for the purchase of securities	243	47
Due to suppliers	143,349	142,861
Third-part payments as surety for loans	132	119
Accrued expenses and deferred income	11,978	12,460
Other liabilities to third parties	173,033	184,868
Payables due to members of the tax group	25,782	18,088
Total	**1,500,563**	**1,594,541**

From the analysis carried out for the purposes of IFRS 15, a single type of contract liability has been identified, amounting to Euro 10.4 million classified under the caption "Accrued liabilities and deferred income", which refers to the portion of consideration paid in advance by customers for warranty services provided by the Bank for a period of time ("over time performance obligation"), relating to the portion not yet accrued at the end of the period.

Section 9 - Employee termination indemnities Caption 90

9.1 Employee termination indemnities: annual changes

	31.12.2020	31.12.2019
A. Opening balance	**123,302**	**114,024**
B. Increases	**7,114**	**16,214**
B.1 Provisions for the year	417	746
B.2 Other changes	6,697	15,468
- of which: business combinations	-	9,213
C. Decreases	**23,000**	**6,936**
C.1 Benefits paid	21,141	6,497
C.2 Other changes	1,859	439
D. Closing balance	**107,416**	**123,302**
Total	**107,416**	**123,302**

Note that the caption “Other changes” in “Increases” (B.2) includes the actuarial losses (Euro 1 million) and the quota of employee termination indemnities acquired on the absorption of Cassa di Risparmio di Bra s.p.a. (Euro 2.6 million) and Cassa di Risparmio di Saluzzo s.p.a. (Euro 3.1 million)
The caption “Other changes” in “Decreases” (C.2) includes the portion of termination indemnities transferred to complementary pension funds (Euro 1.9 million).

9.2 Other information

The following tables show the changes in employee termination indemnities, as well as the principal demographic and financial assumptions made in order to quantify the provision using the "Projected Unit Credit Method" (pursuant to IAS 19 Revised, § 65-67); finally, table 9.2.3 presents the comparative information required by law.

9.2.1 Changes in employee termination indemnities during the year

Description/Amounts	31.12.2020	31.12.2019
A. Opening balance	**123,302**	**114,024**
B. Increases	**7,114**	**16,214**
1. Pension cost relating to current work	-	76
2. Financial charges	417	670
3. Contribution to the plan by employees	-	-
4. Actuarial losses	997	5,076
5. Exchange differences	-	-
6. Pension cost of prior work	-	-
7. Other changes	5,700	10,392
C. Decreases	**23,000**	**6,936**
1. Benefits paid	21,141	6,497
2. Pension cost of prior work	-	-
3. Actuarial gains	-	-
4. Exchange differences	-	-
5. Reductions	-	-
6. Positions closed	-	-
7. Other changes	1,859	439
D. Closing balance	**107,416**	**123,302**

The caption "Other changes" in "Increases" includes the quota of employee termination indemnities acquired on the absorption of Cassa di Risparmio di Bra s.p.a. (Euro 2.6 million) and Cassa di Risparmio di Saluzzo s.p.a. (Euro 3.1 million)
The caption "Other changes" in "Decreases"(C.7) includes the portion of termination indemnities transferred to complementary pension funds (Euro 1.9 million).

9.2.2 Description of the main actuarial assumptions

Main actuarial assumptions/Percentages	31.12.2020	31.12.2019
Discount rates	0.02%	0.36%
Expected increase in remuneration	n/a	n/a
Turn Over	1.99%	1.99%
Inflation rate	0.80%	1.20%
Interest rate adopted for the calculation of interest cost	0.36%	0.60%

In addition to the average data included in the table, the approach taken to identify the principal actuarial assumptions is described below:

- Discount rates: the curve of "Euro Composite AA" rates for prime corporate bonds listed in the Euro market on the measurement date has been used.

- Turnover: time series analysis for the period 2014-2016 of the phenomena giving rise to the terminations and adjustments to take account of any "anomalies" that occurred in the past. The assumptions made about turnover took account of grade, seniority, age and gender.
- Inflation rate: a fixed rate of 0.80% was used;
- Net Interest Cost: it was calculated at a rate that reflected the duration of the liability.

Demographic assumptions.

With reference to the technical demographic bases, the analyses performed on the time series of the Company's staff focused on monitoring the trend in the following reasons for elimination between 2014 and 2016:

- rate of employee mortality: except for the Section A pension fund, for which use was made of table AG62, the ISTAT life table of resident population was used, broken down by age and gender, updated as of 2016;
- rate of employee disability: the tables used for the INPS model to generate "Initial prospects for 2010" were used;
- frequency and amount of advances on termination indemnities: in order to take into account the effects that these advances have on the timing of severance payments and, consequently on the discounting of the Company's liability, a probability table for the release of part of the accrued volumes was created. The frequency of advance payments and the average percentage of termination indemnities requested as an advance were taken from corporate data;
- probability of retirement, resignation, dismissal: this was taken from corporate data; in particular, a table showing the propensity of departure from the Company was created, based on age and gender. With regard to retirement, the calculation considered a 100% probability of satisfying the AGO requirements aligned with Decree 4/2019.

9.2.3 Comparative information: history of plan

Description/Amounts	31.12.2020	31.12.2019	31.12.2018	31.12.2017
1. Present value of provisions (+)	107,416	123,302	114,024	116,670
2. Fair value of assets servicing the plan (-)	-	-	-	-
3. Plan deficit (surplus) (+/-)	107,416	123,302	114,024	116,670
4. Adjustments to plan liabilities based on historical experience - actuarial (gains)/losses	997	5,076	247	1,807
5. Adjustments to plan assets based on historical experience	-	-	-	-

Note that the adjustments to plan based on historical experience solely comprise actuarial gains and losses.

9.2.4. Sensitivity analysis and information on the amount, timing and uncertainty of cash flows

As required by IAS 19 Revised, we carried out a sensitivity analysis on employee termination indemnities with respect to the more significant actuarial assumptions to show how the liability would change in relation to possible fluctuations in each of these assumptions. The following table shows how the provision would change in the event of a 50 basis point increase or decrease in the discount and inflation rates compared with the parameters actually used.

Employee termination indemnities	31.12.2020	+50 bps	-50 bps
	DBO	DBO	DBO
discount rates	107,416	104,448	109,154
inflation rate	107,416	110,021	104,898

In compliance with the requirements of IAS 19 Revised with regard to additional disclosures, an estimate of future cash flows was carried out at 31 December 2020, as shown in the following table:

Employee termination indemnities	1st year	2nd year	3rd year	4th year	5th year
Future cash-flows	20,267	4,380	4,305	4,347	5,161

Section 10 - Provisions for risks and charges Caption 100

10.1 Provisions for risk and charges: breakdown

Descriptions/Amounts	31.12.2020	31.12.2019
1. Impairment provisions for credit risk related to commitments and financial guaratees granted	33,229	36,939
2. Impairment provisions related to other commitments and guaratees granted	16,022	9,129
3. Provisions for pension benefits	147,829	159,720
4. Other provisions for risk and charges	257,106	314,776
4.1 legal and fiscal disputes	112,693	122,422
4.2 personnel charges	122,234	159,865
4.3 others	22,179	32,489
Total	**454,186**	**520,564**

10.2 Provisions for risks and charges: annual changes

	Impairment provisions related to other commitments and guarantees granted	Provisions for pension benefits	Other provisions for risk and charges	Total
A. Opening balance	**9,129**	**159,720**	**314,776**	**483,625**
B. Increases	**9,370**	**2,538**	**54,132**	**66,040**
B.1 Provisions for the year	9,212	1,132	37,244	47,588
B.2 Time value changes	-	-	131	131
B.3 Changes due to discount rate modifications	-	-	1,050	1,050
B.4 Other changes	158	1,406	15,707	17,271
C. Decreases	**2,477**	**14,429**	**111,802**	**128,708**
C.1 Uses for the year	2,475	6,788	76,305	85,568
C.2 Changes due to discount rate modifications	-	7,627	-	7,627
C.3 Other changes	2	14	35,497	35,513
D. Closing balance	**16,022**	**147,829**	**257,106**	**420,957**

The changes due to discount rate modifications also include actuarial gains and losses, considering not just interest rate movements, but also other demographic and financial factors, where applicable; the actuarial gains relating to the pension funds are brought about by amendments based on experience due to the change in the fund's collective members following the adhesion by many to the staff retirement plan.

10.3 Impairment provisions for credit risk related to commitments and financial guarantees granted

	Impairment provisions for credit risk related to commitments and financial guarantees granted			
	First stage	Second stage	Third stage	Total
1. Commitments to distribute funds	8,045	735	-	8,780
2. Financial guarantees granted	1,031	727	22,691	24,449
Total	**9,076**	**1,462**	**22,691**	**33,229**

10.4 Provisions for other commitments and other guarantees granted

This section does not show significance requirements.

10.5 Provisions for pension with defined-benefits

10.5.1. Features of provisions and related risks

The in-house supplementary pension fund is not a separate legal entity and its assets are held together with those of the Bank; it is made up entirely of Section "A", classifiable as a "defined benefit" scheme.

Under the Regulations for Section A, beneficiaries receive a supplementary pension subject to revaluation, the cost of which is borne entirely by the Bank.

This section comprises all current employees hired by the Bank prior to 28 April 1993; it also includes all retired beneficiaries, or their heirs, of supplementary pension payments deriving from earlier agreements signed by BPER Banca or by the banks absorbed by the latter over time.
The following tables report the changes in the Fund.
The actuarial gains and losses relating to Section A are recognised as an equity reserve.

The benefits provided by Fund Section A represent post-employment defined benefits, as governed by IAS 19 Revised; accordingly, the liability for these benefits is determined using the actuarial "Projected Unit Credit Method" applied in relation to termination indemnities.

The attachments to the financial statements include a "Statement of the staff pension fund", in accordance with the provisions of Bank of Italy's Circular 262/2005.

10.5.2 Changes in the year of net liabilities (assets) with defined-benefits and redemption rights

Description/Amounts	31.12.2020	31.12.2019
Opening balance	**159,720**	**129,931**
A. Increases	**2,538**	**36,379**
1. Pension cost relating to current work	-	-
2. Financial charges	1,132	1,483
3. Contribution to the plan by employees	-	-
4. Actuarial losses	-	33,852
5. Exchange differences	-	-
6. Pension cost of prior work	-	-
7. Other changes	1,406	1,044
B. Decreases	**14,429**	**6,590**
1. Benefits paid	6,788	6,590
2. Pension cost of prior work	-	-
3. Actuarial gains	7,627	-
4. Exchange differences	-	-
5. Reductions	-	-
6. Positions closed	-	-
7. Other changes	14	-
Closing balance	**147,829**	**159,720**

Actuarial gains are determined by gains from experience due to the significant change in the fund's collective members following the adhesion by many to the staff retirement plan (Euro 11.7 million), and by losses from exchange rate assumptions (Euro 4.1 million) due to the worsening of the interest rate curve at the reporting date.
The caption "Other increases" (B.7) includes the quota of the pension fund acquired on the absorption of Cassa di Risparmio di Bra s.p.a. (Euro 0.5 million) and Cassa di Risparmio di Saluzzo s.p.a. (Euro 0.9 million).

10.5.3 Information on fair value of plan assets

As already reported, the personnel pension funds are in-house defined-benefit plans; the resources to be utilised to cover these liabilities are invested, without separate identification, in operating assets.

10.5.4 Description of the main actuarial assumptions

Main actuarial assumptions/Percentages	31.12.2020	31.12.2019
Discount rates	0.27%	0.75%
Expected increase in remuneration	n/a	n/a
Turn Over	n/a	n/a
Inflation rate	0.80%	1.20%
Interest rate adopted for the calculation of interest cost	0.72%	1.17%

In addition to the average data included in the table, the approach taken to identify the principal actuarial assumptions is described below:

- Discount rates: the curve of "Euro Composite AA" rates for prime corporate bonds listed in the Euro market on the measurement date has been used;
- Inflation rate: a fixed rate of 0.8% was used;
- it was calculated at a rate that reflected the duration of the liability.

10.5.5. Information on the amount, timing and uncertainty of financial cash-flows

As required by IAS 19 Revised, we carried out a sensitivity analysis on the obligation of pension funds with respect to the more significant actuarial assumptions to show how the liability would change in relation to reasonably possible movements in each of these assumptions. The following table shows how the provision would change in the event of a 50 basis point increase or decrease in the discount rate compared with the parameters actually used.

Funds	31.12.2020	+50 bps	-50 bps
	DBO	DBO	DBO
Fund Section A	147,829	136,566	155,436

In compliance with the requirements of IAS 19 Revised with regard to additional disclosures, an estimate of future cash flows was carried out at 31 December 2020, as shown in the following table:

Funds	1st year	2nd year	3rd year	4th year	5th year
Fund Section A	7,574	7,418	7,255	7,083	6,904

10.5.6 Multi-employer plans

At 31 December 2020 there were no multi-employer plans in place.

10.5.7 Defined-benefit plans that share risks between entities under common control

At 31 December 2020 there were no plans of this type.

10.6 Provisions for risks and charges - other provisions

10.6.1 Legal disputes

	31.12.2020	31.12.2019
A. Opening balance	**122,422**	**130,638**
B. Increases	29,671	26,070
Provisions for the year	18,839	24,354
Other increases	10,832	1,716
C. Decreases	39,400	34,286
Other decreases	24,701	12,884
Uses for the year	14,699	21,402
D. Closing balance	**112,693**	**122,422**

Provisions for legal and tax disputes amounted to Euro 110.3 million and Euro 2.4 million respectively.
As regards the provisions set aside for legal disputes, these are mainly to do with relationships with customers arising in the context of banking services (the main types of dispute include compound interest rates, usury, application of the conditions and bankruptcy clawbacks).
The main risks concerning outstanding disputes for which no provision has been made are as follows.

- BPER Banca (former Cassa di Risparmio dell'Aquila) - Investigation into what the media have labelled the "Truffa dei Parioli"

As regards what the media have labelled the "Truffa dei Parioli", in the civil case brought by the alleged victims, the Bank is defended by a special team of lawyers formed and coordinated by Prof. Francesco Astone of Rome. At present, there are 23 judgements in first instance pending before the Court of Rome, while for other 54 judgements the sentence has already been issued. With the first ruling, in chronological order, BPER Banca was sentenced to pay limited damages of Euro 16 thousand. Against this decision, the reasons for which appear to be groundless, an appeal was filed by the Bank to have it reversed. The subsequent rulings have all rejected the applications with, in some cases, the plaintiffs being required to pay the litigation expenses incurred by the Bank. The respective plaintiffs have appealed to the Civil Court of Appeal of Rome against twenty-one rulings that were in favour of the Bank. In this regard, it should be noted that the Rome Court of Appeal has already sentenced in favour of the Bank on three of the appeals, completely rejecting the claims of other party and confirming the orientation taken by the Judge of first instance who maintained that BPER Banca was not liable for the claims made by investors who felt they had been defrauded. Given the above, it was decided not to make any provision.

- BPER Banca (formerly Emro Finance Ireland Ltd) - tax years 2005-2009

At the date these financial statements were being prepared, the Bologna Regional Tax Commission had ruled partially in favour of the appeal filed by the Tax Authorities to overturn the first-level ruling, which was entirely favourable to the taxpayer.
On 13 June 2018 the Bank appealed to the Court of Cassation, in the absolute conviction that it had acted properly.
In the meantime, the Commission accepted the Bank's request to suspend the enforceability of the second-level sentence.
Also in light of the fiscal opinion issued by professionals and advisors with proven experience who do not consider the risk of losing as probable, at the date of preparation of these financial statements no

amount was set aside in the provisions for risks and charges, but a provision for the estimated legal fees was recorded.

10.6.2 Personnel charges

Description/Amounts	Other personnel provisions	
	31.12.2020	31.12.2019
Opening balance	**159,865**	**50,174**
Change in opening balances	-	-
A. Increases	**22,750**	**141,799**
1. Pension cost relating to current work	16,903	89,073
2. Financial cherges	131	149
3. Contribution to the plan by employees	-	-
4. Actuarial losses	1,050	1,121
5. Exchange differences	-	-
6. Pension cost of prior work	-	-
7. Other changes	4,666	51,456
B. Decreases	**60,381**	**32,108**
1. Benefits paid	59,202	30,203
2. Pension cost of prior work	-	-
3. Actuarial gains	-	34
4. Exchange differences	-	-
5. Reductions	-	-
6. Positions closed	-	-
7. Other changes	1,179	1,871
Closing balance	**122,234**	**159,865**

The "Actuarial losses" relate to the "25-year Service Award", Euro 402 thousand, the "Special long-service payment on termination", Euro 465 thousand, and the "Provision for additional death cover", Euro 101 thousand and to the "Special one-time long-service payment on termination", Euro 82 thousand.

10.6.3 Other provisions

Captions	31.12.2020		31.12.2019	
	Other provisions	Provision for charitable donations	Other provisions	Provision for charitable donations
A. Opening balance	**32,431**	**58**	**18,540**	**557**
B. Provisions	1,713	-	28,796	-
C. Uses	(11,983)	(40)	(14,905)	(499)
D. Closing balance	**22,161**	**18**	**32,431**	**58**

Section 11 - Redeemable shares Caption 120

There are no amounts to be disclosed in this section.

Section 12 - Shareholders' equity Captions 110, 130, 140, 150, 160, 170 and 180

12.1 "Share capital" and "Treasury shares": breakdown

Treasury shares: breakdown	31.12.2020	31.12.2019
Ordinary shares no. 1,413,263,512	2,100,435	1,561,884
of which: treasury shares no.455,458	*1,366*	*1,366*

12.2 Share capital – number of shares: annual changes

Descriptions/Types	Ordinaries	Others
A. Initial number of shares	**520,627,948**	**-**
- fully paid-in	520,627,948	-
- not fully paid-in	-	-
A.1 Treasury shares (-)	(455,458)	-
A.2 Shares outstanding: opening balance	**520,172,490**	**-**
B. Increases	**892,635,564**	**-**
B.1 New issues	892,635,564	-
- against payment:	892,635,564	-
- business combination transaction	-	-
- conversion of bonds	-	-
- esxercise of warrants	-	-
- others	892,635,564	-
- for free:	-	-
- to employees	-	-
- to directors	-	-
- others	-	-
B.2 Sales of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Business disposal transactions	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balance	**1,412,808,054**	**-**
D.1 Treasury shares (+)	455,458	-
D.2 Final number of shares	1,413,263,512	-
- fully paid-in	1,413,263,512	-
- not fully paid-in	-	-

Caption B.1 "New issues", comprises the new shares issued by BPER Banca following:
- the absorption of Cassa di Risparmio di Bra s.p.a. by issuing no. 1,237,500 new ordinary shares that were allocated to the minority shareholders of the company being absorbed;
- the increase in capital to finance the project for the acquisition of a business complex split into three business units from the Intesa Sanpaolo Group, which led to the issue of no. 891,398,064 BPER ordinary shares, with full rights and the same characteristics as the shares currently outstanding.
Further information about these two operations is presented in the "Significant events and strategic transactions" section of the Directors' report on Group operations accompanying the consolidated financial statements.

12.3 Share capital: other information

The Parent Company BPER Banca's share capital is represented solely by ordinary shares; such shares are not subject to rights, privileges or restrictions. At the reporting date, the Bank directly owns 455,458 treasury shares.

12.4 Reserves from profits: other information

Nature and description of shareholders' equity captions		Amount	(1) portion available for:		
			Cover losses	Increase in share capital	Allocation
Share capital		**2,100,435**			
Share capital reserves:		**1,723,222**	**1,873,855**	**1,873,855**	**1,873,855**
share premium		1,241,197	1,241,197	1,241,197	1,241,197
other reserves		482,025	632,658	632,658	632,658
- differences of shareholders' equity		(25,133)	-	-	-
- surplus/deficit from mergers		520,761	602,658	602,658	602,658
- reserve for reserved share capital increase		(43,612)	-	-	-
-reserve for call option premium on AT1 equity instruments		30,000	30,000	30,000	30,000
- reserve art. 55 Decree 917/86		9	-	-	-
Reserves from profits:		**1,860,110**	**2,616,059**	**2,275,532**	**2,271,650**
ordinary / legal reserve		318,864	318,864		
other reserves		1,541,246	2,297,195	2,275,532	2,271,650
- extraordinary reserve		1,906,212	1,906,212	1,906,212	1,906,212
- reserve for other risks		1,808	1,808	1,808	1,808
- taxed reserve (Law 823/73)		2,872	2,872	2,872	2,872
- concentration reserve (art. 6 Law 461/1998)		45,711	45,711	45,711	45,711
- concentration reserve under Law 218/1990 (Amato)		1,207	1,207	1,207	1,207
- concentration reserve (Decree 124/93)	(2)	963	963	963	-
- reserve of dividends on treasury shares in portfolio		9,507	9,507	9,507	9,507
- non-allocatable reserve - gains from FV or SE	(3)	23,854	23,854	-	-
- reserve from gains on FVO securities - available portion		221,524	221,524	221,524	221,524
- equity element of convertible instruments - available portion		6,771	6,771	6,771	6,771
- reserve for adjustments to pension Fund Section B		(2,941)	-	-	-
- contribution reserve		728	728	728	
- reserve for disposal of business unit		3,200	-	-	-
- FTA reserves		35,733	35,733	35,733	35,733
- IAS profit (loss) for 2004		8,160	8,160	8,160	8,160
- reserve for First Time Adoption IFRS 9		(744,892)	-	-	-
- reserve for First Time Adoption IFRS 16		(382)	-	-	-
- reserve for Stock Option plan		2,191	-	2,191	-
- interest on AT1 equity instruments		(13,125)	-	-	-
- other reserves	(4)	32,145	32,145	32,145	32,145
Valuation reserves:		**(54,799)**	**-**	**-**	**-**
- valuation reserves for the financial assets measured at fair value through other comprehensive income		77,723	-	-	-
- hedging of equity instruments designated at fair value through other comprehensive income		(1,385)	-	-	-
- reserve for cash-flow hedges		(1,572)	-	-	-
- reserve for actuarial gains (losses)		(129,619)	-	-	-
- reserve for revaluations		54	-	-	-
Treasury shares		**(7,253)**	**-**	**-**	**-**
Equity instruments		**150,000**	**-**	**-**	**-**
Total shareholders' equity		**5,771,715**	**4,489,914**	**4,149,387**	**4,145,505**

(1) There have been no utilisations in the past 3 years.
(2) The reserves in suspense for tax purposes are not available for distribution.
(3) Pursuant to art. 6 of Legislative Decree 38/05, these reserves can only be used after using all other available reserves and the legal reserve.
(4) The other reserves include the transfer to Other reserves of the Valuation reserves from realised gains/losses on equities at fair value through other comprehensive income and the deferred tax assets recorded on the impact of the FTA of IFRS 9, also taking into account the modification of the reference tax law, implemented with the 2019 Budget Law.
The negative elements of shareholders' equity reduce the availability of the positive elements.

Reserves from profits are generally established when the net profit shown in the financial statements is specifically allocated to reserve.
The Italian Civil Code obliges companies to set aside at least 5% of their net profit for the year to a special reserve until it reaches one-fifth of the Share capital. If, for whatever reason, the amount of the legal reserve falls below this limit of one-fifth of the Share capital, it has to be reinstated by setting aside at least one-twentieth of the net profit until the shortfall is covered.
This caption also includes the effects generated by the transition to international accounting standards.

For further details regarding the allocation of the profit for the year, please refer to the Directors' report on operations contained in these separate financial statements.

12.5 Equity instruments: breakdown and annual changes

Issuer	Interest rate	Step up	Issue date	Maturity date	Currency	Nominal Value (in Euro)
BPER Banca	8.75% fixed rate (up to the first Reset Date)	NO	25.07.2019	perpetual	Eur	150,000,000

During the year, the “Additional Tier 1” convertible bond did not show any changes.

12.6 Other information

There is no other information to be provided, apart from what has already been provided in this section.

Other information

1. Commitments and financial guarantees granted (other than those designated at fair value)

	Nominal value on commitments and financial guarantees granted			Total 31.12.2020	Total 31.12.2019
	First stage	Second stage	Third stage		
Commitments to distribute funds	**17,099,315**	**999,304**	**263,975**	**18,362,594**	**16,504,155**
a) Central Banks	-	-	-	-	-
b) Public Administrations	339,488	101,109	40,449	481,046	526,959
c) Banks	1,130,239	-	-	1,130,239	864,445
d) Other financial companies	2,115,178	56,437	9,807	2,181,422	1,548,966
e) Non-financial companies	12,645,487	730,559	207,159	13,583,205	12,689,362
f) Households	868,923	111,199	6,560	986,682	874,423
Financial guaratees granted	**999,424**	**31,738**	**34,887**	**1,066,049**	**923,319**
a) Central Banks	-	-	-	-	-
b) Public Administrations	249	-	-	249	10,249
c) Banks	342	-	-	342	351
d) Other financial companies	309,494	38	39	309,571	310,039
e) Non-financial companies	657,277	28,237	33,492	719,006	563,764
f) Households	32,062	3,463	1,356	36,881	38,916

2. Other commitments and other guarantees granted

	Nominal value	
	31.12.2020	31.12.2019
Other guarantees granted	**2,288,672**	**2,354,033**
of which: non performing	57,440	71,358
a) Central Banks	-	-
b) Public Administrations	1,711	1,403
c) Banks	184,006	149,575
d) Other financial companies	62,053	72,037
e) Non-financial companies	1,948,880	2,037,471
f) Households	92,022	93,547
Other commitments	**7,000**	**-**
of which: non performing	-	-
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	7,000	-
e) Non-financial companies	-	-
f) Households	-	-

3. Assets pledged as collateral of own liabilities and commitments

Portfolios	Amounts 31.12.2020	Amounts 31.12.2019
1. Financial assets measured at fair value through profit or loss	203,521	44,250
2. Financial assets measured to fair value through other comprehensive income	3,929,470	4,051,120
3. Financial assets measured at amortized cost	25,419,786	16,291,386
4. Property, plant and equipment	-	-
of which: inventories of property, plant and equipmet	-	-

Type of assets pledged as collateral of own liabilities and commitments

	31.12.2020	31.12.2019
1. Assets sold as part of Covered Bonds operations	2,276,065	3,329,951
2. Securities and deposits pledged as collateral for derivative transactions	932,487	624,299
3. Securities pledged as collateral for securitisations	718,859	10,057
4. Securities pledged as collateral for treasury transactions	10,051,448	4,235,158
5. Loans pledged as collateral for treasury transactions	11,723,771	8,971,598
6. Securities guaranteeing the issue of bankers' drafts	-	-
7. Securities and deposits pledged as collateral for repurchase agreements	3,033,908	2,468,584
8. Loans pledged as collateral for the related funding	244,989	180,039
9. Securities pledged as collateral for the subsidised loans funding	571,250	567,070

The amounts indicated in point 5 "Loans pledged as collateral for treasury transactions" include, in addition to A.BA.CO operations, Euro 7,225,158 thousand relating to mortgage loans sold as part of covered bond issues.
Operationally, the instruments provided as collateral are represented by the Senior Notes originated by the transactions.

4. Management and dealing on behalf of third parties

Type of service	Total
1. Trading on behalf of customers	**-**
a) purchases	-
1. settled	-
2. non - settled	-
b) sales	-
1. settled	-
2. non - settled	-
2. Individual portfolios management	**-**
3. Custody and administration of securities	**182,011,011**
a) third party securities held in deposit: related to depositary bank activities (excluding portfolio management)	-
1. securities issued by companies included in the consolidation area	-
2. other securities	-
b) third party securities held in deposit (excluding portfolio management): others	77,418,902
1. securities issued by companies included in the consolidation area	3,353,122
2. other securities	74,065,780
c) third party securities deposited with third parties	76,723,358
d) own portfolio securities deposited with third parties	27,868,751
4. Other transactions	**15,253,853**

5. Financial assets subject to offsetting in financial statements or subject to netting framework arrangements or similar agreements

Types		Gross amount of financial assets (a)	Amount of financial liabilities offset in the balance sheet (b)	Net amount of financial assets shown in balance sheet (c=a-b)	Related amounts not subject to offsetting in balance sheet		Net amounts (f=c-d-e)	Net amounts (f=c-d-e)
					Financial instruments (d)	Cash deposit pledged as collateral (a)	31.12.2020	31.12.2019
1. Derivatives		148,534	-	148,534	113,105	1,251	34,178	19,788
2. Repurchase agreements		1,497,522	-	1,497,522	1,497,522	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Others		-	-	-	-	-	-	-
Total	**31.12.2020**	1,646,056	-	1,646,056	1,610,627	1,251	34,178	X
Total	**31.12.2019**	2,425,998	-	2,425,998	2,401,329	4,881	X	19,788

The amounts shown in the table relate to standard master agreements such as ISDA (International Swaps and Derivatives Association) and CSA (Credit Support Annex) agreements for derivatives and GMRA (Global Master Repurchase Agreement) for repurchase agreement transactions.
Under the agreements executed using the ISDA standard, offsetting of OTC derivative contracts is permitted in the event of default of the counterparty to the agreement and, for almost all institutional counterparties, the terms of the CSA provide for cash collateral that is revised daily based on the contracts' underlying value.
Repurchase agreement transactions entered into with institutional counterparties are governed by the GMRA standard, which, in addition to the delivery of the securities pertaining to the transactions, provide for cash collateral that is revised daily based on the value of the securities.
None of the amounts shown has been offset in the financial statements as the amounts in question do not meet the requirements of paragraph 42 of IAS 32.
The gross amounts (a) shown in the table relating to Derivatives are recorded under caption 20 a) "Financial assets measured at fair value through profit or loss - Financial assets held for trading" for Euro 90,838 thousand and under caption 50 "Hedging derivatives" for Euro 57,695 thousand; the related financial instruments (d) consist of derivatives recorded under caption 20 a) "Financial assets measured at fair value through profit or loss - Financial liabilities held for trading" and under caption 40 "Hedging derivatives", whereas cash deposits received (e) are recorded under caption 10 a) "Financial liabilities measured at amortised cost - Due to banks" and 10 b) "Financial liabilities measured at amortised cost - Due to customers".

The gross amounts (a) indicated in the table in relation to repo transactions are recorded in caption 40 a) Financial assets measured at amortised cost - Loans to banks, Euro 1,413,573 thousand, in caption 40 b) Financial assets measured at amortised cost - Loans to customers, Euro 83,949 thousand; the related financial instruments (d) represent the value of the securities pertaining to the transactions, whereas cash deposits received (e) are recorded under caption 10 a) "Financial liabilities measured at amortised cost - Due to banks" and 10 b) "Financial liabilities measured at amortised cost - Due to customers".

6. Financial liabilities subject to offsetting in financial statements or subject to netting framework arrangements or similar agreements

Types		Gross amount of the financial liabilities (a)	Amount of financial assets offset in the balance sheet (b)	Net amount of financial liabilities shown in balance sheet (c=a-b)	Related amounts not subject to offsetting in balance sheet		Net amount (f=c-d-e)	Net amount (f=c-d-e)
					Financial instruments (d)	Cash deposit pledged as collateral (e)	31.12.2020	31.12.2019
1. Derivatives		618,336	-	618,336	113,105	500,338	4,893	1,277
2. Repurchase agreements		3,015,525	-	3,015,525	3,011,356	1,655	2,514	917
3. Securities lending		-	-	-	-	-	-	-
4. Others		-	-	-	-	-	-	-
Total	**31.12.2020**	3,633,861	-	3,633,861	3,124,461	501,993	7,407	X
Total	**31.12.2019**	2,908,416	-	2,908,416	2,610,947	295,275	X	2,194

None of the amounts shown has been offset in the financial statements as the amounts in question do not meet the requirements of paragraph 42 of IAS 32.
The gross amounts (a) shown in the table relate to Euro 161,889 thousand of derivatives recorded under caption 20 "Financial liabilities held for trading" and Euro 456,447 thousand recorded under caption 40 "Hedging derivatives; the related financial instruments (d) consist of derivatives recorded under caption 20 a) "Financial assets measured at fair value through profit or loss - Financial assets held for trading" and under caption 50 "Hedging derivatives", whereas cash deposits made (e) are recorded under caption 40 a) "Financial assets measured at amortised cost - Loans to banks" and "Financial assets measured at amortised cost - Loans to customers".
The gross amounts (a) shown in the table relating to repurchase agreement transactions are recorded under caption 10 a) "Due to banks" for an amount of Euro 2,866,239 thousand and under caption 10 b) "Due to customers" for an amount of Euro 149,286 thousand; the related financial instruments (d) represent the value of the securities pertaining to the transactions, whereas cash deposits made (e) are recorded under caption 40 a) caption 40 a) "Financial assets measured at amortised cost - Loans to banks" and "Financial assets measured at amortised cost - Loans to customers".

7. Securities lending transactions

Type of lender/Use	As collateral of own financing operations	Sold	Subject to repurchase agreements	Other	31.12.2020
a) Banks	1,030,037	-	-	-	**1,030,037**
b) Public Entities		-	-	-	-
c) Non-financial companies		-	-	-	-
d) Financial companies	350,807	-	-	-	350,807
e) Insurance companies		-	-	-	-
f) Others	-	-	-	-	-
Total	**1,380,844**	**-**	**-**	**-**	**1,380,844**

8. Disclosure on joint control activities

There are no amounts to be disclosed in this section.

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Part C – Information on the income statement

Section 1 – Interest Captions 10 and 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	Total 31.12.2020	Total 31.12.2019
1. Financial assets measured at fair value through profit or loss:	**7,561**	**520**	**-**	**8,081**	**21,638**
1.1 Financial assets held for trading	1,738	-	-	1,738	1,936
1.2 Financial assets designated at fair value	3,307	-	-	3,307	14,159
1.3 Other financial assets mandatorily measured at fair value	2,516	520	-	3,036	5,543
2. Financial assets measured at fair value through other comprehensive income	**52,484**	**-**	**X**	**52,484**	**82,126**
3. Financial assets measured at amortised cost:	**104,197**	**857,024**	**X**	**961,221**	**935,188**
3.1 Loans to banks	23,703	9,518	X	33,221	36,114
3.2 Loans to customers	80,494	847,506	X	928,000	899,074
4. Hedging derivatives	**X**	**X**	**(31,588)**	**(31,588)**	**(42,128)**
5. Other assets	**X**	**X**	**431**	**431**	**511**
6. Financial liabilities	**X**	**X**	**X**	**106,334**	**42,699**
Total	**164,242**	**857,544**	**(31,157)**	**1,096,963**	**1,040,034**
of which: interest income on impaired financial assets	1	71,396	-	71,397	90,537
of which: interest income on finance lease	-	165	-	165	53

Caption 6. "Financial liabilities" includes the benefit of the negative rates applied to the funds borrowed from the ECB as part of TLTRO II for Euro 18.9 million and TLTRO III for Euro 80.8 million. The latter component reflects the accrued interest calculated by applying the rate set by the ECB at -1%, i.e. equal to the prevailing rate of the main refinancing operations during the respective TLTRO III, to which a further reduction of 50 bps was applied (for the period 24 June 2020 - 23 June 2021), as the Group reckons that it will achieve the objectives set as of 31 March 2021 in terms of new eligible loans (or "lending performance").

1.2 Interest and similar income: other information

1.2.1 Interest income on foreign currency financial assets

Captions	31.12.2020	31.12.2019
Interest income on foreign currency financial assets	(4,082)	7,683

The caption includes flows from derivatives hedging securities shown under assets.

1.3 Interest and similar expense: breakdown

Captions/Technical forms	Loans	Debts securities	Other transactions	Total 31.12.2020	Total 31.12.2019
1. Financial liabilities measured at amortised cost	102,481	82,343	X	184,824	243,466
1.1 Due to central banks	-	X	X	-	-
1.2 Due to banks	23,792	X	X	23,792	57,203
1.3 Due to customers	78,689	X	X	78,689	93,656
1.4 Debt securities issued	X	82,343	X	82,343	92,607
2. Financial liabilities held for trading	10	-	1,597	1,607	11,990
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	(6,156)	(6,156)	(13,447)
6. Financial assets	X	X	X	15,175	11,343
Total	**102,491**	**82,343**	**(4,559)**	**195,450**	**253,352**
of which: interest expense on lease payables	2,435	-	-	2,435	2,167

1.4 Interest and similar expense: other information

1.4.1 Interest expense on foreign currency liabilities

Captions	31.12.2020	31.12.2019
Interest expense on foreign currency liabilities	14,950	46,725

1.5 Differentials on hedging transactions

Captions	Total 31.12.2020	Total 31.12.2019
A. Positive differentials on hedging transactions	56,784	42,379
B. Negative differentials on hedging transactions	(82,216)	(71,060)
C. Balance (A-B)	**(25,432)**	**(28,681)**

Section 2 – Commissions Captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	Total 31.12.2020	Total 31.12.2019
a) guarantees granted	28,300	26,274
b) credit derivatives	-	-
c) management, brokerage and consulting:	349,344	323,293
1. trading on financial instruments	4	10
2. trading on foreign currencies	6,901	8,512
3. individual portfolio management	29,901	28,643
4. custody and administration of securities	35,771	19,662
5. depositary bank	-	-
6. placement of securities	159,227	151,864
7. order taking and trasmission	12,059	11,148
8. advisory services	4,926	7,084
8.1 on investments	-	-
8.2 on financial structure	4,926	7,084
9. distribution of third-party services	100,555	96,370
9.1 portfolio management	2,307	2,149
9.1.1 individuals	-	-
9.1.2 collectives	2,307	2,149
9.2 insurance products	62,359	56,426
9.3 other products	35,889	37,795
d) collection and payments services	110,634	102,999
e) services related to securitisations	66	28
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) management of multilateral trading system	-	-
i) maintenance and management of current accounts	157,683	133,942
j) other services	171,007	154,635
1. commissions income on other loans to customers	124,037	112,254
2. commissions income on pos and pagobancomat services	22,980	21,395
3. other commisions income	23,990	20,986
Total	**817,034**	**741,171**

With respect to the qualitative information on the types of revenue from relations with customers falling within the scope regulated by IFRS 15, we think that the details required by the Bank of Italy's Circular 262 is adequate.
Commission income includes the following types of variable income:
- Commissions related to the placement of "profit share" Arca products, the amount of which is only estimated in the financial statements, although the related Performance Obligation (PO) is satisfied in full by the end of the year;
- Placement fees for "credit protection" insurance products with a single initial premium, which incorporate the possibility of having to repay (ultimately to customers) part of the placement fees received by the distributor, for the portion of the premium not received up front of an insurance contract terminated in advance of the contractual expiry date. This type of product therefore requires an estimate of the amount of commission not subject to repayment risk (hence the variable nature of the revenue), against an OP that has been fully fulfilled at the balance sheet date (placement of the insurance product);
- Performance fees provided for in asset management mandates, calculated as a percentage of the difference between the actual operating result and the benchmark result for the period. These commissions are determined quarterly or annually and recognised once the result of the managed line has been ascertained, which required them to be estimated at the end of the period;
- Additional amounts of commission on insurance products, which represent the additional remuneration of the Bank's performance with respect to certain quality levels. The variable amount is based on the total placed and is estimated at the end of the year based on the degree of achievement of the objectives required to obtain it.

2.2 Commission income: distribution channels of products and services

Channels/Amounts	Total 31.12.2020	Total 31.12.2019
a) at own branches:	**289,683**	**276,877**
1. portfolio management	29,901	28,643
2. securities placement	159,227	151,864
3. third party services and products	100,555	96,370
b) out-of-branche offer:	**-**	**-**
1. portfolio management	-	-
2. securities placement	-	-
3. third party services and products	-	-
c) other distributive channels:	**-**	**-**
1. portfolio management	-	-
2. securities placement	-	-
3. third party services and products	-	-

2.3 Commission expense: breakdown

Type of services/Amounts	Total 31.12.2020	Total 31.12.2019
a) guarantees received	2,591	2,013
b) credit derivatives	-	-
c) management and brokerage services	26,577	19,853
1.trading on financial instruments	1,151	594
2. trading on foreign currencies	4	-
3. portfolio management:	11,171	11,057
3.1 own portfolios	-	-
3.2 third party portfolios	11,171	11,057
4. custody and administration of securities	4,089	2,577
5. placement of financial instruments	917	974
6. out-of-branche offer of securities, financial instruments, products and services	9,245	4,651
d) collection and payment services	4,791	5,396
e) other services	28,776	24,308
Total	**62,735**	**51,570**

Section 3 – Dividends and similar income Caption 70

3.1 Dividends and similar income: breakdown

Captions/Income	Total 31.12.2020		Total 31.12.2019	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	462	-	2,647	-
B. Other financial assets mandatorily measured at fair value	935	5,348	106	3,685
C. Financial assets measured at fair value through other comprehensive income	11,620	-	7,456	-
D. Equity investments	6,280	-	20,469	-
Total	**19,297**	**5,348**	**30,678**	**3,685**

Section 4 – Net income from trading activities Caption 80

4.1 Net income from trading activities: breakdown

Transactions /Income items	Capital gains (A)	Profits on trading (B)	Capital losses (C)	Losses on trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**10,078**	**3,808**	**(3,783)**	**(10,865)**	**(762)**
1.1 Debt securities	4,048	2,186	(683)	(2,916)	2,635
1.2 Equity instruments	6,030	1,622	(3,100)	(7,949)	(3,397)
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Others	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Debts	-	-	-	-	-
2.3 Others	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**1,156**
4. Derivative instruments	**60,745**	**126,304**	**(46,752)**	**(159,393)**	**(15,278)**
4.1 Financial derivatives:	60,745	123,590	(46,469)	(158,293)	(16,609)
- on debt securities and interest rates	60,405	103,091	(45,497)	(130,853)	(12,854)
- on equities and stock indexes	340	13,154	(972)	(14,894)	(2,372)
- on currency and gold	X	X	X	X	3,818
- others	-	7,345	-	(12,546)	(5,201)
4.2 Credit derivatives	-	2,714	(283)	(1,100)	1,331
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	**70,823**	**130,112**	**(50,535)**	**(170,258)**	**(14,884)**

Section 5 – Net income from hedging activities Caption 90

5.1 Net income from hedging activities: breakdown

Income items/Amounts	Total 31.12.2020	Total 31.12.2019
A. Income from:		
A.1 Fair value hedging derivatives	20,204	55,977
A.2 Hedged financial assets (fair value)	214,279	218,099
A.3 Hedged financial liabilities (fair value)	825	2,325
A.4 Cash-flow hedging derivatives	-	-
A.5 Foreign currency assets and liabilities	-	-
Total income from hedging activity (A)	**235,308**	**276,401**
B. Charges from:		
B.1 Fair value hedges	218,482	223,517
B.2 Hedged financial assets (fair value)	754	36,534
B.3 Hedged financial liabilities (fair value)	16,649	17,742
B.4 Cash-flow hedging derivatives	-	-
B.5 Foreign currency assets and liabilities	-	-
Total charges from hedging activity (B)	**235,885**	**277,793**
C. Net income from hedging activities (A-B)	**(577)**	**(1,392)**
of which: result of hedging on net positions	-	-

Section 6 – Gains (Losses) on disposal or repurchase Caption 100

6.1 Gains (Losses) on disposal or repurchase: breakdown

Captions/Income items	Total 31.12.2020			Total 31.12.2019		
	Gains	Losses	Net result	Gains	Losses	Net result
A. Financial assets						
1. Financial assets measured at amortised cost	132,268	(24,191)	108,077	35,958	(17,260)	18,698
1.1 Loans to banks	6,398	(1)	6,397	3,081	(92)	2,989
1.2 Loans to customers	125,870	(24,190)	101,680	32,877	(17,168)	15,709
2. Financial assets measured at fair value through other comprehensive income	9,233	(313)	8,920	64,156	(316)	63,840
2.1 Debt securities	9,233	(313)	8,920	64,156	(316)	63,840
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**141,501**	**(24,504)**	**116,997**	**100,114**	**(17,576)**	**82,538**
B. Financial liabilities measured at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	1,425	(1,109)	316	895	(658)	237
Total liabilities (B)	**1,425**	**(1,109)**	**316**	**895**	**(658)**	**237**

The net result from financial assets measured at amortised cost relating to customers includes the net profit on the disposal of debt securities, Euro 120 million, and the new loss on the disposal of loans, Euro 18.3 million.
The gains realised on the FVOCI portfolio mainly relate to the disposal of debt securities classified in the HTC&S portfolio.

Section 7 – Net income on financial assets and liabilities measured at fair value through profit or loss Caption 110

7.1 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown on financial assets and liabilities designated at fair value

Transactions / Income items	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**-**	**-**	**(3,684)**	**-**	**(3,684)**
1.1 Debt securities	-	-	(3,684)	-	(3,684)
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities issued	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Foreign currency financial assets and liabilities: exchange differences	X	X	X	X	**-**
Total	**-**	**-**	**(3,684)**	**-**	**(3,684)**

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Income items	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net Result [(A+B) - (C+D)]
1. Financial assets	**30,676**	**2,727**	**(14,376)**	**(3,124)**	**15,903**
1.1 Debt securities	125	2,026	(4,082)	(1,110)	(3,041)
1.2 Equity securities	20,994	547	(367)	(472)	20,702
1.3 UCITS units	9,557	154	(9,927)	(1,542)	(1,758)
1.4 Loans	-	-	-	-	-
2. Foreign currency financial assets: exchange differences	X	X	X	X	**(807)**
Total	**30,676**	**2,727**	**(14,376)**	**(3,124)**	**15,096**

Section 8 – Net impairment losses for credit risk Caption 130

8.1 Net impairment losses for credit risk relating to financial assets measured at amortised cost: breakdown

Transactions/Income items	Impairment losses (1)			Write - backs (2)		Total	Total
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Others			31.12.2020	31.12.2019
A. Loans to banks	(5,650)	-	-	-	-	(5,650)	(2,512)
- Loans	(4,947)	-	-	-	-	(4,947)	(1,896)
- Debt securities	(703)	-	-	-	-	(703)	(616)
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
B. Loans to customers	(42,735)	(35,833)	(545,436)	8,945	177,276	(437,783)	(286,433)
- Loans	(41,192)	(35,833)	(545,436)	8,945	177,276	(436,240)	(286,570)
- Debt securities	(1,543)	-	-	-	-	(1,543)	137
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
Total	**(48,385)**	**(35,833)**	**(545,436)**	**8,945**	**177,276**	**(443,433)**	**(288,945)**

8.1a Net impairment losses for credit risk relating to loans measured at amortised cost subject to Covid-19 support measures: breakdown

Transactions/Income items	Net impairment losses			Total
	First and second stage	Third stage		
		Write-off	Others	31.12.2020
1. Loans subject to forbearance measures compliant with GL	(6,270)	-	-	(6,270)
2. Loans subject to other forbearance measures	233	-	(82)	151
3. New loans	(2,333)	-	(237)	(2,570)
Totale	**(8,370)**	**-**	**(319)**	**(8,689)**

8.2 Net impairment losses for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income items	Impairment losses (1)			Write - backs (2)		Total	Total
	First and second stage	Third stage		First and second stage	Third stage	31.12.2020	31.12.2019
		Write-off	Others				
A. Debt securities	(356)	-	-	8	-	(348)	941
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
Total	**(356)**	**-**	**-**	**8**	**-**	**(348)**	**941**

8.2a Net impairment losses for credit risk relating to loans measured at fair value through other comprehensive income subject to Covid-19 support measures: breakdown

No table is provided in these consolidated financial statements as the circumstances do not apply.

Section 9 - Gains (Losses) from contractual modifications without derecognition
Caption 140

9.1 Gains (Losses) from contractual modifications: breakdown

The caption in question includes the economic impact of contractual modifications that do not qualify for derecognition of the assets and which, as a result, entail a change in the related amortised cost based on discounting the new contractual flows to the original IRR.

The scope of the exposures under consideration is represented by a portion of the forborne exposures (performing and non-performing), or situations in which the contractual modification is linked to the borrower's financial difficulty and this amendment does not fall within the concept of "substantial modification" qualified by BPER Banca.

The impact calculated on this perimeter is added to the impairment losses envisaged by the Bank in application of its own policies for the assessment of performing and non-performing loans and adds, for the two types of exposures, to Euro 102 thousand and Euro 1,974 thousand respectively.

Section 10 – Administrative expenses Caption 160

10.1 Staff costs: breakdown

Type of costs/Amounts	Total 31.12.2020	Total 31.12.2019
1) Employees	**732,626**	**731,437**
a) wages and salaries	532,534	479,240
b) social security charges	140,175	125,022
c) Termination indemnities	30,779	26,764
d) Pension expenses	-	-
e) provision for employee termination indemnities	417	746
f) provision for pension and similar commitments:	1,111	402
- defined contribution plan	-	-
- defined benefit plans	1,111	402
g) payments to external supplementary pension funds:	15,322	13,843
- defined contribution plan	15,322	13,843
- defined benefit plans	-	-
h) costs from share based payments	(280)	692
i) other personnel benefits	12,568	84,728
2) Other not-retired employees	**6,077**	**13,754**
3) Directors and Statutory Auditors	**4,507**	**4,525**
4) Retired employees	**86**	**1,147**
5) Recovery of costs for employees seconded to other companies	**(14,821)**	**(15,300)**
6) Refunds of costs for third party employees seconded to the company	**23,289**	**28,331**
Total	**751,764**	**763,894**

10.2 Average number of employees by category

	31.12.2020	31.12.2019
Employees:	**10,056**	**9,247**
a) Managers	175	174
b) Middle managers	3,500	3,159
c) Other employees	6,381	5,914
Other employees	**95**	**258**

10.2 bis Number of employees by category

	31.12.2020	31.12.2019
Employees:	**10,355**	**10,416**
a) Managers	193	197
b) Total 3rd and 4th level middle managers	1,419	1,460
c) Total 1st and 2nd level middle managers	2,104	2,131
d) Other employees	6,639	6,628
Other employees	**147**	**167**

10.3 Provisions for defined-benefit pension plans: costs and revenues

Type of costs/Amounts	31.12.2020	31.12.2019
Provisions for defined-benefit pension plans	1,111	402

For more information on defined-benefit pension plans, please refer to Part B of these Explanatory notes, section 10 "Provisions for risks and charges".

10.4 Other benefits for employees

Type of costs/Amounts	31.12.2020	31.12.2019
Other benefits for employees	12,568	84,728

The caption "Other employee benefits" at 31 December 2020 mainly includes insurance premiums for the professional coverage of the staff, lower than the previous year which was affected by the provisions for leaving incentives and the solidarity fund for a total of Euro 70.1 million, following the signature of the agreement with the Trade Unions on 29 October 2019.

10.5 Other administrative expenses: breakdown

Captions	31.12.2020	31.12.2019
Indirect taxes and duties	**119,734**	**115,781**
Stamp duty	104,411	97,781
Other indirect taxes with right of recourse	7,135	8,200
Municipal property tax	4,621	4,216
Others	3,567	5,584
Other costs	**455,278**	**389,726**
Maintenance and repairs	66,398	60,687
Rental expense	19,257	16,126
Post office, telephone and telegraph	11,261	12,149
Data transmission fees and use of databases	37,776	27,479
Advertising	15,506	14,415
Consulting and other professional services	89,397	72,911
Lease of IT hardware and software	31,519	28,275
Insurance	4,857	4,687
Cleaning of office premises	11,435	6,919
Printing and stationery	5,832	3,233
Energy and fuel	12,641	13,329
Transport	7,235	7,894
Staff training and expense refunds	6,127	10,467
Information and surveys	8,652	8,353
Security	6,920	6,902
Administrative services	15,868	14,228
Use of external data gathering and processing services	6,987	9,411
Membership fees	5,976	7,208
Condominium expenses	4,575	3,155
Contribution to SRF, DGS, IDPF-VS	75,310	49,109
Sundry other	11,749	12,789
Total	**575,012**	**505,507**

The increase in this caption has also been influenced by the health emergency resulting from the Covid-19 health emergency; non-recurring expenses were incurred during the year on the purchase of hygiene-sanitary materials, licences and technical support for smart working, advertising and publicity, gifts and donations, and building maintenance; however, some savings were made with respect to budget due to the suspension or reduction of certain activities as a result of the emergency (such as travel, training courses and cash collections).
The caption SRF, DGS, FITD-SV contributions includes the ordinary 2020 contribution to the SRF (European Single Resolution Fund) of Euro 23.2 million, the additional contribution requested from Italian banks by the SRF for the year 2018 of Euro 7.3 million, the contribution to the SRF for the settlement of irrevocable commitments previously guaranteed by cash collateral for a total of Euro 10.9 million and the ordinary 2020 contribution to the DGS (Deposit Guarantee Fund) of Euro 33.8 million.

Section 11 – Net provisions for risks and charges Caption 170

11.1 Net provisions for credit risk on commitments to distribute funds and financial guarantees granted: breakdown

Type of risks and charges	Impairment losses			Write-backs			31.12.2020	31.12.2019
	First stage	Second stage	Third stage	First stage	Second stage	Third stage		
Commitments to distribute funds	(258)	(492)	-	299	-	-	(451)	2,278
Financial guarantees granted	(323)	-	(4,435)	-	1,062	7,847	4,151	3,796
Total	**(581)**	**(492)**	**(4,435)**	**299**	**1,062**	**7,847**	**3,700**	**6,074**

11.2 Net provisions on other commitments and other guarantees granted: breakdown

Type of risks and charges	Impairment losses	Write-backs	31.12.2020	31.12.2019
Other guarantees granted	(7,000)	-	(7,000)	(308)
Other commitments	(2,212)	2,476	264	-
Total	**(9,212)**	**2,476**	**(6,736)**	**(308)**

11.3 Net provisions for other risks and charges: breakdown

Type of risks and charges	31.12.2020	31.12.2019
A. Provisions	**(20,342)**	**(31,274)**
1. for legal disputes	(18,839)	(24,943)
2. other	(1,503)	(6,331)
B. Write-backs	**10,317**	**17,437**
1. for legal disputes	10,215	11,848
2. other	102	5,589
Total	**(10,025)**	**(13,837)**

Section 12 – Net adjustments to property, plant and equipment
Caption 180

12.1 Net adjustments to property, plants and equipment: breakdown

Asset/Income items	Depreciation (a)	Impairment losses (b)	Write-backs (c)	Net result (a + b - c)
A. Property, plant and equipment				
1. Used in operations	(89,262)	(3,688)	-	(92,950)
- Owned	(30,539)	(1,805)	-	(32,344)
- Rights of use acquired through leases	(58,723)	(1,883)	-	(60,606)
2. Held for investment	(1,688)	(4,478)	-	(6,166)
- Owned	(1,688)	(4,478)	-	(6,166)
- Rights of use acquired through leases	-	-	-	-
3. Inventories	X	-	-	-
Total	**(90,950)**	**(8,166)**	**-**	**(99,116)**

The amounts recorded under the caption "Impairment losses" relate to the impairment tests carried out in accordance with IAS 36 on certain properties (Euro 6.3 million) and to the adjustments made to rights of use acquired through leases deriving from the early closure of certain rental contracts (Euro 1.9 million).

Section 13 - Net adjustments to intangible assets
Caption 190

13.1 Net adjustment to intangible assets: breakdown

Asset/Income items	Depreciation (a)	Impairment losses (b)	Write-backs (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(54,446)	-	-	(54,446)
- Generated internally by the company	-	-	-	-
- Other	(54,446)	-	-	(54,446)
A.2 Rights of use acquired through leases	-	-	-	-
Total	**(54,446)**	**-**	**-**	**(54,446)**

Section 14 – Other operating expense (income) Caption 200

14.1 Other operating expense: breakdown

Description/Amounts	31.12.2020	31.12.2019
Reimbursement of interest for collections and payments settled through the	2	75
Amortisation of leasehold improvement expenditure	2,730	2,717
Other expense	42,410	30,999
Total	**45,142**	**33,791**

The caption "Other expense" includes losses on clawbacks and lawsuits (Euro 8.9 million), losses on loss data collection (Euro 2.3 million), operating costs of SPVs (Euro 6 million) and expenses for the profit-sharing clause in the contract for the purchase of Nuova Carife (Euro 11.5 million).

14.2 Other operating income: breakdown

Description/Amounts	31.12.2020	31.12.2019
Rental income	2,760	2,809
Recovery of taxes	111,003	105,404
Other income	107,892	120,546
Total	**221,655**	**228,759**

The caption "Other income" includes recoveries for services provided to Group companies (Euro 50.6 thousand) and recoveries for rapid preliminary investigation fees (Euro 11 million).

Section 15 – Gains (Losses) on equity investments Caption 220

15.1 Gains (Losses) on equity investments: breakdown

Income items/Amounts	Total 31.12.2020	Total 31.12.2019
A. Gains	**250**	**167**
1. Revaluations	-	-
2. Gains on disposals	250	167
3. Writebacks	-	-
4. Other income	-	-
B. Losses	**(3,519)**	**(26,146)**
1. Write-downs	-	-
2. Impairment losses	(3,519)	(26,026)
3. Loss from disposals	-	(120)
4. Other charges	-	-
Net result	**(3,269)**	**(25,979)**

The amounts shown under "Impairment losses" refer to the impairment test on investments which led to the write-down of the interest held in Cassa di Risparmio di Fossano s.p.a.

Section 16 – Valuation differences on property, plant and equipment and intangible assets Caption 230

There are no amounts to be disclosed in this section.

Section 17 – Impairment losses on goodwill Caption 240

17.1 Impairment losses on goodwill: breakdown

The impairment test, carried out in accordance with IAS 36, did not identify any need to recognise an impairment loss on goodwill by the Bank. For further details on how the impairment test is carried out and the related results, please refer to Part B, Section 10 - Intangible assets in the consolidated Explanatory Notes.

Section 18 – Gains (Losses) on disposal of investments Caption 250

18.1 Gains (Losses) on disposal of investments

Income items/Amounts	Total 31.12.2020	Total 31.12.2019
A. Assets	847	1,076
- Gains on disposal	979	1,559
- Losses on disposal	(132)	(483)
B. Other assets	(30)	(48)
- Gains on disposal	39	23
- Losses on disposal	(69)	(71)
Net profit	**817**	**1,028**

Section 19 - Income taxes for the year on current operations
Caption 270

19.1 Income taxes for the year on current operations: breakdown

Income items/Amounts	Total 31.12.2020	Total 31.12.2019
1. Current tax (-)	(10,930)	(5)
2. Change in current tax of prior years (+/-)	(1,854)	3,476
3. Reduction in current tax for the year (+)	52,971	-
3. bis Reduction in current tax for the year for tax credit pursuant to L. 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	66,674	(16,525)
5.Change in deferred tax liabilities (+/-)	8,466	8,252
6. Tax for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**115,327**	**(4,802)**

"Income taxes for the year" were determined by applying the regulations in force at 31 December 2020 and, therefore, considering the changes introduced by the "Cura Italia" Decree, in particular, the transformation into tax credits of the deferred tax assets on tax losses and excess ACE on the disposal of non-performing exposures. The regulation also envisages the transformation of deferred tax assets not already recognised. For the purposes of this transformation, tax losses and excess ACE can be considered up to a maximum of 20% of the nominal value of the loans sold. The positive impact of this transformation on the income statement was Euro 53.0 million.
During the year, pursuant to Decree 185/2008, the Parent Company also stepped up the goodwill allocated to the Arca Holding CGU and the intangible assets deriving from the measurement at fair value of the customer relationships of Unipol Banca, with a positive impact on the income statement of Euro 33.9 million.

19.2 Reconciliation between the theoretical tax charge to total income tax expense for the year

IRES	31.12.2020
Profit (Loss) from current operations before tax	**28,525**
Negative components of the gross result definitively considered not relevant (+)	**33,717**
Non-deductible taxes (other than on income)	2,009
Administrative expenses of limited deductibility	4,183
Other non-deductible costs	2,356
Write-down of property, plant and equipment	8,166
Impairment of equity investments	3,519
Other	13,484
Positive components of the gross result definitively considered not relevant (-)	**(37,255)**
Non-relevant portion of dividends	(17,072)
Gains on securitis under partecipation exemption (PEX)	(20,183)
Definitive increases not linked to elements of the gross result (+)	**3,813**
Definitive decreases not linked to elements of the gross result (-)	**(49,159)**
Basis of calculation of IRES shown in the income statement	**(20,359)**
A.C.E. deduction	(33,460)
Basis of calculation of IRES	**(53,819)**
IRES tax rate	*27.50%*
Effective IRES	**(14,800)**
IRES tax Rate	*-51.88%*

IRAP	31.12.2020
Profit (Loss) from current operations before tax	**28,525**
Negative components of the gross result definitively considered not relevant (+)	**107,326**
Non-deductible interest expense	24,224
Other non-deductible administrative expenses	54,142
Staff costs net of permitted deductions	4,329
Net provisions for risks and charges	8,246
Losses on equity investments	3,269
IMU	4,159
Other	8,957
Positive components of the gross result definitively considered not relevant (-)	**(32,694)**
Non-relevant portion of dividends	(9,649)
Other operating income	(23,045)
Definitive increases not linked to elements of the gross result (+)	**110,616**
Temporary differences recoverable beyond the time horizon of the probability test	3,386
Negative value of production	106,064
Other	1,166
Definitive decreases not linked to elements of the gross result (-)	**(163,537)**
FTA IFRS 9	(84,552)
Other	(78,985)
Basis of calculation of IRAP shown in the income statement	**50,236**
Weighted average nominal rate of IRAP	5.57%
Effective IRAP	2,798
IRAP tax rate	*9.81%*

Out-of-period IRES and IRAP and other taxes	31.12.2020
Total impact	**(103,325)**
Impacts of domestic tax group	(18,198)
Conversion of Deferred Tax Assets (DTA) by "Cure Italy" Decree-Law	(52,971)
Tax realignment of goodwill e other property, plant and equipment	(33,908)
Other	1,752
Out-of-period IRES and IRAP tax rates and other taxes	-362.22%

Total tax on gross result	31.12.2020
IRES + IRAP + other taxes	**(115,327)**
Overall tax rate	-404.30%

Section 20 - Gains (Losses) from non-current assets and disposal groups classified as held for sale after tax
Caption 290

There are no amounts to be disclosed in this section.

Section 21 - Other information

The information contained in the above sections is deemed to be detailed and completed, thus providing a full picture of the results.

Section 22 - Earnings per share

IAS 33 requires disclosure of basic and diluted earnings per share (EPS), specifying how each is calculated.
Basic earnings per share reflect the relationship between:

- the earnings attributable to ordinary shareholders,
- and the weighted average number of shares outstanding during the period.

Diluted earnings per share reflect the relationship between:

- the earnings used to calculate Basic EPS, as adjusted by the economic effects of converting all outstanding convertible bonds into shares at period end;
- and the number of shares used to calculate basic EPS, as adjusted by the weighted average of the potential ordinary shares with a diluting effect deriving from the conversion of bonds outstanding at period end.

	31.12.2020			31.12.2019		
	Attributable earnings	Weighted average ordinary shares	Earnings per share (Euro)	Attributable earnings	Weighted average ordinary shares	Earnings per share (Euro)
Basic EPS	143,853	679,015,111	0.212	385,435	495,526,495	0.778
Diluted EPS	140,703	714,729,397	0.197	385,435	511,182,072	0.754

The following tables reconcile the weighted average number of ordinary shares outstanding used to calculate basic earnings per share with the number of ordinary shares used to calculate diluted earnings per share; they also reconcile net profit for the year with the net income used to determine basic and diluted earnings per share.

22.1 Average number of ordinary shares (fully diluted)

	31.12.2020	31.12.2019
Weighted average number of outstanding ordinary shares for Base EPS calculation	679,015,111	495,526,495
Weighted dilutive effect the potential conversion of convertible bonds	35,714,286	15,655,577
Weighted average number of outstanding ordinary shares for diluted EPS calculation	714,729,397	511,182,072

22.2 Other informations

	31.12.2020	31.12.2019
Profit (Loss) for the year	143,853	385,435
Allocations not attributable to the shareholders	-	-
Net profit for Basic EPS calculation	143,853	385,435
Change in income and charges deriving form conversion	(3,150)	-
Net profit for diluted EPS calculation	140,703	385,435

Part D – Other comprehensive income

Detailed statement of other comprehensive income

Captions		31.12.2020	31.12.2019
10.	**Profit (Loss) for the year**	**143,853**	**385,435**
	Other comprehensive income that will not be reclassified to profit or loss	68,682	(85,332)
20.	Equity instruments measured at fair value through other comprehensive income	70,309	(61,216)
	a) changes in fair value	13,437	(61,497)
	b) transfer to other components of shareholders' equity	56,872	281
30.	Financial liabilities designated at fair value through profit or loss (changes in own creditworthiness):	-	-
	a) changes in fair value	-	-
	b) transfer to other components of shareholders' equity	-	-
40.	Hedge of equity instruments measured at fair value through other comprehensive income:	(1,490)	-
	a) change in fair value (hedged instrument)	532	-
	b) change in fair value (hedging instrument)	(2,022)	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	6,083	(39,501)
80.	Non-current assets and disposal group classified as held for sale	-	-
90.	Share of valuation reserves connected with equity investments carried at equity	-	-
100.	Income taxes relating to other comprehensive income that will not be reclassified to profit or loss	(6,220)	15,385
	Other comprehensive income that may be reclassified to profit or loss	**14,885**	**40,555**
110.	Hedge of foreign investments:	-	-
	a) changes in fair value	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
120.	Foreign exchange differences:	-	-
	a) change in value	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
130.	Cash flow hedges:	(535)	(214)
	a) changes in fair value	(535)	(214)
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
	of which: net result of positions	-	-
140.	Hedging instruments (not designated elements):	-	-
	a) change in value	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
150.	Financial assets (no equity instruments) measured at fair value through other comprehensive income:	22,707	60,807
	a) changes in fair value	23,427	78,491
	b) transfer to the income statement	(720)	(17,684)
	- impairment for credit risk	347	(764)
	- gains/losses from realization	(1,067)	(16,920)
	c) other changes	-	-
160.	Non-current assets and disposal group classified as held for sale:	-	-
	a) changes in fair value	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
170.	Share of valuation reserves connected with equity investments carried at equity:	-	-
	a) changes in fair value	-	-
	b) reclassification to profit or loss	-	-
	- impairment adjustments	-	-
	- gains/losses from realization	-	-
	c) other changes	-	-
180.	Income taxes relating to other comprehensive income that may be reclassified to profit or loss	(7,287)	(20,038)
190.	**Total other comprehensive income**	**83,567**	**(44,777)**
200.	**Other comprehensive income (Captions 10+190)**	**227,420**	**340,658**

Part E - Information on risks and related hedging policies

Introduction

The following is a summary of how the Group's risk governance is organised, with its related processes and key functions that are also involved in the overall control system, highlighting the ways in which the spread of a "risk culture" is guaranteed in the BPER Banca Group. The role of the corporate bodies in the supervision of the corporate culture are explained, as are the objectives of the risk culture included in the corporate policies.
The Group's organisation provides for centralisation of the risk control function at the Parent Company; consequently, the qualitative information set out below also reflects the individual position of BPER Banca.

The Board of Directors of the Parent Company[41] has established internal control guidelines for the entire BPER Banca Group by issuing and implementing "Guidelines for the Group internal control system"[42], in line with the Regulations for the prudential supervision of banks (Bank of Italy Circular 285 of 17 December 2013 – "Supervisory Instructions for Banks" and subsequent updates).

Risk management (RAF)

The Risk Appetite Framework - RAF, forms part of the Group's internal control system and acts as a frame of reference, in terms of methodologies, processes, policies, controls and systems, designed to establish, communicate and monitor the Group's risk appetite, this being understood as the set of values that reflect the Group's risk objectives (or "risk appetite"), tolerance thresholds (or "risk tolerance"), as well as the related operational limits, in both ordinary and stress conditions, which the Group intends to respect in pursuing its strategic guidelines, defining consistency levels and the maximum risk that it is able to take on ("risk capacity").
The BPER Banca Group identifies the Risk Appetite Framework (RAF) as a tool for overseeing the risk profile that the Group intends to take in the implementation of its business strategies, considering it as an essential element to ensure that the risk governance policy and process by which risks are handled comply with the principles of sound and prudent business management.
The RAF takes on the importance of a management tool that not only permits concrete application of the regulations, but also makes it possible to activate synergistic governance of the planning, control and risk management activities. It is also a key element to:

- strengthen the ability to govern business risks, facilitating the development and dissemination of an integrated risk culture;
- ensure alignment between strategic guidelines and the levels of risk assumed, through the formalisation of consistent objectives and limits;
- develop a quick and effective system of monitoring and reporting the risk profile taken on.

The key principles of the RAF are formalised and approved by BPER Banca, which periodically reviews them, ensuring that they are in line with the strategic guidelines, business model and regulatory requirements in force at the time.
Lastly, the Group periodically monitors the overall RAF metrics, in order to control on a timely basis any overruns of the tolerance thresholds and/or risk limits assigned and, if appropriate, handle the necessary communications to the Corporate Bodies and subsequent remedies.

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[41] *Throughout the chapter, any reference to the Board of Directors or the Chief Executive Officer or any other Corporate Bodies are to be understood as referring to the Parent Company BPER Banca, unless otherwise specified.*
[42] *Last update approved by Board of Directors of the Parent Company on 29 November 2016*

The Group's risk appetite is expressed:

- in specific areas of analysis defined in accordance with the Supervisory Provisions (capital adequacy, liquidity and measures that reflect risk capital or economic capital) and the expectations and interests of other Group stakeholders;
- through summary indicators (RAF metrics) that represent regulatory constraints and the risk profile defined in accordance with the capital adequacy verification process and risk management processes. The RAF metrics are defined at Group level and can be adapted to individual risks of strategic importance for the Bank and other relevant analysis axes identified in the strategic planning process.

The process of preparing and updating the RAF defines the roles and responsibilities of the corporate bodies and functions involved, adopting coordination mechanisms that ensure the effective inclusion of risk appetite within operational activities. In particular, the Group reconciles the RAF, business model, strategic plan, ICAAP and budget in a consistent manner via a complex system of coordination mechanisms.

In line with the structure of the RAF process, at the board meeting on 23 January 2020, the Parent Company's Board of Directors defined the Risk Appetite Statement of the BPER Group. This formalises the risk appetite at an overall Group level through quantitative indicators that are consistent with the processes of assessing capital adequacy and the adequacy of the Group's liquidity, and with the processes of managing measurable risks and qualitative indications for risks that are difficult to measure.

Furthermore, in consideration of the changed macroeconomic context due to the Covid-19 health emergency, the meeting of the Parent Company's Board of Directors on 11 June 2020 approved a first update of the risk tolerance and risk capacity thresholds of the core RAF indicators currently in force. Subsequently, after completing the update, on 23 July 2020 the Board of Directors approved a revision of the risk appetite, risk tolerance and risk capacity thresholds for all of the RAF metrics.

The RAF is periodically updated and reviewed according to the evolution of the risk and business strategy and of the regulatory and competitive context in which the Group operates.

Development of the internal control system

The Parent Company manages the Group's internal control system through a cyclical process that involves the following phases:

- design;
- implementation;
- assessment;
- communicating outside the Group.

Some additional information is provided below the various stages of development and the related responsibilities of the Corporate Bodies[43].

[43] *Corporate Bodies include all bodies with strategic supervision, management and control functions. The definition of Corporate Body also includes the sub-committees of the Board of Directors ("Board Committees").*

Design of the internal control system

The Board of Directors of the Parent Company defines and approves:

- the Internal Control System of the Parent Company and the Group;
- the risk objectives, tolerance threshold (where identified) and the process of risk governance;
- the remedies needed to restore a normal situation after any overrun of the tolerance thresholds;
- the criteria for identifying significant transactions to be submitted to the risk control function;
- system standards for carrying out all activities.

More specifically, the Board of Directors, with the assistance of the Control and Risks Committee and on proposal of BPER Banca's CEO, establishes and approves for the Group as a whole and for its components:

- the business model;
- the Corporate Control Functions and other control functions,
- formalised coordination and liaison procedures between the Companies of the Group and the Parent Company;
- the ICAAP and ILAAP processes, ensuring consistency with the RAF;
- the Recovery Plan;
- the process for managing anomalies identified by the corporate control functions, as well as the methods of handling, and perhaps accepting, residual risk in compliance with the RAF;
- asset measurement policies and processes;
- the process for the development and validation of internal risk measurement;
- the process for approving new products and services, the launch of new activities, entering new markets (known collectively as Product Approval);
- Group policy for outsourcing business functions.

Lastly, the Board of Directors ensures that:

- implementation of the RAF is consistent with the approved levels of risk appetite and risk tolerance (where identified);
- the strategic plan, the RAF, the ICAAP, budgets and internal control system are consistent, bearing in mind any developments in the internal and external conditions in which the Group operates;
- the amount and the allocation of capital and liquidity held are consistent with the risk appetite, risk governance policies and risk management process.

The Board of Directors appoints and dismisses the heads of the corporate control functions and the Manager responsible for preparing the company's financial reports, after consultation with the Control and Risk Committee, the Nominations Committee, the Board of Statutory Auditors and the Chief Executive Officer[44].

The Board of Directors of Group companies:

- defines any additions that have to be made to the internal control system of their respective entities, in accordance with the coordination and liaison procedures established by the Parent Company;
- acknowledges and approves the risk appetite of its own company, which has to be consistent with the level of risk of the Group.

[44] *The Chief Executive Officer only intervenes for the appointment of the heads of Internal Audit, Compliance and Risk Control.*

Implementation of the internal control system

The Board of Directors delegates adequate powers and resources to the Chief Executive Officer to enable him to implement strategies, RAF and risk governance policies defined by the Parent Company's Board of Directors when designing the internal control system; the Board of Directors is also responsible for taking all the necessary steps to ensure that the organisation and its internal control system comply with the principles and requirements laid down in regulatory provisions, monitoring compliance on an ongoing basis.

The Board of Directors of each Group bank and company gives a mandate to the appropriate internal functions to implement the decisions made by the Parent Company during the design phase.

Assessment of the internal control system

As part of its strategic supervisory function, the Board of Directors:

- receives from the corporate control functions and other control functions the information flows foreseen for a full awareness of the various risk factors and the ability to govern them;
- periodically assesses the adequacy and effectiveness of the RAF and the compatibility between actual risk and the risk objectives;
- periodically assesses, with the assistance of the Control and Risk Committee, the adequacy and compliance of the Group's internal control system[45], identifying possible improvements and defining the steps needed to correct any weaknesses.

The Board of Directors of each Group company, including the Parent Company, periodically assesses the internal control system[46].

The function responsible for providing support in assessing the effectiveness of the overall internal control system, company-wide, is the Internal Audit Function.

The Board of Statutory Auditors of the Parent Company and of Group companies, each to the extent of their responsibilities, carry out the assessment of the internal control system foreseen by law and the articles of association and have the responsibility of ensuring the completeness, suitability and functionality of the internal control system and of the RAF. The results of these assessments are brought to the attention of the respective Boards of Directors.

The Board of Directors receives, either directly or through the CEO, the information flows required to gain a full awareness of the various risk factors and the ability to govern them, as well as to plan and implement interventions to ensure the compliance and adequacy of the Internal Control System.

External communication on the internal control system

The Board of Directors of each Group company, especially that of the Parent Company as regards the Group internal control system, ensures that information on the internal control and risk management system is given in all cases foreseen by law, guaranteeing the correctness and completeness of the information provided. In this context, it is important to make the disclosures to the general public required by Pillar 3. For this, the Board of Directors of the Parent Company assigns control

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[45] *Supervisory instructions for banks – Circular 285 of the Bank of Italy, Part I, Title IV, Chapter 3, Section II, paragraph 2 "assures that: [...] b) the internal control system and corporate structure are consistently in line with the principles mentioned in Section I and the control functions satisfy the requirements and comply with the provisions of Section III. In the event of weaknesses or anomalies, it promotes timely adoption of appropriate corrective measures and assesses their effectiveness".*

[46] *a) Civil Code – art. 2381 – "The Board of Directors ... omissis ... evaluates the adequacy of the organisational, administrative and accounting structure of the company on the basis of the information received".*

c) Code of Conduct for Listed Companies – Standard 8.P.3". "The Board of Directors assesses the effectiveness of the system of internal control with respect to the characteristics of the business".

responsibilities and duties to the Corporate Bodies and the various functions involved in the different stages of the process of governing internal controls.

A summary of the internal organisation of the control system adopted by the BPER Banca Group is presented below, referring to the two documents indicated for further information (including the duties assigned to each of the internal control functions).

Levels of control envisaged by the Supervisory Authority

As part of the Group internal control system, the following control functions are identified at the levels provided for in the Supervisory instructions for banks, taking into account of the fact that the second and third level control functions always apply to the entire Group:

- Third-level controls: designed to identify violations of procedures and regulations and to assess periodically the completeness, suitability, functionality (in terms of efficiency and effectiveness) and reliability of the internal control system and information systems (ICT audit), with a set timing in relation to the nature and intensity of the risks involved. They are conducted on an ongoing basis, periodically or at random, by various structures that are independent of production, including spot checks. This activity is entrusted to the Internal Audit Function;
- Second-level controls ("risk and compliance controls"): the second level control functions have been developed and identified with the following objectives:
    - to check on an ongoing basis that company procedures are consistent with the goal of preventing money laundering and financing of terrorism and to prevent and combat money laundering and financing of terrorism by reporting suspicious transactions and by performing constant checks. This activity is entrusted to the Anti-Money Laundering Function;
    - to identify non-compliance risks, examining the standards applicable to the Group on an ongoing basis and assessing their impact on Group companies. To establish, depending on the risks that have been identified and assessed, the minimum control objectives foreseen, by proposing organisational and procedural interventions to ensure adequate protection from any risks of non-compliance and monitoring their implementation. This activity is entrusted to the Compliance Function;
    - to collaborate in the definition and implementation of the RAF and the related risk governance policies, through an adequate risk management process, verifying the adequacy thereof. To define methodologies, processes and tools to be used for risk management. To ensure consistency of the measurement and risk control systems with processes and methodologies to assess business operations. To ensure the correct representation of the risk profile and assessment of loan positions, to perform assessments of loan monitoring and recovery processes, to supervise the process for the allocation/monitoring of the official rating and to perform second-level controls over the lending process. These activities are entrusted to various functions of the Risk Management Unit;
    - qualitative and quantitative ratification of internal risk measurement systems adopted by the Parent Company, as used to estimate internal capital and capital requirements, ensuring compliance with the instructions issued by the Supervisory Authority for this process, as well as consistency with the operational needs of the company and the

evolution of the market. This activity is entrusted to the Model Ratification Office, which forms part of the Risk Department's Credit Control and Internal Ratification Department. The organisational positioning of this Office guarantees independence from the structures responsible for the development and use of internal risk models subjected to ratification;

- First-level controls ("line controls"): designed to ensure that operations are carried out properly. They are performed by the production structures themselves (e.g. hierarchical, systematic and random controls), also through units dedicated exclusively to control duties that report to the heads of the operating structures or carried out as part of the back office activities; as far as possible, they are incorporated into IT procedures.

Control roles and duties attributed to BPER Banca Group functions

Internal Audit Function

The primary objective of the Internal Audit Function is to provide independent and objective assurance and advice in order to improve the effectiveness and efficiency of the organisation. Internal Audit assists the organisation in pursuing its objectives through a systematic professional approach, which generates added value as it is aimed at assessing and improving the risk management, control and governance processes.

Its mission is therefore to enhance and protect the value of the organisation by providing objective and risk-based assurance, advice and expertise. This mission is pursued:

- through a risk-based and process-oriented audit plan;
- by promoting a culture of risk and control in the company;
- by providing assurance and advice on risk management, control and governance processes;
- by evaluating existing controls and making suggestions for their continuous improvement.

The principal responsibilities associated with the individual internal audit processes are described below.

- Planning of internal audit activities: this involves preparing planning guidelines and the consequent annual and long-term planning of audit activities, based on the methodological models approved by the Board of Directors, and proposing them to the competent Body. In this context, the audit universe, i.e. all the areas of risk that could subjected to audit, gets updated. Checks that are not preannounced or not expressly indicated in the Audit Plan are also carried out;
- QAIP - Quality Assurance and Improvement Program: this involves developing and maintaining an Internal Audit quality assurance and improvement programme;
- Conduction of the assurance assignments: i) from a third-level control perspective, it also carries out on-site checks to verify the regular performance of operations and the evolution of risks and assesses the completeness, adequacy, functionality and reliability of the organisational structure and other components of the internal control system, bringing possible improvements to the attention of the corporate bodies, with particular reference to the RAF, the risk management process, as well as the tools for measuring and controlling them; ii) it checks the Risk Control, Compliance and Anti-Money Laundering Functions; iii) it carries out Fraud Audits (Detection and Investigation) through the recording, assessment and, where appropriate, reporting of anomalous behaviour found during the audit;
- Conduction of the advisory assignments: providing support and recommendations, generally on the specific request of an Organisational Unit or Corporate Body;

- Periodic reporting: it explains the results of the audit work it has performed to the Corporate Bodies of the Parent Company and of Group companies, summarised in a suitable report. It also prepares the reports required by the Supervisory Authorities and assigned to the Internal Audit Function.

In general terms, the Group's internal control system delegates second- and third-level Control Functions of the Italian Group companies to the Parent Company, as laid down in the "Group Guidelines - Internal Control System".
Foreign Companies for which the centralised organisational model is partially derogated according to internal regulations or those for which the Board of Directors of the Parent Company approves such a derogation are exceptions to this general principle.
At the date of this document, the Italian banks and companies have all outsourced the Internal Audit Function to the Parent Company, with the exception of Arca Fondi SGR S.p.A. and Arca Holding S.p.A.

Risk Management Department
The Risk Management Department reports directly to the Parent Company's CEO and, as the Group's risk control function, aims to collaborate in the definition and implementation of the Risk Appetite Framework and the related risk governance policies, through an adequate risk management process.
An integral part of its mission is to ensure adequate reporting to the Corporate Bodies of the Parent Company and Group companies.
The Risk Management Department extends its area of responsibility to all of the Group companies included in the current risk map, given that the "Group Guidelines - Internal Control System" provide for centralised management of the risk control function by the Parent Company.
The Group companies that have this function outsource it to the Parent Company, with the exception of the Luxembourg based company[47].
The mission of the Risk Management Department is carried out as part of the Parent Company's guidance and coordination activity as an outsourcer for Group Banks and Companies.
The Risk Management Department operates at Group companies through a Contact (who functionally reports to it) identified at the various Group companies.
ARCA Fondi SGR is an exception to this approach[48] because of the specific nature of the company's operations. Decentralisation makes for continuity in the risk management of the subsidiary, also in application of the principle of cost-effectiveness. It also increases the specialist expertise of the decentralised structure in managing the principal risks of ARCA Fondi SGR, while ensuring that the Corporate Bodies of the Parent Company are kept adequately informed about the subsidiary's business risks.
The responsibilities of the Risk Management Department are entrusted to the Chief Risk Officer (CRO), who performs the role with support from the organisational units that report hierarchically to the department; its main activities include:

- within the ambit of the Risk Appetite Framework, proposing the quantitative and qualitative parameters necessary for its definition, both in the normal course of business and in situations of stress, ensuring their adequacy over time in relation to changes in the internal and external context;

[47] *Circular CSSF 14/597 – Update of circular CSSF 12/552 on the central administration, internal governance and risk management "117. Outsourcing the compliance function and risk control function is not authorised."*
[48] *Part of the Group since 22 July 2019*

- proposing risk governance policies for measurable and non-measurable risks not allocated to other control functions (limited to the sections relating to risk management and exposure/operational limits) and overseeing their implementation, ensuring that the various stages of the risk management process are consistent with the Risk Appetite Framework;
- developing risk management methodologies, processes and tools via the identification, measurement/assessment, monitoring and reporting of risks, ensuring their adequacy over time through the development and application of indicators designed to highlight anomalous situations and inefficiencies;
- monitoring the actual risk profile assumed in relation to the risk objectives defined in the RAF, collaborating in the definition of operating limits for the assumption of various types of risk and constantly verifying their adequacy and compliance, reporting any overruns to Corporate Bodies;
- supporting the CEO in implementing the ICAAP and ILAAP;
- coordinating the process of preparing and updating the BPER Banca Group's Recovery Plan;
- coordinating the various activities involved in the internal stress testing programme;
- checking the adequacy and effectiveness of the measures taken to correct weaknesses in the risk management process;
- developing, ratifying[49] and maintaining the internal systems of risk measurement, ensuring compliance with the instructions issued by the Supervisory Authority, as well as consistency with the operational needs of the company and the evolution of the market;
- analysis of risks deriving from new products/services and from entry into new business segments;
- performance of second-level checks on the lending process, verifying the existence of effective supervision over credit exposures (especially if impaired), the proper classification of risk and the adequacy of provisions; verifying the effectiveness of the debt recovery process;

Anti-Money Laundering Function

The Anti-Money Laundering Function's duty is:

- to prevent and combat money laundering and financing of terrorism through the reporting of suspicious transactions and the execution of continuing control activities (Anti-Money Laundering control);
- to check that the IT and organisational procedures adopted by Group companies are consistent with laws and regulations, as well as self-regulation in the field of money laundering and financing of terrorism (Anti-Money Laundering function).

The organisational model adopted by the Group provides for centralised management at the Parent Company of the anti-money laundering function and supervision of the Italian Group banks and non-banking companies subject to money laundering regulations, with the exception of Arca Holding and Arca Fondi SGR.

As regards the Parent Company's guidance and coordination activities, performed for all Group companies subject to anti-money laundering regulations, the Anti-Money Laundering Function has the following responsibilities:

- it identifies and evaluates the Group's exposure to the risk of money laundering and financing of terrorism;

[49] *Through the Model Ratification Office*

- it identifies any risk of non-compliance with anti-money laundering legislation to which the Group is exposed, continuously examining the rules applicable to the Group and assessing their impact on Group companies;
- it makes an annual assessment of the principal money laundering and terrorism financing risks, at Group level and for each Group company, and presents that assessment ("Report of the Anti-Money Laundering Unit of the BPER Banca Group") to the management bodies of the Parent Company. This report identifies the action taken and the training provided to personnel, highlighting any issues and making planning proposals for the related corrective actions, as well as for the preventive actions needed to tackle any new non-conformity risks identified;
- it supports the Head of the Anti-Money Laundering Function, as Group Delegate, in examining and evaluating, from a Group perspective, the reports filed and the transactions reported to the Bank of Italy's Financial Information Unit on behalf of the Italian Companies. This type of support is also provided with reference to reports filed and transactions reported to the competent local authorities by the Group's Luxembourg subsidiary;
- manages relations with the Financial Intelligence Unit, the Investigative Authorities and the Judicial Authorities whenever there is need for in-depth investigation or discussion about the anti-money laundering and anti-terrorism legislation;
- supports the Company Delegate in assessing and investigating reports of suspicious transactions and their transmission to the Financial Intelligence Unit if considered justified;
- checks on proper compliance with the requirements for adequate verification, the risk profiling of customers, the recognition and reporting of suspicious transactions, the limits on cash usage, and data retention.

With reference to the Luxembourg subsidiary, which does not fall within the scope of the Anti-Money Laundering Function, the guidance and coordination activity is supported by monitoring the reports on suspicious transactions and by specific instructions in the field of customer identification.

Compliance Function

The Compliance Function's task is to ensure the adequacy of internal procedures to prevent the violation of external rules (e.g. laws and regulations) and self-regulation (e.g. codes of conduct) applicable to Group Companies.
With reference to the internal procedures adopted under art. 88 of the Intermediaries Regulations adopted by CONSOB with resolution 20307 of 15 February 2018, the Compliance Function also carries out regular checks on the effective application ("functioning") of the procedures and the measures taken to resolve any weaknesses.
It assists the Corporate Bodies and Organisational Units of Group companies in pursuing the objectives of compliance by promoting the spread of a corporate culture based on compliance and fairness in behaviour as an essential element for a company to function properly.
It assesses the risk of non-compliance arising from innovative projects that the Group intends to undertake, including the launch of new products or services, and operating in new markets or with new types of customers.
The Compliance Function, as part of the management of compliance risk, works - directly or through the Specialist Controls - on regulations that concern the entire banking activity, with the exception of those for which there are Corporate Functions and other dedicated control functions.
In line with its mission, it extends the scope of its guidance, control and coordination activities to all Group companies. Italian Group companies with this function outsource their regulatory compliance

activities to the Parent Company, while the Group bank based in Luxembourg, Arca Holding and Arca Fondi SGR is only subject to guidance and coordination activities.

As part of the guidance and coordination activity exercised by the Parent Company on behalf of the Group companies, the Compliance Function has the following responsibilities:

- it identifies non-compliance risks, at Group level, examining the standards applicable to the Group on an ongoing basis and assessing their impact on Group companies;
- it establishes, depending on the risks that have been identified and assessed, the minimum control objectives foreseen for the Companies concerned, and verifies that the planning of Compliance activities of the individual companies that did not outsource this function to the Parent Company applies them;
- it ensures adequate reporting on the outcome of its activities to the Corporate Bodies, promptly highlighting the main non-compliance issues and events of particular risk as they emerge;
- it proposes organisational and procedural changes to the guidance and coordination processes and to the processes of the companies that do not have this function, in order to ensure adequate control over the non-compliance risks that have been identified and to monitor that it is carried out.

Line controls

Line controls (so-called "first-level controls") are designed to ensure that operations are carried out properly; these controls also include those that contribute to the creation of an internal accounting control system, understood as a set of controls that form part of the individual administrative and accounting procedures in order to have reasonable assurance that the recording and processing of data and the production of information have been performed correctly. They are performed by the same operating structures (e.g. hierarchical controls) or incorporated into procedures, or carried out as part of back-office activities.

Other control functions

In addition to the levels of control laid down by Supervisory Regulations, the regulations governing self-regulation necessitate the allocation of control duties to specific functions other than corporate control functions - or to board committees, the activities of which are consistent with the internal control system.
Specifically, control functions identified within the Group are:

- the Manager responsible for preparing the Company's financial reports;
- Supervisory Bodies pursuant to Legislative Decree 231/2001.

Manager responsible for preparing the company's financial reports

In compliance with Law 262/2005, which added art. 154-*bis* to Section V bis of Legislative Decree 58/98, the BPER Group has appointed a Manager responsible for preparing the Company's financial reports, whose task pursuant to the above article is to ensure the reliability of the separate and consolidated financial statements, the financial disclosures made, the separate and consolidated reports made to the supervisory authorities and all other financial communications. Art. 39 of the Articles of Association establishes that the Board of Directors, having heard the required opinion of the Board of Statutory Auditors, shall appoint a person in charge of preparing the corporate accounting documents, allocating

him suitable powers and resources for the performance of the assigned tasks pursuant to legal requirements. Having received the opinion required from the Board of Statutory Auditors, the Board of Directors is also entitled to revoke the appointment of the Manager responsible for preparing the Company's financial reports.
The BPER Banca Group's Manager responsible for preparing the Company's financial reports is identified within the Group as a control function and, as laid down in the Guidelines for the Group internal control system, he is responsible for the design, implementation and maintenance of the "Financial reporting control model" to be applied to the Parent Company and, with reference to the procedures for the preparation of consolidated financial statements, to the Banks and Companies included in the scope of consolidation.

The financial reporting control model is a set of requirements to be met for proper management and control of the risks of unintentional errors and fraud in financial reports. It is up to the Manager Responsible to ensure that it is adopted.

In the BPER Banca Group the responsibility for the proper management and control of the risk of unintentional errors and fraud in financial reports, also taking into account the regulatory framework that assigns specific responsibilities to the Manager Responsible, is assigned, not only to the Corporate Bodies, but above all to the Manager Responsible.

The financial reporting control model is represented by a "body of law" made up as follows:

- Group policy for managing the risk of unintentional errors and fraud in financial reports (high level legislative source);
- Regulation of the Function of Manager Responsible for preparing the Company's financial reports (high level legislative source);
- Methodological note addressing macro process management of unintentional errors and fraud in financial disclosures (high level atypical source).

In order to carry out his mission, the Manager responsible for preparing the company's financial reports makes use of a structure within the Parent Company (Financial Reporting Monitoring and Control Office), which reports hierarchically to the Manager responsible for preparing the company's financial reports and to a Contact Person appointed by each subsidiary bank and company, whether or not they form part of the Group, who reports functionally to the Manager responsible for preparing the company's financial reports.

For more details regarding the main characteristics of the current risk management and internal control systems in relation to the financial reporting process, please refer to the 2019 Report on corporate governance and the ownership structure, prepared in accordance with art. 123-*bis* of Legislative Decree 58/98.

Supervisory Body pursuant to Legislative Decree 231/01

The Parent Company, in compliance with arts. 6 and 7 of Legislative Decree 231/01, adopted a Model of Organisation and Management in order to prevent the commission and/or the attempted commission of the types of offence provided for in this Decree. In accordance with this law, the Parent Company has established a Supervisory Body (known as the Supervisory Board) to supervise the functioning, compliance with and update of its Model of Organisation and Management.

These activities principally comprise:

- monitoring the functioning of the Model: in all business areas, checking that the risk of committing offences identified in Legislative Decree 231/01 is identified, mapped and monitored; with regard to the risk areas and sensitive processes identified, ensuring the adequacy of the protocols adopted to prevent and stop unlawful conduct and requiring their adoption or amendment in the event of weaknesses, inadequacies or changes in internal organisation and/or business activities;
- monitoring compliance with the Model: in the context of the risk areas and sensitive processes identified, checks compliance with the protocols adopted to prevent and impede unlawful conduct; checks the efficacy of the organisational/managerial changes following the update of the Model; promotes training, communications and dissemination of the Model and the Code of Ethics; receives reports and notifies infringements of the Model of Organisation and Management to the competent bodies;
- monitors updating of the Model: prepares observations calling for improvements to the Model by the Board of Directors or, in urgent cases, by the CEO, when there are changes in the regulations governing the administrative responsibility of legal entities pursuant to Legislative Decree 231/01, or in internal organisation and/or business activities, or if significant weaknesses in/infringements of the Model are identified.

The Board supervises the functioning of and compliance with the Model by implementing and executing periodic audit activities, even without giving prior notice.
The Supervisory Board reports every six months to the Board of Directors and the Board of Statutory Auditors regarding the verification work and checks carried out, and on any Model weaknesses identified, suggesting as necessary the relevant corrective actions.
The Supervisory Board of the Parent Company also coordinates the supervisory boards of the companies subject to Group instructions in relation to Legislative Decree 231/01 (Banco di Sardegna, Bibanca, BPER Credit Management, Optima SIM, Nadia, Sifà, EmilRo Factor, Sardaleasing and Finitalia) and monitors that they adopt these instructions, albeit with the necessary adjustments to take account of the special responsibilities and characteristics of each legal entity.

It should also be noted that, in compliance with the prudential regulations intended to strengthen the ability of banks to absorb shocks deriving from economic and financial tensions, the Group monitors capital adequacy, the exposure to risks and the general characteristics of the related management and control systems, in order to facilitate market discipline.
The document "Public Disclosure - Pillar 3" is prepared pursuant to the requirements of Circular 285 of 17 December 2013 and subsequent updates issued by the Bank of Italy, Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) and the EBA Guidelines dated 23 December 2014 that came into force on 1 January 2015.

This document is published as at 31 December 2020 together with the financial statements on the Parent Company's website (www.bper.it).

Section 1 - Credit risk

Qualitative information

The Group's organisation provides for centralisation of the credit risk control function at the Parent Company; consequently, the qualitative information set out below also reflects the individual position of BPER Banca.

1. General aspects

After the growth phase that characterised the third quarter of 2020, when the economy in Italy, as in the other Eurozone countries, showed considerable resilience, above expectations, another contraction arrived due to the second wave of the Covid-19 pandemic.
The decline in GDP in the last quarter of the year is estimated to be in the order of -3.5% (source: Economic Bulletin of the Bank of Italy no. 1 - 2021).
The activities affected the most were services and, to a lesser extent, manufacturing, but this has still led to a less positive mood on the part of businesses and households, not so much for the restrictive measures that have had to be reactivated, but above all for fear of contagion.
In the latter part of the year, faced with a deterioration in the health emergency, the Government launched new measures to support families and businesses and extended the measures introduced previously through the same year-end budget.
The start of the vaccination campaigns has had a positive effect on the medium-term prospects, but the timing and intensity of recovery are still uncertain.
Faced with this situation, the BPER Banca Group has substantially confirmed the Lending Policy Guidelines already approved in July, which comply with the guidelines issued by the Supervisory Authorities[50]. These are guidelines on how to manage the riskiness of the loan portfolio and provide management strategies and asset-allocation objectives to reduce the impact on its loan portfolio, especially by granting new loans supported by State guarantees under the Liquidity Decree and subsequent regulatory provisions.
For further details on the interventions carried out by the Group, please refer to the information contained in the Pillar 3 Public Disclosures as at 31 December 2020, available on BPER's website.

2. Credit risk management policies

The credit management policy of the BPER Banca Group pursues the aim of carefully selecting counterparties through an analysis of their creditworthiness, including the use of well-established tools such as the internal rating system, having regard for the achievement of commercial and support objectives.
In view of the Group's strategic objectives and operations, the general risk management strategy is to accept a moderate level of risk involving:

- the assessment of the current and prospective creditworthiness of counterparties;

[50] *Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis" published by EBA (EBA/GL/2020/07).*

- the diversification of the portfolio, limiting the concentration of exposures towards individual counterparties and sectors of economic activity.

Management objectives and impacts deriving from the Covid-19 pandemic

In pursuit of the general objectives of credit policy and with the desire to support customers affected by the economic consequences of the Covid-19 pandemic, a forward-looking approach was adopted with the aim of:

- incorporating the sectoral and micro-sectoral forecasts for 2021-22;
- assessing the resilience of individual companies' finances by applying simulations of stress due to the health crisis;
- extending portfolio segmentation to the various branches of the economy in order to intercept dissimilar micro-sector dynamics within the same business areas;
- favouring the use of state measures and the "consolidation" operations established by the Liquidity Decree;
- introducing assessments on climate, environmental and sustainability risks, with particular reference to those sectors with greater energy absorption or characterised by a high dependence on fossil fuels;
- providing for the development of "green financing" and "technological innovation", transversal to all sectors of the economy and intended to ensure greater competitiveness for the companies concerned.
- continuing to finance consumer households in the various technical forms (home mortgages, personal loans, etc.).

2.1 Organisational aspects

The Group's credit risk management model has the following objectives:

- apply the instructions issued by the Supervisory Authorities, while taking account of the Group's specific operating characteristics;
- ensure that credit risk is managed appropriately by each bank and at a consolidated level.

These objectives are achieved via the segregation of responsibilities and duties between the bodies that manage credit risk and those with a control function.

The following elements underpin work to manage and control the exposure to credit risk:

- independence of the function responsible for the measurement of credit risk with respect to the various business functions;
- clear definition of delegated powers and the resulting structure of limits imposed by the Board of Directors of the Parent Company;
- coordination by the Parent Company of credit risk management processes, while leaving individual companies with operational autonomy for the management of credit risk;
- consistent application of measurement models throughout the Group, in line with international best practice;
- transparent methodology and measurement criteria to facilitate understanding of the risk measures adopted;
- performance of periodic stress tests which use endogenous and exogenous shock scenarios to provide deterministic and/or probability-based indicators of risk.

2.2 Systems for managing, measuring and monitoring

The management of risk involves applying a system of methodologies and approaches for the ongoing measurement and/or assessment of risk. This system helps to guide operational decisions and quantify the level of capital required by the Group in order to cover the risks that have been accepted. Each Group Bank analyses the various components of credit risk and identifies the exposure associated with the loan portfolio using suitable measurement methodologies. In particular, the Bank uses many tools to measure and monitor credit risk in relation to both performing and non-performing loans.

As part of its policies for managing loans to customers, the Group has adopted rules and processes for monitoring relationships, which have involved, among other things, a complex activity of classifying them into homogeneous risk categories. In particular, on the basis of "rating" and "early warning" systems, the Group has analysed performing loans to customers valued at amortised cost and identified those most at risk.

The characteristics of the rating models developed by the Parent Company for the calculation of PD (Probability of default: i.e. the probability that the borrower will not be able to meet their commitments) depend on the risk segment to which the counterparty belongs, the amount of the exposure and the stage in the lending process at which they are applied (initial pay-out or monitoring). The classifications are represented by 13[51] classes of merit differentiated by risk segment. All of the Parent Company's systems share a number of common characteristics:

- the rating is determined with reference to the specific counterparty;
- the rating systems are established with reference to the loan portfolio of the BPER Banca group (the rating is unique for each counterparty, even if shared by several Group Banks and Companies);
- the models process internal performance information (derived from reports issued by the Central Risk Database), as well as financial information in the case of businesses;
- the models for Corporate SMEs, Long-term Property SMEs, Holding, Financial Companies and Large Corporates add a qualitative element to the purely statistical side. The rating assignment process for these segments envisages expert attribution for Holding Companies, Financial Companies and Large Corporates above the threshold through a specific central structure operating at Group level. For Corporate SMEs, Real Estate-Multiannual and Large Corporate SMEs below the threshold, there is also the possibility for the manager to activate an override, i.e. to request an exception from the quantitative rating on the basis of solid, documented information not processed by the model. The exception requested is evaluated by a central function that operates at Group level;
- in addition to the model that evaluates the individual counterparty, for Large Corporates, Holding Companies, Financial Companies, Corporate SMEs and Multiannual-Real Estate SMEs, there is also a component that takes into consideration the fact that they belong to a consolidated corporate group;
- the Probability of Default is calibrated with reference to regulatory anomalies, which include past due amounts;
- the time series used in order to develop and calibrate the models cover a broad time horizon, consistent with the requirements of current regulations;
- the ratings are reviewed at least once each year; the Bank has also defined a process for the monitoring of each rating, causing the rating to lapse if it no longer represents the true risk

[51] *Except for the Large Corporate model, which has 9 classes.*

profile of the counterparty and there are signs of deterioration in the quality of the related lending;
- use is made of a rating calculation model for counterparties acting as guarantors for individuals, aimed at the quantification and measurement of credit risk attributable to private counterparties that provide personal guarantees to BPER Banca Group's customers.

The estimation of LGD (Loss Given Default: representing the extent of the loss expected to occur on default of the borrower, dependent on type of exposure to the counterparty) is based on information on the borrower (segment, geographical area, internal administrative status), the product (technical form, size of exposure), and the presence, type and coverage of guarantees. LGD estimation includes the impact of the recession phase in the economic cycle (downturn LGD).

Significant activities carried out in 2020 included:
- further work was carried out to align internal models with the new definition of default, which was implemented for the purpose of classifying credit exposures from 8 October 2019, following authorisation from the Supervisory Authorities on 19 September 2019;
- a Remedy Plan was sent to the Supervisory Authority in response to the matters raised in the final decision letter received in March 2020 regarding the “Targeted Review of Internal Models” (TRIM, which commenced in 2018 and was completed in March 2019); following this:
    - a new Large Corporate PD model was released for use in the calculation of capital requirements with effect from the Supervisory Reporting at 31 March 2020;
    - in December 2020 the remedial actions for the TRIMIX obligations regarding the Large Corporate PD model and the non-retail segment LGD model were sent to the Supervisory Authority.
- an application was sent to the Supervisory Authority in March 2020 for permission to apply the advanced AIRB methodology to the credit exposures originated by the former Unipol Banca, which was absorbed by the Parent Company in November 2019;
- the update of the IFRS 9 risk models following the introduction of the new Large Corporate model;
- sending to the Supervisory Authority in December 2020 the update of the BPER Banca Group's Roll Out Plan and a first version of the "Return to Compliance Plan" to extend BPER's AIRB models to the former-UBI/ISP loan portfolio acquired in the first half of 2021.

In addition to indicating the principles of governance, assumption and management of credit risk, the Group Credit Risk Governance Policy defines the BPER Group's credit risk appetite. For this purpose, the policy provides for a new system of credit risk exposure limits, establishing supervisory thresholds that have to be monitored periodically. The document also explains the principles for calculating analytical and collective loan loss provisions and for the classification of loans by status.

In order to manage credit risk, the Group has developed a system of credit limits designed to regulate the lending process, together with a system for authorisations that takes account of the riskiness of the customer and/or the transaction, consistent with the risk evaluation systems adopted. This system ensures compliance with the principle that the level of authorisation be consistent with the riskiness of the transaction, envisaging that the limits on decision making are established with reference to one or more aspects of the specific counterparty and transaction risk (in particular counterparty rating, expected loss, amount of the facility).

The internal rating system's risk measures are used for management reporting purposes; in particular:

- the section on credit risk and individual risks is drawn up on a quarterly basis as part of the RAF Report and sent to the Control Functions and Corporate Bodies, discussed by the Risk Committee and subjected by the Chief Risk Officer to examination by the Control and Risks Committee and the Board of Directors of the Parent Company; it contains detailed reports on credit risk at consolidated and individual level (distribution of the portfolio by administrative status and rating classes, dynamics of risk and expected loss parameters, transition matrices, dynamics of general and analytical provisions), with analyses broken down by risk segment and sector;
- a summary report is prepared on a monthly basis, including the monitoring of supervisory thresholds set for credit risk;
- a network reporting tool is also available, characterised by different views of the loan portfolio, with different levels of aggregation (Branch, Regional Division, General Management, Bank and Group) and hierarchical visibility cones.

Following the ECB's authorisation in June 2016 to use internal models for measuring capital requirements for credit risk, the BPER Banca Group applies AIRB methodologies for the banks included within the scope of the first validation (BPER Banca, Banco di Sardegna and BiBanca).
The following asset classes are subject to AIRB methodologies:

- "Exposures to retail businesses";
- "Exposure to companies".

The other Group companies and asset classes for which Permanent Partial Use (PPU) is not required or which are not included in the roll-out plan, the BPER Banca Group will continue to use the Standardised Approach and the external ratings supplied by the ECAIs (external agencies for the assessment of creditworthiness) recognised by the Supervisory Authority. In particular, the Group used the Cerved Rating for "Exposures to companies," the Scope Ratings AG Rating for "Exposures to central administrations or central banks", the Fitch Rating for "Financial Instruments" lodged in guarantee and "Exposures to UCITS", and the Standard & Poor's Rating for "Exposures to securitisation".

In order to optimise the process of monitoring customers, the Parent Company made some refinements to an early warning model, which is capable of analysing performing loans by level of risk, with a view to suggesting timely action to be taken by the responsible functions.
The model was developed using methodology that responds to two key needs in the process of managing performing counterparties:

- the need to identify as a first step those counterparties that, for the sake of prudence, should be monitored actively in order to avoid a deterioration in their position, or to implement actions that will improve the counterparty's risk profile or contain possible future losses;
- the need to define processes for observing these positions, determining the priorities and the rules for monitoring them, in order to optimise the organisational effort of the account managers and the results of such action.

Interventions on the monitoring system related to the Covid-19 crisis and related support measures

In line with the expectations of the European and Italian Supervisory Authorities, since the beginning of the crisis caused by the Covid-19 pandemic, the BPER Banca Group has identified the need to carefully monitor and evaluate counterparties that have benefited from support measures introduced by government decree. In fact, the granting of payment moratoria entailed for the main monitoring systems (Early Warning and Internal Rating System) a problem of interception of certain types of anomaly and triggers of any difficulties or deterioration on the part of the counterparty. It being impossible to review all applications in a short time, appropriate management actions were put in place to intercept any prospective difficulties of customers, both Corporate and Retail, in order to continue active support of counterparties with temporary problems related to the consequences of Covid-19.
Innovative investigation methods have therefore been developed, correlating, for example, current account movements, their liquidity and the risk of non-payment of instalments at the end of the moratoria, pro-actively offering customers new forbearance measures where necessary.
This activity also involved measuring a significant increase in credit risk and, in particular, the granting of forbearance measures, in compliance with current regulations and the recommendations of the European Supervisory Authority.
Lastly, during 2020, other activities were carried on to protect credit risk and at the same time to support Small Economic Operators (SEO) and Corporate customers, pro-actively proposing loans with state guarantees in the forms of access permitted by government decree. In this regard, in order not to burden the financial situation of companies and, at the same time, allow them sufficient liquidity to overcome the temporary difficulties due to Covid-19, their financial perspectives were assessed with an analysis of the microeconomic sectors that they belong to, so as to verify the possibility of continuing to develop adequate cash flows to support the debt. As part of this initiative, the overall information on the state of health of companies was also updated, in order to monitor credit risk correctly.
Also the second level controls put in place by the Risk Management function were partly revised and integrated, providing for sampling of positions on which to carry out the Single File Review checks, concentrating on the economic sectors hit the worst by the crisis caused by the Covid-19 pandemic ("vulnerable sectors").

2.3. Methods of measuring expected losses

The ECL model for calculating expected credit losses is based on the risk parameters estimated for regulatory purposes, whose main characteristics were described in the previous paragraphs, appropriately modified to ensure that they fully comply with IFRS 9. Information on impairment models and related risk parameters is presented in Part A of the Explanatory Notes.

Update of macroeconomic scenarios and ECL sensitivity

As stated in Part A of these Explanatory Notes, the BPER Banca Group develops forward-looking impairment models using three macroeconomic scenarios that are consistent with those considered in other business areas requiring similar forecasts, such as planning (including the determination of lending policies) and risk management.
The time horizon for the macroeconomic forecasts is 3 years for each of the 3 scenarios used:

- Adverse scenario;
- Baseline scenario;

- Best scenario.

Development of the scenarios is outsourced to a leading company that carries out economic research, which provides the BPER Banca Group with short and medium-term forecasts for the Italian and international economies and long-term forecasts for the Italian economy.
The BPER Banca Group considers the following macroeconomic indicators to be the most useful for calibrating the PD and LGD risk parameters:

- inflation-adjusted GDP, which is the most frequent regressor in the PD satellite model (following the theory that the default rate has a close positive correlation with the related global economic index);
- the home price index, which is a statistically-significant indicator for determining the point-in-time LGD on impaired mortgaged-based exposures;
- the FTSE MIB, which is a statistically-significant indicator for determining the point-in-time LGD on impaired loans measured under IFRS 9 that are assisted by financial guarantees.

Modifications due to Covid-19

Based on the arguments already mentioned in Part A, Section 4 - Other aspects of these Explanatory Notes, given the uncertainty caused by the pandemic emergency at the balance sheet date, 31 December 2020, the Bank has decided to apply an overlay approach for the update of the IFRS 9 ECL based on the macroeconomic scenarios released in June 2020. This is to capture in the provision made in December 2020 the best estimate of the risk of a deterioration in credit quality inherent in the portfolio due to the economic crisis triggered by the Covid-19 pandemic and not already intercepted by the ordinary monitoring and classification systems used by the BPER Banca Group.
The procedures for managing the update of the ECL at 31 December 2020, as explained in Part A, Section 4 Other aspects, to which reference should be made for the "Assessment of a significant increase in credit risk (SICR)", as well as for the “Measurement of expected losses”, make the presentation of a sensitivity analysis of the provision for changes in the macroeconomic scenarios being considered.

2.4 Credit risk mitigation techniques

Mitigation techniques are an important tool for reducing or transferring part of the credit risk associated with the portfolio of exposure. Consistent with the low propensity to accept risk that characterises operations, the Group seeks to mitigate credit risk, in particular, by obtaining and managing secured and unsecured guarantees. For this purpose, the Group has prepared suitable IT procedures and systems for managing mortgages and financial guarantees in compliance with prudent supervisory requirements, as well as appropriate internal regulations for managing the life-cycles of the other tangible security obtained.

The secured guarantees obtained by the Group generally comprise mortgages on residential and non-residential property, as part of retail lending and, to a lesser extent, loans to Corporate customers, as well as pledges on securities, receivables and cash. An internal procedure developed over a number of years gathers information in an organised fashion on the property assets of borrowers and on the properties given in guarantee. As a guarantee of both performing and non-performing positions, properties are periodically revalued and updated with new appraisals or indexed revaluations based on the statistical databases of a primary operator in the sector. A dedicated procedure is used to check every month

whether a new appraisal or index-based revaluation is needed, in compliance with the Guidelines for banks on non-performing loans (NPL) and the CRR (EU Reg. 575/2013). An internal function covering the entire banking group has been established to supervise this process and monitor constantly the value obtained to cover exposures, as required by the current regulations. The Group also has a new appraisal management system that automatically directs requests to providers according to the rules consistent with the relevant legislation. The same application monitors the state of the appraisals in progress and acts as a historical archive that preserves the previous assessments in digital format with all the accompanying documents.
Likewise, the collateral represented by financial instruments is managed within a procedure that updates the fair value on the basis of market trends.

The principal types of unsecured guarantees consist of "specific guarantees" and "restricted omnibus guarantees", mainly given by entrepreneurs in favour of their companies and by parent companies in favour of their subsidiaries in the form of binding letters of patronage. Guarantees given by various guarantee consortia in favour of their members firms are becoming more significant, as well as guarantees given by third party institutions, such as SACE, MCC (Guarantee Fund for SMEs), EIF (European Investment Fund) and Guarantee Fund for the First Home and EIB (Life for Energy), which are also subject to periodic monitoring and, lastly, the state guarantees issued following the crisis triggered off by the Covid-19 pandemic.

3. Non-performing credit exposures

3.1. Strategies and management policies

As part of the update of the financial forecasts carried out by the Board of Directors of the Parent Company on 5 August 2020, the strategic development lines already included in the BEST WAY Plan were confirmed, including the significant reduction in the NPL portfolio. This strategic objective, pursued with determination by the Group in recent years, has most likely been affected by the economic crisis caused by the Covid-19 pandemic. It should be noted, however, that 2020 was characterised by important achievements with respect to the reduction of the NPL portfolio (for which reference should be made to paragraph 3.4 - Progress in de-risking of the Directors' report on Group operations accompanying the consolidated financial statements), which allowed the objectives set by the NPE Strategy 2019-2021 to be substantially achieved.

In relation to the general management aspects of the NPE portfolio, it should be noted that the classification of financial assets within the risk categories envisaged by supervisory regulations is based on the identified risk profile.
The classification of a position is determined both automatically and using an analytical methodology. These processes are governed by an internal regulation that applies the guidelines for identifying any deterioration in creditworthiness and assigns the most appropriate administrative state to the position. When not automatic, the classification of positions as anomalous is based on assessments made by account managers who actively monitor conditions within the lending system. The tools that we have available make it possible to identify on a timely basis any signs of deterioration in risk relationships, allowing punctual analysis of the credit worthiness and classification of the position to the correct category of risk.

Since the end of 2019, the BPER Banca Group has adopted the new definition of default for the purposes of classifying credit exposures, adapting processes and procedures to the new rules for interception and management of defaults at the Banking Group level.

The following are some of the interventions developed at Banking Group level, which contributed to better processing of anomalous and non-performing loans:

- Organisation and governance: Pro-active Management activities have been introduced for performing accounts with loan anomalies, as part of compliance with the Supervisory requirements (NPL Guidance) for the greater monitoring of loans and operational specialisation by segment. This involved reorganising the structures dedicated to managing positions in default (Anomalous Loans and BPER Credit Management – BCM).

  In particular:

  - the handling of anomalous loans has been focused on managing counterparties already classified as in default (non-performing past due exposures and unlikely to pay loans), which have been grouped into three clusters (Retail, Corporate and Real Estate);
  - Pro-active Management has been added to supervise performing loans with anomalies, in order to avoid the deterioration of the lending relationship and provide constant support to the commercial network in determining the best operational strategies. The loan counterparts under management have been grouped into the clusters also identified for anomalous loans (Retail, Corporate, Real Estate). In this context, further specialist functions have been established for the management of Watch List positions and performing positions with forbearance measures;
  - BPER Credit Management has been sub-divided into specialist operational and recovery teams focused on specific asset types (Corporate, Retail, centralised or outsourced recovery), thus changing completely the approach to managing bad loans;
  - Following the acquisition of Unipol Banca, the area structures were also reorganised in order to ensure adequate coverage of the non-performing portfolios and the application of models, processes and procedures to the new positions acquired by the Group.

  The above evolution of the organisational model, together with the procedural and process changes needed in order to implement the new regulations governing defaults, has resulted in better management of the stock of NPEs and a reduction in new non-performing loans.

- Processes and procedures acting on anomalous loans: anomalous loan management and monitoring processes have been adapted, with the introduction of procedures that have been further developed and improved over the last three years. In particular:

  - the Early Warning model, with the development over time of 6 specialised anomaly detection engines by customer segment (Corporate, Private, Small Business, Construction, Real Estate and Finance & PA) and optimisation of anomaly detection performance, in particular with the insertion of anomalies dictated by the NPL Guidance (which act as "triggers");
  - Electronic Dossier Management, optimised with the gradual inclusion of new management measures and new information available to the manager to gain a better understanding of the potential evolution of the position, with targeted links to other procedures;
  - external collection system that seeks to recover smaller loans via “phone collection” and “home collection” activities;
  - a much more precise monitoring system, focused not only on the quality of the overall portfolio, but also on the performance of the individual structures;

  - more extensive use of forbearance and introduction of sustainability tools and monitoring of the effectiveness of agreed measures;
  - greater use of write-offs, especially for Minor Positions (an instrument that in any case is used in an extremely prudent way).

- Processes and procedures acting on the Forbearance: the decision-making system has been strengthened to prevent potential deterioration already at the time of the forbearance. In particular:
  - development of more punctual credit policies, characterised by indications of asset allocation based on risk/return/capital absorption indicators. These indications, valid for each individual counterparty, have been included in the Electronic Credit Dossier procedure, therefore visible to the proposer and to the decision maker. In this way the quality of the performing portfolio has improved over the years, shifting its concentration towards the best rating classes;
  - strengthening of the preliminary investigation of top management dossiers, with the introduction of a much more complete set of information, similar to structured finance transactions, strengthening the functions delegated this task;
  - a much more precise monitoring system also for Granting, the timing of approvals, as well as the quality of the approved portfolio.
- Incentive systems: credit quality objectives have been allocated to the network and central office/top management teams, addressing the activities of each function, in order to achieve complementary results that are fully consistent with Group objectives.
- Training on lending activities: in order to strengthen credit monitoring in application of current legislation, (NPL Guidance and Guidelines on the application of the definition of default), segmented training cycles were provided to central structures and with, more general content and strategic management indications to pursue, to the network.

The consistency of the classification of a position in the right risk category, with respect to internal rules and Bank of Italy regulations, is also ensured by second-level checks that, by applying a suitable method, verify not only that classifications are correct, but also the adequacy of provisions, the presence of first-level controls and the effectiveness of recovery processes, so as to ensure strong supervision throughout the entire credit chain. The improvement in the risk profile of counterparties leads to a transfer to better internal classifications and may result in a return to "performing" status.

With regard to the cycle for the management of non-performing exposures, macro strategies for internal recoveries are envisaged in the Group, which will apply specific methods depending on the type of debtor, how critical the anomalies are and an assessment of the entire exposure to the debtor and any related parties.
The main strategies that can be followed are:
- management of arrears/overdrafts, also through outsourcing;
- reshaping of the credit line and/or guarantee framework;
- granting of forbearance measures;
- waiver of loan (with or without debt forgiveness);
- transfer of loans to third parties;
- repossession of the asset.

The recovery of arrears and the granting of forbearance measures without remission - even partial - of the debt, where judged practicable, are to be preferred to alternative strategies such as a waiver or assignment of loans and the use of debt recovery procedures and enforcement actions, and will be pursued as a matter of priority.
The resolution approving the management strategy envisages a system of increasing delegated powers, consistent with the powers of classification and the estimate of value adjustments, also with the intervention of specialist units competent in the various phases of the relationship, and with different degrees of centralisation of decision-making skills in relationship management.

3.2 Write-off

In general, and in line with the relevant legislation, the elimination of the loan from the financial statements must be carried out when:

- there is no reasonable prospect of recovery as a result of facts of any nature that make it impossible for the customer to fully meet their obligations ("write-off"), or
- the certainty of a loss materialises (for example, because of definitive legal events).

The assessment and proposal of write-offs, foreseen exclusively for the positions classified as "unlikely to pay" and "bad" loans according to certain events, must be adequately motivated and documented. In line with the recommendations of the supervisory authority, in cases of non-recoverability of the loan, it is best to write off a loan as soon as its non-recoverability has been ascertained.
In line with the reference guidelines:

- derecognition of a financial asset in its entirety or in part constitutes an accounting elimination and the derecognised amount cannot be subject to write-backs. Derecognitions should not be reinstated and where cash flows or other assets are recovered as a last resort, their amount should be recognised as income in the income statement;
- derecognition can take place before legal action against the debtor for the recovery of the loan has been definitively concluded;
- derecognition, in itself, does not necessarily imply renunciation by the Bank of the legal right to recover the loan. The Bank's decision to waive this right is known as "debt forgiveness". Detailed evidence of derecognitions of NPLs at portfolio level is kept, as well as information on financial assets that are subject to execution measures, even if derecognised from the financial statements.

3.3 Purchased or originated impaired financial assets

If a credit exposure classified in caption 30 "Financial assets measured at fair value through other comprehensive income" or in caption 40 "Financial assets measured at amortised cost" at the time of initial recognition becomes impaired, it is identified as "Purchased or Originated Credit Impaired - POCI".
By convention, POCI financial assets are classified in Stage 3 on initial recognition.
Should these assets become performing, following an improvement in the creditworthiness of the counterparty, they are reclassified to Stage 2.
They can never be classified in Stage 1, as the expected credit loss must always be calculated over the residual duration.

The BPER Banca Group identifies as "Purchased or originated impaired financial assets":

- exposures already impaired at the time of purchase, also as part of business combinations;
- exposures originated as part of restructuring transactions of impaired exposures that led to the disbursement of new finance, or introduced substantial changes to the original contractual conditions.

4. Financial assets involved in commercial renegotiations and forborne exposures

The BPER Banca Group adopts the definition of "Forbearance Measure" of the Implementing Regulation EU 227/2015.
Measures of forbearance, or "tolerance", consist of concessions to a debtor who is or is about to find themselves in difficulty in meeting their financial commitments (i.e. in financial difficulty). The exposures subject to forbearance measures are identified as forborne.
"Forbearance" means facilitating measures in favour of the customer which can be summarised in the following categories:

- “Changes”, made to the terms and conditions of a loan agreement due to the debtor's inability to perform financially in the commitments assumed previously;
- total or partial "refinancing" of the debt.

An intrinsic characteristic of forbearance is the state of financial difficulty of the debtor: it is based on an overall assessment of the debtor for which the rating is one of the elements to be considered. Financial difficulty is objectively recognised when the counterparty position is classified among the non-performing loans, while it is presumed when loan anomalies envisaged under current regulations are detected, including but not limited to:

- existence during the past 3 months, or potential existence in the absence of assistance granted to the debtor, of past due and/or overdrawn relationships for periods of at least 30 days;
- allocation of new loans, in whole or in part, to paying down existing credit lines that were past due and/or overdrawn for 30 days at least once during the 3-month period prior to granting the new loans to the debtor.

The Group adopts standardised decision-making trees and/or customised solutions in order to apply efficient and effective debt rescheduling solutions, based on customer characteristics and type of exposure, which constitute one of the Group's strategies for reducing non-performing exposures.

The forbearance measures are divided, depending on the time horizon over which they extend, into:

- short-term forbearance measures, or temporary changes in the reimbursement conditions, aimed at facing short-term financial difficulties, and have a duration of less than 24 months;
- long-term forbearance measures, or changes in the reimbursement conditions aimed at definitively resolving the debtor's financial difficulty, and lasting more than 24 months (also in combination with short-term measures).

Not all contractual changes in favour of the customer ("concessions") give rise to forborne exposures, but only if there are also elements of financial difficulty. In their absence, the concessions are configured as transactions for merely commercial purposes.

Forborne positions are monitored by the Bank to check the effectiveness and efficiency of the assistance provided, in order to verify that the financial difficulties have been overcome.

The minimum observation period is:

- 24 months if the counterparty is classified as performing (probation period);
- 36 months if the counterparty is in default (12-month cure period and 24-month probation period).

Once the debtor's financial difficulty has been established, the conditions for classification as an unlikely to pay position must also be verified when the measure is granted.

Positions may be forborne in both macro-categories of credit classification ("performing" and "default") and, in accordance with current regulations, may result in the counterparty being classified as non-performing: for example, a counterparty with credit lines that are forborne under probation, that has therefore completed the 12-month cure period and is now in the probation period following reclassification as "performing" from "default", is automatically classified as Unlikely to Pay if they are overdrawn for more than 30 days or a new concession is made (re-forborne).

Please refer to what was said in Part A, Section 4 - Other aspects, regarding the accounting treatment of the moratoria granted to customers affected by the economic consequences of the Covid-19 pandemic.

Quantitative information

A. Credit quality

A.1 Non-performing and performing credit exposures: amounts, adjustments, changes and economic distribution

A.1.1 Breakdown of financial assets by portfolio classification and credit quality (book values)

Portfolios/quality	Bad loans	Unlikely to pay loans	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	423,770	958,838	41,504	269,280	69,647,297	71,340,689
2. Financial assets measured at fair value through other comprehensive income	18	-	-	1	5,820,374	5,820,393
3. Financial assets designated at fair value	-	-	-	-	123,370	123,370
4. Other financial assets mandatorily at fair value	-	-	-	-	189,902	189,902
5. Financial assets classified as held for sale	-	-	-	-	-	-
Total 31.12.2020	**423,788**	**958,838**	**41,504**	**269,281**	**75,780,943**	**77,474,354**
Total 31.12.2019	**724,643**	**1,137,166**	**90,813**	**595,119**	**59,887,875**	**62,435,616**

Details of forborne exposures (book values)

Portfolios/Quality	Bad loans	Unlikely to pay loans	Non-performing past due exposures	Performing past due exposures	Performing exposures	Total
1. Financial assets measured at amortised cost - Loans to customers	111,533	564,088	15	9,982	366,077	1,051,695

A.1.2 Breakdown of financial assets by portfolio classification and credit quality (gross and net values)

Portfolios/quality		Non-performing				Performing			Total (net exposure)
		Gross exposure	Overall impairment provisions	Net exposure	Overall partial write-off	Gross exposure	Overall impairment provisions	Net exposure	
1. Financial assets measured at amortised cost		2,998,231	1,574,119	1,424,112	171,882	70,053,782	137,205	69,916,577	71,340,689
2. Financial assets measured at fair value through other comprehensive income		26	8	18	-	5,825,178	4,803	5,820,375	5,820,393
3. Financial assets designated at fair value		-	-	-	-	X	X	123,370	123,370
4. Other financial assets mandatorily measured at fair value		-	-	-	-	X	X	189,902	189,902
5. Financial assets classified as held for sale		-	-	-	-	-	-	-	-
Total	**31.12.2020**	**2,998,257**	**1,574,127**	**1,424,130**	**171,882**	**75,878,960**	**142,008**	**76,050,224**	**77,474,354**
Total	**31.12.2019**	**4,124,401**	**2,171,779**	**1,952,622**	**272,430**	**60,306,919**	**131,237**	**60,482,994**	**62,435,616**

Details of counterparties	Total write-offs	
	31.12.2020	31.12.2019
Financial companies	6,283	25,331
- of which: financial and non-resident companies	-	-
Non financial companies	159,567	242,509
- of which: non financial and non-resident companies	29	10
Households	6,032	4,590
- of which: non-resident households	75	-
Total	**171,882**	**272,430**
- of which: non-resident	**104**	**10**

Previous write-offs do not include those carried out during the year on bad loans as part of credit extinction events, also reported in the tables A.1.9 and A.1.11, as detailed below.

Details of counterparties	Total write-offs	
	31.12.2020	31.12.2019
Financial companies	239	17,901
- of which: financial and non-resident companies	7	-
Non financial companies	47,357	77,280
- of which: non financial and non-resident companies	114	70
Households	21,811	17,733
- of which: non-resident households	64	213
Total	**69,407**	**112,914**
- of which: non-resident	**185**	**283**

The amounts shown above are gross of default interest.

Portfolios/quality		Low credit quality assets		Other activities
		Cumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading		313	400	250,148
2. Hedging derivatives		-	-	57,695
Total	**31.12.2020**	**313**	**400**	**307,843**
Total	**31.12.2019**	**358**	**558**	**330,069**

A.1.3 Breakdown of financial assets by past-due buckets (book values)

Portfolios/risk stages		First stage			Second stage			Third stage		
		From 1 day to 30 days	Over 30 days to 90 days	Over 90 days	From 1 day to 30 days	Over 30 days to 90 days	Over 90 days	From 1 day to 30 days	Over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost		124,960	-	-	99,197	39,863	5,260	39,608	87,500	889,812
2. Financial assets measured at fair value through other comprehensive income		1	-	-	-	-	-	-	-	18
3. Financial assets held for sale		-	-	-	-	-	-	-	-	-
Total	**31.12.2020**	**124,961**	**-**	**-**	**99,197**	**39,863**	**5,260**	**39,608**	**87,500**	**889,830**
Total	**31.12.2019**	**308,444**	**-**	**-**	**128,701**	**141,558**	**16,416**	**52,408**	**98,473**	**1,337,590**

A.1.4 Financial assets, commitments to distribute funds and financial guarantees granted: changes in total impaiment provisions

Causal / risk stages	Total impairment provisions									
	First stage activities					Second stage activities				
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses
Total opening adjustments	**48,511**	**3,302**	**-**	**-**	**51,813**	**78,365**	**1,059**	**-**	**-**	**79,424**
Increases in purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-	-	-	-	-	-
Net impaiment losses for credit risk (+/-)	3,356	55	-	-	3,411	36,084	387	-	-	36,471
Contractual modifications without derecognitions	-	-	-	-	-	-	-	-	-	-
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs non recorded directly in the income statement	-	-	-	-	-	-	-	-	-	-
Other variations	2,070	-	-	-	2,070	(31,181)	-	-	-	(31,181)
Total closing adjustments	**53,937**	**3,357**	**-**	**-**	**57,294**	**83,268**	**1,446**	**-**	**-**	**84,714**
Recoveries from financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-
Write-offs recorded directly through profit or loss	-	-	-	-	-	-	-	-	-	-

A.1.4 Financial assets, commitments to distribute funds and financial guarantees granted: changes in total impaiment provisions

Causal / risk stages	Total impairment provisions						Total provisions on commitments to disburse funds and financial guarantees issued			Total
	Activities included in the third stage									
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Of which: impaired financial assets acquired or originated	First stage	Second stage	Third stage	
Total opening adjustments	**2,171,771**	**8**	**-**	**2,171,779**	**-**	**-**	**8,760**	**1,982**	**26,197**	**2,339,955**
Increases in purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	(1,038,002)	-	-	(1,038,002)	-	-	-	-	-	(1,038,002)
Net impaiment losses for credit risk (+/-)	358,033	-	-	358,033	-	-	282	(570)	(3,412)	394,215
Contractual modifications without derecognitions	-	-	-	-	-	-	-	-	-	-
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs non recorded directly in the income statement	(106,879)	-	-	(106,879)	-	-	-	-	-	(106,879)
Other variations	189,196	-	-	189,196	-	-	34	50	(94)	160,075
Total closing adjustments	**1,574,119**	**8**	**-**	**1,574,127**	**-**	**-**	**9,076**	**1,462**	**22,691**	**1,749,364**
Recoveries from financial assets subject to write-off	5,680	-	-	5,680	-	-	-	-	-	5,680
Write-offs recorded directly through profit or loss	35,833	-	-	35,833	-	-	-	-	-	35,833

A.1.5 Financial assets, commitments to distribute funds and financial guarantees granted: transfers between different credit risk stages (gross and nominal values)

Portofolios/risk stages		Gross values/Nominal values					
		Transfers between first stage and second stage		Transfers between second stage to third stage		Transfer between first stage and third stage	
		From first stage to second stage	From second stage to first stage	From second to third stage	From third to second stage	From first to third step	From third to first stage
1. Financial assets measured at amortized cost		2,414,098	1,371,229	183,956	55,148	121,040	21,216
2. Financial assets measured at fair value through other comprehensive income		81,282	7,719	-	-	-	-
3. Financial assets held for sale		-	-	-	-	-	-
4. Commitments to distribute funds and financial guarantees granted		720,977	1,059,258	31,079	34,971	81,193	14,524
Total	**31.12.2020**	**3,216,357**	**2,438,206**	**215,035**	**90,119**	**202,233**	**35,740**
Total	**31.12.2019**	**1,106,349**	**3,134,174**	**291,741**	**88,278**	**198,183**	**38,030**

A.1.5a Loans subject to Covid-19 support measures: transfers between different credit risk stages (gross values)

Portofolios/risk stages		Gross values					
		Transfers between first stage and second stage		Transfers between second stage to third stage		Transfer between first stage and third stage	
		From first to second stage	From second to first stage	From second to third stage	From third to second stage	From first to third stage	From third to first stage
A. Loans measured at amortised cost		**662,150**	**169,704**	**17,136**	**7,360**	**13,646**	**1,099**
A.1 subject to forbearance measures compliant with GL		661,381	169,704	17,063	6,155	13,613	1,099
A.2 subject to other forbearance measures		769	-	73	1,205	33	-
A.3 new loans		-	-	-	-	-	-
B. Loans measured at fair value through other comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**
B.1 subject to forbearance measures compliant with GL		-	-	-	-	-	-
B.2 subject to other forbearance measures		-	-	-	-	-	-
B.3 new loans		-	-	-	-	-	-
Total	**31.12.2020**	**662,150**	**169,704**	**17,136**	**7,360**	**13,646**	**1,099**

A.1.6 Cash and off-balance sheet credit exposures to banks: gross and net values

Type of exposures/amounts	Gross exposure		Total impairment provisions	Net Exposure	Total partial write-off
	Non-performing	Performing			
A. Cash exposures					
a) Bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	38	-	38	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	20,051,352	13,227	20,038,125	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**-**	**20,051,390**	**13,227**	**20,038,163**	**-**
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	1,463,985	179	1,463,806	-
Total (B)	**-**	**1,463,985**	**179**	**1,463,806**	**-**
Total (A+B)	**-**	**21,515,375**	**13,406**	**21,501,969**	**-**

A.1.7 Cash and off-balance-sheet credit exposures to customers: gross and net values

Type of exposures/amounts	Gross exposure		Total impairment provisions	Net exposure	Total partial write-off
	Non-performing	Performing			
A. Cash exposures					
a) Bad loans	1,326,274	X	902,486	423,788	171,882
- of which: forborne exposures	261,188	X	149,655	111,533	13,992
b) Unlikely to pay loans	1,618,665	X	659,827	958,838	-
- of which: forborne exposures	907,638	X	343,550	564,088	-
c) Non-performing past due exposures	53,318	X	11,814	41,504	-
- of which: forborne exposures	15	X	-	15	-
d) Performing past due exposures	X	272,203	2,960	269,243	-
- of which: forborne exposures	X	10,258	276	9,982	-
e) Other performing exposures	X	55,965,276	125,821	55,839,455	-
- of which: forborne exposures	X	371,863	5,786	366,077	-
Total (A)	**2,998,257**	**56,237,479**	**1,702,908**	**57,532,828**	**171,882**
B. Off-balance sheet credit exposures					
a) Non performing	355,751	X	29,766	325,985	-
b) Performing	X	20,118,437	19,306	20,099,131	-
Total (B)	**355,751**	**20,118,437**	**49,072**	**20,425,116**	**-**
Total (A+B)	**3,354,008**	**76,355,916**	**1,751,980**	**77,957,944**	**171,882**

Details of impairment losses on an individual and collective basis on performing and non-performing exposures are provided below.

	Non-performing assets				Performing assets		
	Gross exposure	Individual impairment provisions - analytical	Individual impairment provisions - automated	Net exposure	Gross exposure	Collective impairment provisions	Net exposure
Cash credit exposures to customers (loans and debt securities)	**2,998,230**	**1,409,786**	**164,334**	**1,424,111**	**53,624,743**	**126,337**	**53,498,407**
Governments and other public entities	5,993	2,662	80	3,251	11,713,785	6,774	11,707,011
- of which: foreign	-	-	-	-	3,671,305	275	3,671,030
Financial companies	197,995	110,099	1,044	86,853	7,554,992	12,601	7,542,391
- of which: foreign	27,637	25,376	1	2,260	673,549	118	673,431
Non-financial companies	2,245,989	1,147,377	90,886	1,007,726	18,776,907	70,988	18,705,920
- of which: foreign	15,019	4,240	363	10,417	300,075	186	299,888
Privates and households	548,253	149,648	72,324	326,281	15,579,059	35,974	15,543,085
- of which: foreign	21,091	12,829	433	7,829	46,511	302	46,209

A.1.7a Loans subject to Covid-19 support measures: gross and net values

Type of exposures/amounts	Gross exposure	Total impairment provisions	Net exposure	Total partial write-off
A. Bad loans:	**-**	**-**	**-**	**-**
a) Subject to forbearance measures compliant with GL	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	-	-	-	-
B. Unlikely to pay loans:	**38,725**	**8,547**	**30,178**	**-**
a) Subject to forbearance measures compliant with GL	32,134	7,871	24,263	-
b) Subject to other forbearance measures	1,992	505	1,487	-
c) New loans	4,599	171	4,428	-
C. Non-performing past due loans:	**7,814**	**904**	**6,910**	**-**
a) Subject to forbearance measures compliant with GL	5,513	837	4,676	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	2,301	67	2,234	-
D. Other performing past due loans:	**8,204**	**104**	**8,100**	**-**
a) Subject to forbearance measures compliant with GL	3,691	100	3,591	-
b) Subject to other forbearance measures	557	2	555	-
c) New loans	3,956	2	3,954	-
E. Other performing loans:	**8,721,890**	**22,318**	**8,699,572**	**-**
a) Subject to forbearance measures compliant with GL	5,622,692	19,964	5,602,728	-
b) Subject to other forbearance measures	1,805	23	1,782	-
c) New loans	3,097,393	2,331	3,095,062	-
Total (A+B+C+D+E)	**8,776,633**	**31,873**	**8,744,760**	**-**

A.1.8 Cash credit exposures to banks: change in gross non-performing exposures

There are no amounts to be disclosed in this section.

A.1.8 bis Cash credit exposures to banks: change in gross forborne exposures broken down by credit quality

There are no amounts to be disclosed in this section.

A.1.9 Cash credit exposures to customers: change in gross non-performing exposures

Reasons/Categories	Bad loans	Unlikely to pay loans	Non-perfomring past due exposures
A. Opening balance (gross amount)	**2,285,038**	**1,735,578**	**103,785**
- Sold but not derecognised	-	-	-
B. Increases	**579,951**	**906,019**	**76,390**
B.1 entry from performing exposures	30,413	279,481	54,091
B.2 entry from purchased or originated impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures	291,570	60,668	415
B.4 contractual modifications without derecognitions	-	-	-
B.5 other increases	257,968	565,870	21,884
C. Decreases	**1,538,715**	**1,022,932**	**126,857**
C.1 transfers to performing exposures	457	75,435	15,676
C.2 write-offs	69,407	73,299	6
C.3 recoveries	91,575	460,716	27,238
C.4 sales proceeds	357,529	58,721	-
C.5 losses on disposals	19,690	4,480	-
C.6 transfers to other non-performing exposures	200	268,516	83,937
C.7 contractual modifications without derecognitions	-	-	-
C.8 other decreases	999,857	81,765	-
D. Closing balance (gross amounts)	**1,326,274**	**1,618,665**	**53,318**
- Sold but not derecognised	-	-	-

During the course of 2020, the sales of non-performing loans (explained more fully in para. 3.4 - "Progress on derisking" of the Directors' report on Group operations) and in particular the Spring and Summer transactions (securitisations of bad loans backed by GACS) contributed to the reduction of the NPL portfolio. The reduction attributable to these two transactions is shown in the table in lines "C.4 Realizations through disposals" and "C.8 Other changes (decreases)" for a total of Euro 1,331 million.
Caption B.5 other increases includes the balances of the exposures deriving from the merger of Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo.

A.1.9 bis Cash credit exposures to customers: change in gross forbone exposures broke down by credit quality

Description/Quality	Forborne exposures impaired	Forborne exposures not impaired
A. Opening balance (gross amount)	**1,392,791**	**516,284**
- Sold but not derecognised	-	-
B. Increases	**518,022**	**282,561**
B.1 transfers from performing not forborne exposures	53,081	101,587
B.2 transfers from performing forborne exposures	67,910	X
B.3 transfers from impaired forborne exposures	X	35,440
B.4 transfers from impaired not forborne exposure	-	-
B.5 other increases	397,031	145,534
C. Decreases	**741,972**	**416,724**
C.1 transfers to not forborne performing exposures	X	166,760
C.2 transfers to forborne performing exposures	35,440	X
C.3 transfers to non performing forbone exposures	X	67,910
C.4 write-offs	15,226	-
C.5 recoveries	329,661	182,054
C.6 sales proceeds	79,887	-
C.7 losses on disposals	16,754	-
C.8 other decreases	265,004	-
D. Closing balance (gross amounts)	**1,168,841**	**382,121**
- Sold but not derecognised	-	-

Caption B.5 other increases includes the balances of the exposures deriving from the merger of Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo.

A.1.10 Non-performing cash credit exposures to banks: change in total impairment provisions

There are no amounts to be disclosed in this section.

A.1.11 Non performing cash credit exposures to customers: change in total impaiment provisions

Reasons/Category	Bad loans		Unlikely to pay loans		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening balance in total impairment provisions	**1,560,395**	**270,580**	**598,412**	**307,118**	**12,972**	**2,370**
- Sold but not derecognised	-	-	-	-	-	-
B. Increases	**515,157**	**79,084**	**415,924**	**199,383**	**12,669**	**73**
B.1 impairment losses on purchased or originated assets	-	X	-	X	-	X
B. 2 other value adjustments	271,593	27,425	306,474	97,074	10,808	7
B.3 losses on disposal	19,690	16,754	4,480	-	-	-
B.4 transfer from other non performing exposure	91,102	29,992	8,308	1,575	152	-
B. 5 contractual modifications without derecognitions	-	-	-	-	-	-
B.6 other increases	132,772	4,913	96,662	100,734	1,709	66
C. Decreases	**1,173,066**	**200,009**	**354,509**	**162,951**	**13,827**	**2,443**
C.1 write-backs from assessments	42,981	26,771	61,271	23,762	2,143	151
C.2 write-backs from recoveries	39,923	10,627	54,957	-	218	-
C.3 gains on disposal	4,277	-	1,412	-	-	-
C.4 write-offs	69,407	9,016	73,299	6,206	6	4
C.5 transfers to other non performing exposures	152	17	87,950	29,496	11,460	2,054
C. 6 contractual modifications without derecognitions	-	-	-	-	-	-
C.7 other decreases	1,016,326	153,578	75,620	103,487	-	234
D. Closing balance in total impairment provisions	**902,486**	**149,655**	**659,827**	**343,550**	**11,814**	**-**
- Sold but not derecognised	-	-	-	-	-	-

Caption B.6 other increases includes the balances of the impairment losses deriving from the merger of Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo.

A.2 Classification of financial assets, commitments to distribute funds and financial guarantees granted based on external and internal ratings

A.2.1 Breakdown of financial assets, commitments to distribute funds and financial guarantees granted: by external rating classes (gross amounts)

Exposures	External rating classes						Unrated	Total
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortised cost	4,602,178	3,265,122	7,281,877	1,084,647	86,286	20,924	56,710,979	73,052,013
- First stage	4,584,711	3,245,573	7,152,053	802,426	70,981	6,381	49,608,473	65,470,598
- Second stage	17,467	19,549	129,600	246,875	12,347	515	4,156,831	4,583,184
- Third stage	-	-	224	35,346	2,958	14,028	2,945,675	2,998,231
B. Financial assets measured at fair value through other comprehensive income	1,864,929	1,131,086	1,166,055	157,313	16,310	-	1,489,510	5,825,203
- First stage	1,780,255	1,028,017	1,084,119	109,701	16,310	-	1,458,367	5,476,769
- Second stage	84,674	103,069	81,936	47,612	-	-	31,117	348,408
- Third stage	-	-	-	-	-	-	26	26
C. Financial assets held for sale	-	-	-	-	-	-	-	-
- First stage	-	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total (A + B + C)	**6,467,107**	**4,396,208**	**8,447,932**	**1,241,960**	**102,596**	**20,924**	**58,200,489**	**78,877,216**
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-	-
D. Commitments to distribute funds and financial guarantees granted	445,315	1,642,856	543,205	797,152	18,305	9,009	18,482,331	21,938,173
- First stage	445,315	1,610,869	505,357	646,323	15,133	1,966	17,122,466	20,347,429
- Second stage	-	31,987	37,848	139,250	1,234	-	1,021,439	1,231,758
- Third stage	-	-	-	11,579	1,938	7,043	338,426	358,986
Total (D)	**445,315**	**1,642,856**	**543,205**	**797,152**	**18,305**	**9,009**	**18,482,331**	**21,938,173**
Total (A + B + C + D)	**6,912,422**	**6,039,064**	**8,991,137**	**2,039,112**	**120,901**	**29,933**	**76,682,820**	**100,815,389**

The following rating agencies are used: Cerved Group for exposures to companies, Scope Ratings for exposures to central administrations, Fitch Ratings and Standard & Poor's for exposures deriving from securitisations.
The rating classes of Scope Ratings, Cerved Group, Fitch Ratings and Standard & Poor's used by BPER Banca have been interpreted with reference to the classes of creditworthiness of the debtors/guarantors according to prudential regulations. The rating agencies used are shown below and there is a reconciliation between the external ratings and the agencies' ratings.

Long-term rating for exposures to corporates:

Class of credit merit	Risk weighting coefficients	ECAI Cerved Group
1	20%	A1.1, A1.2, A1.3
2	50%	A2.1, A2.2, A3.1
3	100%	B1.1, B1.2
4	100%	B2.1, B2.2
5	150%	C1.1
6	150%	C1.2, C2.1

Long-term rating for exposures to securitisations:

Class of credit merit	Risk weighting coefficients	ECAI Fitch Ratings
1	20%	from AAA to AA-
2	50%	from A+ to A-
3	100%	from BBB+ to BBB-
4	350%	from BB+ to BB-
5	1250%	less than BB-

Class of credit merit	Risk weighting coefficients	ECAI S&P Ratings
1	20%	from AAA to AA-
2	50%	from A+ to A-
3	100%	from BBB+ to BBB-
4	350%	from BB+ to BB-
5	1250%	less than BB-

Long-term rating for exposures to the Public Administrations:

Class of credit merit	Risk weighting coefficients	ECAI Scope Ratings
1	0%	from AAA to AA-
2	20%	from A+ to A-
3	50%	from BBB+ to BBB-
4	100%	from BB+ to BB-
5	100%	from B+ to B-
6	150%	from CCC to D

A.2.2 Breakdown of financial assets, commitments to distribute funds and financial guarantees granted: by internal rating classes (gross amounts)

Exposures	Internal rating classes						
	1	2	3	4	5	6	7
A. Financial assets measured at amortised cost	8,135,145	5,095,025	7,235,282	6,914,995	5,684,073	2,613,418	4,479,439
- First stage	8,104,810	5,060,598	7,137,407	6,589,609	4,648,437	1,802,539	3,891,621
- Second stage	30,335	34,427	97,875	325,386	1,035,636	810,879	587,818
- Third stage	-	-	-	-	-	-	-
B. Financial assets measured at fair value through other comprehensive income	559,540	126,558	358,527	380,191	488,510	532,190	1,265,924
- First stage	544,372	104,395	358,527	369,966	455,296	511,832	1,250,178
- Second stage	15,168	22,163	-	10,225	33,214	20,358	15,746
- Third stage	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-
- First stage	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-
Total (A + B + C)	8,694,685	5,221,583	7,593,809	7,295,186	6,172,583	3,145,608	5,745,363
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-
D. Commitments to distribute funds and financial guarantees granted	4,192,602	4,127,422	3,598,118	2,877,802	976,441	1,100,328	221,311
- First stage	4,191,071	4,123,434	3,589,042	2,770,822	863,093	806,177	127,578
- Second stage	1,531	3,988	9,076	106,980	113,348	294,151	93,733
- Third stage	-	-	-	-	-	-	-
Total (D)	4,192,602	4,127,422	3,598,118	2,877,802	976,441	1,100,328	221,311
Total (A + B + C + D)	12,887,287	9,349,005	11,191,927	10,172,988	7,149,024	4,245,936	5,966,674

(cont.)

Exposures	Internal rating classes						
	8	9	10	11	12	13	Total
A. Financial assets measured at amortised cost	1,627,937	639,713	7,283,284	143,410	170,866	102,305	50,124,892
- First stage	970,538	341,734	7,040,937	-	125,229	20,537	45,733,996
- Second stage	657,399	297,979	242,305	143,410	45,637	81,768	4,390,854
- Third stage	-	-	42	-	-	-	42
B. Financial assets measured at fair value through other comprehensive income	741,705	296,437	680,979	124,953	173,475	10,004	5,738,993
- First stage	691,078	286,851	680,979	28,065	142,797	-	5,424,336
- Second stage	50,627	9,586	-	96,888	30,678	10,004	314,657
- Third stage	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-
- First stage	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-
Total (A + B + C)	2,369,642	936,150	7,964,263	268,363	344,341	112,309	55,863,885
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-
D. Commitments to distribute funds and financial guarantees granted	405,554	78,012	18,487	53,407	1,658	16,836	17,667,978
- First stage	112,750	27,751	373	-	-	-	16,612,091
- Second stage	292,804	50,261	18,114	53,407	1,658	16,836	1,055,887
- Third stage	-	-	-	-	-	-	-
Total (D)	405,554	78,012	18,487	53,407	1,658	16,836	17,667,978
Total (A + B + C + D)	2,775,196	1,014,162	7,982,750	321,770	345,999	129,145	73,531,863

	With internal rating	Unrated	Total
Cash exposures	55,863,885	23,013,331	78,877,216
Off-balance sheet exposures	17,667,978	4,270,195	21,938,173
Total	**73,531,863**	**27,283,526**	**100,815,389**

On 24 June 2016, the ECB authorised the Group to use the IRB Advanced Method (PD, LGD, EAD parameters) for the quantification of the capital requirement for customers' credit risk.
The internal rating classes are shown as they are used in the management of credit risk. The Group's rating system for the valuation of counterparties is divided into a Large Corporate model, a Corporate model and an Private model. Creditworthiness classifications are represented by 13 rating classes regarding performing counterparties, differentiated by risk segment, and by a class relating to default. In turn, the 13 rating classes have been grouped into 5 operational classes, which indicate aggregate risk levels:

Operational classes (of risk)	Rating classes
High	10 - 11 - 12 - 13
Significant	8 -9
Average	5 - 6 - 7
Low	3 - 4
Very low	1 - 2

Cash exposures include all the financial assets of the "Financial assets measured at fair value through other comprehensive income" portfolio, with the exception of equity instruments and the "Financial assets measured at amortised cost" portfolio; "off-balance sheet" exposures include all financial transactions other than cash transactions (guarantees granted, commitments, derivatives) that involve the assumption of a credit risk, whatever the purpose of such transactions is (trading, hedging, etc.).

A.3 Breakdown of guaranteed credit exposures by type of guarantee

A.3.1 Guaranteed cash and off-balance sheet credit exposures to banks

	Gross exposure	Net exposure	Collaterals (1)				Personal guarantees (2)	
							Credit derivatives	
								Other derivatives
			Property - mortgages	Property - Financial leasing	Securities	Other collaterals	CLN	Central counterparties
1. Guaranteed cash credit exposures:	**1,426,812**	**1,426,806**	**-**	**-**	**1,405,590**	**-**	**-**	**-**
1.1 totally guaranteed	1,426,812	1,426,806	-	-	1,405,590	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partially guaranteed	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**60,903**	**60,872**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 totally guaranteed	34,752	34,735	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partially guaranteed	26,151	26,137	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-

A.3.1 Guaranteed cash and off-balance sheet credit exposures to banks

(cont.)

	Personal guarantees (2)							Total (1)+(2)
	Credit derivatives			Endorsement loans				
	Other derivatives							
	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Guaranteed cash credit exposures:	**-**	**-**	**-**	**13,129**	**-**	**-**	**105**	**1,418,824**
1.1 totally guaranteed	-	-	-	13,129	-	-	105	1,418,824
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partially guaranteed	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**13,700**	**8,439**	**-**	**25,272**	**47,411**
2.1 totally guaranteed	-	-	-	13,700	1,861	-	16,902	32,463
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partially guaranteed	-	-	-	-	6,578	-	8,370	14,948
- of which non-performing	-	-	-	-	-	-	-	-

A.3.2 Guaranteed cash and off-balance sheet credit exposures to customers

	Gross exposure	Net exposures	Collaterals (1)				Personal guarantees(2)	
							Credit derivatives	
			Property-mortgages	Property-Financial leasing	Securities	Other collaterals	CLN	Other derivatives – Central counterparties
1. Guaranteed cash credit exposures:	**28,635,970**	**27,518,514**	**17,943,776**	**8,272**	**763,700**	**199,125**	**-**	**-**
1.1 totally secured	23,848,887	23,026,714	17,706,570	8,272	528,300	144,452	-	-
- of which non-performing	1,830,275	1,071,867	875,732	3,135	8,404	7,245	-	-
1.2 partially secured	4,787,083	4,491,800	237,206	-	235,400	54,673	-	-
- of which non-performing	435,110	166,999	89,172	-	4,493	2,621	-	-
2. Guaranteed off-balance sheet credit exposures:	**3,432,686**	**3,416,137**	**34,072**	**-**	**206,463**	**192,856**	**-**	**-**
2.1 totally secured	2,983,112	2,967,101	33,108	-	151,021	165,580	-	-
- of which non-performing	61,455	46,314	349	-	2,087	7,821	-	-
2.2. partially guaranteed	449,574	449,036	964	-	55,442	27,276	-	-
- of which non-performing	5,725	5,464	275	-	370	549	-	-

A.3.2 Guaranteed cash and off-balance sheet credit exposures to customers

(cont.)

	Personal guarantees (2)							Total (1)+(2)
	Credit derivatives			Endorsement loans				
	Other derivatives							
	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Guaranteed cash credit exposures:	**-**	**-**	**-**	**3,204,493**	**32,118**	**142,458**	**4,013,902**	**26,307,844**
1.1 totally secured	-	-	-	1,035,262	29,603	124,004	3,447,863	23,024,326
- of which non-performing	-	-	-	14,787	23,051	4,203	135,306	1,071,863
1.2 partially secured	-	-	-	2,169,231	2,515	18,454	566,039	3,283,518
- of which non-performing	-	-	-	8,654	-	1,513	24,463	130,916
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**24,423**	**1,122**	**111,670**	**2,665,387**	**3,235,993**
2.1 totally secured	-	-	-	14,127	723	109,295	2,493,237	2,967,091
- of which non-performing	-	-	-	155	-	499	35,403	46,314
2.2. partially guaranteed	-	-	-	10,296	399	2,375	172,150	268,902
- of which non-performing	-	-	-	86	-	-	2,354	3,634

A.4 Financial and non-financial assets deriving from the recovery of guarantee

There are no amounts to be disclosed in this section.

B. Distribution and concentration of credit exposures

B.1 Breakdown by sector of cash and off-balance sheet credit exposures to customers

Exposures/Counterparties		Public Administrations		Financial companies		Financial companies (of which: insurance companies)	
		Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions
A.Cash credit exposures							
A.1 Bad loans		264	2,525	17,022	55,220	-	6
- of which: forborne exposures		218	182	11,747	16,657	-	-
A.2 Unlikely to pay loans		2,781	174	69,667	55,827	-	-
- of which: forborne exposures		-	-	51,132	37,096	-	-
A.3 Non-performing past due exposures		214	55	156	85	-	-
- of which: forborne exposures		-	-	-	-	-	-
A.4 Performing exposures		12,444,122	6,944	8,767,454	14,130	124,621	29
- of which: forborne exposures		-	-	12,772	535	-	-
Total (A)		**12,447,381**	**9,698**	**8,854,299**	**125,262**	**124,621**	**35**
B. Off-balance sheet credit exposures							
B.1 Non-performing exposures		40,449	-	9,813	33	-	-
B.2 Performing exposures		450,478	114	2,538,190	574	76,666	-
Total (B)		**490,927**	**114**	**2,548,003**	**607**	**76,666**	**-**
Total (A+B)	**31.12.2020**	**12,938,308**	**9,812**	**11,402,302**	**125,869**	**201,287**	**35**
Total (A+B)	**31.12.2019**	**9,255,732**	**10,766**	**9,830,710**	**127,114**	**204,669**	**33**

B.1 Breakdown by sector of cash and off-balance sheet credit exposures to customers

(cont.)

Exposures/Counterparties		Non-financial companies		Households	
		Net exposure	Total impairment provisions	Net exposure	Total impairment provisions
A.Cash credit exposures					
A.1 Bad loans		317,911	711,399	88,591	133,342
- of which: forborne exposures		77,445	111,077	22,123	21,739
A.2 Unlikely to pay loans		674,358	522,845	212,032	80,981
- of which: forborne exposures		412,947	275,936	100,009	30,518
A.3 Non-performing past due exposures		15,475	4,026	25,659	7,648
- of which: forborne exposures		-	-	15	-
A.4 Performing exposures		19,354,038	71,732	15,543,084	35,975
- of which: forborne exposures		229,190	4,176	134,097	1,351
Total (A)		**20,361,782**	**1,310,002**	**15,869,366**	**257,946**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures		266,689	28,874	9,034	859
B.2 Performing exposures		16,010,600	3,632	1,098,476	14,986
Total (B)		**16,277,289**	**32,506**	**1,107,510**	**15,845**
Total (A+B)	**31.12.2020**	**36,639,071**	**1,342,508**	**16,976,876**	**273,791**
Total (A+B)	**31.12.2019**	**33,829,489**	**1,824,083**	**15,893,445**	**379,264**

B.2 Breakdown by geographical area of cash and off-balance sheet credit exposures to customers

Exposures/Geographical areas	Italy		Other european countries		America
	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure
A. Cash credit exposures					
A.1 Bad loans	421,318	876,142	2,470	26,337	-
A.2 Unlikely to pay loans	939,835	644,338	17,430	14,879	1,465
A.3 Non-performing past due exposures	41,151	11,727	344	79	2
A.4 Performing exposures	49,572,235	126,515	4,440,793	1,691	1,222,969
Total (A)	**50,974,539**	**1,658,722**	**4,461,037**	**42,986**	**1,224,436**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	325,200	29,766	780	-	-
B.2 Performing exposures	19,796,128	18,959	300,127	347	1,339
Total (B)	**20,121,328**	**48,725**	**300,907**	**347**	**1,339**
Total (A+B) 31.12.2020	**71,095,867**	**1,707,447**	**4,761,944**	**43,333**	**1,225,775**
Total (A+B) 31.12.2019	**64,572,905**	**2,292,629**	**3,358,989**	**47,690**	**643,469**

B.2 Breakdown by geographical area of cash and off-balance sheet credit exposures to customers

(cont.)

Exposures/Geographical areas	America	Asia		Rest of the world	
	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions
A. Cash credit exposures					
A.1 Bad loans	-	-	-	-	7
A.2 Unlikely to pay loans	574	-	2	108	34
A.3 Non-performing past due exposures	2	4	4	3	2
A.4 Performing exposures	398	313,438	44	559,263	133
Total (A)	**974**	**313,442**	**50**	**559,374**	**176**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	-	-	-	5	-
B.2 Performing exposures	-	70	-	80	-
Total (B)	**-**	**70**	**-**	**85**	**-**
Total (A+B) 31.12.2020	**974**	**313,512**	**50**	**559,459**	**176**
Total (A+B) 31.12.2019	**798**	**209,520**	**58**	**24,492**	**50**

The territorial distribution of exposures to customers is presented below, considering just the component of loans and distinguishing between the Stage classifications:

Exposures/ Geographical areas	Italy			Other european countries			United States		
	Gross exposure	Total impairment provisions	Net exposure	Gross exposure	Total impairment provisions	Net exposure	Gross exposure	Total impairment provisions	Net exposure
Total loans	**45,046,053**	**(1,653,390)**	**43,392,66**	**220,994**	**(40,281)**	**180,713**	**8,452**	**(592)**	**7,860**
First stage	*37,564,253*	*(38,157)*	*37,526,096*	*154,639*	*(183)*	*154,456*	*5,669*	*(6)*	*5,663*
Second stage	*4,547,316*	*(83,035)*	*4,464,281*	*6,960*	*(123)*	*6,837*	*740*	*(10)*	*730*
Total Performing Loans	42,111,569	(121,192)	41,990,377	161,599	(306)	161,293	6,409	(16)	6,393
Third stage - Non-performing loans	2,934,484	(1,532,198)	1,402,286	59,395	(39,975)	19,420	2,043	(576)	1,467

Exposures/ Geographical areas	Asia			Rest of the world			Total		
	Gross exposure	Total impairment provisions	Net exposure	Gross exposure	Total impairment provisions	Net exposure	Gross exposure	Total impairment provisions	Net exposure
Total loans	**3,389**	**(12)**	**3,377**	**3,087**	**(1,368)**	**1,719**	**45,281,975**	**(1,695,643)**	**43,586,332**
First stage	*2,981*	*(1)*	*2,980*	*506*	*(1)*	*505*	*37,728,048*	*(38,348)*	*37,689,700*
Second stage	*397*	*(5)*	*392*	*283*	*(3)*	*280*	*4,555,696*	*(83,176)*	*4,472,520*
Total Performing Loans	3,378	(6)	3,372	789	(4)	785	42,283,744	(121,524)	42,162,220
Third stage - Non-performing loans	11	(6)	5	2,298	(1,364)	934	2,998,231	(1,574,119)	1,424,112

B.2 Breakdown by geographical area of cash and off-balance sheet credit exposures to customers

Exposures/Geographical areas		North West Italy		North East Italy		Centre Italy		South Italy and Islands	
		Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions
A. Cash credit exposures									
A.1 Bad loans		51,340	130,766	151,130	307,331	71,848	115,824	147,000	322,221
A.2 Unlikely to pay loans		147,907	122,639	378,754	283,002	136,067	83,001	277,107	155,696
A.3 Non-performing past due exposures		11,384	2,964	10,468	2,519	6,595	2,109	12,704	4,135
A.4 Performing exposures		7,235,585	32,165	18,093,169	41,004	13,690,849	24,173	10,552,632	29,173
Total (A)		**7,446,216**	**288,534**	**18,633,521**	**633,856**	**13,905,359**	**225,107**	**10,989,443**	**511,225**
B. Off-balance sheet credit exposures									
B. 1 Non-performing exposures		37,511	1,072	166,319	18,527	50,735	5,712	70,635	4,455
B. 2 Performing exposures		3,786,373	982	10,330,823	15,886	2,600,801	813	3,078,131	1,278
Total B)		3,823,884	2,054	10,497,142	34,413	2,651,536	6,525	3,148,766	5,733
Total (A+B)	31.12.2020	11,270,100	290,588	29,130,663	668,269	16,556,895	231,632	14,138,209	516,958
Total (A+B)	31.12.2019	9,166,586	186,343	27,975,871	1,035,908	13,731,583	298,496	13,698,865	771,882

B.3 Breakdown by geographical area of cash and off-balance sheet credit exposures to banks

Exposures/Geographical areas		Italy		Other european countries		America
		Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure
A. Cash credit exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay loans		-	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-
A.4 Performing exposures		12,569,616	9,378	6,112,709	3,692	145,031
Total (A)		**12,569,616**	**9,378**	**6,112,709**	**3,692**	**145,031**
B. Off-balance sheet credit exposures						
B.1 Non-performing exposures		-	-	-	-	-
B.2 Performing exposures		481,293	10	444,184	100	67,352
Total (B)		**481,293**	**10**	**444,184**	**100**	**67,352**
Total A+B	**31.12.2020**	**13,050,909**	**9,388**	**6,556,893**	**3,792**	**212,383**
Total A+B	**31.12.2019**	**6,541,753**	**4,459**	**5,395,104**	**3,089**	**228,548**

B.3 Breakdown by geographical area of cash and off-balance sheet credit exposures to banks

(cont.)

Exposures/Geographical areas		America	Asia		Rest of the world	
		Total impairment provisions	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions
A. Cash credit exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay loans		-	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-
A.4 Performing exposures		33	94,549	52	1,116,258	72
Total (A)		**33**	**94,549**	**52**	**1,116,258**	**72**
B. Off-balance sheet credit exposures						
B.1 Non-performing exposures		-	-	-	-	-
B.2 Performing exposures		3	404,303	45	65,810	21
Total (B)		**3**	**404,303**	**45**	**65,810**	**21**
Total A+B	**31.12.2020**	**36**	**498,852**	**97**	**1,182,068**	**93**
Total A+B	**31.12.2019**	**124**	**502,702**	**123**	**861,303**	**64**

B.3 Breakdown by geographical area of cash and off-balance sheet credit exposures to banks

Exposures/Geographical areas	North West Italy		North East Italy		Centre Italy		South Italy and Islands	
	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions
A. Cash credit exposures								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	1,686,871	4,188	150,001	133	8,475,324	5,057	2,257,420	-
Total (A)	**1,686,871**	**4,188**	**150,001**	**133**	**8,475,324**	**5,057**	**2,257,420**	**-**
B. Off-balance sheet credit exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	86,519	3	262,413	7	4,733	-	127,628	-
Total (B)	86,519	3	262,413	7	4,733	-	127,628	-
Total 31.12.2020	**1,773,390**	**4,191**	**412,414**	**140**	**8,480,057**	**5,057**	**2,385,048**	**-**
Total 31.12.2019	**2,077,656**	**4,040**	**122,648**	**181**	**1,244,881**	**238**	**3,096,568**	**-**

B.4 Large exposures

	31.12.2020	31.12.2019
a) Book value	16,713,713	22,722,213
b) Weighted value	4,209,915	3,251,639
c) Number	9	7

This measurement was made on the basis of the updates to Circular 285 which regulate "large exposures".

Note that repurchase agreements are included in the amount of risk activities. These transactions contribute to the value of the counterparty exposure for the amount of "securities to be received", while they contribute to the exposure after CRM and exemptions under art. 400 CRR only for the difference between the amount of "securities to be received" and the cash deposit received.

At 31 December 2020, there are 9 "large exposures" for an overall amount of Euro 16,714 million, corresponding to Euro 4,210 million after CRM and exemptions under art. 400 CRR. Of these, repurchase agreements account for Euro 2,034 million and Euro 93.5 million respectively.
For an amount in excess of 60% of the total, the positions shown include the State Treasury and the Ministry of Economy and Finance for a total exposure of Euro 10,072 million, Euro 1,281 million after CRM and exemptions (including the amount of DTAs shown in the financial statements).
The rest is made up of leading European and world companies/banks (for Euro 6,642 million - Euro 2,929 million after CRM and exemptions) and an associated/related company.

To facilitate an understanding of the degree of concentration of loans, the nominal value of major exposures has been provided.

Risk concentration:

Reference date: 31.12.2020	Amount of the exposure	Amount of the exposure after CRM and exemptions under art. 400 CRR
First 5 exposures	13,632,871	2,356,263
First 10 exposures	17,346,074	4,209,915
First 20 exposures	21,123,519	6,448,568

Reference date: 31.12.2019	Amount of the exposure	Amount of the exposure after CRM and exemptions under art. 400 CRR
First 5 exposures	21,184,736	1,793,492
First 10 exposures	24,131,962	4,141,960
First 20 exposures	27,035,784	6,461,846

C. Securitisation transactions

Qualitative Information

The primary objectives of the securitisation transactions arranged by the Bank for the sale of non-performing loans are:

- to improve the asset structure of the banks concerned;
- to facilitate loan recovery strategies and make them more efficient (by centralising work with one group of lawyers);
- to exercise rigorous, direct control over higher risk loans, without modifying the overall risk profile.

Transactions involving performing contracts are, on the other hand, arranged in order to optimise sources of funding.

The transactions of BPER Banca still outstanding at 31 December 2020, other than those completely self-subscribed, as explained in Section 4 below, are as follows:

- Italian Credit Recycle
- Restart
- AQUI SPV
- Spring
- Summer
- Grecale 2015
- SME Grecale 2017
- Pillarstone
- Sestante no. 2
- Sestante no. 3

Italian Credit Recycle (transaction structured pursuant to Law 130 dated 30 April 1999)

Disposal date:	20 June 2017
Seller:	Nuova Cassa di Risparmio di Ferrara s.p.a.
Special purpose vehicle:	Italian Credit Recycle s.r.l., based in Rome
Servicer:	Credito Fondiario s.p.a., acting as Servicer, Corporate Servicer, Calculation and Paying Agent.
Issue date of securities	28 June 2017
Type of transaction	Standard
Organisation	Credito Fondiario s.p.a. prepares a quarterly report that communicates to investors.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects are summarised below:

Assets sold	Loans of banking origin
Quality of assets securitised	Non-performing
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 252 million.
Disposal price of securitised assets	The disposal price was Euro 41 million.
Guarantees and credit lines granted by the bank	None.
Guarantees and credit lines granted by third parties	None.

The special purpose vehicle has issued the following bonds:

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020
IT0005274565	Senior	Dec-37	22,400	-
IT0005274573	Junior	Dec-37	18,600	10
Total			**41,000**	**10**

The securities were placed with institutional investors and, for a residual part, were subscribed by BPER Banca (Euro 2.2 million).

Restart (transaction structured pursuant to Law 130 dated 30 April 1999)

Disposal date:	20 June 2017
Seller:	Nuova Cassa di Risparmio di Ferrara s.p.a.
Special purpose vehicle:	Restart SPV s.r.l., based in Rome
Servicer:	Credito Fondiario s.p.a., acting as Servicer, Corporate Servicer, Calculation and Paying Agent.
Issue date of securities	20 June 2017
Type of transaction	Standard
Organisation	Credito Fondiario s.p.a. prepares a quarterly report that communicates to investors.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects are summarised below:

Assets sold	Loans of banking origin
Quality of assets securitised	Non-performing
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 343 million.
Disposal price of securitised assets	The disposal price was Euro 22 million.
Guarantees and credit lines granted by the bank	None.
Guarantees and credit lines granted by third parties	None.

The special purpose vehicle has issued the following bonds:

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020
IT0005274532	Senior	Dec-37	18,200	5,234
IT0005274540	Junior	Dec-37	14,800	12,570
Total			**33,000**	**17,804**

The securities were placed with institutional investors and, for a residual part, were subscribed by BPER Banca (Euro 1.8 million).

AQUI SPV S.R.L. (transaction structured pursuant to Law 130 dated 30 April 1999)

Disposal date:	2 October 2018
Seller:	BPER Banca S.p.A ; Cassa di Risparmio di Bra s.p.a.; Cassa di Risparmio di Saluzzo s.p.a.
Special purpose vehicle:	AQUI SPV S.r.l., based in Conegliano (TV)
Servicer:	Prelios Credit Servicing s.p.a., as Servicer.
Issue date of securities	7 November 2018
Type of transaction	Traditional with Guarantee from the Ministry of Economy and Finance (GACS or Bad Loan Securitisation Guarantee)
Organisation	Prelios Credit Servicing s.p.a. prepares a half-year report that communicates to investors.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects are summarised below:

Assets sold	Loans of banking origin
Quality of assets securitised	Non-performing
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 2,082 million.
Disposal price of securitised assets	The disposal price was Euro 618 million.
Guarantees and credit lines granted by the bank	Subordinated loan of Euro 27,235 million.
Guarantees and credit lines granted by third parties	Cap Agreement to hedge interest rates on the notes issued.

The special purpose vehicle has issued the following bonds:

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020	Rating Scope	Rating Moody's
IT0005351330	Senior	Oct-38	544,700	421,097	n.r.	n.r.
IT0005351348	Mezzanine	Oct-38	62,900	62,900	n.r.	n.r.
IT0005351355	Junior	Oct-38	10,852	10,852	n.r.	n.r.
Total			**618,452**	**494,849**		

The notes were fully subscribed by BPER Banca S.p.A. The Mezzanine and Junior notes were subsequently placed with an institutional investor and for a residual part equal to 5% (Euro 3.7 million), they were subscribed by BPER Banca in compliance with the retention obligations prescribed by the CRR (Capital Requirements Regulation).

Spring (transaction structured pursuant to Law 130 dated 30 April 1999)

Disposal date:	1 June 2020
Seller:	BPER Banca S.p.A ; Banco di Sardegna S.p.A.; Cassa di Risparmio di Bra S.p.A.
Special purpose vehicle:	SPRING SPV S.r.l., based in Conegliano (Treviso)
Servicer:	Prelios Credit Servicing s.p.a., as Servicer.
Issue date of securities	18 June 2020
Type of transaction	Traditional with Guarantee from the Ministry of Economy and Finance (GACS or Bad Loan Securitisation Guarantee)
Organisation	Prelios Credit Servicing s.p.a. prepares a half-year report that communicates to investors.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects are summarised below:

Assets sold	Loans of banking origin
Quality of assets securitised	Non-performing
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 1,377 million.
Disposal price of securitised assets	The disposal price was Euro 341 million.
Guarantees and credit lines granted by the bank	Subordinated loan of Euro 16,450 million.
Guarantees and credit lines granted by third parties	Cap Agreement to hedge interest rates on the notes issued.

The special purpose vehicle has issued the following bonds:

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020	Rating Scope	Rating Moody's
IT0005413197	Senior	Sep-40	320,000	228,470	BBB	Baa1
IT0005413213	Mezzanine	Sep-40	20,000	20,000	n.r.	n.r.
IT0005413221	Junior	Sep-40	3,400	3,400	n.r.	n.r.
Total			**343,400**	**251,870**		

The securities were fully subscribed by BPER Banca s.p.a. and Banco di Sardegna s.p.a. on issue. The Mezzanine and Junior notes were subsequently placed with institutional investors net of a residual part equal to 5% (Euro 1.2 million), kept by BPER Banca s.p.a. in compliance with the retention obligations prescribed by the CRR (Capital Requirements Regulation).

Summer (transaction structured pursuant to Law 130 dated 30 April 1999)

Disposal date:	18 December 2020
Seller:	BPER Banca S.p.A ; Banco di Sardegna S.p.A.
Special purpose vehicle:	SUMMER SPV S.r.l., based in Conegliano (Treviso)
Servicer:	Fire S.p.A. as Special Servicer and Banca Finint S.p.A. as Manager Servicer
Issue date of securities	30 December 2020
Type of transaction	Traditional with Guarantee from the Ministry of Economy and Finance (GACS or Bad Loan Securitisation Guarantee)
Organisation	Banca Finint S.p.A. prepares a half-year report that communicates to investors.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out, in accordance with the contractually-agreed code of conduct, by an organisational unit dedicated to this task.

The operational aspects are summarised below:

Assets sold	Loans of banking origin
Quality of assets securitised	Non-performing
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 322 million.
Disposal price of securitised assets	The disposal price was Euro 86 million.
Guarantees and credit lines granted by the bank	Subordinated loan of Euro 3,666 million.
Guarantees and credit lines granted by third parties	Cap Agreement to hedge interest rates on the notes issued.

The special purpose vehicle has issued the following bonds:

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020	Rating Scope	Rating Moody's
IT0005432445	Senior	Oct-40	85,400	85,400	BBB	Baa2
IT0005432452	Mezzanine	Oct-40	10,000	10,000	n.r.	n.r.
IT0005432460	Junior	Oct-40	1,000	1,000	n.r.	n.r.
Total			**96,400**	**96,400**		

The Senior notes were fully subscribed by BPER Banca s.p.a. and Banco di Sardegna s.p.a. The Mezzanine and Junior notes were placed with an institutional investor and for a residual part equal to 5% (Euro 550 thousand), they were subscribed by BPER Banca s.p.a. in compliance with the retention obligations prescribed by the CRR (Capital Requirements Regulation).

Pillarstone

During 2017, BPER Banca securitised a loan of 21 million US dollars granted to Premuda S.p.a., through the vehicle Pillarstone Italy SPV S.r.l. (established under Law 130/99).
The transaction, carried out jointly with other important Italian banks, was carried out in order to allow a restructuring of the receivables from Premuda s.p.a., with the aim of facilitating and increasing the recoveries of the securitised exposures.
The sale was finalized with the issue by the vehicle of Super Senior class securities (subscribed by third parties), of Senior and Junior class securities (fully subscribed by the bank).
The transaction also involves the transfer of all the loans purchased by the vehicle (Pillarstone Italy SPV s.r.l.) to a company (Pillarstone Italy Holding s.p.a.) which, through separate assets established pursuant to art. 2447-bis letter a) of the Italian Civil Code, provides for the restructuring of the loan due from the Premuda group.
BPER Banca does not hold any interest in the companies indicated above.
None of the securities issued by the SPV have a rating.
This loan has been derecognised for financial reporting and prudential supervisory purposes, as the requirements of IFRS 9 (IAS 39 at the time of the transaction) were satisfied.
Against the derecognition of the loan, the Parent Company recognised the securities subscribed as an asset.
The carrying value of the securities of US dollar 9,259 thousand is equal to the amount of the restructured loan signed between Pillarstone Italy Holding s.p.a. and the Premuda group.

The "own" transactions also include those originated by the Banks absorbed by BPER Banca s.p.a. In particular, they include:

- the securities issued by Sestante Finance SPV s.r.l. deriving from transactions originated by Meliorbanca s.p.a., which was absorbed by BPER Banca in 2012;
- the "Grecale" securities deriving from transactions originated by Unipol Banca s.p.a., which was absorbed by BPER Banca in 2019.

Sestante no.2

Disposal date:	3 December 2004
Seller:	Meliorbanca S.p.a.
Special purpose vehicle:	Sestante Finance s.r.l., based in Via Mario Carucci 131, Roma
Servicer:	Italfondiario Spa
Issue date of securities	3 December 2004
Type of transaction	Standard
Organisation	Italfondiario S.p.a. provides a quarterly report on the collections in which it comments on the activity carried out with indications relating to collections, entering specifically as regards the interest payments or a repayment of the capital.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out by the Servicer.

The operational aspects are summarised below:

Assets sold	ABS securities with mortgage loans on residential and commercial properties as underlying
Quality of assets securitised	Performing loans
Amount of securitised assets	The nominal value of ABS securities issued by Sestante W Srl was Euro 625 millions.
Disposal price of securitised assets	The disposal price was Euro 653 millions.
Analysis by business sector	Mortgage agreements stipulated with both individuals and legal entities excluding Public Administrations.
Analysis by geographical area	Securitised loans are concentrated in Italy.

The special purpose vehicle has issued the following bonds:

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020
IT0003760136	Senior	Jul-42	575,300	50,778
IT0003760193	Mezzanine	Jul-42	34,400	34,400
IT0003760227	Mezzanine	Jul-42	15,600	15,600
IT0003760243	Mezzanine	Jul-42	21,900	559
IT0003760284	Junior	Jul-42	6,253	6,253
Totale			**653,453**	**107,590**

The Senior and Mezzanine securities were placed with institutional investors, while the junior securities were subscribed by the merged company Meliorbanca and subsequently sold on the secondary market.

Sestante no.3

Disposal date:	16 December 2005
Seller:	Meliorbanca S.p.a.
Special purpose vehicle:	Sestante Finance s.r.l., based on Via Mario Carucci 131, Roma
Servicer:	Italfondiario Spa
Issue date of securities	16 December 2005
Type of transaction	Standard
Organisation	Italfondiario S.p.a. provides a quarterly report on the collections in which it comments on the activity carried out with indications relating to collections, entering specifically as regards the interest payments or a repayment of the capital.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out by the Servicer.

The operational aspects are summarised below:

Assets sold	ABS securities with mortgage loans on residential and commercial properties as underlying
Quality of assets securitised	Performing loans
Amount of securitised assets	The nominal value of ABS securities issued by Sestante W Srl was Euro 858 millions.
Disposal price of securitised assets	The disposal price was Euro 900 millions.
Guarantees and credit lines granted by the bank	None.
Guarantees and credit lines granted by third parties	Contingency liquidity
Analysis by business sector	Mortgage agreements stipulated with both individuals and legal entities excluding Public Administrations.
Analysis by geographical area	Securitised loans are concentrated in Italy.

The special purpose vehicle has issued the following bonds:

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020
IT0003937452	Senior	Jul-45	791,900	121,383
IT0003937486	Mezzanine	Jul-45	47,350	47,350
IT0003937510	Mezzanine	Jul-45	21,500	21,500
IT0003937569	Mezzanine	Jul-45	30,150	20,652
IT0003937551	Junior	Jul-45	8,610	8,610
Totale			**899,510**	**219,495**

The Senior and Mezzanine securities were placed with institutional investors, while the junior securities were subscribed by the merged company Meliorbanca and subsequently sold on the secondary market.

Grecale 2009

On 13 November 2020, BPER Banca completed the repurchase of the loan portfolio originally sold to the vehicle company. The repurchase refers to a portfolio of land and mortgage loans for a residual debt of approximately Euro 105 million.
This was announced by publication in the Official Gazette (OG Second Part, no. 136 of 19/11/2020) and to the contractors.

Grecale 2011

On 13 May 2020, BPER Banca completed the repurchase of the loan portfolio originally sold to the vehicle company.The repurchase refers to a portfolio of land and mortgage loans for a residual debt of approximately Euro 205 million.
This was announced by publication in the Official Gazette (OG Second Part, no. 60 of 21/05/2020) and to the contractors.

Grecale 2015

Disposal date:	25 September 2015
Seller:	Unipol Banca S.p.a.
Special purpose vehicle:	SME Grecale RMBS 2015 s.r.l., based on Piazza della Costituzione, 2 Bologna (BO)
Servicer:	BPER Banca S.p.A (former Unipol Banca S.p.A.), in the role of Servicer - Corporate Servicer and Cash Manager, BNP Paribas – in the role of Account Bank and Paying Agent, Securitisation Services in the role of Administrative Servicer and Calculation Agent.
Issue date of securities	24 November 2015
Type of transaction	Standard
Organisation	BPER Banca S.p.A (former Unipol Banca S.p.A.) provides a quarterly report on the collections in which it comments on the activity carried out with indications relating to collections, entering specifically as regards the interest payments or a repayment of the capital. The Corporate Servicer activity has been delegated to Securitization Services s.p.a. since the absorption date of Unipol Banca into Bper.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out by the Originator. This activity has been delegated to Servicer since the absorption date of Unipol Banca into Bper.

The operational aspects are summarised below:

Assets sold	Mortgage loans on residential and commercial properties
Quality of assets securitised	Performing loans
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 728 millions.
Disposal price of securitised assets	The disposal price was Euro 728 millions.
Guarantees and credit lines granted by the bank	Subordinated loan for Euro 19.5 millions.
Guarantees and credit lines granted by third	None.
Analysis by business sector	Mortgage agreements stipulated with both individuals and legal entities excluding Public Administrations.
Analysis by geographical area	Securitised loans are concentrated in Italy.

The special purpose vehicle has issued the following bonds:

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020	Rating Fitch	Rating DBRS
IT0005143836	Senior	Dec-67	573,500	111,005	AA+	AAA
IT0005143844	Mezzanine	Dec-67	58,100	58,100	A	A
IT0005143851	Mezzanine	Dec-67	29,000	29,000	BBB	BBB+
IT0005143869	Junior	Dec-67	65,378	65,378	n.r.	n.r.
Totale			**725,978**	**263,483**		

SME Grecale 2017

Disposal date:	29 September 2017
Seller:	Unipol Banca S.p.a.
Special purpose vehicle:	SME Grecale RMBS 2017 s.r.l., based on Piazza della Costituzione, 2 Bologna (BO)
Servicer:	BPER Banca S.p.A (former Unipol Banca S.p.A.), in the role of Servicer and Corporate Servicer, BNP Paribas – in the role of Account Bank - Paying Agent, Zenith Service s.p.a. in the role of
Issue date of securities	8 November 2017
Type of transaction	Standard
Organisation	BPER Banca S.p.A (former Unipol Banca S.p.A.) provides a quarterly report on the collections in which it comments on the activity carried out with indications relating to collections, entering specifically as regards the interest payments or a repayment of the capital. The Corporate Servicer activity has been delegated to Centotrenta Servicing s.r.l. since the absorption date of Unipol Banca into Bper.
Internal systems for the measurement and control of risk	The recovery of loans and management of collections is carried out by the Originator. This activity has been delegated to Originator since the absorption date of Unipol Banca into Bper.

The operational aspects are summarised below:

Assets sold	Mortgage and unsecured loans
Quality of assets securitised	Performing loans
Amount of securitised assets	The total nominal value of the loan portfolio sold is Euro 770 millions.
Disposal price of securitised assets	The disposal price was Euro 770 millions.
Guarantees and credit lines granted by the bank	Subordinated loan for Euro 18.5 millions.
Guarantees and credit lines granted by third parties	None.
Analysis by business sector	Sole enterprises/Legal entities
Analysis by geographical area	Securitised loans are concentrated in Italy.

The special purpose vehicle has issued the following bonds:

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2020	Rating Moody's	Rating DBRS
IT0005285207	Senior	Mar-56	508,220	33,357	Aa3	AAA
IT0005285215	Mezzanine	Mar-56	77,000	77,000	A1	AA
IT0005285223	Junior	Mar-56	184,816	184,816	n.r.	n.r.
Totale			**770,036**	**295,173**		

Quantitative information

C.1 Breakdown of exposures deriving from the main “own” securitisations by type of securitised asset and type of exposure

Type of securitised assets/Exposure	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Net impairment losses	Book value	Net impairment losses	Book value	Net impairment losses
A. Fully derecognized	**694,050**	**1,387**	**8,952**	**2**	**38**	**-**
- performing residential mortgages	914	3	538	2	38	-
- non-performing residential mortgages	130,914	261	216	-	-	-
- performing no residential mortgages	-	-	-	-	-	-
- non-performing no residential mortgages	284,723	569	460	-	-	-
- leasing performing	-	-	-	-	-	-
- leasing non-performing	256	-	680	-	-	-
- other performing loans	-	-	-	-	-	-
- other non-performing loans	277,243	554	7,058	-	-	-
- performing securities	-	-	-	-	-	-
- non-performing securities	-	-	-	-	-	-
B. Partially derecognized	-	-	-	-	-	-
C. Not derecognized	-	-	-	-	-	-

(cont.)

Type of securitised assets/Exposure	Guarantees granted					
	Senior		Mezzanine		Junior	
	Book value	Net impairment losses	Book value	Net impairment losses	Book value	Net impairment losses
A. Fully derecognized	**2,786**	**-**	**-**	**-**	**-**	**-**
- performing residential mortgages	2,786	-	-	-	-	-
- non-performing residential mortgages	-	-	-	-	-	-
- performing no residential mortgages	-	-	-	-	-	-
- non-performing no residential mortgages	-	-	-	-	-	-
- leasing performing	-	-	-	-	-	-
- leasing non-performing	-	-	-	-	-	-
- other performing loans	-	-	-	-	-	-
- other non-performing loans	-	-	-	-	-	-
- performing securities	-	-	-	-	-	-
- non-performing securities	-	-	-	-	-	-
B. Partially derecognized	-	-	-	-	-	-
C. Not derecognized	-	-	-	-	-	-

The table shows the cash exposures assumed by the Bank in connection with its "own" securitisations Sestante, Restart, Italian Credit Recycle, Pillarstone, Aqui, Spring and Summer. "Net impairment losses" show the annual flow of impairment losses and write-backs as required by the Bank of Italy's Circular 262/2005.
The parts of the table relating to "Credit Lines" have not been shown as there is nothing to report.

C.2 Breakdown of exposures deriving from the main "third party" securitisations by type of securitised asset and type of exposure

Type of underlying asset/Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Net impairment losses	Book value	Net impairment losses	Book value	Net impairment losses
- performing residential mortgages	28,107	18	-	-	-	-
- non-performing residential mortgages	7,894	5	-	-	-	-
- performing no residential mortgages	-	-	-	-	-	-
- non-performing no residential mortgages	-	-	-	-	-	-
- leasing performing	-	-	-	-	-	-
- leasing non-performing	-	-	-	-	-	-
- other performing loans	44,001	-	-	-	-	-
- other non-performing loans	7,695	15	-	-	-	-
- performing securities	-	-	-	-	-	-

(cont.)

Type of underlying asset/Exposures	Credit lines					
	Senior		Mezzanine		Junior	
	Book value	Net impairment losses	Book value	Net impairment losses	Book value	Net impairment losses
- performing residential mortgages	-	-	-	-	-	-
- non-performing residential mortgages	-	-	-	-	-	-
- performing no residential mortgages	-	-	-	-	-	-
- non-performing no residential mortgages	-	-	-	-	-	-
- leasing performing	-	-	-	-	-	-
- leasing non-performing	-	-	-	-	-	-
- other performing loans	2,100	-	-	-	-	-
- other non-performing loans	-	-	-	-	-	-
- performing securities	-	-	-	-	-	-

The parts of the table relating to "Guarantees Granted" have not been shown as there is nothing to report.

C.3 Securitisation vehicles

There are no amounts to be disclosed in this section.

C.4 Not consolidated securitisation vehicles

There are no amounts to be disclosed in this section.

C.5 Servicer activities - "own" securitisation: collection of securitised loans and reimbursement of securities issued by securitisation vehicle

There are no amounts to be disclosed in this section.

D. Information on structured entities not consolidated for accounting purposes (other than securitisation vehicles)

Please refer to information disclosed in the Consolidated financial statements.

E. Disposal transactions

A. Financial assets sold but not fully derecognised

Qualitative information

The business reflected in the following table mainly relates to the use of investment securities for short/medium/long-term repo transactions and to the disposal of loans to customers in the context of securitisation transactions.

Quantitative information

E.1 Financial assets sold fully recognised and related financial liabilities: book value

	Financial assets sold fully recognised				Related financial liabilities		
	Book value	of which: subject to securitization transactions	of which: subject to sale contracts with repurchase agreement	of which: non-performing	Book value	of which: subject to securitization transactions	of which: subject to sale contracts with repurchase agreement
A. Financial assets held for trading	**-**	**-**	**-**	**X**	**-**	**-**	**-**
1. Debt securities	-	-	-	X	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**758,247**	**-**	**758,247**	**-**	**738,416**	**-**	**738,416**
1. Debt securities	758,247	-	758,247	-	738,416	-	738,416
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**2,994,520**	**718,859**	**2,275,661**	**-**	**2,420,922**	**143,813**	**2,277,109**
1. Debt securities	2,117,191	-	2,117,191	-	2,118,594	-	2,118,594
2. Loans	877,329	718,859	158,470	-	302,328	143,813	158,515
Total 31.12.2020	**3,752,767**	**718,859**	**3,033,908**	**-**	**3,159,338**	**143,813**	**3,015,525**
Total 31.12.2019	**3,692,391**	**1,223,807**	**2,468,584**	**-**	**2,747,369**	**294,503**	**2,452,866**

E.2 Financial assets sold partially recognised and related financial liabilities: book value

There are no amounts to be disclosed in this section.

E.3 Sale transactions with liabilities having recourse exclusively on the assets sold and not fully derecognised: fair value

There are no amounts to be disclosed in this section.

B. Financial assets sold and not fully derecognised with recognition of continuing involvement

Qualitative information

The Group did not make any disposal for which it would have to provide information in accordance with IFRS 7 § 7, 42D letters a), b), c) and § 42H.

C. Financial assets sold and fully derecognised

Overall, in the three-year period 2018-2020, BPER Banca has completed four sales of non-performing loans, classified as Unlikely to Pay (UTP), to “multi-originator” mutual funds, with simultaneous subscription of units issued by the fund in proportion to the value of the loans transferred.

The sale transactions of BPER Banca still outstanding at 31 December 2020 are therefore as follows:

- Clessidra Restructuring Fund - CRF
- IDeA Corporate Credit Recovery II - CCR II
- RSCT Fund
- Efesto

Sale of non-performing loans to Clessidra Restructuring Fund

The sale was carried out in September 2019 with the transfer of a portfolio of BPER Banca Unlikely To Pay (UTP) loans, for a gross carrying amount of Euro 27.7 million, to the purchaser, Clessidra Restructuring Fund ("CRF" or the "Fund") managed by Clessidra SGR. The sale took place without recourse and, in terms of the counterparties sold, it is possible that they may coincide with those sold by the other banks participating in the transaction.

In return for the sale, BPER Banca was assigned 18,317,940 A Units of the Credit Section of the Fund, which have been recognized in the balance sheet at an initial value equal to Euro12 million. The amounts due for each bank participating in the transaction were determined in proportion to the value of the loans sold by each of them with respect to the total value of the loans sold by the banks participating in the Fund.

CRF is an alternative private, closed-end mutual fund specialised in investing in credit exposures classified as "bad", "unlikely to pay", "past due", "forborne performing and non-performing", and "high risk performing" loans to companies, as well as in lending to debtors for the purpose of restructuring their loans.

The structure and functioning of the transactions are administered and governed in accordance with the Fund Regulations; consistent with these regulations, several classes of units were issued, giving their holders different economic and governance rights; specifically, the following units were issued in the context of this transaction:

- A units: subscribed for solely by the banks that assigned loans (including BPER Banca);
- B units: subscribed for by other "Admissible Investors" and paid for with liquid funds (low yield new finance);
- C units: subscribed for by other "Admissible Investors" and paid for with liquid funds (high yield new finance);
- D units: subscribed for by the SGR, the directors and employees of the SGR and the advisors with which the SGR has a long-term contract for the provision of professional activities in relation to the fund, and paid for with liquid funds.

Consistent with market practice for restructuring operations, the B and C units (subscribed for by investors that contributed new liquidity to the Fund) have seniority over the A units subscribed for by the contributors of the pre-existing credit exposures. In particular, the CRF Regulation recognises that these units have preference on redemption and on the distribution of any income deriving from ownership, as specified in the waterfall envisaged in the Regulation.

The CRF management company, Clessidra SGR, carries out the investment and divestment operations and related negotiations, arranges for collections and exercises all other rights in relation to the loans, arranges for payments and carries out all other Fund administration and risk management activities on behalf of the investors and in compliance with the Fund and sector regulations. The Board of Directors of Clessidra SGR (no members appointed by BPER Banca) is responsible for implementing the investment policy.
The CRF Regulation also requires the Board of Directors to work with a Consultative Committee, which provides advice or binding decisions, without prejudice to the responsibility of the Board of Directors for administering the Fund.
Prior consent from the Consultative Committee (on which BPER Banca has a representative) is required for certain specific non-operating matters.
Like all other investors in the Fund, BPER Banca is also entitled to participate in the Investors' Meeting that, in accordance with the Regulation, resolves solely on the following matters: i) replacement of the SGR, ii) early liquidation of the Fund, iii) amendment of the Regulations.

The following significant information is provided about the UTP portfolio sold by BPER Banca in 2019, in terms of the type of credit line, economic sector and geographical location of the counterparties, the gross amount sold and the impairment adjustments existing at the disposal date.

(in thousands)

Geographical areas/ Sectors/ Guarantees		Gross exposure	Total impairment provisions
Emilia Romagna		**16,061**	**8,466**
	Diversified Industrial Products	3,816	-
	Secured	*3,816*	-
	Marine Applications	12,245	8,466
	Unsecured	*12,245*	*8,466*
Lombardy		**6,396**	**4,168**
	Consumer Retail	4,206	2,836
	Secured	*2,811*	*1,896*
	Unsecured	*1,395*	*940*
	Iron & Steel	2,190	1,332
	Unsecured	*2,190*	*1,332*
Veneto		**5,212**	**3,580**
	Food & Beverage	5,212	3,580
	Unsecured	*5,212*	*3,580*
Total		**27,669**	**16,214**

During the sale of the non-performing loans, the conditions required by IFRS 9 to proceed with derecognition of the assets were verified[52], applying the relative “flow chart”.
As indicated in Part A4 – Fair Value Information, the financial instruments acquired in the context of the transaction with the Clessidra Restructuring Fund, being (illiquid) unlisted closed-end mutual fund units, have been classified as "Financial assets mandatorily measured at fair value".
Given the characteristics of the instruments, the fair value on initial recognition and subsequent remeasurement was determined using a mark-to-model approach, resulting in a Level 3 fair value. A type of Discounted Cash Flow (DCF) model was used. The fair value at 31 December 2020 was Euro 10.8 million compared with an initial fair value of Euro 12 million.

Sale of non-performing loans to IDeA Corporate Credit Recovery II

The sale was carried out in 2020 with the transfer of a portfolio of BPER Banca Unlikely To Pay (UTP) loans, for a gross carrying amount of Euro 8.7 million, to the purchaser, IDeA Corporate Credit Recovery II ("IDeA CCR II" or the “Fund”), established and managed by Dea Capital Alternative Funds SGR S.p.a. Already in June 2018, BPER Banca had made a first transfer of loans of the same nature to the Fund for a total gross book value of Euro 6.1 million. Both sales took place without recourse and, in terms of the counterparties sold, it is possible that they coincide with those sold by the other banks participating in the transaction.

In return for the sales, BPER Banca was assigned a total of 231 Units of the Credit Section of the Fund, which have been recognised in the balance sheet at a total initial value of Euro 6 million. The amounts due for each bank participating in the transaction were determined in proportion to the value of the loans sold by each of them with respect to the total value of the loans sold by the banks participating in the Fund.

[52] *IFRS 9.3.2.1-3.2.21 and IFRS 9.B3.2.1-B3.2.16.*

IDeA CCR II is a closed-end multi-sector alternative investment fund specialised i) in the acquisition of UTP credits held by the banking system in order to maximise the recovery rate of the positions through a standard, undivided type of management; ii) in the disbursement of new finance in the context of restructuring plans of the companies in the portfolio, through instruments that allow a higher degree of priority in repayment than the financial debt already in place (known as "Debtor-in-Possession Financing").

The structure and functioning of the transactions are administered and governed in accordance with the Fund Regulations.

The Management Regulations of the IDeA CCR II Fund provide that it should be made up of three sub-funds, the Credit Section, the New Finance Section and the Shipping Section. The Banks participating in the operation transfer debt exposures (and/or participating financial instruments) on loan transactions classified as UTPs to the Credit Section and receive units in the Fund in exchange. Third-party investors, on the other hand, finance the New Finance Section through the subscription of units, the purpose of which is to allocate additional resources to the Target Companies of the Credit Section (or to other companies with similar characteristics) to be used in servicing the turnaround. Some of the Fund's partner banks transfer UTP debt positions relating to Target Companies operating in the shipping sector to the Shipping Section and receive units in the Fund in exchange.
To be more specific, the units issued by the Fund are as follows:

- A1 units: units in the Credit Section reserved for the banks selling loans (including BPER Banca);
- B1 units: units in the Credit Section reserved for the SGR, the members of the Fund Management Team, the Sponsor and other persons identified by the SGR's Board of Directors;
- A2 units: units in the New Finance Section subscribed by investors other than the “Anchor Investors” as defined in the following point;
- A3 units: units in the Nuova Finanza Section subscribed by investors for a minimum initial amount equal to or greater than Euro 15 million (“Anchor Investors”);
- B2 units: units in the New Finance Section reserved for the SGR, the members of the Management Team of the Fund, the Sponsor and other persons identified by the Board of Directors of the SGR;
- A4 units: units in the Shipping Section reserved for the banks selling loans in this sector (BPER Banca is not one of these);
- B3 units: units in the Shipping Section reserved for the SGR, the members of the Management Team of the Fund, the Sponsor and other persons identified by the Board of Directors of the SGR.

The units in the Credit, New Finance and Shipping Sections are characterised by a different distribution priority of any income that comes from owning them to be allocated to subscribers. Specifically:

- in cases where no new financial resources have been disbursed to Target Companies of the Credit Section (or Shipping Section), the revenues deriving from specific transactions are allocated 100% to the subscribers of that Section.
- in the case of co-investment between the Credit Section (or Shipping Section) and the New Finance Section in the same Target Companies, the Fund Management Regulations provide for a specific waterfall structure of the proceeds deriving from the sale of the investments. In this case, the units issued by the New Finance Section enjoy a privileged seniority with respect to the units issued by the Credit Section (or Shipping Section).

The management company of IDeA CCR II is Dea Capital Alternative Funds SGR, which, in this role, carries out the investment and divestment operations and related negotiations, arranges for collections and exercises all other rights in relation to the loans, arranges for payments and carries out all other Fund administration and risk management activities on behalf of the investors and in compliance with the Fund and sector regulations.

The overall management and strategic supervision function of the Fund lies with the Board of Directors of Dea Capital Alternative Funds SGR (on which there is no representative appointed by BPER Banca).
The Fund Regulation also provides that the Board of Directors avails itself of the collaboration of an Advisory Committee, which expresses preventive and mandatory opinions, which may be binding or non-binding, while the strategic management and responsibility for the management of each Section of the Fund remains with the Board of Directors.
The prior consent of the Advisory Committee (in which BPER Banca also participates with its own representative) is mandatory for any investment or divestment operation or contract or other deed in conflict of interest governed by the Regulations.
Like all other investors in the Fund, BPER Banca is also entitled to participate in the Investors' Meeting that, in accordance with the Regulation, resolves on the following matters: i) amendment of the Regulations; ii) early liquidation of the Fund, iii) replacement of the asset management company; iv) revocation of the Servicer; v) increase in the maximum amount of expenses; vi) substantial changes to the Servicing Agreement.

The following significant information is provided about the UTP portfolio assigned by BPER Banca in 2018 and 2020, in terms of the type of credit line, economic sector and geographical location of the counterparties, the gross amount assigned and the impairment adjustments existing at the disposal date.

(in thousands)

Geographical areas/ Sectors/ Guarantees		Gross exposure	Total impairment provisions
Emilia-Romagna		**13,900**	**9,009**
	Manufacturing	13,900	9,009
	Secured	*13,900*	*9,009*
Marche		**916**	**503**
	Manufacturing	163	89
	Unsecured	*163*	*89*
	Wholesale and retail trade	753	414
	Unsecured	*753*	*414*
Total		**14,816**	**9,512**

During the sale of the non-performing loans, the conditions required by IFRS 9 to proceed with derecognition of the assets were verified[53], obtaining a specific accounting opinion from an accredited independent consultant.
As indicated in Part A4 – Fair Value Information, the financial instruments acquired in the context of the transaction with the Idea CCR II, being (illiquid) unlisted closed-end mutual fund units, have been classified as "Financial assets mandatorily measured at fair value".

[53] *IFRS 9.3.2.1-3.2.21 and IFRS 9.B3.2.1-B3.2.16.*

Given the characteristics of the instruments, the fair value on initial recognition and subsequent remeasurement was determined using a mark-to-model approach, resulting in a Level 3 fair value. A type of Discounted Cash Flow (DCF) model was used. The fair value at 31 December 2020 was Euro 6.7 million compared with an initial fair value of Euro 6.0 million.

Sale of non-performing loans to RSCT Fund

The sale was carried out in May 2020 with the transfer of a portfolio of BPER Banca Unlikely To Pay (UTP) loans, for a gross carrying amount of Euro 45.4 million, to the purchaser, RSCT Fund (the "Fund"), managed by the Irish asset management company (AMC) Davy Global Fund Management Limited, which is linked to Pillarstone Italia S.p.a. The sale took place without recourse and, in terms of the counterparties sold, it is possible that they may coincide with those sold by the other banks participating in the transaction.

In return for the sale, BPER Banca was assigned a total of 26,524,044 A1 Units of the Credit Section of the Fund, which have been recognised in the balance sheet at an initial value of Euro 18.5 million. The amounts due for each bank participating in the transaction were determined in proportion to the value of the loans sold by each of them with respect to the total value of the loans sold by the banks participating in the Fund.

RSCT Fund is an alternative investment fund, of the closed-end multi-sector type, specialised in the purchase of loans (and securities representing loans) of debtor Target Companies in a state of financial tension and/or in distress, with the ultimate aim of carrying out investment transactions in the Debtor Company and turnaround and enhancement of the companies in question, also through the investment of new finance according to the methods and limits specified in these Regulations. The loans acquired may possibly be transferred, in whole or in part, from the Fund to the Vehicle Company in order to carry out debt-to-equity swaps or other strategies to maximise the recovery rate of the loans.

The structure and functioning of the transactions are administered and governed in accordance with the Fund Regulations.

The Management Regulations of the RSTC Fund provide that it is made up of two sub-funds, the Credit Section and the New Finance Section. The Banks participating in the operation transfer debt exposures (and/or participating financial instruments) on loan transactions classified as UTPs to the Credit Section and receive units in the Fund in exchange. Third-party investors, on the other hand, finance the New Finance Section through the subscription of units, the purpose of which is to allocate additional resources to the Target Companies of the Credit Section (or to other companies with similar characteristics) to be used in servicing the turnaround.
To be more specific, the units issued by the Fund are as follows:

- A1 units: units in the Credit Section reserved for Professional Investors (banks selling loans, including BPER Banca);
- A2 units: units in the Credit Section reserved exclusively for the SGR, the members of the SGR's Strategic Supervisory Body and the SGR's employees;
- B1 units: units in the New Finance Section reserved for Professional Investors;
- B2 units: units in the New Finance Section reserved exclusively for the SGR, the members of the SGR's Strategic Supervisory Body and the SGR's employees.

The units in the Credit and New Finance Sections are characterised by a different distribution priority of any income that comes from owning them to be allocated to subscribers. To be more specific:

- within each Section (or Sub-Fund), the income deriving from specific investment transactions attributable to the Section is allocated to the subscribers according to a specific waterfall structure defined in the Fund Regulations;
- in the case of co-investment by the Loans and Nuova Finanza Sections in the same Target Companies, the Fund Management Regulations provide for an additional specific waterfall structure of the proceeds deriving from the sale of the investments. In this case, the units issued by the New Finance Section enjoy a privileged seniority with respect to the units issued by the Credit Section.

The company that manages the RSTC Fund is Davy Global Fund Management Limited, which manages the Fund through the Strategic Supervisory Body in accordance with Fund Regulations. The goal is to enhance the value of the loans sold by the banks in order to maximise their yield, sustaining management costs through the collection of income deriving from various activities, including investment and divestment transactions, related negotiations, collection activities and the exercise of any other rights relating to loans, disbursements and any other asset management activity of the Fund in compliance with its Regulations, as well as with sector regulations. The Strategic Supervisory Body of the Irish AMC (no members appointed by BPER Banca) is responsible for implementing the investment policy.
In managing the Fund, the Strategic Supervisory Body uses the collaboration of the Advisor Pillarstone Italy S.p.a., a company that provides consulting services through a specific Advisory Committee, in which BPER Banca also participates by appointing its own representative. The prior, non-binding consent of the Advisory Committee is required with regard to specific matters envisaged by the Fund Regulations, while strategic management and responsibility for managing the Fund remain with the AMC.
Like all other investors in the Fund, BPER Banca is also entitled to participate in the Investors' Meeting that, in accordance with the Regulation, resolves on the following specific matters: i) replacement of the AMC, ii) amendment of the Regulations, iii) early liquidation of the Fund.

The following significant information is provided about the UTP portfolio sold by BPER Banca in 2020, in terms of the type of credit line, economic sector and geographical location of the counterparties, the gross amount sold and the impairment adjustments existing at the disposal date.

(in thousands)

Geographical areas/ Sectors/ Guarantees		Gross exposure	Total impairment provisions
Emilia-Romagna		**32,837**	**18,925**
	Manufacturing	19,446	11,254
	Secured	16,207	9,476
	Unsecured	*3,239*	*1,778*
	Transport and storage	13,391	7,671
	Secured	*13,391*	*7,671*
Veneto		**12,585**	**7,481**
	Wholesale and retail trade	12,585	7,481
	Secured	*12,585*	*7,481*
Total		**45,422**	**26,406**

During the sale of the non-performing loans, the conditions required by IFRS 9 to proceed with derecognition of the assets were verified[54], obtaining a specific accounting opinion from an accredited independent consultant.
As indicated in Part A4 – Fair Value Information, the financial instruments acquired in the context of the transaction with the RSTC Fund, being (illiquid) unlisted closed-end mutual fund units, have been classified as "Financial assets mandatorily measured at fair value".
Given the characteristics of the instruments, the fair value on initial recognition and subsequent remeasurement was determined using a mark-to-model approach, resulting in a Level 3 fair value. A type of Discounted Cash Flow (DCF) model was used. The fair value at 31 December 2020 was Euro 20.4 million compared with an initial fair value of Euro 18.5 million.

Sale of non-performing loans to Efesto

The first sale was in October 2020 with the transfer of a portfolio of Unlikely To Pay (UTP) loans belonging to BPER Banca for a total gross book value of Euro 25.1 million to the buyer, the Efesto mutual investment fund (the "Fund"), established and managed by Finanziaria Internazionale Investments SGR S.p.a. The sale took place without recourse and, in terms of the counterparties sold, it is possible that they may coincide with those sold by the other banks participating in the transaction.

In return for the sale, BPER Banca was assigned a total of 13,814,877 single-class Units issued by the Fund, which have been recognised in the balance sheet at an initial value of Euro 10 million. The amounts due for each bank participating in the transaction were determined in proportion to the value of the loans sold by each of them with respect to the total value of the loans sold by the banks participating in the Fund.

Efesto is a closed-end, reserved alternative investment fund specialised in i) investing in Unlikely to-Pay (UTP) credit exposures towards Target Companies established in an initial phase of contribution (wave 1) of medium/long term credit lines with the possibility of subsequent expansion to working capital lines to be activated in a second phase (wave 2); as well as in ii) the disbursement of new finance to the Target Companies (or to other companies with similar characteristics) in order to facilitate the turnaround and improve the prospects of recovering the debt. The disbursement of new finance will take place through the special purpose vehicle (SPV) and will have priority in the payment of the loans sold compared with the individual debtor by virtue of contractual agreements (the Fund has granted the SPV super seniority).

The structure and functioning of the transactions are administered and governed in accordance with the Fund Regulations; in line with these provisions, in fact, a single class of units was issued which assign the same administrative and capital rights to the holders, in accordance with the Regulations.
Efesto's management company is Finanziaria Internazionale Investments SGR which, in this role, carries out the investment and divestment operations and related negotiations, arranges for collections and exercises all other rights in relation to the loans, arranges for payments and carries out all other Fund administration and risk management activities on behalf of the investors and in compliance with the Fund and sector regulations. The overall management and strategic supervision function of the Fund lies with the Board of Directors of Finanziaria Internazionale Investments SGR (on which there is no representative appointed by BPER Banca).
The Fund Regulation also provides that the Board of Directors avails itself of the collaboration of an Advisory Committee (in which BPER Banca also participates with its own representative), which

[54] *IFRS 9.3.2.1-3.2.21 and IFRS 9.B3.2.1-B3.2.16.*

expresses preventive, mandatory and binding opinions in the case of transactions in conflict of interest and transactions that take place while waiting for the AMC to be replaced; whereas the Committee's opinion is not binding for the revocation and replacement of the Servicer and the early liquidation of the Fund, approval of the Fund's first business plan and any subsequent amendments. The Committee can also formulate non-binding proposals to the AMC, such as an assessment of contractual remedies in the event of inadequate performance on the part of the Servicer. The Board of Directors remains responsible for administering the Fund.

Like all other investors in the Fund, BPER Banca is also entitled to participate in the Investors' Meeting that, in accordance with the Regulation, resolves solely on the following matters: i) amendment of the Regulations; ii) early liquidation of the Fund, iii) replacement of the asset management company; iv) revocation of the Servicer; v) increase in the maximum amount of expenses; vi) substantial changes to the Servicing Agreement.

The following significant information is provided about the UTP portfolio sold by BPER Banca in 2020, in terms of the type of credit line, economic sector and geographical location of the counterparties, the gross amount sold and the impairment adjustments existing at the disposal date.

(in thousands)

Geographical areas/ Sectors/ Guarantees	Gross exposure	Total impairment provisions
Campania	**3,950**	**2,372**
Administrative and support service activities	2,110	1,058
Unsecured	*2,110*	*1,058*
Construction	1,840	1,314
Secured	*1,840*	*1,314*
Emilia-Romagna	**12,942**	**8,744**
Administrative and support service activities	4,843	1,735
Secured	*4,843*	*1,735*
Manufacturing	7,629	6,475
Secured	7,629	6,475
Transport and storage	470	534
Secured	*470*	*534*
Lombardy	**923**	**477**
Administrative and support service activities	923	477
Secured	*923*	*477*
Marche	**7,319**	**3,869**
Wholesale and retail trade	7,319	3,869
Secured	*7,319*	*3,869*
Total	**25134**	**15462**

During the sale of the non-performing loans, the conditions required by IFRS 9 to proceed with derecognition of the assets were verified[55], obtaining a specific accounting opinion from an accredited independent consultant.

[55] *IFRS 9.3.2.1-3.2.21 and IFRS 9.B3.2.1-B3.2.16.*

As indicated in Part A4 – Fair Value Information, the financial instruments acquired in the context of the transaction with the Efesto Fund, being (illiquid) unlisted closed-end mutual fund units, have been classified as "Financial assets mandatorily measured at fair value".
Given the characteristics of the instruments, the fair value on initial recognition and subsequent remeasurement was determined using a mark-to-model approach, resulting in a Level 3 fair value. A type of Discounted Cash Flow (DCF) model was used. The fair value at 31 December 2020 was Euro 10.3 million compared with an initial fair value of Euro 10.0 million.

E.4 Covered bond transactions

Introduction

Guaranteed Bank Bond (GBB) issues are foreseen by BPER Banca Group's strategic plan as a means to diversify funding sources, reduce funding costs and extend the maturities of liabilities. In particular, Guaranteed Bank Bond issues are extremely appealing at a time when market yields are very low.
On 8 February 2011, The Board of Directors launched the structuring of a first programme for the issue of guaranteed bank bonds ("GBB1"), based on a collateralised portfolio of residential mortgage loans pursuant to art. 7-bis of Law 130 of 30 April 1999 ("Law 130/99"), the Ministry of Economy and Finance's Decree no. 310 of 14 December 2006 (the "MEF Decree") and the regulatory provisions of the Bank of Italy of 24 March 2010 and subsequent amendments and additions (the "Rules" and, together with Law 130 and the MEF Decree and each subsequent amendment, the "Regulations");
On 3 March 2015, the Board launched the structuring of a second programme for the issue of guaranteed bank bonds ("GBB2"), based on a collateralised portfolio of residential and commercial mortgage loans, as already mentioned in the Directors' report on Group operations.

The basic structure of a Guaranteed Bank Bond issue

"Guaranteed Bank Bonds", also known as "Covered Bonds", can be issued under a scheme which envisages:

- the sale by a bank, which may differ from the bond issuer, to a special purpose vehicle of high credit quality assets and which constitute segregated assets pursuant to the applicable provisions of Law 130/99;
- the selling bank or another bank granting a subordinated loan to the assignee company to provide the assignee with the funding required to purchase the assets;
- the issue of a guarantee by the assignee company in favour of the bondholders, up to the amount of the segregated assets.

High credit quality assets are intended to mean loans that meet the selection criteria defined by the Regulations and related contracts (the "Eligible Assets").

Key elements of the BPER Banca Group's Programmes for the issue of Covered Bonds

The BPER Banca's Covered Bond Programmes (the "Programmes") have been structured as follows:

- the sale without recourse to Estense Covered Bond s.r.l. (the "SPV" or "Estense Covered Bond") for GBB1, and to Estense CPT Covered Bond s.r.l. (the "SPV" or "Estense CPT Covered Bond") for GBB2, initially just by BPER Banca and then, during the Programmes, also by other Group Banks, of assets with a high credit quality, which constitute segregated assets pursuant to Law 130/99;

- the provision to the assignee SPVs, by BPER Banca and other Group Banks that will eventually join the programmes as selling banks, of subordinated loans to provide the assignees with the funding required to purchase the assets sold;
- the issue by the SPVs, up to the amount of the segregated assets, of guarantees in favour of the holders of the Guaranteed Bank Bonds issued by BPER Banca.

Although they are presented as Group programmes, the initial and subsequent transactions only involved BPER Banca as the selling bank, the understanding being that BPER Banca will always take on the role of issuing bank. Only at a later stage, after an expert assessment of the risks and opportunities, is it expected that other Group Banks will join the Programmes as selling banks to sell additional Eligible Assets.
The portfolios of Eligible Assets involved in the initial sales are composed of loans originating from residential mortgage loans for GBB1 and of residential and commercial mortgage loans for GBB2, which meet the requirements of the Regulations. These portfolios were identified based on general and specific criteria indicated in the sale agreements. Additional portfolios of Eligible Assets may include mortgage loans that meet the requirements of the Rules and any subsequent additional eligible assets referred to in article 2, paragraph 3, points 2 and 3 of the MEF Decree.
The sale prices of the portfolios is determined, as laid down in the Provisions, with reference to their book values in the latest financial statements approved by BPER Banca with a view to specific sale dates or by having the sale price certified by the Independent Auditors. The sale prices so determined are subject to adjustment to consider movements on the loans between the financial year end and the date of sale. More specifically, the sale prices shall be adjusted to consider the collection of the capital element of the loans in the intervening period and the payment of contractually agreed interest in the same period.

The sale of the portfolios - without recourse and under the combined provisions of articles 1 and 4 of Law 130/99 and art. 58 of the CFA - is communicated to the mortgage holders by publishing a notice of sale by the seller with the above selection criteria in the Official Journal and by filing the same notice of sale with the Registrar of Companies. Further formalities are also carried out for privacy legislation purposes (Legislative Decree 196/2003).
The mortgage holders maintain a direct operational relationship with BPER Banca - or, in the case of sale of Eligible Assets by other selling banks that will join the Programmes, with the other Group Banks that the mortgage holders originally obtained the loans from - since the two SPVs have given BPER Banca responsibility for managing and administering the loans sold and the related collection and payment services (servicing activities), with BPER Banca having the power to grant a sub-proxy to the pertinent selling banks to perform servicing activities for the portfolios sold.
This, in accordance with the Regulations, is in order to minimise the commercial impact with the mortgage holders and, at the same time, to optimise the operational management of each portfolio which, in fact, remains in the hands of the assignors.
At predetermined dates and based on specific operational and market situations, BPER Banca, in the role of Calculation Agent, will perform assessment tests to compare the portfolios sold with the bonds issued, aimed at verifying the adequacy of the guarantees issued with reference to specific legal parameters and the parameters set by the Programmes' documentation based on indications provided by rating agencies, on which the credit rating assigned to the Guaranteed Bank Bonds depends.
In the case of non-compliance with one or more of the required parameters, it will be necessary to add to the portfolios sold by selling further Eligible Assets. The portfolios can be added to by using the SPVs'

liquid funds or by further drawdowns of the subordinated loans granted by BPER Banca (or by the other selling banks) to the two SPVs.
Other initiatives are required in the case of violation of contractual conditions, up to the extreme consequences of enforcement of the guarantees provided by the SPVs in the case of an Event of Default by the Issuer (for example, default in repayment of principal or non-payment of interest on the Covered Bonds).
Moreover, on predetermined dates, the functions responsible for supervising the Bank's risk management verify the quality and integrity of the assets provided as collateral for Covered Bonds issued.
The structure of the Programmes, as outlined, permits the creation of segregated assets (consisting of the Eligible Assets assigned from time to time to the SPVs), to serve as a preferred guarantee for the Covered Bond holders, for the counterparties to derivative contracts entered into under the Programmes to hedge the risks inherent in the portfolio of transferred Eligible Assets and for the payment of other transaction costs.
Normally, the charges for payment and redemption of the Covered Bond remain with the Issuer and only when there is an Event of Default by the Issuer will automatic protection mechanisms be activated to protect the investors.
To further support of the financial structure, provision has been made for swaps with one or more external counterparties selected on the market and with an appropriate credit standing in line with the eligibility criteria required by rating agencies. The purpose of these contracts is to transform the interest flow produced by the loan portfolios sold so as to make them consistent with that incurred on the bonds issued.
In particular, among the various options available, it is normally envisaged that two separate swap derivative contracts will be entered into:

- asset swap: under this contract, the SPV will pay the swap counterparty the flow received as interest on a notional amount represented by a portion of segregated assets and determined by taking into account the outstanding amount of the liability represented by the Guaranteed Bank Bonds issued and will collect from it a flow corresponding to Euribor for the period plus or minus a Spread applied to the same notional amount for the reference period;
- liability swap: under this derivative the SPV will receive from the swap counterparty a fixed rate equal to the coupon of the related series of Guaranteed Bank Bonds and will pay to the same flow corresponding to Euribor plus or minus (as appropriate) a Spread applied to an amount equal to the nominal value of the corresponding series of Guaranteed Bank Bonds.

These contracts can be linked to back-to-back swap agreements between the swap counterparties and BPER Banca, a situation that currently exists in the case of the fourth, eighth and ninth issue of the GBB1 Programme.
In this respect, it should be noted that the first issue of the GBB1 Programme was redeemed on 22 January 2014, whereas the second issue, redemption of which should have taken place in April 2015, was redeemed early on 12 January 2015. The third issue was repaid according to schedule on 22 October 2018, while the fifth and sixth issues was repaid according to schedule on 22 July 2020.
For the fourth, eighth and ninth issue, which have a fixed interest rate, it was necessary to execute liability swap agreements. Lastly, the seventh and tenth issues have a floating interest rate and therefore do not have any liability swaps.
The financial mechanism allows, on the one hand, BPER Banca, as selling bank, to maintain a financial position as desired and consistent with its Asset & Liability Management strategies and, on the other

hand, the SPV, as guarantor, in the Event of the occurrence of an Event of Default of the Issuer, to cover the costs of the Guaranteed Bank Bonds by trading them for the expected return on portfolio of loans sold.

The GBB1 Programme

The GBB1 Programme – following the January 2019 update – provides for the issue of Covered Bonds up to a maximum of Euro 7 billion, to be carried out in a number of issues over time, by 31 December 2023 at latest (subject to the obligations for annual renewal of the prospectus prepared in compliance with EU regulations).

The first series of Guaranteed Bank Bonds with a nominal value of Euro 750 million was issued on 1 December 2011 and was redeemed on 22 January 2014, after the sale on 2 November 2011 by BPER Banca to Estense Covered Bond s.r.l. of a portfolio of loans that met eligibility requirements under the Regulations for a nominal value of Euro 1.1 billion, selected on the basis of the criteria outlined above and having the following main characteristics:

- residential mortgage loans provided in accordance with mortgage lending legislation;
- concluded by 31 December 2010;
- final instalment due after 31 December 2012;
- ratio of outstanding debt to the value of secured property, estimated at the payment date, lower than 80%.

Based on these general assumptions, a second issue of Guaranteed Bank Bonds was completed on 25 June 2012 for a total of Euro 300 million, with a maturity of three years at a floating rate. This was after another Euro 546 million of residential mortgage loans, again originated exclusively by BPER Banca, were transferred to the vehicle company Estense Covered Bond s.r.l. on 4 May 2012, essentially attributable to the "production" of 2011.

Based on these same general assumptions, on 10 July 2013, a further Euro 680 million of residential mortgage loans was sold, with these originating solely from BPER Banca or from other Group banks merged into the Parent Company.

On 12 January 2015 the second series of GBB was all repaid early.

On 15 October 2013, a third issue of Guaranteed Bank Bonds was completed for an amount of Euro 750 million, at a fixed rate and with a tenor of 5 years, all of which was placed on the market. This issue was then reopened on 24 February 2014 for a further Euro 250 million. This third issue was repaid according to schedule in October 2018.

On 23 July 2014, another Euro 501 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 22 January 2015, a fourth issue of Guaranteed Bank Bonds was completed for an amount of Euro 750 million, at a fixed rate and with a tenor of 7 years, all of which was placed on the market.

On 28 April 2015, another Euro 1,074 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 29 July 2015, a fifth issue of Guaranteed Bank Bonds was completed for an amount of Euro 750 million, at a fixed rate and with a tenor of 5 years, all of which was placed on the market.

On 28 January 2016, another Euro 1,086 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 31 May 2016, a sixth issue of Guaranteed Bank Bonds was completed for an amount of Euro 500 million, at a floating interest rate, with a tenor of 4 years and which was self-subscribed.
On 27 July 2016, another Euro 310 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 25 January 2017, another Euro 404 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 3 February 2017, a seventh issue of Guaranteed Bank Bonds was completed for an amount of Euro 540 million, at a floating interest rate, with a tenor of 4 years and which was self-subscribed.
On 23 October 2017, another Euro 816 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 27 April 2018, another Euro 652 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 19 July 2018, a eighth issue of Guaranteed Bank Bonds was completed for an amount of Euro 500 million, at a fixed rate and with a tenor of 5 years, all of which was placed on the market.
On 19 March 2019, a ninth issue of Guaranteed Bank Bonds was completed for an amount of Euro 600 million, at a fixed rate and with a tenor of 7 years, all of which was placed on the market.
On 29 April 2019, another Euro 570 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 25 June 2020, another Euro 515 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 18 September 2020, a tenth issue of Guaranteed Bank Bonds was completed for an amount of Euro 1,150 million, at a floating interest rate and a tenor of 4 years, which was self-subscribed.

The subordinated loan granted by BPER Banca to Estense Covered Bond s.r.l., under the form of a credit facility to finance the purchase of the assigned portfolios currently amounts to Euro 6 billion. Notwithstanding BPER Banca's right to increase the amount of the subordinated loan granted to finance the purchase of additional portfolios (both in connection with new issues or for the purpose of adding to segregated assets) and with a remuneration that guarantees a return to the transferor of the yield on the segregated mortgage loans, albeit residual with respect to payment of the SPV's operating expenses; thus making the sale essentially neutral from an economic standpoint.
Repayment of this loan is linked to the gradual reimbursement of the Guaranteed Bank Bonds that, in turn, will allow the release of the loan portfolio or the cash collections generated thereby. In this regard it should be noted that in October 2014 drawdowns of the subordinated loan had been reduced to Euro 250 million, as a first partial early redemption was made taking advantage of part of the principal generated by the loan portfolio sold. Subsequently, in October 2015, an additional Euro 250 million was repaid. Euro 620 million was repaid in 2016, with a further Euro 400 million in 2017. In 2018, a total of Euro 850 million was then repaid. In 2019, a total of Euro 727 million was repaid, again on the basis of the available capital provided by the transferred loan portfolio. Likewise, in 2020 a further Euro 495 million was repaid in total.
Lastly, Euro 50 million was repaid in January 2021.

The liquidity generated by the portfolio can also be used - within the limits established by law - for suitable investments or deposits, based on BPER Banca's indications as Investment Agent. It cannot, however, be entrusted to BPER Banca because the rating is inadequate. Accordingly, cash generated from the portfolio of sold Eligible Assets - for which BPER Banca will remain as Servicer - are transferred to current accounts with BNP Paribas Securitisation Services, either in Italy or the UK, since this is a third party with appropriate rating.

Counterparties involved in the GBB1 Programme

Issuing Bank, initial Selling Bank, Servicer, Investment Agent, Principal Paying Agent and Calculation Agent: BPER Banca.

Any other seller banks that could join the Programme:

- Banco di Sardegna S.p.A.;
- Bibanca S.p.A.

Arranger: NatWest Market Plc (formerly The Royal Bank of Scotland plc).

Joint Lead Manager of the third series of bonds issued: NatWest, Citibank, Mediobanca, Société Générale, UBS.

Joint Lead Manager of re-opening of the third series of bonds issued: Citibank, Raiffeisen Bank International.

Joint Lead Manager of the fourth series of bonds issued: NatWest, BNP Paribas, Natixis, Nomura International plc., UNICREDIT Bank AG.

Joint Lead Manager of the fifth series of bonds issued: NatWest, Banca IMI, Credit Suisse International, Raiffeisen Bank International, Société Générale.

Lead Manager of the sixth series of bonds issued: NatWest.

Lead Manager of the seventh series of bonds issued: NatWest.

Joint Lead Manager of the eighth series of bonds issued: NatWest, Commerzbank, Nomura, UBS, Unicredit. Guarantor: Estense Covered Bond s.r.l..

Joint Lead Manager of the ninth series of bonds issued: NatWest, BNP Paribas, Credit Agricole CIB, HSBC France, Banca IMI.

Joint Lead Manager of the tenth series of bonds issued: NatWest.

Guarantor: Estense Covered Bond s.r.l..

Representative of the Bondholders (RoB): Banca Finint S.p.A.

Italian Paying Agent, Cash Manager and Account Bank: BNP Paribas Securities Services (both the Italian and London branches).

Corporate Servicer: Banca Finint S.p.A.

Guarantor Calculation Agent: Banca Finint S.p.A.

Liability Swap counterparty: for the fourth issue, NatWest; for the fifth issue, Credit Suisse International; for the eighth and ninth issue, BNP-Paribas.

Legal advisor to BPER Banca: Studio Legale CRCCD.

Asset Monitor and Pool Auditor: PriceWaterhouseCoopers S.p.A.

Independent Auditors of the special purpose vehicle: Deloitte & Touche S.p.A.

Rating agencies: Moody’s Investor Services.

In 2012, the role of Back-Up Servicer (BUS) was added to the structure of this transaction and is being performed by Italfondiario S.p.A. the aim was to make the transaction more robust, also based on the indications received to that effect from the counterparty to the asset swap and from the rating agency.

The GBB2 Programme

The GBB2 Programme provides for the issue of Covered Bonds up to a maximum of Euro 7 billion, to take place in a number of issues over time, by 31 December 2025 at latest (subject to the obligations for annual renewal of the prospectus prepared in compliance with EU regulations).

The first series of Guaranteed Bank Bonds with par value of Euro 625 million was issued on 16 December 2015, after the sale on 17 September 2015 by BPER Banca to Estense CPT Covered Bond s.r.l. of a portfolio of loans that met eligibility requirements under the regulations for a nominal value of Euro 870 million, selected on the basis of the criteria outlined above and having the following main characteristics:

- residential and commercial mortgage loans;
- granted by 31 December 2014;
- final instalment due after 31 December 2015;
- ratio of outstanding debt to the value of secured property, revalued close to the date of sale, up to a maximum of 80% for residential mortgage loans and up to a maximum of 60% for commercial mortgage loans.

The first bond issue of Euro 625 million was fully subscribed by BPER Banca in order to increase the collateral for refinancing operations with the European Central Bank.

On 23 June 2016, another Euro 478 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 1 August 2016, a second issue of Guaranteed Bank Bonds was completed for an amount of Euro 200 million, at a floating interest rate, with a tenor of 4 years and which was self-subscribed.

On 21 November 2016, another Euro 411 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 24 February 2017, a third issue of Guaranteed Bank Bonds was completed for an amount of Euro 240 million, at a floating interest rate, with a tenor of 4 years and which was self-subscribed.

On 27 September 2017 a partial early repayment was made for Euro 150 million on the first series of securities issued.

On 25 January 2018, a fourth issue of Guaranteed Bank Bonds was completed for an amount of Euro 420 million, at a floating interest rate, with a tenor of 3 years and which was self-subscribed.

On 22 May 2018, another Euro 594 million of commercial mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 24 September 2018, another Euro 731 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 17 October 2018, a fifth issue of Guaranteed Bank Bonds was completed for an amount of Euro 1,050 million, at a floating interest rate, with a tenor of 3 years and which was self-subscribed.

On 27 February 2019, another Euro 276 million of commercial mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 13 March 2019, a sixth issue of Guaranteed Bank Bonds was completed for an amount of Euro 200 million, at a fixed interest rate, with a tenor of 3 years and which was self-subscribed.

On 25 June 2019, another Euro 593 million of residential and commercial mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.

On 10 July 2019, a seventh issue of Guaranteed Bank Bonds was completed for an amount of Euro 250 million, at a fixed interest rate, with a tenor of 4 years and which was self-subscribed.
On 26 November 2019, another Euro 594 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 30 January 2020, a eighth issue of Guaranteed Bank Bonds was completed for an amount of Euro 200 million, at a fixed interest rate and a tenor of 4 years, which was self-subscribed.
On 25 March 2020, another Euro 441 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 23 April 2020, another Euro 1,123 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 30 April 2020, a ninth issue of Guaranteed Bank Bonds was completed for an amount of Euro 900 million, at a fixed interest rate and a tenor of 4 years, which was self-subscribed.
On 23 October 2020, another Euro 840 million of residential mortgage loans, originated exclusively by BPER Banca or by other Group banks absorbed by Parent Company in the meantime, were sold on the basis of the same general assumptions.
On 12 November 2020, a tenth issue of Guaranteed Bank Bonds was completed for an amount of Euro 550 million, at a floating interest rate and a tenor of 4 years, which was self-subscribed.
Also on 12 November 2020, an eleventh issue of Guaranteed Bank Bonds was completed for an amount of Euro 600 million, at a fixed interest rate and a tenor of 4 years, which was self-subscribed.

The subordinated loan granted by BPER Banca to Estense CPT Covered Bond s.r.l., under the form of a credit facility, to finance the purchase of the assigned portfolios, amounted to Euro 5.5 billion, notwithstanding BPER Banca's right to increase the amount of the subordinated loan granted to finance the purchase of additional portfolios (both in connection with new issues or for the purposes of adding to segregated assets) and with a yield that guarantees a return to the transferor of the yield on the segregated mortgage loans within segregated assets, albeit residual with respect to the payment of the SPV's operating expenses; thus making the sale essentially neutral from an economic standpoint.
Repayment of this loan is linked to the gradual reimbursement of the Guaranteed Bank Bonds that, in turn, will allow the release of the loan portfolio or the cash collections generated thereby. In this regard it should be noted that in 2017 drawdowns of the subordinated loan had been reduced to Euro 270 million, as partial early redemptions were made taking advantage of part of the principal generated by the loan portfolio sold. A further Euro 250 million was repaid during 2018. In 2019, an additional Euro 645 million was repaid, again on the basis of the available capital provided by the transferred loan portfolio. A further Euro 310 million was repaid in 2020.
Lastly, Euro 50 million was repaid in January 2021.

The liquidity generated by the portfolio can also be used - within the limits established by law - for suitable investments or deposits, based on BPER Banca's indications as Investment Agent. It cannot, however, be entrusted to BPER Banca because of the inadequate rating level. Accordingly, cash generated by the portfolio of Eligible Assets sold - for which BPER Banca will remain as Servicer - are transferred to current accounts with Citibank N.A., either in Italy or the UK, as this is a third party with an adequate rating.

The specific financial feature of the GBB2 Programme is a different structural technique which, in the event of the Parent Company's default and under other circumstances foreseen in the GBB2 Programme, makes it possible to transform the repayment plan of the Covered Bonds according to the loan portfolio amortisation schedule given in guarantee. This eliminates the financial risk associated with a forced and peremptory liquidation of this portfolio, thereby transforming the outstanding Covered Bonds into securities similar to pass-through securities issued as part of securitisation transactions. In this way, the risk profile of a default on the Covered Bonds is clearly attenuated, making it possible to obtain a higher rating.

Counterparties involved in the GBB2 Programme

Issuing Bank, initial Selling Bank, Servicer, Investment Agent, Primary Paying Agent and Calculation Agent: BPER Banca.

Any other seller banks that could join the Programme:

- Banco di Sardegna S.p.A.;
- Bibanca S.p.A.

Arranger: Banca Finint S.p.A.

Initial Dealer of the first series of bonds issued: Banca Finint S.p.A.

Dealer of all the other series of bonds issued: NatWest.

Guarantor: Estense CPT Covered Bond s.r.l.

Representative of the Bondholders (RoB): Banca Finint S.p.A.

Subsequent Paying Agent, Cash Manager and Account Bank: Citibank NA (through both the Italian and London branches).

Corporate Servicer: Banca Finint S.p.A.

Guarantor Calculation Agent: Banca Finint S.p.A.

Legal advisor to BPER Banca: Dentons Europe Studio Legale.

Asset Monitor and Pool Auditor: PricewaterhouseCoopers S.p.A.

Independent Auditors of the special purpose vehicle: Deloitte & Touche S.p.A.

Rating agencies: Moody's Investor Services.

The requirements for Issuers

According to the Rules, Guaranteed Bank Bonds may be issued by banks belonging to banking groups that have:

- Own Funds not lower than Euro 250 million;
- Total capital ratio at consolidated level not lower than 9%.

These requirements must be satisfied, on a consolidated basis, even by selling banks, where the latter, as provided for by the Programmes' structure, differ from the bank issuing the Guaranteed Bank Bonds. In the case of banks belonging to the same group, reference should be made to consolidated figures.

With reference to the figures at 31 December 2020, the Own Funds of the BPER Banca Group amount to Euro 7,094 million and the Total Capital Ratio is 21.18%.

Limits on the sale of Eligible Assets

The Provisions set limits to the possibility for banks to sell Eligible Assets, which are based on the level of their Tier 1 (T1) and Common Equity Tier 1 (CET1) ratio.

Sale restrictions refer to total transactions of this kind made by a banking group. Banking groups are classified into three categories, with corresponding specific limits as shown below:

- "a" band: for banking groups with T1 Ratio equal to or higher than 9% and CET1 Ratio equal to or higher than 8%, for which there are no sale limits;
- "b" band: for banking groups with T1 Ratio equal to or higher than 8% and CET1 Ratio equal to or higher than 7%, for which there is a sale limit of 60% of appropriate assets;
- "c" band; for banking groups with T1 Ratio equal to or higher than 7% and CET1 Ratio equal to or higher than 6%, for which there is a sale limit of 25% of appropriate assets.

At 31 December 2020, the Phased In Tier 1 Ratio is 18.15% and the Phased In Common Equity Tier 1 Ratio is 17.70%.

Organisational structure and procedures

The structuring process for the GBB Issue Programmes meant organising a team to coordinate the activities of all the departments involved. In this regard, a specific structure was set up, the Structured Finance Management Office, which acts as coordinator of the interfunctional team, taking care to involve all the structures involved in the management process of the Covered Bonds. To supervise the structuring process and management of the Programmes, including when it is fully operational, a specific Group Regulation has been prepared followed by a Group Organisational Procedure.

Accounting, capital and tax impact

With the issue of the GBB, BPER Banca, as initial selling bank and any subsequent selling banks will retain substantially all the risks and benefits of the transferred assets as:

- they are required to reinstate, in line with several alternatives, the collateral should the value of assets sold deteriorate and their value fall below the thresholds set by contract;
- the repayment of the subordinated loan granted to the special purpose vehicle is linked to the performance of the secured assets.

The primary objective of creating a special purpose vehicle and the sale of eligible assets thereto is, in fact, to legally segregate, by means of a without recourse sale contract, the selling bank's assets within a separate legal entity. These assets, segregated in this manner, are subject to a restriction as to their use pursuant to Law 130/99 for the protection, among others, of the holders. Thus, the holders of Covered Bonds benefit, on the one hand, from the general guarantee represented by the issuer's capital and on the other, from the guarantee issued by the SPV in respect of the segregated portfolio for which they have priority creditor rights. This structure of "dual protection" facilitates the creation of conditions for a potential reduction in funding costs.

The overall risk profile of BPER Banca as initial selling bank and that of any further selling banks is not altered in any way.

The same regulatory provisions stipulate that the selling banks retain the same capital requirement that they are already required to comply with, in respect of the assets sold, prior to the sale. The transactions do not, therefore, qualify for derecognition: the selling banks must continue to recognise the transferred assets in their entirety in the balance sheet and the considerations received from the sale must be accounted for as opposite entries to the financial liabilities due to the SPVs.

In turn, these liabilities must be shown net of the subordinated loans granted to the vehicles, due to the principle of substance over form: it is as if the purchase of loans by the SPVs had never taken place.
The subordinated loans are not taken into consideration for the purposes of counterparty risk; these loans must not, in fact, be considered, as the credit risk is already reflected in the valuation of the mortgage loans being sold.
As regards the impact at consolidation level, it should be noted that both the SPVs are BPER Banca Group's entities, as the Parent Company has a 60% holding; they are therefore subject to consolidation, although limited to their own results and financial position.
Finally, regarding the tax implications, consistent with the dictates of art. 7 *bis*, Law 130/99, all taxes and dues are payable as though the sales of the loans had never taken place.
Again, to ensure that the operation was neutral for tax purposes, it was established, as foreseen in art. 7 *bis*, paragraph 7 of Law 130/99, that the sale price would be equal *"to the latest carrying amount of the loans"*, or as certified by the Independent Auditors of the selling Bank.

More specifically, the book value is adjusted for "endogenous variables", that is, cash collected from the loans in the intervening period and contractual interest accruing in the same period. This is also consistent with the regulatory provisions laid down by the Rules as described previously.
As for the other components that could affect the configuration of the carrying amount, i.e. amortised cost and collective impairments (given that they are performing loans), it has been considered in line with the principles of relevance, pertinence and materiality to assume that their value is equal to the one shown in the latest approved and audited financial statements, or the sale price specifically certified by the auditors of the selling Bank.

The risks associated with the transaction

The GBB1 and GBB2 Programmes involve some financial and other risks, subject to analysis and monitoring by the Group's Risk Management and Compliance functions and, specifically with regard to the risks of fraud and unintentional errors in financial reporting, by the Manager responsible for preparing the company's financial reports. In summary the main risk profiles can be summarised as follows:

- Interest rate risk. In the structure of a Covered Bond, the interest rate risk originates from the different characteristics of interest rates on Guaranteed Bank Bonds and on the portfolio of secured assets. These risks are mitigated by hedging derivatives put in place from time to time with market counterparties.
- Credit risk. In the structure of a covered bond, credit risk is attributable to the quality of loans sold by each Selling Bank in the cover pool. Given this risk, the rating agencies, in order to attribute to the Covered Bonds the maximum rating possible, require a level of over-collateralisation which is also linked to the quality of the cover pool.
- Counterparty risk. The counterparty risk is the possibility that the creditworthiness of counterparties involved in the transaction, in other words, the swap counterparties and the non Group bank, with which the SPV has its accounts, may worsen to the point of creating a liquidity problem, with the result that the cover pool funds that flow into the accounts of the SPV or payments made in connection with the swaps are retained by the same counterparties. This risk is mitigated by the involvement of high rated counterparties and the existence of clauses, in the relevant ISDA and CSA contracts as well as in the "Cash Management and Agency Agreement", according to which, in the case of downgrading of the counterparties, they will be immediately replaced.

- Liquidity risk. An issue of "bullet" Covered Bonds with a cover pool relating to mortgage loans with a given repayment plan entails the need for dynamic management of the cover pool itself. The funds received from the collection of capital instalments on the mortgage loans relating to the cover pool may have to be, in fact, reinvested in new mortgage loans with similar characteristics. If the Group does not have eligible mortgages available to be sold to supplement the cover pool (or to replace non-performing mortgages), it would be forced to pay cash or eligible securities, impacting negatively on Counterbalancing Capacity (the limit set by the Rules for these assets is 15%).
- Compliance risk. The articulate and accurate external legislation regulating Guaranteed Bank Bonds, together with management and internal operating rules, require a precise and formal structuring of activities under the Programmes, both during the up front and on going phases. The analysis of compliance requirements has been performed by the Compliance function.
- Reputational risk. Reputational risk is the possibility that the failure by BPER Banca to fulfil certain obligations arising from its role in the Programmes adversely affects the credibility and image of the Group on the market, resulting in a significant economic and financial impact. In addition to the risks outlined above, already existing at the inaugural issue, there are aspects associated with the multioriginator characteristic of the Programmes, which will be formally integrated into the body of the contract and management processes, as and when other Group Banks join the Programmes as originators.
- Risk of financial inadequacy. The regulatory provisions, in the discipline of Guaranteed Bank Bonds, in relation to the complexity of the contractual profiles and the possible impact on the technical structure of these transactions, require, among other things, a careful assessment of the impact on the financial stability of the bank. The analysis of the projects by the Board of Directors, highlighted:
    - regarding the impact on results, the transactions would have led to, with reference to available market data, a lower cost of funding compared with equivalent senior transactions and this would have allowed start-up costs to be fully covered, already in the first year, as well as to cover ongoing costs for the period. Under current market conditions, this original estimate may be considered highly conservative;
    - regarding the impact on the financial position, having considered the portfolio of eligible residential or commercial mortgage loans, at Group level, an plan was hypothesised for 7-year, later extended for another 5 years, and 10-year issues for, respectively, the first and second Programme, so as to have sufficient room to top-up the cover pool, if necessary, without affecting the financial position or commercial practices of the Group.

These findings have allowed the Board to determine that the transactions do not negatively affect the financial stability of the bank and of the Group as a whole.
In order to renew and extend the GBB1 Programme for a further 5 years - completed in January 2019 - the Board of Directors reiterated in good time its assessments in this regard.

Organisational and management aspects of special purpose vehicles

With regard to organisational and management aspects of special purpose vehicles (in order to assess their adequacy in relation to the role assigned them) and the contracts entered into as part of the Programmes, "Reports on the transferee company" have been prepared by external legal consultants, in order to ensure that the contracts entered into as part of the Programmes contain clauses that ensure the regular and efficient performance of functions by the assignees, as required by the Regulations.

Assessment of legal aspects of the Programmes for Issue of Guaranteed Bank Bonds

Linklaters and Allen & Overy, both law firms, originally issued reports on the GBB1 and GBB2 Programmes covering, in accordance with the Rules, the legal aspects of the activities involved in the Programmes. The reports contain a thorough assessment of legal structures and contractual arrangements used, with particular attention to the characteristics of the guarantees given by the assignee companies and the overall relationships between and among the participants in the Programmes.

Annual assessment of the Programmes for Issue of Guaranteed Bank Bonds by Asset Monitor

Note that, under the regulations, the asset monitor – in this case PricewaterhouseCoopers s.p.a. replaced Deloitte & Touche s.p.a. in July 2017 – performs annual reviews of the Programmes' status and issues a report to the Board of Directors, the Board of Statutory Auditors and the Bank's Internal Audit Function.

To date, reviews have been performed for 2011, 2012, 2013, 2014, 2015, 2016, 2017 2018 and 2019 without any significant findings emerging.

Quantitative information relating to sold loans

GBB1 Programme

1. Changes during the year

Description	31.12.2020
Opening balance	**4,456,363**
Increases	**603,595**
Purchase of loans portfolio	516,896
Other changes:	86,699
- Interest income accrued on loans	86,085
- Default interest	35
- Penalties and various recoveries	138
- Recovery of impairment provisions	424
- Recovery of expenses on bad loans	17
Decreases	**701,324**
Collections from customers	671,465
Other changes:	3,617
- Impairment losses on loans	1,941
- Losses on loans	-
- Charges from IAS adjustments	1,676
Repurchases by the Originator	26,242
Closing balance	**4,358,634**

2. Breakdown by residual life

Residual life of securitised loans	31.12.2020
Up to 3 months	454
From 3 months to 1 year	6,467
From 1 to 5 years	220,442
Over 5 years	4,149,119
Unspecified duration	642
Total	**4,377,124**

The loans balance is gross of loan provisions and IAS impairment losses.

3. Risk concentration

Amount by category (Euro)	Number of customers	31.12.2020
0 - 25,000	8,140	119,871
25,000 - 75,000	28,171	1,375,745
75,000 - 250,000	22,461	2,607,263
Over 250,000	776	274,245
Total	**59,548**	**4,377,124**

The loans balance is gross of loan provisions and IAS impairment losses.

As of 31 December 2020, sold debtors are for the most part resident in Italy and the loans are denominated in Euro.

GBB2 Programme

1. Changes during the year

Description	31.12.2020
Opening balance	**3,258,185**
Increases	**2,523,189**
Purchase of loans portfolio	2,440,458
Other changes:	82,731
- Interest income accrued on loans	81,684
- Default interest	40
- Penalties and various recoveries	360
- Other changes	647
Decreases	**656,917**
Collections from customers	619,143
Other changes:	37,774
- Impairment losses on loans	5,212
- Charges from to IAS adjustments	32,562
Repurchases by the Originator	-
Closing balance	**5,124,457**

2. Breakdown by residual life

Residual life of securitised loans	31.12.2020
Up to 3 months	481
From 3 months to 1 year	10,340
From 1 to 5 years	334,981
Over 5 years	4,829,352
Unspecified duration	707
Total	**5,175,861**

The loans balance is gross of loan provisions and IAS impairment losses.

3. Risk concentration

Amount by category (Euro)	Number of customers	31.12.2020
0 - 25,000	11,737	86,263
25,000 - 75,000	21,431	1,081,557
75,000 - 250,000	24,697	3,025,679
Over 250,000	1,862	982,362
Total	**59,727**	**5,175,861**

The loans balance is gross of loan provisions and IAS impairment losses.

As of 31 December 2020, sold debtors are for the most part resident in Italy and the loans are denominated in Euro.

F. Models for the measurement of credit risk

BPER Banca does not have internal portfolio credit risk models (VAR methodology).

Section 2 – Market risk

2.1 Interest rate risk and price risk - Trading portfolio for regulatory purposes

The Group's organisation provides for centralisation of the market risk control function at the Parent Company; consequently, the qualitative information set out below also reflects the individual position of BPER Banca.

Qualitative information

A. General aspects

The Group's proprietary portfolio comprises all of the financial instruments acquired for trading purposes or for hedging a risk factor inherent to the portfolio or the banking book.
"For trading purposes" is understood as being the purchase of financial instruments with the following features:

- exposure to managed risk factors (interest rate risk and price risk, exchange rate risk, issuer risk, counterparty risk and liquidity risk);
- trading done prevalently on active markets;
- securities issued by operators of prime standing.

The trading portfolio is managed according to exposure to the interest rate risk deriving from the overall asset-liability structure and, as a rule, does not include complex or innovative derivatives.
The trading portfolio comprises all those financial instruments not purchased with the aim of achieving equilibrium of the asset-liability structure, but with a view to contributing to the results of the year, optimising the overall risk-yield profile.
The size of the trading portfolio is closely linked to the liquidity position.
Arbitrage and short-term speculative activity with regard to listed derivative instruments are marginal with respect to routine trading on own account. The objective of the investment strategy underlying trading in these financial instruments is to maximise the overall risk/yield profile via appropriate diversification.
The Parent Company makes medium-term speculative investments in stock markets, in commodity derivatives, in mutual funds and, to a marginal extent, in hedge funds. However, this activity is just a small part of the transactions carried out in the bond markets.
The trading portfolio governance process is centralised in BPER Banca to respond to the needs of central oversight of market risk and greater efficiency of Group investment processes.
This process implies that the individual Group banks remain responsible for optimisation of the yield from liquidity through treasury transactions with BPER Banca or, alternatively, by investing in floating rate or fixed rate bonds issued by the Bank.
In this way, the governance of market risk has been centralised by the Parent Company on the basis of decisions taken by the ALCO and Finance Committee, which is chaired by the Chief Executive Officer.

B. Management and measurement of interest rate risk and price risk

The BPER Banca Group's system of daily checking is consistent with market standards. Value at Risk (VaR) techniques are used to measure market risk.
VaR represents the estimated maximum potential loss, determined based on probabilities, that may be suffered by the aggregate concerned over a given time horizon at a pre-determined level of confidence.
The method adopted for calculating VaR belongs to the class of “historical simulation” models, according to which the overall risk is determined on the basis of the historical distribution of the returns on the risk factors to which the financial instruments held are sensitive. The methodologies used to monitor market risks also include a sensitivity analysis based on parallel shifts in the market rate curves.
Currently, the daily calculation of VaR makes reference to two distinct time horizons; In fact, an analysis is carried out with a time horizon of one month and with a confidence interval of 99% on the entire Group's proprietary portfolio (banking book and trading book), in line with the Group's Risk Appetite Framework. This is accompanied by further analysis with the same confidence interval, but with a one-day time horizon, in order to monitor day by day the market risk dynamics of the Bank's trading portfolio. This model is only used for internal management purposes and is not involved in the calculation of the capital adequacy requirements regarding market risk.
The process of controlling interest-rate risk and price risk is centralised at BPER Banca. Periodic information is assured by the distribution of specific reports prepared at different time intervals, starting from the one produced daily.
The monitoring and control of interest rate risk of the trading portfolio aims to mitigate the risk in question, by defining a system of operating limits for the portfolios managed by the appropriate Group structures, addressing the various risks to which they are exposed. The limits are checked on a daily basis.
The daily monitoring and control of the price risk associated with the trading portfolio for supervisory purposes is performed via Value-at-Risk (VaR) analyses, in accordance with the method indicated above.

Impacts resulting from the Covid-19 pandemic

During 2020, the market risk profile of the BPER Banca Group was affected by the situation of high volatility on financial markets, particularly acute in the months of March and April because of the Covid-19 pandemic; given this situation, steps were taken on the one hand to increase the frequency of reporting to the Control and Risks Committee of the Parent Company with the aim of guaranteeing timely information to the corporate bodies; and, on the other, after an adequate period of monitoring to verify the trend in impacts of the pandemic on financial markets, updating the system of materiality thresholds (risk appetite, limits and risk tolerance) relating to market risk indicators.

Quantitative information

3. Interest rate risk - Trading portfolio for regulatory purposes: internal models and other methodologies for the sensitivity analysis

The VaR readings determined over time horizons of ten days and one day are set out below, in relation to the rate risk associated with the trading portfolio reported for regulatory purposes at 31 December 2020.

Descriptive data		VaR Time horizon: 10 days Confidence interval: 99%		VaR Time horizon: 1 day Confidence interval: 99%	
Type of transaction	**Present value**	**VaR**	**Var/Present Value**	**VaR**	**Var/Present Value**
BOT	-	-	-	-	-
BTP	1,315	134	10.18%	44	3.35%
CCT	-	-	-	-	-
Other government securities	2,699	67	2.48%	21	0.79%
Bonds	94,035	1,927	2.05%	625	0.67%
Equities	66	-	0.49%	-	0.16%
Mutual funds and SICAV	-	-	-	-	-
Derivatives/Transactions to be settled	(479,051)	59,798	-12.48%	17,172	-3.58%
Effect of diversification	-	[illegible]	-	(2,774)	-
Total portfolio 2020	**(380,936)**	**51,043**	**-13.40%**	**15,088**	**-3.96%**
Total portfolio 2019	**(86,066)**	**9,035**	**-10.50%**	**2,681**	**-3.11%**

The value of the trading portfolio at 31 December 2020 given a parallel shift of +/- 100 bps (sensitivity analysis) is set out below.

	+100 bps	**-100 bps**
31 Dec 2020	40,869	(114,991)
31 Dec 2019	19,635	(33,489)

3. Price risk - Trading portfolio for regulatory purposes: internal models and other methodologies for the sensitivity analysis

The VaR determined over time horizons of ten days and one day is set out below, in relation to the price risk associated with the trading portfolio reported for regulatory purposes at 31 December 2020.

Descriptive data		VaR Time horizon: 10 days Confidence interval: 99%		VaR Time horizon: 1 day Confidence interval: 99%	
Type of transaction	Present value	VaR	Var/Present Value	VaR	Var/Present Value
Equities	60,481	14,598	24.14%	4,618	7.64%
Mutual funds and SICAV	-	-	7.65%	-	2.42%
Derivatives/Transactions to be settled	(1,354)	12,457	-919.70%	3,949	-291.57%
Effect of diversification	-	(21,590)	-		-
Total portfolio 2020	**59,127**	**5,465**	**9.24%**	**1,715**	**2.90%**
Total portfolio 2019	**91,682**	**2,952**	**3.22%**	**947**	**1.03%**

2.2 Interest rate risk and price risk - Banking book

Qualitative information

A. General aspects, management and measurement of interest rate risk and price risk

Interest rate risk represents the potential impact of unexpected changes in market rates on current profits and the equity value of the Parent Company. This risk typically affects the positions included in the banking book.
The exposure to interest rate risk can be further analysed into:

- income risk;
- investment risk.

Income risk derives from the possibility that an unexpected change in interest rates may reduce net interest income, being the difference between interest received and interest paid. This risk is measured by maturity gap models and depends on:

- the mismatch in the maturity structures of lending and funding, in cases where the related assets and liabilities are remunerated at fixed rates until final maturity;
- the mismatch of the review periods for rate conditions, in the case of floating-rate assets and liabilities.

The timing mismatches mentioned above expose BPER Banca to:

- refinancing risk: this is the risk that arises when the average maturity period (period until the next rate review) is shorter for funding than for lending. In this case, the Bank is exposed to possible increases in interest rates (i.e. the Bank is "liability sensitive");
- reinvestment risk: this is the risk that arises when the average maturity period (period until the next rate review) is shorter for lending than for funding. In this case, the Bank's net interest income will decline if interest rates fall (i.e. the Bank is "asset sensitive").

Investment risk derives from the possibility that adverse changes in the value of all assets, liabilities and off-balance sheet instruments held by the Bank, following changes in interest rates, may destabilise the equilibrium of the balance sheet. This risk is measured by duration gap and sensitivity analysis techniques.
The following types of interest rate risk are identified:

- Repricing risk: this is the risk associated with differences in maturities (fixed rate) and repricing dates (floating rate) of the assets and liabilities held in the portfolio.
- Yield Curve Risk: this is the risk associated with changes in the gradient and shape of the yield curve.
- Refixing risk: this is the risk associated with the timing of changes in market parameters, for floating rate positions. More specifically, this is the risk that the rate of increase in interest rates is higher in the refixing periods for funding than in those for lending.
- Basis risk: this is the risk that arises from an imperfect correlation between the indexation parameters for lending and funding, or from unfavourable changes in the gradient of the curve.
- Optionality risk: this is the risk associated with options that are "explicit" or "embedded" in the banking book's assets and liabilities (e.g. cap/floor/collar, loan prepayment options).

Every month, BPER Banca monitors at both consolidated and legal entity level the impact that unexpected changes in market interest rates might have on the positions in the banking book, according to the following prospects:

- standpoint of current profits: the purchase of considering the impact on current profits is to evaluate interest risk with reference to the sensitivity of net interest income to rate changes over a given period of time. Adverse changes in net interest income potentially affect the financial stability of a bank by weakening its capital adequacy. The change in net interest income depends on the various types of risk;
- standpoint of economic value: changes in interest rates may affect the economic value of the Parent Company's assets and liabilities. The economic value of a bank is represented by the present value of its expected cash flows, defined as the sum of the present value of the cash flows to be generated by its assets, liabilities and positions in derivatives. By contrast with the standpoint of current profits, that of economic value identifies the risk generated by the repricing or maturity gap over a long time horizon.

The objectives to be pursued in support of the proper management of interest rate risk are:

- reduce the adverse effects of the volatility of net interest income (standpoint of current profits). The stability of net interest income is principally influenced by the yield curve risk, repricing risk, basis risk and optionality risk;

- immunise the economic value, being the sum of the present values of all the expected cash flows, generated by both sides of the balance sheet. By contrast with the standpoint of current profits, the standpoint of economic value takes a medium/long-term view and is principally associated with the repricing risk;
- ensure compliance with the related organisational requirements envisaged by the domestic and international supervisory bodies.

The model for the governance of rate risk is based on the following principles:

- assignment to the Parent Company of guidance and coordination rights over the strategic planning and control processes, treasury and financial management, the commercial area and the governance of lending for the entire Group, in order to ensure the consistent management of interest-rate risk and compliance with regulatory requirements,
- segregation between governance processes and the management of rate risk.

The strategic decisions at Group level regarding the management of risk are made by the corporate bodies of the Parent Company. The decisions made take account of the operational specifics and related risk profiles of each Group company, in order to establish an integrated and consistent risk management policy.
Given the above, the BPER Group has adopted a centralised model for the governance and management of risk.
As the Parent Company, BPER Banca is responsible for defining guidance for the governance, acceptance and management of interest-rate risk at Group level.

The model for the management of interest rate risk focuses on the following measures of risk:

- sensitivity of net interest income;
- sensitivity of economic value.

The sensitivity analysis of net interest income identifies the impact of changes in interest rates as a result of parallel and other shocks.
The Bank calculates the sensitivity of net interest income holding rates and volumes constant. According to this model amounts maturing are reinvested on the assumption of constant volumes, rates and maturities.
The indicator is calculated at both Group and Legal Entity levels.

The sensitivity analysis of economic value identifies the impact on the value of shareholders' equity of parallel and other shocks to the yield curve. This change is calculated by discounting all the cash flows using two different yield curves: the current curve at the analysis date and that following the shock, and comparing the two values.

$$\Delta VA = VA_{(Curve1)} - VA_{(Curve2)}$$

In order to include the prepayment phenomenon (early repayment, in whole or in part, of the residual debt by the borrower) when measuring the sensitivity of economic value, a statistical model has been adopted whereby the potential prepayment of loan principal is estimated using different variables, both of financial nature (such as market interest rates) and contractual (such as the original duration of the loan, the type of loan, the personal characteristics of the borrower, etc.).

For the calculation of sensitivity, demand balances outstanding with customers are simulated using an econometric model which identifies a portfolio that replicates them, by allocating demand funding (lending) to a portfolio of liabilities (assets) with an identified effective repricing profile.

In addition to the risk measures mentioned above, the capital absorbed in relation to interest rate risk is also calculated. Sensitivity analysis is applied in order to estimate the capital absorbed, consistent with the standardised approach envisaged by the Supervisory Authorities. Under this approach, the capital absorbed in relation to the banking book's interest rate risk is the change in the economic value (defined as the present value of expected cash flows) caused by an adverse interest-rate shock.

With regard to price risk, the banking book essentially includes transactions in equity instruments, mutual funds and SICAVs classified in the financial statements as measured at fair value through profit or loss and other comprehensive income.
The monitoring of the aforementioned portfolio takes place through the Value at Risk (VaR) methodology presented in detail in the section on qualitative information: "Interest rate risk and price risk - Trading portfolio reported for regulatory purposes".
The Risk Management Department determines the exposure to price risk each day in a specific VaR report.

Impacts resulting from the Covid-19 pandemic
During 2020, the market risk profile of the BPER Banca Group was affected by the situation of high volatility on financial markets, particularly acute in the months of March and April because of the Covid-19 pandemic; given this situation, steps were taken on the one hand to increase the frequency of reporting to the Control and Risks Committee of the Parent Company with the aim of guaranteeing timely information to the corporate bodies; and, on the other, after an adequate period of monitoring to verify the trend in impacts of the pandemic on financial markets, updating the system of materiality thresholds (risk appetite, limits and risk tolerance) relating to market risk indicators.

Quantitative information

2. Interest rate risk - Banking book: internal models and other methodologies for the sensitivity analysis

Below are the year-end figures at 31 December 2020 and their trends (minimum, average, maximum) of the management reporting year relating to the banking book's interest margin, against a parallel shift of +100/-50 bps.

	+100 bps	-50 bps
31 December 2020	**33,108**	**(37,967)**
maximum change	67,231	(54,604)
minimum change	33,108	(37,967)
average change	49,988	(44,445)
31 December 2019	**64,479**	**(31,546)**

Below are the year-end figures at 31 December 2020 and their trends (minimum, average, maximum) of the management reporting year relating to the change in the value of the banking book, against a parallel shift of +/- 100 bps (sensitivity analysis).

	+100 bps	-100 bps
31 December 2020	**97,920**	**532,901**
maximum change	286,671	532,901
minimum change	97,920	400,107
average change	191,587	484,487
31 December 2019	**116,550**	**196,388**

2. Price risk - Banking book: internal models and other methodologies for the sensitivity analysis

The VaR determined over time horizons of ten days and one day is set out below, in relation to the price risk associated with the trading portfolio reported for regulatory purposes at 31 December 2020.

Descriptive data		VaR Time horizon: 10 days Confidence interval: 99%		VaR Time horizon: 1 day Confidence interval: 99%	
Type of transaction	**Present value**	**VaR**	**Var/Present Value**	**VaR**	**Var/Present Value**
Equities Instruments	310,078	71,793	23.15%	22,703	7.32%
Mutual funds and SICAV	276,035	43,375	15.71%	13,716	4.97%
Derivatives/Transactions to be settled	-	-	-	-	-
Effect of diversification	-	(240)	-	(76)	-
Total portfolio 2020	**586,113**	**114,928**	**19.61%**	**36,343**	**6.20%**
Total portfolio 2019	**528,928**	**26,824**	**5.07%**	**8,482**	**1.60%**

2.3 Exchange risk

Qualitative information

A. General aspects, management and measurement of exchange risk

The BPER Banca Group is exposed to exchange risk in connection with routine funding and lending activities and, to a marginal extent, in relation to speculative activities.
The Parent Company's Financial Risk Department records and monitors the exposure to exchange rate risk daily in a specific VaR report.

B. Hedging of exchange risk

The Bank uses plain vanilla instruments for the operational hedging of exchange risk.

Quantitative information

1. Distribution by currency of assets and liabilities and derivatives

Items	Currency					
	USD	GBP	CHF	PLN	AED	OTHER CURRENCIES
A. Financial assets	**2,924,935**	**342,661**	**10,636**	**2,871**	**1,676**	**15,912**
A.1 Debt securities	2,816,041	334,495				
A.2 Equity securities	27,335	441	917			1,001
A.3 Loans to banks	24,086	3,057	1,671	2,871	1,676	13,450
A.4 Loans to customers	57,473	4,668	8,048			1,461
A.5 Other financial assets						
B. Other assets	**2,678**	**1,691**	**873**	**109**		**974**
C. Financial liabilities	**2,774,439**	**55,464**	**9,138**	**491**	**18,471**	**17,136**
C.1 Deposits from banks	2,505,732	19,314	418	3		121
C.2 Deposits from customers	268,707	36,150	8,720	488	18,471	17,015
C.3 Debt securities in issue						
C.4 Other financial liabilities						
D. Other liabilities	**2,799**	**107**	**1**		**285**	**69**
E. Financial derivatives	**591,224**	**331,319**	**74,648**	**29,912**	**17,318**	**79,627**
- Options						
+ Long positions	16,349	266				4,760
+ Short positions	88,708	2,810				8,630
- Other derivative instruments						
+ Long positions	281,317	34,462	56,677	25,829	17,318	36,685
+ Short positions	204,850	293,781	17,971	4,083		29,552
Total Assets	**3,225,279**	**379,080**	**68,186**	**28,809**	**18,994**	**58,331**
Total liabilities	**3,070,796**	**352,162**	**27,110**	**4,574**	**18,756**	**55,387**
Net balance (+/-)	**154,483**	**26,918**	**41,076**	**24,235**	**238**	**2,944**

2. Internal models and other methodologies for the sensitivity analysis

The following table shows the year-end figures at 31 December 2020 relating to the VaR of the exchange risk borne by the Institute, calculated over 10 and 1-day horizons.

	VaR Time horizon: 10 days Confidence interval: 99%	VaR Time horizon: 1 day Confidence interval: 99%
2020 figures	15,182	4,884
2019 figures	(33,741)	(10,672)

Section 3 - Derivatives and hedging policies

3.1 Trading derivative instruments

A. Financial derivatives

A.1 Trading financial derivatives: notional values at the end of the period

Underlying assets/Type of derivatives	Total 31.12.2020				Total 31.12.2019			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparties	without central counterparties			Central Counterparties	without central counterparties		
		with clearing arrangements	without clearing arrangements			with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	**-**	**9,587,698**	**455,605**	**-**	**-**	**10,748,223**	**422,916**	**-**
a) Options	-	1,683,565	-	-	-	720,001	-	-
b) Swap	-	7,727,643	-	-	-	9,775,706	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	455,605	-	-	-	422,916	-
e) Others	-	176,490	-	-	-	252,516	-	-
2. Equities and stock indexes	**-**	**40,314**	**42,765**	**-**	**-**	**107,452**	**90,928**	**-**
a) Options	-	40,314	3,449	-	-	107,452	60,769	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	39,316	-	-	-	30,159	-
e) Others	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**1,068,268**	**2,486**	**-**	**-**	**589,110**	**8,183**	**-**
a) Options	-	133,305	-	-	-	112,700	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	934,963	2,486	-	-	476,410	8,183	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**2,966**	**-**	**-**	**-**	**25,757**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**10,696,280**	**503,822**	**-**	**-**	**11,444,785**	**547,784**	**-**

A.2 Trading financial derivatives: gross positive and negative fair value - breakdown by product

Types of derivatives	Total 31.12.2020				Total 31.12.2019			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements	
1. Positive fair value								
a) Options	-	6,650	101	-	-	5,450	65	-
b) Interest rate swap	-	129,591	-	-	-	133,000	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	7,659	425	-	-	4,574	993	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	9,485	-	-	-	9,993	-	-
Total	**-**	**153,385**	**526**	**-**	**-**	**153,017**	**1,058**	**-**
2. Negative fair value								
a) Options	-	35,681	82	-	-	10,352	2,304	-
b) Interest rate swap	-	130,209	-	-	-	151,743	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	10,198	-	-	-	3,074	255	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	6,199	-	-	-	6,809	-	-
Total	**-**	**182,287**	**82**	**-**	**-**	**171,978**	**2,559**	**-**

A.3 OTC trading financial derivatives - notional values, gross positive and negative fair value by counterparties

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	455,605	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equities and stock indexes				
- notional value	X	40,136	110	2,519
- positive fair value	X	-	-	101
- negative fair value	X	9	-	73
3) Currencies and gold				
- notional value	X	2,304	-	182
- positive fair value	X	424	-	1
- negative fair value	X	-	-	-
4)Goods				
- notional value	X	2,966	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Others				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	-	8,062,919	131,825	1,392,955
- positive fair value	-	86,354	2,974	51,482
- negative fair value	-	170,333	3	75
2) Equities and stock indexes	-			
- notional value	-	8,250	64	32,000
- positive fair value	-	332	12	-
- negative fair value	-	215	1	-
3) Currencies and gold	-			
- notional value	-	766,222	18,470	283,576
- positive fair value	-	3,730	612	7,889
- negative fair value	-	9,061	-	2,599
4)Goods	-			
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Others	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC trading financial derivatives: notional values

Underlyings / residual		Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
A.1 Financial derivative contracts on debt securities and interest rates		2,706,931	4,629,287	2,707,085	10,043,303
A.2 Financial derivative contracts on equity securities and stock indexes		50,730	32,189	160	83,079
A.3 Financial derivatives on currencies and gold		1,037,899	32,855	-	1,070,754
A.4 Financial derivatives on goods		2,966	-	-	2,966
A.5 Other financial derivatives		-	-	-	-
Total	**31.12.2020**	**3,798,526**	**4,694,331**	**2,707,245**	**11,200,102**
Total	**31.12.2019**	**4,111,564**	**4,649,717**	**3,231,288**	**11,992,569**

B. Credit derivatives

B.1 Trading credit derivatives: notional values at the end of the period

Types of transactions	Trading derivatives	
	with a single counterparty	with more than one counterparty (basket)
1. Protection purchases		
a) Credit default products	-	30,000
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31.12.2020	**-**	**30,000**
Total 31.12.2019	**-**	**70,000**
2. Protection sales		
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31.12.2020	**-**	**-**
Total 31.12.2019	**-**	**-**

B.2 Trading credit derivatives: positive and negative gross fair value - breakdown for products

Types of derivatives	Total 31.12.2020	Total 31.12.2019
1. Positive fair value		
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**-**	**-**
2. Negative fair value		
a) Credit default products	612	1,683
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**612**	**1,683**

B.3 OTC trading credit derivatives: notional values, gross positive and negative fair value by counterparties

	Central counterparties	Banks	Other financial companies	Other entities
Contracts not covered by clearing agreements				
1) Protection purchases				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Protection sales				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by clearing agreements				
1) Protection purchases				
- notional value	-	30,000	-	-
- positive fair value	-	-	-	-
- negative fair value	-	612	-	-
2) Protection sales				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

B.4 Residual life of OTC trading credit derivatives: notional values

Underlyings / residual	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
1. Sale protection	-	-	-	-
2. Buy protection	-	30,000	-	30,000
Total 31.12.2020	**-**	**30,000**	**-**	**30,000**
Total 31.12.2019	**-**	**70,000**	**-**	**70,000**

B.5 Credit derivatives connected with the fair value option: annual changes

There are no amounts to be disclosed in this section.

3.2 Accounting hedges

Qualitative information

From 1 July 2020, the BPER Banca Group has adopted Chapter 6 Hedge Accounting of IFRS 9. For more details on the reasons that led to the change in the reference standards and on the related application methods, please refer to what is mentioned in Part A.2 of the Explanatory Notes, para. 4. “Hedging operations”.
The Group's organisation provides for centralisation of risk management through accounting hedges at the Parent Company; consequently, the qualitative information reported below as referring to the BPER Banca Group also represents the individual situation of BPER Banca.

A. Fair value hedges

Hedged Risk - Rate Risk
As already mentioned previously and in other parts of the financial statements, the corporate strategies provide for specific interventions aimed at the best possible management of interest rate risk. Among the intervention levers, the Group has recourse to derivative contracts (classified from an accounting point of view both as “hedging” and “trading”), used to reduce the sensitivity of the proprietary securities portfolio, loans granted and own bond issues, compared with a movement in risk-free rates.
The derivatives used for this purpose are:

- Interest Rate Swaps (IRS), also in currencies other than the Euro, traded over the counter, that are specific for each asset or liability instrument to be hedged, or refer to several instruments with the same maturity. Using these instruments, the BPER Banca Group pays fixed and receives floating for asset securities, and pays floating and receives fixed for liability securities;
- Futures, listed, generic with underlying German, Italian and US bonds.

Compared with what is shown, micro-hedge accounting is qualified only for hedging the interest rate risk connected to bonds in the banking book, classified among Financial assets measured at fair value through other comprehensive income and Financial assets measured at amortised cost, loans disbursed and classified as financial assets at amortised cost, using IRS-type derivatives for this purpose. Similarly, they have been qualified as hedges of bonds issued by the Group at a fixed rate.

Hedged risk - Credit / Counterparty Risk

Given the unexpected increase in credit/counterparty risk, the BPER Banca Group uses derivative instruments to reduce the sensitivity of the investment portfolio.

The derivatives used for this purpose are:

- Credit Default Swaps – CDS, traded over-the-counter, generic and linked to sub-indexes;
- Futures, listed, generic with underlying German, Italian and US bonds.

Compared with what is shown, credit risk is hedged only from a management point of view, as no hedge accounting has been chosen.

Hedged risk – Price risk

The coverage of unwanted changes in fair value also includes transactions involving equity securities.

The derivatives used for this purpose are:

- Total Return Swaps (TRS), traded over the counter, specific for each individual asset including equities and in currencies other than the Euro.

B. Cash flow hedges

Hedged Risk – Rate Risk

The objective pursued by the Group in this case is to stabilise the contribution made by the securities portfolio to the net interest income of the Bank should risk-free rates rise.

The derivatives used for this purpose are:

- Interest Rate Swaps - IRS, traded over the counter, that are specific for each instrument to be hedged or for multiple instruments with the same maturity. In this case the BPER Banca Group pays floating and receives fixed interest.

With respect to this management approach, the BPER Banca Group has classified a hedging relationship (micro-hedge accounting) solely with a view to minimising the risk of an undesired fluctuation in the rate of inflation of a security indexed to it. An inflation-linked swap is used as a hedging instrument in this case.

Hedged risk - Exchange-rate risk

The objective pursued by the Group in this case is to stabilise the contribution made by the foreign currency securities portfolio to the net interest income of the Bank should the exchange rate depreciate.

The derivatives used for this purpose are:

- Cross Currency Swaps - CCS, traded over-the-counter, specific for each issue to be hedged or for multiple issues with the same maturity. The BPER Banca Group pays the cash flows in foreign currency that it receives from the hedged asset and receives Euro.

In this case, the BPER Banca Group has classified a hedging relationship (micro-hedge accounting) achieved by using a CCS derivative contract, under which the BPER Banca Group pays Dollars and collects Euro.

C. C. Foreign investment hedging assets

The BPER Banca Group does not have any foreign investment hedging relationships.

D. Hedging instruments

The hedge accounting implemented by the BPER Banca Group is therefore achieved by the use of OTC IRS derivative contracts, either plain vanilla or with cap & floor options, and CCS or TRS derivatives.

E. Hedged items

The BPER Banca Group currently has accounting hedges on securities (bonds and equities) in the banking book, on loans (mortgages) granted and on its own bond issues. For these instruments, either just the interest rate risk component or the interest rate risk and inflation rate risk components are hedged.

IBOR Reform

As mentioned in the Directors' report on Group operations (in the section on "Main risks and uncertainties - IBOR Reform"), following the Financial Stability Board's decision to gradually replace IBORs with "alternative interest rates", the European Union introduced its Benchmarks Regulation (EU 2016/1011 BMR), published in 2016 and in force since January 2018. It lays down precise rules for administrators, contributors and users of benchmarks that guarantee transparency and representativeness of the indices with respect to the markets to which they refer, requiring them to base their figures as much as possible on actual transactions.
Following the BMR, European institutions declared as critical:

- the EONIA rate, which since 2 October 2019 has been based on the fixing of the Euro Short-Term Rate (€STR), identified by ECB as an alternative rate which will no longer be used after 31 December 2021;
- the EURIBOR rate, which had its methodology revised in 2019 (introducing the so-called hybrid method), which guarantees compliance with the regulatory requirements;
- as regards the benchmark rates referring to other currencies, the most important being reformed are: EURIBOR, USD LIBOR, GBP LIBOR, EUR LIBOR, CHF LIBOR, JPY LIBOR, JPY TIBOR, EUROYEN TIBOR, CAD CDOR, etc.

The following table indicates the notional amount and average residual duration of all hedging derivatives, aggregated by the reference benchmark rate used. The hedging derivatives provide a good proxy of the extent of the interest-rate exposures that the Bank manages via the hedges.

Type of instrument	Received cash-flow	Paid cash-flow	Current notional amount (in thousands)	Average resudual life (years)
Interest Rate Swap	Euribor 3M	Fixed rate	27,000	2,71
Interest Rate Swap	Euribor 6M	Fixed rate	5,698,128	7,94
Interest Rate Swap	GBP LIBOR 6M	Fixed rate	27,808	5,43
Interest Rate Swap	Fixed rate	Euribor 6M	1,844,422	2,84
		Fixed rate	104,446	4,93
Interest Rate Swap	USD LIBOR 3M	Uncodified rates	14,692	4,05
		Fixed rate	520,577	4,74
Total			**8,237,073**	**6,53**

Of the hedging relationships shown, only those tied to the USD LIBOR and GBP LIBOR benchmarks are affected by the IBOR Reform, given the "uncertainty" of their future cash flows and consequent difficulty in carrying out tests of their future stability. As already mentioned in Part A of the Explanatory Notes, the BPER Banca Group has applied Regulation 34/2020 of 15 January 2020, which adopts the guidelines issued by the IASB in its document "Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)". This allows, on an exceptional and temporary basis, the performance of prospective tests in constant application of the current benchmark, also for maturities after 31 December 2021. The purpose is to avoid the situation whereby the uncertainty caused by the reform with regard to the amount and timing of cash flows might lead to existing hedges being interrupted.

Quantitative information

A. Hedging financial derivatives

A.1 Hedging financial derivatives: notional values at the end of the period

Underlying assets / Type of derivatives	Total 31.12.2020				Total 31.12.2019			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparties	without central counterparties			Central Counterparties	without central counterparties		
		with clearing arrangements	without clearing arrangements			with clearing arrangements	without clearing arrangements	
1. Debt securities and interest rate	**-**	**8,167,934**	**-**	**-**	**-**	**7,655,945**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	8,167,934	-	-	-	7,655,945	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
2. Equities and stock indexes	**-**	**14,693**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	14,693	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**54,446**	**-**	**-**	**-**	**54,446**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	54,446	-	-	-	54,446	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**8,237,073**	**-**	**-**	**-**	**7,710,391**	**-**	**-**

A.2 Hedging financial derivatives: gross positive and negative fair value - breakdown by product

Types of derivatives	Positive and negative fair value								Change in the value used to calculate the effectiveness of the hedge	
	Total 31.12.2020				Total 31.12.2019				Total 31.12.2020	Total 31.12.2019
	Over the counter			Organized markets	Over the counter			Organized markets		
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties				
		With clearing arrangements	Without clearing arrangements			With clearing arrangements	Without clearing arrangements			
1. Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swap	-	53,714	-	-	-	80,648	-	-	-	-
c) Cross currency swap	-	3,981	-	-	-	1,221	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**57,695**	**-**	**-**	**-**	**81,869**	**-**	**-**	**-**	**-**
2. Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swap	-	456,447	-	-	-	283,792	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**456,447**	**-**	**-**	**-**	**283,792**	**-**	**-**	**-**	**-**

A.3 OTC hedging financial derivatives - notional values, gross positive and negative fair value by counterparties

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not included in clearing agreement				
1) Debt securities and interest rate				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equities and stock indexes				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Goods				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in clearing arrangements				
1) Debt securities and interest rate				
- notional value	-	8,167,934	-	-
- positive fair value	-	53,714	-	-
- negative fair value	-	455,002	-	-
2) Equities and stock indexes				
- notional value	-	14,693	-	-
- positive fair value	-	-	-	-
- negative fair value	-	1,446	-	-
3) Currencies and gold				
- notional value	-	54,446	-	-
- positive fair value	-	3,981	-	-
- negative fair value	-	-	-	-
4) Goods				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC hedging financial derivatives: notional values

Underlyings / residual		Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
A.1 Financial derivative contracts on debt securities and interest rates		50,238	3,646,715	4,470,981	8,167,934
A.2 Financial derivative contracts on equity securities and stock indexes		-	14,693	-	14,693
A.3 Financial derivative contracts on currency and gold		-	-	54,446	54,446
A.4 Financial derivative on goods		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	31.12.2020	50,238	3,661,408	4,525,427	8,237,073
Total	31.12.2019	229,522	3,413,155	4,067,714	7,710,391

B. Hedging credit derivatives

There are no amounts to be disclosed in this section.

C. Non-hedging derivatives

There are no amounts to be disclosed in this section.

D. Hedged instruments

D.1 Fair value hedges

	Specific hedges: book value	Specific hedges - net positions: balance sheet value of assets or liabilities (before offsetting)	Specific hedges			Generic hedges: book value
			Accumulated changes in fair value of hedging instrument	Ending of hedge: residual accumulated valute of residual changes in fair value	Change in value used to relieve hedging ineffectiveness	
A. Assets						
1. Financial assets measured at fair value with an impact on total profitability - hedges of:	**2,983,673**	**-**	**9,760**	**(182)**	**9,578**	**-**
1.1 Debt securities and interest rate	2,979,712	-	9,228	(182)	9,046	x
1.2 Equity securities and stock price indices	3,961	-	532	-	532	x
1.3 Currencies and gold	-	-	-	-	-	x
1.4 Credits	-	-	-	-	-	x
1.5 Other	-	-	-	-	-	x
2. Financial assets measured at amortized cost - hedges of:	**3,677,057**	**-**	**20,637**	**-**	**20,637**	**-**
1.1 Debt securities and interest rate	3,675,936	-	20,560	-	20,560	x
1.2 Equity securities and stock price indices	-	-	-	-	-	x
1.3 Currencies and	-	-	-	-	-	x
1.4 Credits	1,121	-	77	-	77	x
1.5 Other	-	-	-	-	-	x
Total 31.12.2020	**6,660,730**	**-**	**30,397**	**(182)**	**30,215**	**-**
Total 31.12.2019	**-**	**-**	**-**	**-**	**-**	**-**
B. Liabilities						
1, Financial liabilities measured at amortized cost - hedges of:	**1,899,543**	**-**	**(6,114)**	**23**	**(6,091)**	**-**
1.1 Debt securities and interest rate	1,899,543	-	(6,114)	23	(6,091)	x
1.2 Currencies and gold	-	-	-	-	-	x
1.3 Other	-	-	-	-	-	x
Total 31.12.2020	**1,899,543**	**-**	**(6,114)**	**23**	**(6,091)**	**-**
Total 31.12.2019	**-**	**-**	**-**	**-**	**-**	**-**

D.2 Coverage of financial flows and foreign investments

		Change in value used to calculate hedging ineffectiveness	Hedging reserves	Cessation of hedging: residual value of hedging reserves
A. Coverage of financial flows				
1. Assets		-	(2,348)	-
1.1 Debt securities and interest rate		-	(575)	-
1.2 Equity securities and stock price indices		-	-	-
1.3 Currencies and gold		-	(1,773)	-
1.4 Credits		-	-	-
1.5 Other		-	-	-
2. Liabilities		-	-	-
1.1 Debt securities and interest rate		-	-	-
1.2 Currencies and gold		-	-	-
1.3 Other		-	-	-
Total (A)	31.12.2020	-	(2,348)	-
Total (A)	31.12.2019	-	-	-
B. Coverage Foreign Investments		X	-	-
Total (A+B)	31.12.2020	-	(2,348)	-
Total (A+B)	31.12.2019	-	-	-

E. Effects of hedging transactions on shareholders' equity

E.1 Reconciliation of equity's components

	Reserve hedging financial flows				
	Debt securities and interest rate	Equity securities and stock price indices	Currencies and gold	Credits	Others
Opening balance	(688)	-	(3,590)	-	-
Changes in Fair Value	113	-	1,816	-	-
Transfer to P&L	-	-	-	-	-
of which: future transaction not expected (IFRS 9 par. 6.5.11 lett. d) punti iii)	-	-	-	-	-
Other variations	-	-	-	-	-
of wich: transfer to initial book value (IFRS 9 par. 6.5.11 lett. d) punti i)	-	-	-	-	-
Closing balance	(575)	-	(1,774)	-	-

The parts of the table relating to hedging reserves for foreign investments and hedging instruments (non-designated elements) are not shown as they do not apply.
The Opening balance shows the value of the cash flow hedging reserve at the date of adoption of IFRS 9 Hedge Accounting (1 July 2020).

3.3. Other information on derivative instruments (trading and hedging)

A. Financial and credit derivatives

At 31 December 2020, the BPER Banca Group does not have any derivatives that satisfy the criteria envisaged in IAS 32.42 for offsetting financial assets and liabilities.

Section 4 - Liquidity risk

Qualitative information

The Group's organisation provides for centralisation of the liquidity risk control function at the Parent Company; consequently, the qualitative information set out below also reflects the individual position of BPER Banca.

A. General aspects, management and measurement of liquidity risk

The BPER Banca Group has a specific policy for the management of liquidity risk (Group Policy for Liquidity and Funding Risk Governance) and a Contingency Funding Plan for emergencies, covering the objectives, processes and strategies for action.

Group Policy for Liquidity and Funding Risk Governance

This document, which forms an integral part of the Risk Appetite Framework of the BPER Banca Group, defines the principles, objectives and methods of governance and monitoring of liquidity and funding risk at Group level.
More specifically, it contains:

- the definition of the governance model in terms of the parties involved in risk governance and their roles and responsibilities;
- definition of limits and mitigating actions aimed at risk containment;
- the formalisation of risk management methods, through the establishment of rules, procedures and metrics for the measurement and monitoring of liquidity and funding risk, describing the stress test model adopted to evaluate the risk exposure in stress scenarios.

Liquidity risk typically crystallises in the form of failure to meet payment obligations; it may take various forms, depending on the circumstances in which the risk arises. With reference to the definitions adopted at international level, a distinction is made between funding liquidity risk and market liquidity risk.
Funding liquidity risk is the risk that the Parent Company will not be able to make, in an efficient manner, expected and unexpected cash payments, both current and future, nor will it be able to meet collateral obligations, without an adverse effect on current operations or its financial position.
Market liquidity risk, on the other hand, is the risk that the Parent Company is not able to sell a financial asset without incurring a capital loss due to poor liquidity or disorder in the reference market.
These two forms of liquidity risk are often highly correlated, and may crystallise as a result of the same underlying factors. Market liquidity risk is usually considered to be a type of market risk (price risk); accordingly, the processes and rules for measuring, controlling and mitigating liquidity risk focus on the funding risk aspect.

In the context of funding risk, a distinction is made between:

- mismatch liquidity risk, being the liquidity risk implicit in the structure of the Parent Company’s assets and liabilities due to the transformation of maturities typical of financial intermediaries, when the profile of cash outflows is not perfectly matched by the profile of cash inflows (with reference to contractual maturities and routine behaviour);

- contingency liquidity risk, being the risk that future events may require access to significantly more liquidity than previously planned by the Group; in other words, this is the risk of not being able to settle sudden and unexpected payment commitments in the short or very short term.

Liquidity risk can derive from different types of sources. In particular, two macro-categories are considered:

- Endogenous sources of liquidity risk: these include, among specific adverse events for the Group, a rating downgrade or other event that causes the market to lose confidence in the Group. Such a downgrade or a widespread market perception of a deterioration in the Group's solidity (which could arise from other risks, such as major losses on the trading book or loan portfolio) might also result in:
  - reduced access to the market for unsecured funds (e.g. commercial paper) by institutional investors;
  - a reduction in or cancellation of interbank lines of credit;
  - the withdrawal of deposits by retail customers;
  - an increased need for liquidity, for example a request to increase margins and guarantees due, or the need to finance assets that can no longer be sold or converted into securities through securitisations.
- Exogenous sources of liquidity risk include:
  - systemic events that cause a liquidity crisis in the market (political and financial crises, catastrophic events, etc.);
  - specificity of some financial products (derivative contracts, stock-borrowing contracts), where events, such as sudden market movements, bankruptcies or downgrades in the ratings, could trigger a request for further collateral from counterparties;
  - commitments relating to committed lines that in the event of a crisis could generate an increase in the demand for liquidity on the part of customers; endorsement credits or committed lines facilities stipulated with special purpose vehicles in connection with securitisations act in a similar way;
  - structural changes in the market that can lead to an increase in the liquidity risk perceived overall (increasing system demand for more volatile funding sources such as wholesale funds, rapid movement of accounts via internet banking).

Consistent with the Group Guidelines - Internal Control System, the management of liquidity risk can be broken down into the following components:

- definition of risk objectives,
- risk-taking,
- risk management,
- definition of risk exposure and operational limits.

The Group's governance model of short-term liquidity (operating liquidity) is based on centralised governance of liquidity and the related risk. In particular, the Parent Company:

- is responsible for the liquidity policy,
- governs short-term liquidity,
- determines and manages the funding plan,
- monitors liquidity risk,

for all Group Banks and Companies covered by the policy.

Funding/lending transactions involving liquidity are centralised at the Treasury and Institutional Liquidity Office to ensure that the Group's overall liquidity is managed efficiently:

- by optimising access to liquidity markets in terms of volumes and costs, exploiting the creditworthiness of the Group and minimising the cost of funding;
- by centralising "rating sensitive" funding transactions, as well as interventions on the money market;
- by implementing a principle of functional specialisation through centres of competence for secured funding transactions (issues of secured instruments, funding from particular categories of institutional investors, etc.).

The Group's governance model for long-term liquidity (or "structural liquidity") is based on the following principles:

- attribution to the Parent Company of the prerogatives for the guidance and coordination of the commercial and credit policies of Group Companies to ensure consistency in the overall governance of funding risk and to ensure compliance with the requisites envisaged by the regulations;
- communication of decisions and clear division of responsibilities between management, control and operational bodies;
- development of processes for the governance and control of funding risk that are consistent with the Group's reporting structure and by using the governance model formalised by this policy.

The principles listed above give rise to a centralised model for the governance and management of the structural liquidity risk among all Group banks/companies included in the scope of consolidation.

The Group's model for the governance of liquidity and funding risk has the following objectives:

- guarantee solvency in the ordinary course of business and under crisis conditions;
- ensure enough liquidity to satisfy the contractual commitments of the Group at all times, while also optimising the cost of funding given both current and expected market conditions;
- apply the instructions issued by the Supervisory Authorities, while also taking account of the Group's own operating characteristics.

Pursuit of the above objectives takes account of the following aspects:

- separation of responsibilities and roles between the corporate bodies that govern liquidity and funding and those with control functions;
- distinction between the metrics that monitor short-term risk and those focused on the medium-long term;
- the metrics that monitor short-term liquidity risk, being the ability of the Group to meet both routine and unexpected payment obligations, while minimising the related cost, envisage:
    - calculation of the exposure using the Liquidity Risk Mismatch Model, considering the eligible assets that are readily convertible into liquid funds, as well as any reserves held in the form of working capital;
    - maintenance of the lending-funding due to mature in the various time bands within a cumulative limit; verification both daily for internal operational purposes and weekly in accordance with the frequency requirements specified by the Supervisory Authorities

- the metrics that monitor medium/long-term liquidity risk, being the maintenance of suitable dynamics in the ratio of medium/long-term assets and liabilities, avoiding pressure on the sources of current and expected short-term liquidity while also optimising the cost of funding. These metrics envisage:
    - calculation of the liquidity mismatch which, in practical terms, means calculating the gap ratios between assets and liabilities in the time bands beyond one year;
    - calculation of the funding gap, being the difference between lending and commercial funding as a percentage of total lending;
    - the use of statistical/quantitative behavioural models for items without contractual maturities or which are subject to options;
- definition of a Group Contingency Funding Plan that establishes the most suitable methods of managing Group liquidity in a crisis scenario caused by endogenous and/or exogenous factors;
- monitoring the liquidity position in the ordinary course of business and under stress conditions;
- performance of periodic stress tests considering both endogenous and exogenous shock scenarios; when carrying out stress analysis, scenarios are constructed with reference to events of a systemic, idiosyncratic and combined nature;
- development of processes for the governance and management of liquidity and funding risk, using a model that involves the appropriate corporate bodies and functions;
- conformity of the processes for the governance and management of liquidity and funding risk with the prudential supervision instructions.

Contingency Funding Plan

The Contingency Funding Plan formalises the process of liquidity management under stress or crisis scenarios. The business functions responsible for monitoring and managing liquidity risk must be able to carry out their activities both under normal conditions and at times of stress and/or liquidity crises that are unlikely to occur, but which would have a significant impact.
In view of the governance model of the liquidity and funding risk previously illustrated, BPER Banca - as the lender of last resort for all Group subsidiaries - guarantees their short, medium and long-term solvency and is responsible for activating the Contingency Funding Plan, regardless of where in the Group the liquidity crisis arises.
The purpose of the Contingency Funding Plan is to safeguard the net assets of the Bank at the early stages of liquidity stress and to guarantee the Group’s continuity in the event of a serious and/or prolonged liquidity crisis, by:

- defining a process for the identification and monitoring of risk indicators that signal and measure the stages in a liquidity crisis;
- identifying ex ante a system of predetermined but flexible actions to be implemented in the early stages of a crisis;
- determining the roles and responsibilities of each business function;
- identifying the internal regulations that may be invoked to justify the actions of the BPER Banca Group’s management, which at a time of crisis must be authorised to modify on a timely and perhaps radical basis the structure of the assets and liabilities in the balance sheet.

A state of liquidity crisis is defined as a situation in which a Group finds it difficult or impossible to settle the cash payments falling due, except by activating procedures and/or using tools with an intensity or in a manner not envisaged as part of ordinary administration.
Liquidity crises fall into two broad categories:

- systemic liquidity crises generated by market, political or macroeconomic crises;
- specific liquidity crises limited to the Group or to one or more Group Companies/Banks.

Considering the types of liquidity crisis and their scale, three operational scenarios have been identified:

- ordinary course of business;
- state of stress;
- state of crisis.

Depending on the scenario, the actions required and the functions involved in its management can be identified.
The operational scenario faced by the Group is identified by monitoring the system of early warnings, which comprises a series of indicators that flag the scenario with reference to progressive levels of stress/crisis associated with one or more drivers. Depending on the level of stress/crisis identified, monitoring and/or communications procedures are activated in preparation for implementing procedures designed to manage the state of stress or state of crisis concerned.

The Contingency Funding Plan and its revisions must be approved by the Board of Directors of the Parent Company.

B. Liquidity indicators

The new harmonised rules for banks and investment companies contained in EU Regulation 575/2013 (CRR), as subsequent updates, also introduced new liquidity indicators[56]:

- Liquidity Coverage Ratio (LCR): this is an indicator of coverage of short-term liquidity whose purpose is to force banks to accumulate sufficient high-quality assets that are readily convertible into cash, in order to deal with a scenario of high stress on the funding side over a period of thirty days. At 31 December 2020 it was 200.1% calculated as a ratio of Euro 19,461 million of highly liquid assets and Euro 9,724 million of net cash outflows.
- Net Stable Funding Ratio (NSFR): a structural long-term indicator that is measured with a view to reporting any mismatches between liquid assets and liabilities. At 31 December 2020, this indicator stood at 123.7%.

The liquidity requirements are over 100%, so above the minimum requirements of Basel 3.
Alongside these indicators, the legislation also sets the leverage ratio which is highlighted in the Directors' Report on Operations under the heading "Key figures".

Impacts resulting from the Covid-19 pandemic

Faced with the Covid-19 pandemic, the Group implemented a broad set of actions to strengthen its liquidity profile and address the potential impacts of a crisis caused by customers' sudden requests for liquidity and volatility in the value of easily marketable assets as a result of unfavourable market conditions; these actions involved both the operational profile (mainly by increasing funding from the European Central Bank and expanding potential sources of funding to draw upon in case of need) and the

[56] *The data presented are those of the BPER Banca Group as they are calculated only at a consolidated level.*

measurement and monitoring of the risk (mainly by increasing the frequency of reports to the Control and Risk Committee and to Senior Management, intensifying stress tests and monitoring specific risk factors linked to the crisis). It was not necessary to act on the relevant internal thresholds (risk appetite, limits and risk tolerance) for liquidity risk indicators as the Group's liquidity profile remained robust throughout the crisis, a good deal higher than the minimum values defined internally and well above the regulatory thresholds.

Quantitative information

1.Time breakdown by contractual residual maturity of financial assets and liabilities

EURO

Items/Time	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months
A.Cash assets	**6,505,151**	**223,401**	**752,078**	**2,554,524**	**3,038,007**
A.1 Government securities	-	-	3,717	70	20,015
A.2 Other debt securities	30	4,567	17,374	35,992	96,680
A.3 UCITS units	260,595	-	-	-	-
A.4 Loans	6,244,526	218,834	730,987	2,518,462	2,921,312
- Banks	1,320,822	14,248	143,519	1	1,115,697
- Customers	4,923,704	204,586	587,468	2,518,461	1,805,615
B.Cash liabilities	**48,082,955**	**156,413**	**133,832**	**144,848**	**499,660**
B.1 Deposits and current accounts	47,649,207	801	1,705	111,057	60,200
- Banks	4,043,376	-	-	106,793	-
- Customers	43,605,831	801	1,705	4,264	60,200
B.2 Debt securities	40,802	5,069	14,175	22,312	58,111
B.3 Other liabilities	392,946	150,543	117,952	11,479	381,349
C. Off-balance sheet transactions					
C.1 Physically settled financial derivatives					
- Long positions	10	141,648	48,038	53,097	248,930
- Short positions	300,991	17,987	46,677	48,685	150,605
C.2 Cash settled financial derivatives					
- Long positions	101,517	-	-	-	-
- Short positions	87,028	-	-	-	-
C.3 Deposit to be received					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Commitments to disburse funds					
- Long positions	1,201,698	6,134	7,059	295,270	435,131
- Short positions	3,833,389	-	-	-	-
C.5 Written guarantees	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Physically settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Cash settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	612	-	-	-	-

1.Time breakdown by contractual residual maturity of financial assets and liabilities EURO

(cont.)

Items/Time	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity
A.Cash assets	**2,528,541**	**3,960,566**	**23,284,867**	**23,963,586**	**8,359,559**
A.1 Government securities	61,214	299,799	3,663,867	4,516,997	-
A.2 Other debt securities	52,606	162,688	3,932,308	5,370,005	182
A.3 UCITS units	-	-	-	-	-
A.4 Loans	2,414,721	3,498,079	15,688,692	14,076,584	8,359,377
- Banks	10,763	25,146	626,405	176,878	8,359,377
- Customers	2,403,958	3,472,933	15,062,287	13,899,706	-
B.Cash liabilities	**327,446**	**400,747**	**20,066,331**	**2,878,737**	**-**
B.1 Deposits and current accounts	58,205	19,387	613	-	-
- Banks	-	-	-	-	-
- Customers	58,205	19,387	613	-	-
B.2 Debt securities	173,174	144,974	2,718,860	1,516,844	-
B.3 Other liabilities	96,067	236,386	17,346,858	1,361,893	-
C. Off-balance sheet transactions					
C.1 Physically settled financial derivatives					
- Long positions	63,327	63,675	20,796	246,545	-
- Short positions	54,604	48,972	10,509	-	-
C.2 Cash settled financial derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.3 Deposit to be received					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Commitments to disburse funds					
- Long positions	316,687	597,668	542,598	11,658	-
- Short positions	-	-	-	-	-
C.5 Written guarantees	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Physically settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Cash settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-

1.Time breakdown by contractual residual maturity of financial assets and liabilities

OTHER CURRENCIES

Items/Time	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months
A.Cash assets	**85,743**	**1,197**	**3,291**	**22,392**	**216,710**
A.1 Government securities	-	-	-	-	11,566
A.2 Other debt securities	-	42	150	97	166,430
A.3 UCITS units	15,406	-	-	-	-
A.4 Loans	70,337	1,155	3,141	22,295	38,714
- Banks	49,853	-	-	-	455
- Customers	20,484	1,155	3,141	22,295	38,259
B.Cash liabilities	**382,522**	**153,394**	**282,561**	**510,498**	**1,617,785**
B.1 Deposits and current accounts	382,503	139	22,869	83,862	169,929
- Banks	46,049	-	22,818	81,575	163,285
- Customers	336,454	139	51	2,287	6,644
B.2 Debt securities	-	-	-	-	-
B.3 Other liabilities	19	153,255	259,692	426,636	1,447,856
C. Off-balance sheet transactions					
C.1 Physically settled financial derivatives					
- Long positions	-	24,802	45,708	48,426	149,403
- Short positions	260,725	130,984	47,960	57,331	247,276
C.2 Cash settled financial derivatives					
- Long positions	-	-	-	-	-
- Short positions	1,765	-	-	-	-
C.3 Deposit to be received					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Commitments to disburse funds					
- Long positions	-	22	576	9	410
- Short positions	402	136	-	-	-
C.5 Written guarantees	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Physically settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Cash settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-

1.Time breakdown by contractual residual maturity of financial assets and liabilities
OTHER CURRENCIES

(cont.)

Items/Time	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity
A.Cash assets	**140,530**	**205,971**	**1,338,875**	**2,032,857**	**-**
A.1 Government securities	9,548	1,690	83,257	796,916	-
A.2 Other debt securities	101,716	187,996	1,255,618	1,235,941	-
A.3 UCITS units	-	-	-	-	-
A.4 Loans	29,266	16,285	-	-	-
- Banks	26,580	12,397	-	-	-
- Customers	2,686	3,888	-	-	-
B.Cash liabilities	**2,539**	**1,751**	**-**	**-**	**-**
B.1 Deposits and current accounts	2,539	1,751	-	-	-
- Banks	-	-	-	-	-
- Customers	2,539	1,751	-	-	-
B.2 Debt securities	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-
C. Off-balance sheet transactions					
C.1 Physically settled financial derivatives					
- Long positions	54,955	48,560	9,671	260,716	-
- Short positions	62,034	62,255	20,024	54,446	-
C.2 Cash settled financial derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.3 Deposit to be received					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Commitments to disburse funds					
- Long positions	252	150	-	-	-
- Short positions	-	-	-	-	-
C.5 Written guarantees	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-
C.7 Physically settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.8 Cash settled credit derivatives					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-

As required by the regulations, liquidity risk includes the self-securitisations carried out by BPER Banca outstanding as at 31 December 2020.

Grecale 2008 self-securitisation (ExUnipol Banca)

On 15 July 2020, BPER Banca completed the repurchase of the loan portfolio originally sold to the vehicle company.The repurchase refers to a portfolio of land and mortgage loans for a residual debt of approximately Euro 189 million.
This was announced by publication in the Official Gazette (OG Second Part no. 87 of 25/07/2020).

Dedalo Finance self-securitisation

In 2011, Cassa di Risparmio di Bra s.p.a. (prior to acquisition of control by BPER Banca) completed a self-securitisation under Law 130/99, which allowed the sale of loans by transforming them into securities eligible for refinancing at the European Central Bank. The operation was a multioriginator and through joint use of the portfolios of Cassa di Risparmio di Bra s.p.a., Banca Alpi Marittime s.c. and BCC di Pianfei e di Rocca de Baldi s.c.p.a., made it possible to combine the advantages in terms of lower costs without any penalisation compared with the situation of the individual bank's portfolio. The sale involved the portfolios of performing residential mortgage loans granted to households, which were sold to a company called Dedalo Finance S.r.l., that financed the purchase by issuing bonds.
Each of the loan portfolios sold was rated by two rating agencies to determine the overall quality and structure of the bond issue. Each bank continues to manage its credit position, in terms of both risk management and control, and the business relationship with the customer by virtue of a servicing agreement signed with the SPV.
The structure of the operation involved issuing two tranches of securities, a senior tranche eligible for refinancing with the ECB, and a junior tranche. Both tranches of securities were subscribed by each bank in proportion to the loans sold.

The following securities were issued as part of the operation:

- Senior Securities (class A) issued for a total of Euro 166,800,000, partially subscribed by Cassa di Risparmio di Bra s.p.a. for Euro 77,000,000 (at 31 December 2020 the securities have a residual nominal value of Euro 11,259,786).
- Junior Securities (class B) issued for a total of Euro 33,837,000, subscribed by Cassa di Risparmio di Bra s.p.a. for Euro 15,625,000 (at 31 December 2020 the securities have a residual nominal value of Euro 15,625 thousand).

Section 5 – Operational risk

Qualitative information

A. General aspects, governance and measurement methods of operational risk

Operational risk is "the risk of losses due to inadequate or dysfunctional procedures, human resources or internal systems, or to exogenous events, including the legal risk[57]".
The BPER Banca Group adopts the Traditional Standardised Approach (TSA) to calculate the capital requirement for operational risk. The Own Funds requirement is calculated using the standardised approach by determining the three-year average of the sum of the annual Own Funds requirement for the lines of business in which the relevant indicator was classified[58].

Note that, on the basis of the principles of organisational separation and independence of functions exercising second and third level control activities, it is envisaged that there is:

- a first level control of operational risk;
- a function that performs second level controls of operational risk within the Risk Management Department, part of the Credit and Operational Risk Management Unit;
- a function for third level controls that is attributed to the Internal Audit Function, in accordance with the Group's internal control system.

Operational risk management is based on the following principles:

- identification: operational risks are identified, highlighted and reported to senior management;
- measurement and assessment: the risk is quantified by determining the impact on business processes, inclusive of the financial impact thereon;
- monitoring: monitoring of operational risk and of exposure to significant losses is ensured, generating information flows that favour active risk management;
- mitigation: appropriate measures have been taken to mitigate operational risk;
- reporting: a reporting system has been set up to report on operational risk management.

The collection and storage of data relating to loss events is done by means of the Group's Loss Data Collection process.
The process of Loss Data Collection is supported by special IT tools, which are under constant development, to ensure the integrity and quality of data.
The assessment of operational risk exposure, which is performed by means of risk self assessment, is aimed at determining, with an annual time horizon and for significant operating segments:

- the extent of exposure to operational risk;
- an assessment of the adequacy of line processes and controls.

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[57] See (EU) Regulation 575/2013 of the European Parliament and the Council of 26 June 2013 on prudential requirements for credit institutions and investment companies (CRR) – Part one, Title I, art. 4. Legal risk is the risk of losses resulting from violations of laws or regulations, from contractual or extra-contractual liability or from other disputes.
[58] See CRR – Part three, Title III, Chapter 3, art. 317.

The management of operational risk also includes assessment of the risks associated with the approval of new products and services, the start-up of new activities, the entry into new markets and the outsourcing of corporate functions.

In 2015, the Group implemented an analytical framework for IT risk, in compliance with Circular 285 of 17 December 2013, with the aim of providing an overview of the current risk situation and the remedy plan needed to avoid exceeding the threshold set for the Group's risk appetite.

Following the new regulatory provisions (Directive (EU) 2015/2366 implemented in the 28th update of Circular 285 of July 2019), every year the Group carries out an in-depth assessment of the operational and security risks related to the payment services provided and the adequacy of the mitigation measures and control mechanisms put in place to address them.

The Parent Company prepares a quarterly report for Senior Management and the managers of central organisational units on the operational losses incurred during the period, as well as an annual report that analyses the forward-looking assessments of operational risk, based on the risk self-assessments carried out, and describes the various risk mitigation actions planned.
Specific reporting requirements have also been established by the IT risk management framework. Membership by the BPER Banca Group of the DIPO consortium[59] allows the Bank to obtain feedback about the operational losses reported by the other Italian banks that are members. The Parent Company currently uses this feedback to analyse the positioning of the Group with respect to the system as a whole, to update the map of operational risks and to support the estimates made during the risk self-assessment process.

Operational risk management includes the various steps involved in the process of Business Continuity Management. This process is designed to maintain an appropriate level of attention regarding operational continuity and to avoid the progressive obsolescence of organisational measures (rules, impact assessment, scenarios, emergency measures, operating plans etc.) taken to ensure the continuity of critical business processes.

Impacts resulting from the Covid-19 pandemic

Faced with the Covid-19 pandemic, the BPER Banca Group implemented a series of activities designed to identify and assess the current and future operational risks that it might involve, also to foresee appropriate mitigation measures.
These activities concerned:

- the collection of operational loss events that took place after the outbreak of Covid-19 event, including the extraordinary costs needed to ensure operational continuity (e.g. health and hygiene expenses);
- a specific exercise to identify and quantify the impacts of operational risk (both actual and expected) linked to the pandemic by applying a scenario analysis approach;

[59] *Database Italiano Perdite Operative (Italian Database of Operational Losses) which the BPER Banca Group has participated in since 2003. The DIPO observatory is a service provided by the Italian Banking Association designed to support the development of Operational Risk Management and to create a methodology for gathering and exchanging information on operational losses suffered by members.*

- more frequent reporting dedicated to the Covid-19 scenario to ensure that the Corporate Bodies had timely information.

Quantitative information

The following is the distribution of the number of events and operating losses recorded in 2020, divided into the following risk categories:

- internal fraud: losses due to fraud, embezzlement or circumvention of regulations, laws or company policies, excluding incidents of discrimination or failure to apply equal treatment, which involves at least one internal resource of the entity;
- external fraud: losses due to fraud, embezzlement or violation/circumvention laws, by a third party;
- employment and safety at work: losses arising from acts not in compliance with laws or agreements in respect of employment, health and safety at work, from the payment of compensation for personal injuries or incidents of discrimination or failure to apply equal treatment;
- customers, products and business practices: losses arising from unintentional or negligent non-performance relating to professional obligations to specific clients (including fiduciary and suitability requirements), or from the nature or characteristics of the product;
- damage to fixed assets: losses resulting from loss or damage to assets from natural disasters or other events;
- business interruption and system failures: losses arising from business interruption or system failures;
- performance, delivery and management of processes: losses due to weaknesses in the handling of transactions or management of processes, as well as losses due to relations with business partners and suppliers.

Figure 1 – Breakdown by Frequency

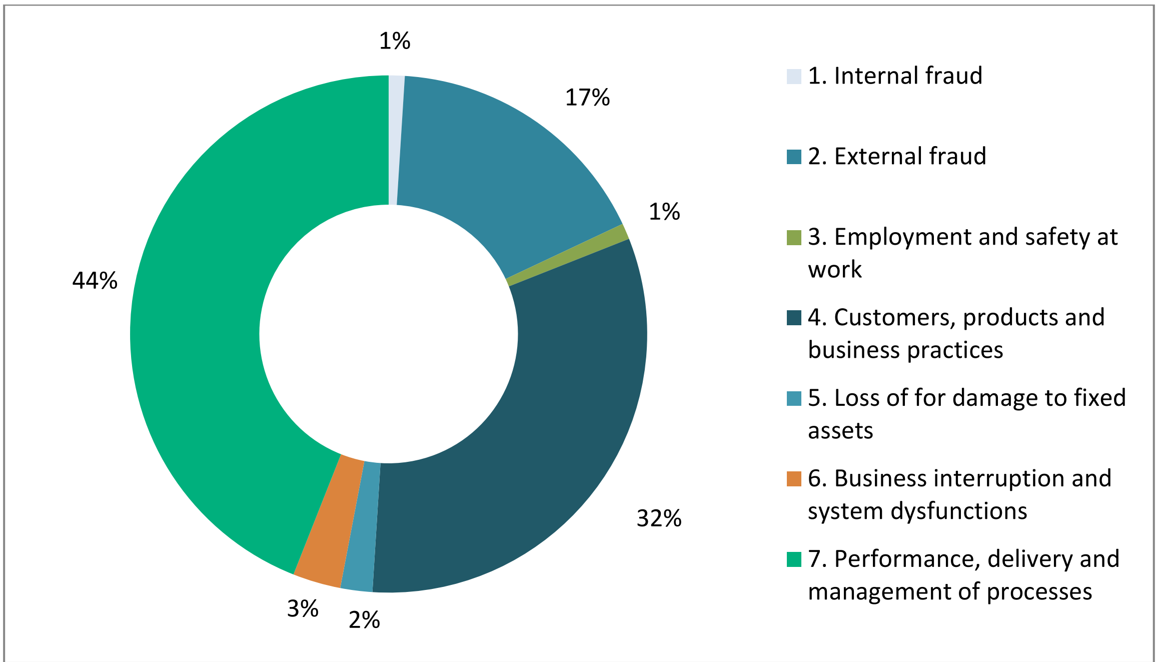
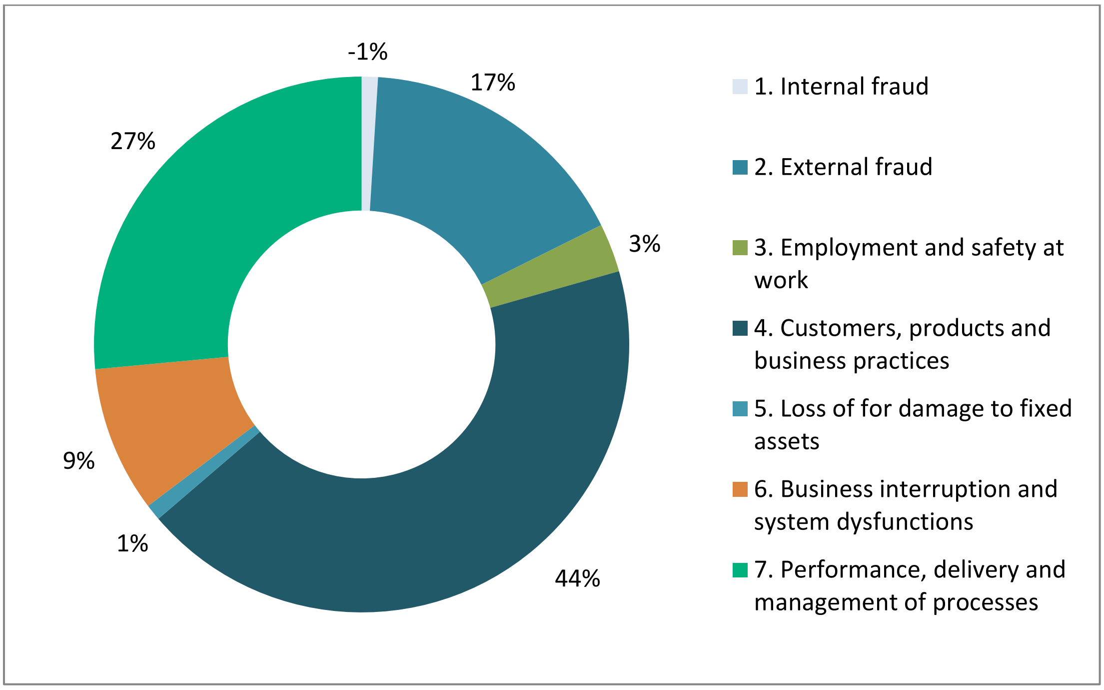


Figure 2 – Breakdown by Gross Actual Loss



An analysis of the graphs shows that the most relevant type of event in terms of frequency is:

- "performance, delivery and management of processes", with 44% of the total frequency;
- "customers, products and business practices", with 32% of the total frequency;

In terms of economic impact the most significant events related to:

- "customers, products and business practices", with 44% of the total gross loss;
- "performance, delivery and management of processes", with 27% of the total gross loss.

Reputational risk

Qualitative information

A. General aspects, management and methods to measure reputational risk

Reputational risk is "the current or prospective risk of a decline in earnings or capital arising from an adverse perception of the Group by customers, employees, counterparties, shareholders, investors or Supervisory Authorities”.

The framework for the management of reputational risk is supervised by the Credit and Operational Risks Office within the Risks Department, with support from the organisational units involved (Reputational Risk Owner) in managing the risk and monitoring the corrective actions needed to mitigate any vulnerabilities identified.

The system of reputational risk management adopted by the BPER Group has the following components:

- identification and assessment of risk based on Reputational Data Collection and Reputational Self Assessment;

- monitoring of the Group's exposure to reputational risk using a series of specific Key Risk Indicators;
- management of critical reputational events (escalation): management of particularly critical reputational events, by means of a functional escalation process and the determination of short and long term responses and mitigation;
- reporting: preparation of suitable reports, based on the various processes/sub-processes comprising the framework, in order to present in summary form the outcome of the risk management activities to all bodies and functions concerned.

No internal capital is allocated to cover reputational risk (since included in other risk categories).

Part F - Information on shareholders' equity

Section 1 - Shareholders' equity

A. Qualitative information

Shareholders' equity comprises share capital and all types of reserve, together with the profit for the year.

B. Quantitative information

B.1 Shareholders' equity: breakdown

Captions/Amounts	Amount 31.12.2020	Amount 31.12.2019
1. Share capital	2,100,435	1,561,884
2. Share premium reserve	1,241,197	1,002,722
3. Reserves	2,342,135	2,039,723
- from profits	1,860,110	1,539,867
a) legal	318,864	300,320
b) statutory	-	-
c) treasury shares	-	-
d) others	1,541,246	1,239,547
- others	482,025	499,856
4. Equity instruments	150,000	150,000
5. (Treasury shares)	(7,253)	(7,253)
6. Valuation reserves:	(54,799)	(135,730)
- Equity instruments designated at fair value through other comprehensive income	41,708	(24,081)
- Hedging of equity instruments designated at fair value through other comprehensive income	(1,385)	-
- Financial assets (no equity instruments) measured at fair value through other comprehensive income	36,015	21,781
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Foreign investments hedges	-	-
- Cash flow hedges	(1,572)	(1,214)
- Hedging instruments (non-designated elements)	-	-
- Exchange differences	-	-
- Non-current assets and disposal groups held for sale	-	-
- Financial liabilities designated at fair value through profit or loss (variation due to changes in the credit worthiness)	-	-
- Actuarial gains (losses) on defined benefit plans	(129,619)	(132,270)
- Share of the valuation reserves of equity investments carried at equity	-	-
- Special revaluation laws	54	54
7. Profit (Loss) for the year	143,853	385,435
Total	**5,915,568**	**4,996,781**

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

Assets/values	Total 31.12.2020		Total 31.12.2019	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	40,849	4,834	30,357	8,576
2. Equity instruments	89,902	48,194	52,638	76,719
3. Loans	-	-	-	-
Total	**130,751**	**53,028**	**82,995**	**85,295**

B.3 Valuation reserves of financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity instruments	Loans
1. Opening balance	**21,781**	**(24,081)**	**-**
2. Positive changes	**49,042**	**104,386**	**-**
2.1 Fair value increases	37,179	40,888	-
2.2 Impairment losses for credit risk	1,253	X	-
2.3 Reclassification to profit or loss of negative reserves to be realized	1,135	X	-
2.4 Transfer to other components of shareholders' equity (equity instruments)	-	56,921	-
2.5 Other changes	9,475	6,577	-
3. Negative changes	**34,808**	**38,597**	**-**
3.1 Fair value decreases	13,752	27,451	-
3.2 Write-backs for credit risk	906	-	-
3.3 Reclassification to profit or loss of positive reserves to be realized	2,202	X	-
3.4 Transfer to other components of shareholders' equity (equity instruments)	-	49	-
3.5 Other changes	17,948	11,097	-
4. Closing balance	**36,015**	**41,708**	**-**

Captions 2.5 "Other changes" in "Positive changes" and 3.5 "Other changes" in "Negative changes" include the reserves deriving from the merger of Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a.

B.4 Valuation reserves about actuarial gains (losses) on defined-benefit plans: annual changes

	31.12.2020	31.12.2019
1. Opening balance	**(132,270)**	**(98,218)**
2. Positive changes	**7,897**	**10,194**
2.1 Actuarial gains	7,627	34
2.2 Other changes	270	10,160
3. Negative changes	**5,246**	**44,246**
3.1 Actuarial losses	1,544	39,535
3.2 Other changes	3,702	4,711
4. Closing balance	**(129,619)**	**(132,270)**

Caption 3.2 "Other changes" in "Negative changes" includes the reserves deriving from the merger of Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a.

Section 2 - Own funds and capital adequacy ratios

Information about own funds and capital adequacy is provided in the "Public Disclosures at 31 December 2020 – Pillar 3" document prepared pursuant to the requirements of Circular 285 of 17 December 2013 and subsequent updates issued by the Bank of Italy and Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR).
The document contains consolidated information and is published together with the Consolidated financial statements on the website of the Parent Company – http://istituzionale.bper.it.

Part G – Business combinations

Section 1 - Transactions carried out during the year

1.1 Business combinations

No business combinations as defined by IFRS 3 were carried out during the period to 31 December 2020.

1.2 Operations between entities under common control

On 27 July 2020, Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a. were absorbed by BPER Banca S.p.A. Please refer to the Directors' report on Group operations in the consolidated financial statements for further details.
Such an operation is consistent with the action plan that has reduced the number of legal entities belonging to the BPER Banca Group with a view to improving operating efficiency and creating synergies in terms of both costs and revenues.
Being classified as a Business Combination between entities under common control, the transaction is not addressed by IFRS 3 and has been accounted for by using the same figures in the Parent Company's separate financial statements as are shown in the consolidated financial statements.
Please refer to the attachment "Pro-forma balance sheet as at 1 January 2020" for the effects of the merger on the balance sheet.

Section 2 – Transactions subsequent to the year end

2.1 Business combinations

On 19 February 2021, final contracts were signed for the purchase from the Intesa Sanpaolo Group of a business complex split into three business units. The transfer to BPER Banca of the business units of UBI Banca s.p.a. and UBISS s.c.p.a. took effect for legal purposes on 22 February 2021, whereas the transfer of the Intesa Sanpaolo Group's business unit will take effect on 21 June 2021.
On the basis of these contracts, the overall consideration agreed for the purchase and sale of the business units is equal to Euro 644.0 million, of which Euro 23.5 million referable to the unit owned by Intesa Sanpaolo, and is expected to be paid by BPER Banca entirely in cash at the dates that the transfer takes effect. The Common Equity Tier 1 capital of the entire business complex (with all three business units) comes to Euro 1,611.0 million.
For further details on the composition of the business complex acquired, provided in advance with respect to final definition of the accounting situations at the respective execution dates, and on its integration with BPER Banca, please refer to what has already been presented and commented on in section 3.1 "Increase in capital of BPER Banca and acquisition of a Business Unit from the Intesa Sanpaolo Group" and in section 9 "Outlook for operations" of the Report on Group operations in the consolidated financial statements.
Note that this comparison between the consideration paid for the acquisition of the business units and the Common Equity Tier 1 acquired (intended as a proxy of the net assets acquired) would lead to a result

of the business combination characterised by a "gain from a bargain purchase", or badwill, which can only be confirmed on completion of the Purchase Price Allocation required by IFRS 3. This result would be largely attributable to the favourable market moment for "buyers" in which the transaction took place; in fact, one of the reference parameters considered in defining the price, together with other less significant ones, was the relationship between the market price and the book value of the banks selling the business complex.

Accounting treatment of the transaction

This transaction counts as a Business Combination for the purposes of IFRS 3, having satisfied the requirements for the identification of an acquired "business".

The initial and supplementary agreements signed in 2020 and, most recently, in January 2021, between BPER Banca and Intesa Sanpaolo, the contents of which were confirmed by the final contracts signed on 19 February 2021, showed that the subject of the agreements was the transfer of a series of "Branches", defined as a set of rights, obligations and legal relationships relating to (or connected with): (i) contracts signed with each branch's customers, (ii) employment relationships with the members of staff working in them, (iii) lease and utility contracts related to them, and (iv) ownership of (or real rights over or enjoyment of) the movable and immovable tangible assets used by the branch. With respect to the characteristics of the complex acquired, it is therefore possible to identify[60]:

- Inputs: contracts with customers (and consequent loans, direct and indirect deposits), employees (as an "organised workforce that has the necessary skills, knowledge or experience") and premises (owned or rented properties) needed for the provision of banking services.
- Processes: all those connected with the provision of banking services to customers (i.e. processes such as loan disbursement, credit monitoring, provision of payment services, provision of financial and investment services), as well as its development (acceptance process). These processes are considered "substantial" as intended by IFRS 3 since, being a business complex already "in production" at the date of the combination, it is carried on by employees who already have the necessary skills, knowledge or experience in the banking sector (also understood as relationships with customers) which cannot be replaced without costs, efforts or significant delays due to the ability to carry on generating "production deriving from the banking activity"[61].
- Production: understood as the ability to generate revenues not only in the form of interest, but also in the form of commissions from banking services provided to customers.

It should also be noted that the so-called "concentration test" envisaged by paras. B7A and B7B of IFRS 3 (in force from 1 January 2020), focused on gross assets and indicated, in any case, as optional, was not applied as the qualitative analysis reported above regarding the components of the business complex transferred showed sufficient elements to conclude that what has been acquired represents a business.

Having qualified the transaction as a business combination, the Acquisition Method envisaged by IFRS 3 has to be applied, as described in Part A.2 of the Explanatory notes, to which reference should be made for details.

[60] *As required by IFRS 3 B7.*

[61] *IFRS 3 B12C: If a set of activities and assets has a production at the acquisition date, the process (or group of processes) acquired is considered substantial if, applied to one or more of the inputs acquired:*

a) is of crucial importance to continue generating production and the inputs acquired include an organised workforce that has the necessary skills, knowledge or experience to carry out this process (or group of processes); or

b) significantly contributes to the ability to continue generating production and:

i) is considered unique or scarce; or

ii) cannot be replaced without costs, effort or significant delays due to the ability to carry on generating production.

The acquisition (initial recognition at fair value of the balance sheet amounts relating to the business complex acquired) must be accounted for on the date when the purchaser effectively gains control over the assets acquired, identified in the situation in question with the legal effectiveness of the sale (as shown in the deed of sale) and the preliminary IT migration, i.e. on 22 February 2021 in relation to the Business Units acquired from UBI Banca and UBISS and on 21 June 2021 in relation to the Business Unit acquired from Intesa Sanpaolo.

At the date of approval of these financial statements, the asset and liability balances acquired have not yet been definitively determined, despite having identified the categories of assets and liabilities transferred and, consequently, defined the methods of valuation at fair value, also making use of the support of accredited external consultants. More specifically:

- Performing and non-performing loans: the model for determining the fair value involves discounting expected gross cash flows, appropriately adjusted to take into account expected losses and related operating costs (recovery costs for non-performing positions), based on an appropriate discount rate (BPER Banca's Average Cost of Funding for performing loans and a Weighted Average Cost of Capital (WACC) for non-performing loans). The parameters used in the model were determined with maximum recourse to available market information.
- Intangible assets: analyses are currently underway to identify any intangibles originating from Customer Relationships, not already recognised in the financial statements of the seller. Preliminary analyses show that there would not seem to be the conditions for enhancing the value of so-called Core Deposits as the benefit linked to the lower cost of the deposits acquired compared with alternative sources of funding (the so-called "mark-down") would be zero. There are also analyses still underway on the characteristics of the indirect deposits acquired to identify any conditions of implicit remuneration, which would allow them to be reassessed as intangible assets.
- Property, plant and equipment: checks are in progress to verify the reliability of the valuations at fair value of the properties acquired, based on on-site appraisals by the independent expert used by BPER Banca.
- Direct deposits: the characteristics of the direct deposits acquired (substantially represented by sight or short-term items) suggest that their fair value is substantially the same as their book value.
- Right of Use and lease liability: for the leases acquired (mainly for real estate) application of BPER Banca's valuation methodology is envisaged at the date of the business combination, as required by paragraphs 28A and 28B of IFRS 3.
- Contingent liabilities: the recognition of any implicit risks in the business complex acquired has been commenced, as has the measurement at fair value of any related contingent liabilities and of any legal risks connected with disputes at the branches.
- Deferred taxation: the tax effects associated with the fair value measurements at the time of the Purchase Price Allocation (PPA) will be determined in application of the tax legislation in force at the date of the combination.

As required by paragraph B66 of IFRS 3, it should be noted that, at the date of approval of these financial statements, part of the information required by paragraph B64 of IFRS 3 was not provided, as it was not available. With specific reference to the business units acquired on 22 February 2021, this lack of availability is in any case consistent with the contractual provisions which envisage a period of time needed to prepare the accounting situation of the units acquired; this period has not yet been completed at the date of approval of these financial statements. Consequently, information on the impacts of the fair value measurement of the assets and liabilities acquired is not available and will be provided in the financial document which will contain disclosures (also provisional) on the Purchase Price Allocation (PPA).

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Part H – Related-party transactions

1. Information on the remuneration of Executives with strategic responsibilities

	Description	31.12.2020	31.12.2019
	Directors		
	- short-term benefits	2,860	3,059
	- other long-term benefits	199	302
	Statutory Auditors		
	- short-term benefits	522	522
	Other managers with strategic responsibilities (General Manager, Deputy General Managers, Manager responsible for preparing the company's financial reports and Managers of General Management Internal Committee):		
1	- short-term benefits includes salaries, social security contributions, indemnities in lieu of untaken vacation, paid leave of absence and any fringe benefits, such as insurance, housing and car.	3,538	3,150
	- other short-term benefits - contributions for social security taxes	992	1,002
2	- post-employment benefits includes payments to supplementary pension funds and provisions for termination indemnities.	325	297
3	- other long-term benefits	265	584
4	- indemnities for termination of employment	408	750
5	- share-based payments	-	-

The information provided is consistent with that required by IAS 24.
The amounts relating to the Directors, including the Chief Executive Officer, and the Statutory Auditors, represent their emoluments for the year, regardless of when paid. These amounts are classified in the Income statement caption 160-a "Staff costs".
In particular, it should be noted that with regard to the amounts relating to Directors (Euro 2,860 thousand), extensive detail has been given at the foot of the same table in the Explanatory Notes to the consolidated financial statements.
The amounts shown for other Executives with strategic responsibilities (the General Manager, Deputy General Managers, the Manager responsible for preparing the company's financial reports and 4 other Senior Managers) belong to the types of costs detailed above. They are disclosed in the Report on Remuneration (art. 123-ter of Legislative Decree no. 58/1998) in accordance with CONSOB's instructions.
As indicated in the Remuneration Report, other long-term benefits relating to Directors (specifically, the Chief Executive Officer) and to other Executives with strategic responsibilities relate to deferred variable compensation, including a value of € 319 thousand relating to a compensation plan based on financial instruments called "Phantom stock".

2. Information on related-party transactions

Balances with related parties, identified in accordance with IAS 24, as shown below.

	Assets	Liabilities	Guarantees and commitments	Revenues	Costs
Subsidiaries	6,631,845	4,495,582	1,814,867	174,142	79,322
Associates	615,140	3,627	65,758	4,265	2,828
Directors, Statutory Auditors and Managers	568	1,850	209	51	2
Other related parties	254,118	1,050,013	100,138	70,412	7,190
Total 31.12.2020	**7,501,671**	**5,551,072**	**1,980,972**	**248,870**	**89,342**
Subsidiaries	7,519,299	4,283,925	910,477	265,812	82,286
Associates	598,497	4,845	98,553	4,549	832
Directors, Statutory Auditors and Managers	737	2,360	163	64	12
Other related parties	225,313	937,552	102,973	55,832	1,295
Total 31.12.2019	**8,343,846**	**5,228,682**	**1,112,166**	**326,257**	**84,425**

None of the balances or transactions with related parties can be considered critical. They all relate to routine banking and other services and arose normally during the year as a consequence of needs and requirements in the common interests of the parties or, where applicable, of the Group. The conditions applied to individual balances and transactions with these companies are in line with those currently applied in the market.
No provisions for non-performing loans relating to parties which, on 31 December 2020, qualified as related parties have been made in 2020.
"Executives" means Executives with strategic responsibilities, as defined for the purposes of the table "Information on the remuneration of Executives with strategic responsibilities", shown on the previous page.
The "Other related parties" reflect situations other than those detailed in the table, including subsidiaries of associates of BPER Banca, entities that exercise significant influence over BPER Banca and entities under the control of Directors, Statutory Auditors or Executives, or parties related to them, that can exercise influence over them, as defined in IAS 24.
With reference to the entry into force in 2012 of the regulations relating to "Risk Activities and Conflicts of Interest with Related Parties and Associated Persons" (regulated by the Bank of Italy through Circular 285 of 17 December 2013 and subsequent updates), the BPER Group has adopted a series of regulations which includes, among others, the "Group Policy for the governance of the risk of non-compliance with regard to conflicts of interest with related parties and risk activities with associated persons", which describes the prudential limits to risk assets towards associated persons, continuous monitoring of the limits and handling situations where the limits are exceeded. An "internal threshold of attention" establishes an individual limit on the weighted consolidated exposure that is lower than the regulatory threshold. This threshold is set at such a level as to constitute an adequate precaution against accepting particularly significant exposures to related parties and persons associated with them.

	Assets	Liabilities	Guarantees and commitments	Revenues	Costs
Total reference amounts - 2020	84,231,172	78,315,604	21,724,315	2,135,652	1,630,103
Total reference amounts - 2019	69,347,747	64,350,966	19,781,507	2,009,964	1,608,114

The total reference amounts for Revenues include interest income, commission income and other operating income; costs include interest expense, commission expense, other operating expenses and administrative expenses.

Related party transactions stated as a percentage of reference amounts (financial position and economic results)

	Assets	Liabilities	Guarantees and commitments	Revenues	Costs
Subsidiaries	7.88%	5.75%	8.36%	8.15%	4.87%
Associates	0.73%	0.00%	0.30%	0.20%	0.17%
Directors, Statutory Auditors and Managers	0.00%	0.00%	0.00%	0.00%	0.00%
Other related parties	0.30%	1.34%	0.46%	3.30%	0.44%
Total 31.12.2020	**8.91%**	**7.09%**	**9.12%**	**11.65%**	**5.48%**
Subsidiaries	10.85%	6.66%	4.60%	13.22%	5.12%
Associates	0.86%	0.01%	0.50%	0.23%	0.05%
Directors, Statutory Auditors and Managers	0.00%	0.00%	0.00%	0.00%	0.00%
Other related parties	0.32%	1.46%	0.52%	2.78%	0.08%
Total 31.12.2019	**12.03%**	**8.13%**	**5.62%**	**16.23%**	**5.25%**

3. Balances and transactions between the Parent Company and subsidiary and/or associated companies (CONSOB's recommendations of 20/2/1997 and of 27/2/1998)

There are intercompany balances and transactions with banks and other companies in which BPER has a direct or indirect interest and which form part of the consolidated financial statements. Balances and transactions with these companies are as follows.

	Assets	Liabilities	Guarantees and commitments	Revenues	Costs
Banco di Sardegna s.p.a.	1,478,528	3,767,205	110,772	954	39,822
Bibanca.p.a.	840,399	75,129	-	33,698	8,793
BPER Bank Luxembourg s.a.	113,309	558,352	20,000	1,262	1,155
Emilia Romagna Factor s.p.a.	797,788	166	442,621	2,251	43
Modena Terminal s.r.l.	1,555	-	2,211	25	83
ARCA Fondi SGR s.p.a.	22,167	87	-	83,424	4
Nadia s.p.a.	87,661	52,299	12,122	223	2,256
Numera s.p.a.	176	1,930	-	-	1,933
Tholos s.p.a.	1,403	1,393	-	-	65
Optima s.p.a. S.I.M.	2,008	7,461	600,000	2,096	13,717
Estense Covered Bond s.r.l.	-	-	-	-	-
Sardaleasing s.p.a.	2,337,664	18,547	399,635	7,397	19
BPER Trust Company s.p.a.	71	495	-	33	67
Estense CPT Covered Bond s.r.l.	-	-	-	-	-
Italiana Valorizzazioni Immobiliari s.r.l.	15,942	142	-	572	-
Adras s.p.a.	14,090	309	-	-	-
Sifà s.r.l.	407,306	7,195	-	1,170	434
BPER Credit Management s.cons.p.a.	3,725	4,872	21,000	8,502	10,931
Finitalia s.p.a.	508,053	-	206,506	32,535	-
Total subsidiaries	**6,631,845**	**4,495,582**	**1,814,867**	**174,142**	**79,322**

	Assets	Liabilities	Guarantees and commitments	Revenues	Costs
CO.BA.PO Consorzio Banche Popolari dell'Emilia Romagna	-	115	-	1	31
Sofipo s.a. in liquidation	-	-	-	-	-
Cassa di Risparmio di Fossano s.p.a.	-	110	-	-	-
CAT Progetto Impresa Modena s.c.r.l.	30	-	116	4	-
Cassa di Risparmio di Savigliano s.p.a.	1	-	-	-	-
Resiban s.p.a.	-	336	150	2	516
Unione Fiduciaria s.p.a.	-	8	10,000	48	115
Sarda Factoring s.p.a.	742	13	-	-	-
Alba Leasing s.p.a.	612,858	2,732	55,292	4,201	23
Atriké s.p.a.	1,439	67	-	-	-
Emil-Ro Service s.r.l.	70	209	-	1	-
Lanciano Fiera - Polo Fieristico d'Abruzzo Consorzio	-	37	200	8	1
Brozzu e Cannas s.r.l. in liquidation	-	-	-	-	-
Cedisa s.r.l. in liquidation	-	-	-	-	-
Immobiliare Oasi nel Parco s.r.l.	-	-	-	-	-
Gestione Esazioni Convenzionate s.p.a. in liquidation	-	-	-	-	2,142
Total associates	**615,140**	**3,627**	**65,758**	**4,265**	**2,828**
Total 31.12.2020	**7,246,985**	**4,499,209**	**1,880,625**	**178,407**	**82,150**
Total 31.12.2019	**8,117,796**	**4,288,770**	**1,009,030**	**270,361**	**83,118**

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Part I – Equity-based payments

Qualitative information

The organisational structure adopted by the Group assigns to the Parent Company the management of remuneration policies for the entire BPER Banca Group.
Consequently, the qualitative information set out below also reflects the individual position of BPER Banca.

1. Description of equity-based payments

On 10 March 2020 the Board of Directors of the Parent Company BPER Banca approved:

- the Report on the Remuneration Policy and on Compensation Paid, pursuant to art. 123-*ter* of Legislative Decree 58 of 24 February 1998, which explains the Remuneration Policies of the BPER Banca Group for 2020 and the Compensation Paid in 2019;
- the Remuneration Plan pursuant to art. 114-*bis* of Legislative Decree 58 of 24 February 1998, implementing the remuneration policies of the BPER Banca Group for 2020. The Plan covers those employees of the BPER Banca Group identified as "Material Risk Takers (MRTs)" in accordance with the 25th update of 23 October 2018 of Circular 285 "Supervisory Provisions for Banks", Title IV, Chapter 2 "Remuneration and incentive policies and practices" and in Delegated EU Regulation no. 604 of 4 March 2014.

The above documents were approved by the Shareholders' Meeting held the 22 April 2020 at a single calling.

The remuneration of MRTs consists of a fixed component and a short-term variable component that for some may also be long-term.
The variable component of the bonus is governed by very strict rules, as required by the Bank of Italy's rules on the remuneration of MRTs (Circular 285).
In line with the regulatory requirements and the resolutions adopted at the Shareholders' Meeting held in 2019, the ratio between variable and fixed remuneration is set at 2:1 for all MRTs (except for control and similar functions). This is to have the flexibility to make payments ahead or in the event of early termination of employment or term of office and to have available all the operational levers needed to attract external resources in order to achieve the Group's objectives.
Generally speaking, this limit is kept below 100% of the fixed component, except for specific situations in which it is possible to raise this percentage (for example, the payment of entry bonuses or incentive packages designed to facilitate the acquisition of resources that the company deems necessary to achieve important objectives).
The following table shows the short and long-term variable incentive target and maximum levels defined for MRTs and for Control Functions.

	Short-term target bonus		Long-term target bonus calculated on a 8-year basis (1)		Long-term target bonus calculated on a three-year vesting period	
	Target bonus (% fixed remuneration)	Maximum bonus (% fixed remuneration)	Target bonus (% fixed remuneration)	Maximum bonus (% fixed remuneration)	Target bonus (% fixed remuneration)	Maximum bonus (% fixed remuneration)
CEO and GM	35%	45%	15%	21%	40%	55%
Key personnel	35%	45%	12%	16%	32%	45%
Control functions	25% (*)	33%	-	-	-	-

(1) For the purpose of calculating the limit to the variable/fixed ratio, the amount of the long-term incentive plan is calculated in full in the year it is recognised; however, it is possible to calculate this amount, according to a linear pro-rata criterion, within the limit relating to each year of the long-term incentive plan (also considering the deferral period), this being more than 6 years. In absolute terms, therefore, the figure has to be multiplied by 8 years.
(*) 33% limit set by the law.

The sustainability of the overall maximum amount of variable remuneration allocated to MRTs (those most responsible for running the company) is assessed in relation to the economic and financial stability of the Group as a whole.
For the rest of the personnel, a maximum ratio between the components of remuneration of 1:1 is normally adopted, with the exception of key personnel of Corporate Control Functions, for whom their variable remuneration cannot exceed one third of their fixed remuneration.
Nevertheless, the Group also sets the maximum variable/fixed ratio at 2:1[62] for all other personnel too (always excluding the Control Functions) in the following limited circumstances:

- to make payments ahead or in the event of early termination of employment or term of office, again within the maximum limits already established in these policies under limited and specific circumstances;
- to have appropriate levers to manage in a suitable manner the competitive pressures in the job markets for certain, highly profitable business segments and specific professional families (Wealth Management and Corporate Banking).

Adoption of this 2:1 ratio between variable and fixed remuneration does not have any effect on the BPER Banca Group's ability to continue complying with the prudential rules on capital, the requirements regarding Own Funds in particular.

Short-term variable component

The incentive system provides for the identification of a bonus pool [63]which represents the maximum amount of bonuses that can be paid. The bonus pool for the Chief Executive Officer and General Manager and for the MRTs is set at Group level (excluding the bonuses deriving from MBOs for Control Functions, which are of limited amount and not related to the Group's results, not even indirectly). The amount of the bonus pool is correlated to the results achieved, in terms of the Post-Provisions Profit reported by the Group, and constitutes a maximum limit. In order to discourage excessive risk-taking

[62] *This ratio does not apply to personnel belonging to the Arca Fondi SGR, for whom the regulations envisage the possibility of different limits.*
[63] *During 2020, when revising the budget after the impact of the Covid-19 pandemic on the original forecasts for 2020, the overall bonus pool was reduced by 25% in accordance with the recommendations of the Supervisory Authority. At the level of individual pools, the largest reduction was made to the pool of the MRTs, which was reduced by 50%.*

which can lead to a deterioration in the Group's "state of health", also in compliance with the Bank of Italy's regulatory requirements, disbursement of the bonus pool, whatever the amount, is without exception subject to compliance with certain indicators, called "entry gates", which are related to the capital, liquidity and risk-adjusted return ratios.

The entry gates that have been identified are based on the following parameters:

- Common Equity Tier 1 (CET 1) – Pillar 1 consolidated ratio in transitional arrangement;
- Consolidated Return On Risk-Weighted Assets (RORWA);
- Consolidated Liquidity Coverage Ratio (LCR) .

Failure to achieve even only one of the entry gates means not paying any bonus under this MBO scheme.
After checking that the entry gates have been exceeded, the bonus allocation and the extent of the variable remuneration are defined by evaluating individual performances using a process that includes an analysis of various qualitative and quantitative indicators.
If the Bonus exceeds a specific amount established by the Board of Directors, the Plan envisages an allocation (which can also be deferred) of part of the total bonus through an assignment of "phantom stock"[64].
In particular, this Plan provides for (apart from as provided by the stricter regulations foreseen for the Chief Executive Officer and General Manager of the Parent Company):

*Material Risk Takers (*MRTs) belonging to top management

- Bonus > Euro 424 thousand (particularly high amount)[65]:
  a) 40% is attributed at the date the bonus is granted (up-front portion): 20% cash and 20% through phantom stock subject to a retention period of 1 year (unavailability);
  b) 60% (25% cash and 35% through phantom stock) is deferred in equal annual instalments over the 5 years from that of the grant, subject to a retention period (during which the shares cannot be sold) of one year from the vesting date of each deferred tranche.
- Bonus > Euro 50 thousand (or 1/3 of total annual remuneration) and ≤ Euro 424 thousand:
  a) 45% is attributed on the date the bonus is granted (up-front portion): 20% cash and 25% through phantom stock subject to a retention period of 1 year (unavailability);
  b) 55% (25% cash and 30% through phantom stock) is deferred in equal annual instalments over the 5 years from that of the grant, subject to a retention period (during which the shares cannot be sold) of one year from the vesting date of each deferred tranche.
- Bonus ≤ Euro 50 thousand and ≤ 1/3 of total annual remuneration are paid in cash up-front.

Material Risk Takers (MRTs) not belonging to top management

- Bonus > Euro 424 thousand (particularly high amount):
  a) 40% is attributed at the date the bonus is granted (up-front portion): 20% cash and 20% through phantom stock subject to a retention period of 1 year;
  b) 60% (30% cash and 30% through phantom stock) is deferred in equal annual instalments over the three years from that of the grant, subject to a retention period (during which the shares cannot be sold) of one year from the vesting date of each deferred tranche.
- Bonus > Euro 50 thousand (or 1/3 of total annual remuneration) and ≤ Euro 424 thousand:

[64] Phantom Stock: these are "virtual" financial instruments (free, personal and not transferable inter vivos) that assign to each recipient the right to demand on maturity an amount of money corresponding to the value of the BPER Banca stock, calculated as per paragraph 3.8 of the information document on the remuneration plan based on financial instruments - Phantom Stock 2020, at the payment date.
[65] As defined by Bank of Italy's Circular 285, 25th update.

a) 60% is attributed at the date the bonus is granted (up-front portion): 30% cash and 30% through phantom stock subject to a retention period of 1 year;
b) 40% (20% cash and 20% through phantom stock) is deferred in equal annual instalments over the three years from that of the grant, subject to a retention period (during which the shares cannot be sold) of one year from the vesting date of each deferred tranche.

Bonus ≤ Euro 50 thousand and ≤ 1/3 of total annual remuneration are paid in cash up-front.

The deferred instalments are subject to malus rules that can reduce the instalment to zero in the event of failure to achieve the entry gates for the financial year preceding the year of payment of each deferred instalment.

The malus mechanism, which can block payment of the deferred portions of the bonus, also acts in the circumstances that trigger off the clawback clauses. Note that there are compensation plans still outstanding for the years 2017, 2018 and 2019.

Long-term variable component – LTI Plan

In 2019, the BPER Banca Group established a long-term variable incentive system based on a long-term period of performance assessment (2019-2021), consistent with the objectives and duration of the Group's Strategic Plan. The objectives of this system are to:

- recognise an incentive exclusively in BPER Banca ordinary shares, according to methods that comply with the relevant provisions and in line with what is defined in the Business Plan 2019-2021;
- align management's interests with the creation of long-term shareholder value;
- motivate management to achieve the objectives of the Business Plan 2019-2021, within a framework of healthy, prudent risk management and Corporate Social Responsibility (CSR) sustainability;
- strengthen key persons' sense of belonging in order to implement the Group's medium-long term strategy;
- reward virtuous behaviour and positive results while penalizing failure to achieve results and any deterioration in the Group's capital, liquidity and profitability by not paying any bonuses.

The Plan provides clear and predetermined performance conditions, verified during and at the end of the Plan, so that the variable remuneration cannot, in any case, be paid before the end of the plan. The bonus is recognised at the end of the performance evaluation period. The incentive system provides for the identification of a bonus pool which represents the maximum amount of bonuses that can be paid. The bonus pool for the Chief Executive Officer and Managing Director and for MRTs is set at Group level. The amount of the bonus pool is related to the results achieved and constitutes a maximum limit; its distribution is entirely subject to compliance with certain entry gates, based on indicators of capital strength, liquidity and risk-adjusted profitability. The entry gates for the LTI Plan 2019-2021, all of which have to be achieved at the same time, are in line with those established for the MBO.

Failure to achieve even only one of the entry gates means not paying any bonus under this long-term incentive scheme. If all of these entry gates are achieved, the Plan provides for an assessment of the Group's key performance indicators (KPIs) at the end of the three-year vesting period (2021). Continuous monitoring of the indicators is carried out during the three-year period to verify compliance with the objectives of the Strategic Plan.

After checking that the entry gates have been achieved, actual assignment of the bonus and the related amount, within the maximum limits (the theoretical maximum amount of the bonus payable, being the

bonus pool, is the sum of the maximum bonuses obtainable at an individual level) established for variable remuneration, are defined through a process of corporate performance assessment that includes an analysis of three indicators (KPIs). For the three-year period 2019-2021, the scorecard of the LTI Plan, which is the same for all beneficiaries, is made up of objectives of operating efficiency, credit quality and profitability of a quantitative nature. Following the measurement of these KPIs, the performance of the BPER stock is evaluated with respect to a peer group and the achievement of sustainability objectives.
Actual quantification of the bonus earned in 2021 is also subordinated to two further indicators, the first being the TSR (Total Shareholder Return) which functions as a multiplier/demultiplier (by +/-15%); the second being sustainability (the achievement of 3 Environmental, Social, Governance (ESG) objectives), which might involve a deduction of up to 15% from the bonus earned.
As regards the 2019-2021 LTI Plan, the manner in which bonuses are awarded is structured - in accordance with current regulations applicable to the banking sector - as an up-front portion, which is paid immediately, and as a portion deferred pro-rata in equal tranches, over a number of years (5 years). The payment structure for the shares provides for a retention period of one year for the up-front portion and for the deferred portions.
The malus and clawback mechanisms may apply under certain circumstances, as described in BPER Banca Group's 2020 Remuneration Policies, and in line with the regulatory framework in force.

In accordance with the instructions contained in Circular 285/2013 (and subsequent updates) and Regulation (EU) 575/2013, the Group provides annual information on Remuneration Policies also in the document "Public disclosure as at 31 December 2020 - Pillar 3" which is available, as provided by law, on the institutional website of the Bank (https://istituzionale.bper.it).

Quantitative information

As regards the LTI Plan, the grant of shares without charge in execution of the Plan will take place using treasury shares that derive from purchases authorised at the Shareholders' Meeting, pursuant to arts. 2357 and 2357-ter of the Italian Civil Code.
Purchasing the shares is in any case subject to authorisation by the ECB.
The request will have to be repeated because the previous authorisation, issued in April 2019 for the 2019-2021 LTI Plan, expired before the shares were bought.

At 31 December 2020, the Bank has still not purchased any treasury shares to service the Plan.

2. Other information

Determination of the fair value and accounting treatment

Short-term variable component

Note that the variable remuneration for 2020 is currently being determined. With reference to the Compensation Plan for 2020, in the light of the economic and financial results achieved at Group level, it is estimated that 239,901 Phantom Stocks will be allocated for a total consideration of Euro 380 thousand.

Please also note that the same results affect the 2015 Plan allowing the vesting of 3,808 Phantom Stocks, for a consideration of Euro 6 thousand, on the 2017 Plan allowing the vesting of 12,312 Phantom Stocks for a consideration of Euro 20 thousand, on the 2018 Plan allowing the vesting of 101,786 Phantom Stocks for a consideration of Euro 161 thousand and on the 2019 Plan allowing the vesting of 35,265 Phantom Stocks, for a consideration of Euro 56 thousand.

Long-term variable component - Long-Term Incentive

The 2019-2021 Long-Term Incentive Plan is designed to award the beneficiaries an incentive to be paid exclusively in BPER Banca ordinary shares; given the characteristics of the plan, it falls within the scope of application of IFRS 2, as an equity-settled payment plan.

At 31 December 2020, the total cost of the Plan amounts to Euro 6.9 million which, considering the average market price for BPER Banca ordinary shares in the 30 days prior to the Shareholders' Meeting held on 17 April 2019 (which approved the Plan) of 3.74 euro, resulted in a total number of shares to be granted to beneficiaries of 1,731,490. The total cost of the Plan must be recognised on an accruals basis over the Plan vesting period: provision of 40% of the bonus due, spread over the first 3 years (from the grant date), and provision of 12% of the bonus due in each of the subsequent years until the end of the Plan.

The fair value of BPER Banca shares considered in order to measure the Plan was based on their market price at the grant date, as adjusted to take account of market conditions which resulted in the identification of a unit price of 4.39 euro. Application of this price to the estimated number of shares that may be granted to beneficiaries resulted in a quota of cost pertaining to the year 2020 of Euro 2.2 million (of which Euro 1.8 million attributable to BPER Banca).

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Part L – Segment reporting

Segment reporting, as required by IFRS 8, is presented only in the consolidated financial statements. Please refer to the Consolidated Explanatory Notes, Part L, for details on the business segments.

Part M – Information on leases

Section 1 - Lessee

Qualitative information

With regard to the contracts entered into as lessee, BPER Banca recognises both the leased right-of-use asset and the liability for the future lease instalments envisaged in the contract.
In the context of the elections allowed by IFRS 16, BPER Banca decided not to recognise right-of-use assets or lease payables in relation to the following lease contracts:

- lease of intangible assets;
- short-term leases with less than 12 months remaining;
- lease of assets with a low unit value (as described further in the Explanatory notes – Part A – Accounting policies, an asset is deemed to have a low unit value if its fair value when new is not more than Euro 5 thousand).

Consequently, the lease instalments for these assets are charged to caption 160. “Administrative expenses” on an accruals basis; for further information about this, see the Explanatory notes - Part C - Income statement, Table 10.5 “Other administrative expenses: breakdown”.

Quantitative information

Rights of use acquired through leases: see the Explanatory notes - Part B - Assets, table 8.1 “Property, plant and equipment used in operations: breakdown of assets measured at cost”.

Lease payables: see the Explanatory notes Part B - Liabilities, table 1.1 “Financial liabilities measured at amortised cost: breakdown by product of due to banks”, table 1.2 “Financial liabilities measured at amortised cost: breakdown by product of due to customers”, table 1.6 “Lease payables”.
Interest expense on lease payables: see the Explanatory notes - Part C – Income statement, table 1.3 “Interest and similar expense: breakdown”.

Other expenses associated with rights of use acquired through leases: see the Explanatory notes - Part C – Income statement, table 12.1 “Net adjustments to property, plants and equipment: breakdown”.

Income from sub-lease transactions: see the Explanatory notes - Part C – Income statement, table 1.1 “Interest and similar income: breakdown”.

1.1 Rights of use acquired through leases: changes of right of use relating to property, plant and equipment used in operations

Property, plant and equipment used in operations	Rights of use acquired through leases 31.12.2019	Depreciations of the year	Other changes of the year	Impairment losses of the year	Book value 31.12.2020
a) lands	-	-	-	-	-
b) buildings	297,620	(49,041)	3,309	(1,883)	250,005
c) furniture	-	-	-	-	-
d) electronic system	23,854	(7,567)	8,442	-	24,729
e) others	3,349	(2,115)	2,956	-	4,190
Total	**324,823**	**(58,723)**	**14,707**	**(1,883)**	**278,924**

As regards "Other changes of the year", the impact is mainly linked to the remeasurement of the lease payables due to the ISTAT inflation adjustments, changes in the lease term and the opening and closing of contracts, as well as the rights of use deriving from the mergers of Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo.
No changes were made in 2020 due to the renegotiation of contractual terms because of the Covid-19 pandemic.

1.2 Costs and Gains relating to lease transactions other than right of use

	Total 31.12.2020	Total 31.12.2019
Costs relating to short-term leases	1,130	1,605
Costs relating to lease of assets with a low unit value (*)	10,535	8,949
Gains relating to finance sub-leases	12	28

(*) including VAT

1.3 Lease payables: changes

	Lease payables 31.12.2019	Interest expense	Lease instalments paid	Other changes	Book value 31.12.2020
Total lease payables	330,472	2,435	(62,957)	12,428	282,378

As regards the "Other changes", the impact is mainly linked to the remeasurement of the lease payables mainly due to ISTAT adjustments, changes in the lease term and the opening and closing of contracts, as well as the lease payables deriving from the mergers of Cassa di Rispamio di Bra and Cassa di Risparmio di Saluzzo.
No changes were made in 2020 due to the renegotiation of contractual terms because of the Covid-19 pandemic.

Section 2 - Lessor

Qualitative information

The leasing contracts in which BPER Banca is the lessor are classified as either finance leases or operating leases.
Finance leases transfer to the lessee substantially all the risks and benefits of ownership.
In substance, under finance leases, the lessee obtains the economic benefits deriving from use of the leased asset for the majority of its economic life, in exchange for a commitment to pay the lessor a consideration that approximates the fair value of the asset and the related financial charges. The lease contract is therefore recognised by the lessor in the following manner:

- the value of the credit granted is recognised as an asset, net of the principal element of lease instalments due and paid by the lessee;
- interest income is credited to the income statement.

Operating leases do not transfer to the lessee substantially all the risks and benefits of ownership, which remain with the lessor.
Under operating leases, the lessor credits the lease instalments to the income statement on an accruals basis.
See the Explanatory notes – Part A – Accounting policies for additional information.

Given the legal structure of finance leases, the credit risk faced by the Bank is limited by maintaining ownership of the asset until the end-of-lease payment is made by the lessee. This factor is particularly important in relation to property leases and those in which the asset concerned is highly fungible. In particular, in order to limit more effectively the risk of losses and whenever indicated in the investigation report, BPER Banca may request the customer to provide additional secured guarantees (typically pledged securities) and/or unsecured guarantees (personal or bank sureties). In addition, finance leases may also be secured by commitments to take over the lease or repurchase the asset (sometimes obtained from the supplier of the asset concerned).

Quantitative information

1. Balance sheet and Income statement information

Leasing loans: see the Explanatory notes - Part B - Assets, table 4.2 “Financial assets measured at amortised cost: breakdown by product of loans to customers”.

Interest income on leasing loans: see the Explanatory notes - Part C – Income statement, table 1.1 “Interest and similar income: breakdown”.

Other income from operating leases: see the Explanatory notes - Part C - Income statement, table 14.2 “Other operating income: breakdown”.

2. Finance leases

2.1 Breakdown by time bands of payments to be received and reconciliation with finance leases recorded as assets

Time bands	31.12.2020 Lease payments to be received	31.12.2019 Lease payments to be received
Up to 1 year	1,317	1,751
Over 1 year up to 2 years	1,317	658
Over 2 years up to 3 years	1,317	658
Over 3 years up to 4 years	1,317	658
Over 4 years up to 5 years	1,317	658
Over 5 years	2,441	3,636
Total lease payments to be received	**9,026**	**8,019**
Reconciliation with loans		
Not accrued gains (-)	2,135	1,041
Unguaranteed residual value (-)	-	-
Loans for leases	**6,891**	**6,978**

"Not accrued gains" derive from unearned interest embedded in lease instalments.

2.2. Other information

2.2.1 Other information about finance leases: type and credit quality

	31.12.2020		31.12.2019	
	Performing exposures	Non-performing exposures	Performing exposures	Non-performing exposures
A - Real estate assets	**4,825**	**4,109**	**5,976**	**258**
Lands	-	-	-	-
Buildings	4,825	4,109	5,976	258
B - Operating assets	**-**	**172**	**15**	**24**
C - Movable assets	**-**	**250**	**31**	**23**
Motor vehicles	-	130	5	13
Aircraft and rolling stock	-	47	-	5
Others	-	73	26	5
D - Intangible assets	**-**	**-**	**-**	**-**
Trademarks	-	-	-	-
Software	-	-	-	-
Others	-	-	-	-
Total	**4,825**	**4,531**	**6,022**	**305**

2.2.2 Other information about finance leases: unexercised assets, assets withdrawn following termination, other assets

	31.12.2020			31.12.2019		
	Unexercised assets	Assets withdrawn following termination	Other assets	Unexercised assets	Assets withdrawn following termination	Other assets
A - Real estate assets	**447**	**245**	**-**	**447**	**245**	**-**
Lands	-	-	-	-	-	-
Buildings	447	245	-	447	245	-
B - Operating assets	**-**	**-**	**-**	**-**	**-**	**-**
C - Movable assets	**50**	**-**	**-**	**50**	**-**	**-**
Motor vehicles	-	-	-	-	-	-
Aircraft and rolling stock	50	-	-	50	-	-
Others	-	-	-	-	-	-
D - Intangible assets	**-**	**-**	**-**	**-**	**-**	**-**
Trademarks	-	-	-	-	-	-
Software	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total	**497**	**245**	**-**	**497**	**245**	**-**

3. Operating leases

3.1 Breakdown of payments to be received by time bands

Time bands	31.12.2020 Lease payments to be received	31.12.2019 Lease payments to be received
Up to 1 year	2,853	2,753
Over 1 year up to 2 years	2,727	2,634
Over 2 years up to 3 years	2,557	2,528
Over 3 years up to 4 years	2,394	2,348
Over 4 years up to 5 years	2,189	2,185
Over 5 years	4,142	6,945
Total	**16,862**	**19,393**

3.2 Other information

See the section of the Directors' report on operations on “The Bank in 2020”, detailing the activities of BPER Banca in the real estate sector, for the information required by paragraph 92 of IFRS 16.

Attachments

The following documents, which are not attached to the English version of the financial statements as at 31 December 2020, could be consulted in the Italian version:

- Statement of cash flow of the staff pension fund
- Statement of property revaluations (art. 10 Law 72 of 19/03/1983)

Fees for audit and non-audit services

Information pursuant to art. 149-duodecies of CONSOB's Issuers' Regulation

This schedule, prepared pursuant to art. 149-duodecies of CONSOB's Issuers' Regulation (Resolution 11971 of 14 May 1999 and subsequent additions and amendments), reports the 2020 fees for audit and non-audit services provided by the Independent Auditors and member firms of the same network. These fees represent the costs incurred and recorded in the financial statements, net of expenses, unrecoverable VAT and the CONSOB contribution.

(in thousands)

Type of services	Party providing the service	Recipient		Fees
Audit services	Deloitte & Touche s.p.a	BPER Banca		754
Certification services	Deloitte & Touche s.p.a	BPER Banca	(1)	1,062
	Deloitte Financial Advisory s.r.l.	BPER Banca	(2)	350
Other services	Deloitte & Touche s.p.a	BPER Banca	(3)	28
	Deloitte Consulting s.r.l.	BPER Banca	(4)	960
Total				**3,154**

Note that the figures include the services rendered to Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a., which were merged with BPER Banca during the year.

(1) Certification services by Deloitte & Touche s.p.a.:
- activities performed in relation to the translation into English of the independent auditors' reports on the condensed consolidated half-year financial statements at 30 June 2020 and the separate and consolidated financial statements at 31 December 2020;
- activities performed as part of the covered bond issue programmes and EMTN programme;
- activities relating to the issue of fairness opinions on capital increase operations;
- activities to check the GHG Statement to be attached to the CDP Questionnaire – Reporting on Climate Change;
- activities carried out for the issue of the compliance opinion on the Consolidated Non-Financial Statement (Consolidated Sustainability Report);
- certification for the derecognition of bad loans being sold;
- certification of TLTRO3 reports;
- activities carried out for the purpose of issuing the Report pursuant to art. 23 paragraph 7 Bank of Italy Regulation 5 December 2019 - Mifid II.

(2) Certification services rendered by Deloitte & Financial Advisory s.r.l.:
- activity carried out for the purpose of issuing the Forecast Earnings Report in relation to the October 2020 increase in capital.

(3) Other services provided for by Deloitte & Touche s.p.a.:
- activities carried out to verify the conformity of the 2020 tax returns and the supplementary 2019 tax returns.

(4) Other services rendered by Deloitte Consulting s.r.l.:
- methodological support for benchmarking against best practices as part of the assessment carried out prior to defining the new Client Relationship Management (CRM) ecosystem;
- methodological support for benchmarking against best practices and identifying user requirements as part of the ongoing evolution of the Contact Centre – Everyday Bank;
- methodological support for identifying user requirements and benchmarking in the context of the Data Governance project;
- methodological support in the activity of factual recognition of business requirements and sources feeding the CRM and Marketing automation functions.

Pro-forma Balance sheet as at 1 January 2020

Below is the pro-forma balance sheet at the effective date of the merger of Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo with BPER Banca.

(in thousands)

Assets	BPER Banca 01.01.2020	CR BRA 01.01.2020	CR SALUZZO 01.01.2020	Consolidation adjustments	BPER Banca 01.01.2020 restated
Cash and cash equivalents	429,141	7,808	7,652	-	444,601
Financial assets	16,829,319	110,072	273,171	(26,945)	17,185,617
a) Financial assets held for trading	311,681	882	29	(8,798)	303,794
b) Financial assets designated at fair value	126,947	-	-	-	126,947
c) Other financial assets mandatorily measured at fair value	475,384	3,592	918	-	479,894
d) Financial assets measured at fair value through other comprehensive income	6,202,401	105,598	70,779	(30)	6,378,748
e) Debt securities measured at amortised cost	9,712,906	-	201,445	(18,117)	9,896,234
- banks	2,777,687	-	-	(18,117)	2,759,570
- customers	6,935,219	-	201,445	-	7,136,664
Loans	46,446,686	1,100,826	661,265	(612,078)	47,596,699
a) Loans to banks	5,591,416	76,422	92,710	(612,078)	5,148,470
b) Loans to customers	40,829,483	1,024,404	568,555	-	42,422,442
c) Financial assets measured at fair value	25,787	-	-	-	25,787
Hedging derivatives	81,869	-	50	(50)	81,869
Equity investments	2,138,421	-	-	(140,143)	1,998,278
Property, plant and equipment	802,101	17,231	12,210	2,060	833,602
Intangible assets	438,239	6	2	8,343	446,590
- of which: goodwill	*225,792*	-	-	*4,574*	*230,366*
Other assets	2,181,972	53,675	16,494	(900)	2,251,241
Total assets	**69,347,748**	**1,289,618**	**970,844**	**(769,713)**	**70,838,497**

(in thousands)

Liabilities and shareholders' equity	BPER Banca 01.01.2020	CR BRA 01.01.2020	CR SALUZZO 01.01.2020	Consolidation adjustments	BPER Banca 01.01.2020 restated
Due to banks	15,749,542	391,805	206,238	(610,087)	15,737,498
Direct deposits	45,859,374	783,122	685,005	(26,267)	47,301,234
a) Due to customers	40,300,602	681,701	610,929	-	41,593,232
b) Debt securities issued	5,558,772	101,421	74,076	(26,267)	5,708,002
Financial liabilities held for trading	176,219	719	10	(463)	176,485
Hedging derivatives	283,792	132	-	(132)	283,792
Other liabilities	2,282,040	47,678	27,315	(1,582)	2,355,451
Shareholders' equity	4,996,781	66,162	52,276	(131,182)	4,984,037
a) Valuation reserves	(135,730)	2,854	2,951	(8,441)	(138,366)
b) Reserves	2,039,723	(8,277)	15,461	(22,222)	2,024,685
c) Equity instruments	150,000	-	-	-	150,000
d) Share premium reserve	1,002,722	13,386	-	(13,386)	1,002,722
e) Share capital	1,561,884	57,330	33,280	(86,897)	1,565,597
f) Treasury shares	(7,253)	-	-	-	(7,253)
g) Profit (Loss) for the year	385,435	869	584	(236)	386,652
Total liabilities and shareholders' equity	**69,347,748**	**1,289,618**	**970,844**	**(769,713)**	**70,838,497**

Reconciliation between the Financial statements and the Reclassified Financial statements as at 31 December 2020

(in thousands)

		Reclassified balance sheet - Assets															
			Financial assets						Loans								
Circular no. 262/2005 6° update - Assets	31.12.2020	Cash and cash equivalents	a) Financial assets held for trading	b) Financial assets designated at fair value	c) Other financial assets mandatorily measured at fair value	d) Financial assets measured at fair value through other comprehensive income	e) Debt securities measured at amortised cost - banks	e) Debt securities measured at amortised cost - customers	a) Loans to banks	b) Loans to customers	c) Financial assets measured at fair value	Hedging derivatives	Equity investments	Property, plant and equipment	Intangible assets	- of which: goodwill	Other assets
10. Cash and cash equivalents	365,864	365,864															
20. Financial assets measured at fair value through profit or loss	983,756																
a) financial assets held for trading	310,818		310,818														
b) financial assets designated at fair value	123,370			123,370													
c) other financial assets mandatorily measured at fair value	549,568				523,261						26,307						
30. Financial assets measured at fair value through other comprehensive income	6,051,222					6,051,222											
40. Financial assets measured at amortised cost	71,340,689																
a) loans to banks	16,418,169						4,511,133		11,907,036								
b) loans to customers	54,922,520			-				11,336,188		43,586,332							
50. Hedging derivatives	57,695											57,695					
70. Equity investments	2,008,146												2,008,146				
80. Property, plant and equipment	806,384	-												806,384			
90. Intangible assets	480,782														480,782		
of which:	-																
- goodwill	230,366															230,366	
100. Tax assets	1,689,110																
a) current	402,666																402,666
b) deferred	1,286,444																1,286,444
110. Non current assets and disposal groups classified as held for sale	3,194																3,194
120. Other assets	444,330																444,330
Total assets	**84,231,172**	**365,864**	**310,818**	**123,370**	**523,261**	**6,051,222**	**4,511,133**	**11,336,188**	**11,907,036**	**43,586,332**	**26,307**	**57,695**	**2,008,146**	**806,384**	**480,782**	**230,366**	**2,136,634**

(in thousands)

Circular no. 262/2005 6° update - Liabilities and shareholders' equity	31.12.2020	Reclassified balance sheet - Liabilities and shareholders' equity												
		Due to banks	Direct deposits		Financial liabilities held for trading	Hedging derivatives	Other liabilities	Shareholders' equity						
			a) Due to customers	b) Debt securities issued				a) Valuation reserves	b) Reserves	c) Equity instruments	d) Share premium reserve	e) Share capital	f) Treasury shares	g) Profit (Loss) for the year
10. Financial liabilities measured at amortised cost	75,566,875													
a) due to banks	24,095,097	24,095,097												
b) due to customers	46,793,064		46,793,064											
c) debt securities issued	4,678,714			4,678,714										
20. Financial liabilities held for trading	182,981				182,981									
40. Hedging derivatives	456,447					456,447								
60. Tax liabilities	47,136													
a) current	-						-							
b) deferred	47,136						47,136							
80. Other liabilities	1,500,563						1,500,563							
90. Employee termination indemnities	107,416						107,416							
100. Provisions for risks and charges	454,186													
a) commitments and guarantees granted	49,251						49,251							
b) pension and similar obligations	147,829						147,829							
c) other provisions for risks and charges	257,106						257,106							
110. Valuation reserves	(54,799)							(54,799)						
130. Equity instruments	150,000									150,000				
140. Reserves	2,342,135								2,342,135					
150. Share premium reserve	1,241,197										1,241,197			
160. Share capital	2,100,435											2,100,435		
170. Treasury shares (-)	(7,253)												(7,253)	
180. Profit (Loss) for the year (+/-)	143,853													143,853
Total liabilities and shareholders' equity	**84,231,172**	**24,095,097**	**46,793,064**	**4,678,714**	**182,981**	**456,447**	**2,109,301**	**(54,799)**	**2,342,135**	**150,000**	**1,241,197**	**2,100,435**	**(7,253)**	**143,853**

(in thousands)

Circular no. 262/2005 6° update - Income statement	31.12.2020	Reclassified Income statement: Net interest income	Net commission income	Dividends	Net income from financial activities	Other operating expense/income	Staff costs	Other administrative expenses	Net adjustments to property, plant and equipment and intangible assets	Net impairment losses to financial assets at amortised cost - loans	Net impairment losses to financial assets at amortised cost - other financial assets	Net impairment losses to financial assets at fair value	Gains (Losses) from contractual modifications without derecognition	Net provisions for risks and charges	Contributions to SRF, DGS, IDPF - VS	Gains (Losses) on equity investments, disposal investments and impairment losses on goodwill	Income taxes on current operations for the year	Profit (Loss) for the year
10. Interest and similar income	1,096,963	1,096,963																
20. Interest and similar expense	(195,450)	(195,450)																
30. Net interest income	**901,513**																	
40. Commission income	817,034		817,034															
50. Commission expense	(62,735)		(62,735)															
60. Net commission income	**754,299**																	
70. Dividends and similar income	24,645			24,645														
80. Net income from trading activities	(14,884)				(14,884)													
90. Net income from hedging activities	(577)				(577)													
100. Gains (Losses) on disposal or repurchase of:	117,313																	
a) financial assets measured at amortised cost	108,077				108,077													
b) financial assets measured at fair value through other comprehensive income	8,920				8,920													
c) financial liabilities	316				316													
110. Net income on financial assets and liabilities measured at fair value through profit or loss	11,412																	
a) financial assets and liabilities designated at fair value	(3,684)				(3,684)													
b) other financial assets mandatorily measured at fair value	15,096				15,096													
120. Net interest and other banking income	**1,793,721**																	
130. Net impairment losses for credit risk relating to:	(443,781)																	
a) financial assets measured at amortised cost	(443,433)									(436,240)	(7,193)							
b) financial assets measured at fair value through other comprehensive income	(348)											(348)						
140. Gains (Losses) from contractual modifications without derecognition	(2,076)												(2,076)					
150. Net income from financial activities	**1,347,864**																	
160. Administrative expenses:	(1,326,776)																	
a) staff costs	(751,764)						(751,764)											
b) other administrative expenses	(575,012)							(499,702)							(75,310)			
170. Net provisions for risks and charges	(13,061)																	
a) commitments and guarantees granted	(3,036)													(3,036)				
b) other net provisions	(10,025)													(10,025)				
180. Net adjustments to property, plant and equipment	(99,116)								(99,116)									
190. Net adjustments to intangible assets	(54,446)								(54,446)									
200. Other operating expense/income	176,513					76,962		111,003						(11,452)				
210. Operating costs	**(1,316,886)**																	
220. Gains (Losses) of equity investments	(3,269)															(3,269)		
250. Gains (Losses) on disposal investments	817															817		
260. Profit (Loss) from current operations before tax	**28,526**																	
270. Income taxes on current operations for the year	115,327																115,327	
280. Profit (Loss) from current operations after tax	**143,853**																	
300. Profit (Loss) for the year	**143,853**	**901,513**	**754,299**	**24,645**	**113,264**	**76,962**	**(751,764)**	**(388,699)**	**(153,562)**	**(436,240)**	**(7,193)**	**(348)**	**(2,076)**	**(24,513)**	**(75,310)**	**(2,452)**	**115,327**	**143,853**

Certifications and other reports

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Certification of the individual financial statements for 2020 pursuant to art. 81-ter of Consob Regulation no. 11971 dated 14 May 1999 and subsequent additions and amendments

➢ The undersigned
- Alessandro Vandelli, as Chief Executive Officer,
- Marco Bonfatti, as the Manager responsible for preparing the Company's financial report,

of BPER Banca S.p.A., having considered the requirements of paras. 3 and 4 of art. 154-bis of Decree no. 58 dated 24 February 1998, confirm:

- the adequacy in relation to the characteristics of the Bank and
- the proper application,

during 2020, of the administrative and accounting procedures adopted for the preparation of the financial statements.

➢ This assessment of the adequacy of the administrative and accounting procedures adopted for the preparation of the financial statements at 31 December 2020 is based on a model developed by BPER Banca S.p.A., consistent with the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. These framework represent reference standards for systems of internal control that are generally accepted at an international level.

➢ It is also certified that:

- the financial statements at 31 December 2020:
  a) have been prepared in accordance with the applicable international accounting standards recognised within the European Union pursuant to European Parliament and Council Regulation (EC) no. 1606/2002 dated 19 July 2002, Decree 38/2005 and the enabling regulations for art. 9 of this Decree;
  b) agree with the underlying accounting records and entries;
  c) present a true and fair view of the financial position and results of operations of the Bank;
- the report on operations includes a reliable analysis of performance and the results of operations, as well as of the position of the Bank, together with a description of the principal risks and uncertainties to which it is exposed.

Modena, 16 March 2021

Chief Executive Officer	**Manager responsible for preparing the company's financial report**
Alessandro Vandelli	Marco Bonfatti

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
BPER Banca S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of BPER Banca S.p.A. (the Bank), which comprise the balance sheet as at December 31, 2020, and the income statement, the statement of other comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, and the explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and to art. 43 of Italian Legislative Decree no. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification of high-risk performing loans to customers measured at amortized cost	
Description of the key audit matter	As reported in paragraph "2.3 Balance sheet aggregates" of the Directors' report on operations and in the quantitative information relating to credit risk disclosed in Part E – Information on risks and related hedging policies in the explanatory notes as at December 31, 2020, performing loans to customers measured at amortized cost of BPER Banca S.p.A. show a gross amount of Euro 42,284 million, reduced by portfolio adjustments of Euro 122 million, to come to a net amount of Euro 42,162 million, resulting in a coverage ratio of 0.29%. As more widely described in the explanatory notes and in the Directors' report on operations, the trend in the world economy during 2020 was characterized by the effects of the COVID-19 pandemic, which significantly affected the Bank's business processes for monitoring and measuring credit risk. The context was also characterized by new initiatives and concessions introduced by governments and monetary and tax authorities, whose impact on the Bank's economic and financial situation are described in the explanatory notes in the following sections: • Part B - Information on the balance sheet – Section 4 – Financial assets measured at amortised cost , table 4.4a Loans measured at amortised cost subject to measures applied in response to the COVID-19: gross values and total impairment losses; • Part C – Information on the income statement – Section 8 – Net impairment losses for credit risk, table 8.1a Net impairment losses for credit risk related to loans at amortized cost subject to measures applied in response to the COVID-19: breakdown; • Part E – Information on risks and related hedging policies – Section A – Credit quality, table A.1.5a Loans subject to measures applied in response to the COVID-19: transfers between different stages of credit risk (gross values) and table A.1.7a Loans subject to measures applied in response to the COVID-19: gross and net values; as required by the supplement dated 15 December 2020 of the "Circular n. 262 – Banks' financial statements: schemes and compilation rules" issued by Bank of Italy, which introduced a specific disclosure concerning the effects of the COVID-19 pandemic and of the measures to support the economy on risk management strategies, objectives and policies, as well as on the economic and financial situation of banks.

As reported in the qualitative information relating to credit risk disclosed in Part E – Information on risks and related hedging policies in the explanatory notes as at December 31, 2020, as part of its policies for managing loans to customers, the Bank adopted rules and processes for monitoring credit exposures, which have entailed, among other things, a structured action of classification into homogeneous risk categories. In particular on the basis of "rating" and "early warning" systems the Bank identified, among performing loans to customers measured at amortized cost, those ones with a higher degree of risk.

In the paragraph "Accounting estimates – Overlay Approach applied in credit risk assessment" of Section 4 – Other aspects of part A – Accounting policies of the explanatory notes, the Bank explains the actions taken, as a consequence of the contingency situation caused by the COVID-19 pandemic ("Overlay Approach"), on both the staging allocation model envisaged by the IFRS 9 accounting standard adopted by the Bank, and on the identification of the macroeconomic scenarios used to determine the expected credit losses.

Given the complexity of the process of classifying loans to customers into homogeneous risk categories followed by the Bank and the subjectivity of the Overlay Approach adopted in order to take into account the uncertainties arising from the COVID-19 pandemic, we considered the classification of high-risk performing loans to customers measured at amortized cost, with reference also to the effects of the application of the Overlay Approach adopted by the Bank, a key audit matter of the financial statements of BPER Banca S.p.A. as at December 31, 2020.

Audit procedures performed

The main procedures carried out as part of our audit work were, among others, as follows:

- gaining an understanding of the internal regulations and processes implemented by the Bank, as amended to take account also of the impacts of the COVID-19 pandemic, for classifying loans to customers measured at amortized cost and monitoring their quality, in order to verify the compliance with the regulatory framework;

- checking the implementation and operating effectiveness of the key controls identified in relation to those processes, also supported by IT processes and systems specialists of the Deloitte network, taking into account also the impacts on them of the COVID-19 pandemic;

- drawing qualitative and trend analysis of performing loans to customers measured at amortized cost by calculating appropriate qualitative and quantitative indicators in order to identify possible matters of interest, also in view of the COVID-19 pandemic;

- checking, on a sample basis, the classification of high-risk performing loans to customers measured at amortized cost in accordance with the regulatory framework;

- understanding and analysis of the actions taken by the Bank, as a consequence of the contingency situation caused by the COVID-19 pandemic ("Overlay Approach"), on both the staging allocation model envisaged by the IFRS 9 accounting standard, and on the identification of the macroeconomic scenarios used in order to capture the uncertainties of the aforementioned context;

- checking the completeness and the compliance of the disclosures provided in the financial statements in accordance with the regulatory framework and applicable accounting standards, as well as the contents of the interpretative and supporting documents for the application of the accounting standards in relation to the impacts of the COVID-19 pandemic, issued by the national and European regulatory and supervisory bodies.

Classification and valuation of non-performing loans to customers measured at amortized cost classified as bad loans and unlikely to pay loans	
Description of the key audit matter	As reported in paragraph "2.3 Balance sheet aggregates" of the Directors' report on operations and in the quantitative information relating to credit risk disclosed in Part E – Information on risks and related hedging policies of the explanatory notes as at December 31, 2020, non-performing loans to customers measured at amortized cost of BPER Banca S.p.A. show a gross amount of Euro 2,998 million, reduced by impairment losses of Euro 1,574 million, resulting in a net amount of Euro 1.424 million. The Directors' report on operations also shows that the coverage ratio of non-performing loans to customers measured at amortized cost as at December 31, 2020 is equal to 52.50%. More specifically, the above-mentioned loans to customers, classified in accordance with IFRS 9 "Financial Instruments" as "Third Stage", include bad loans for a net value of Euro 424 million and a coverage ratio of 68.05% and unlikely to pay loans for a net value of Euro 959 million and a coverage ratio of 40.76%. Part A – Accounting policies of the explanatory notes describes: • the rules for classifying non-performing loans to customers measured at amortized cost followed by the Bank in compliance with the current instructions of the Supervisory Authorities and the applicable accounting standards;

- the methods for determining their recoverable amount which are based on the estimate of the present value of expected cash flows deriving from an analytical valuation of bad loans and unlikely to pay loans whose exposure is higher than the thresholds established by internal regulations, and from a flat-rate approach for the remaining non-performing loans to customers measured at amortized cost. Furthermore the quantification of the recoverable amount of non-performing loans which are included in the Bank's strategy, which envisages the recovery of those loans through disposals, reflects also the estimate of their disposal value, duly weighting the probability of the "workout" and "disposal" scenarios;

- the modification made with reference to the analytical valuation of non performing loans to customers measured at amortized cost, consisting in reviewing the expected cash flows determined before the pandemic crisis, in order to take into account, in particular, the need to extend the judicial time of recovery of the credit exposure, leadind to a general increase of the analytical provisions.

Given the significance of the amount of non-performing loans to customers measured at amortized cost recorded in the financial statements, the complexity of the valuation processes adopted by the Bank, which entailed a structured action of classification into homogeneous risk categories, as well as the relevance of the discretionary components linked to the estimate of the recoverable amount (such as the estimate of expected cash flows, the time of recovery, the collaterals' value and the possible recovery strategies), we considered the classification of non-performing loans to customers measured at amortized cost classified as bad loans and unlikely to pay loans and their valuation a key audit matter of the financial statements of BPER Banca S.p.A. as at December 31, 2020.

Audit procedures performed

The main procedures carried out as part of our audit work were, among others, as follows:

- gaining an understanding of the internal regulations and processes implemented by the Bank, as amended to take account also of the impacts of the COVID-19 pandemic, for classifying non-performing loans to customers measured at amortized cost classified as bad loans and unlikely to pay loans and determining their recoverable amount, in order to verify the relevant compliance with the regulatory framework and applicable accounting standards;

- checking the implementation and operating effectiveness of the key controls identified in relation to those processes, also supported by IT processes and systems specialists of the Deloitte network, taking into account also the impacts on them of the COVID-19 pandemic, if any;

- drawing qualitative and trend analysis of non-performing loans to customers measured at amortized cost classified as bad loans and unlikely to pay loans by calculating appropriate qualitative and quantitative indicators in order to identify possible matters of interest, also in view of the COVID-19 pandemic;

- checking on a sample of credit files, selected also on the basis of the matters of interest emerging from the analysis referred to in the previous point, the relevant classification and determination of the recoverable amount of non-performing loans to customers measured at amortized cost classified as bad loans and unlikely to pay loans in accordance with the regulatory framework, the applicable accounting standards and the impacts of the COVID-19 pandemic, if any, also by obtaining and examining written confirmations by the lawyers appointed for their collection;

- analysis and understanding of the valuation model adopted for the determination of impairment losses of non performing loans included in the Bank's strategy which envisages the recovery of those loans through disposals and checking the reasonableness of the recoverable amount, determined also by taking into account the estimate of their disposal value, duly weighting the probability of the “workout” and “disposal” scenarios;

- checking the completeness and the compliance of the disclosures provided in the financial statements in accordance with the regulatory framework and applicable accounting standards, as well as the contents of the interpretative and supporting documents for the application of the accounting standards in relation to the impacts of the COVID-19 pandemic, issued by the national and European regulatory and supervisory bodies.

Accounting derecognition of portfolios of bad loans following the transfer through GACS-backed securitisation	
Description of the key audit matter	On June 18, 2020, BPER Banca S.p.A. and its subsidiaries Banco di Sardegna S.p.A. and Cassa di Risparmio di Bra S.p.A. finalized the securitisation of bad loans called “Spring”. In particular, a bad loans portfolio of a total Gross Book Value of about Euro 1,219 million, made of 57% of secured loans and 43% of unsecured loans, has been transferred to the securitisation vehicle Spring SPV s.r.l., pursuant to Law no. 130/99. These loans were granted by BPER Banca S.p.A. for Euro 1,022.5 million and by Cassa di Risparmio di Bra S.p.A. (merged by absorption into BPER Banca S.p.A. on July 27, 2020 with accounting effect from January 1, 2020) for Euro 61 million. BPER Banca S.p.A. and Cassa di Risparmio di Bra S.p.A. initially subscribed the Senior, Mezzanine and Junior notes issued by Spring SPV s.r.l.. Subsequently, Cassa di Risparmio di Bra S.p.A. and BPER Banca S.p.A. sold respectively 100% and 78.78% of the Mezzanine and Junior notes to a third-party investor.

Following the completion of the sale of those notes, the conditions required by IFRS 9 for the accounting derecognition of the transferred loans from the balance sheet of the Bank were met.
All the Senior notes remained in the Bank's portfolio. By the decree of the Minister for Economic and Finance signed on October 16, 2020, the state guarantee GACS was granted on these notes.
The negative economic impact of the securitisation “Spring” was Euro 14.3 million.

Subsequently, on December 30, 2020, BPER Banca S.p.A. and its subsidiary Banco di Sardegna S.p.A. finalized a further securitisation of bad loans called “Summer”. In particular, a bad loans portfolio of a total Gross Book Value of about Euro 270.8 million, made of 49% of secured loans and 51% of unsecured loans, has been transferred to the securitisation vehicle Summer SPV s.r.l., pursuant to Law no. 130/99. These loans were granted by BPER Banca S.p.A. for Euro 239.6 million.
The Senior notes issued by Summer SPV s.r.l. have been subscribed and retained by BPER Banca S.p.A.. The Mezzanine and Junior notes have been subscribed for 95% by a third-party institutional investor and for 5% by BPER Banca S.p.A.. Thus the conditions required by IFRS 9 for the accounting derecognition of the transferred loans from the balance sheet of the Bank were met.
On the Senior notes the state guarantee GACS has been requested by the Bank.
The negative economic impact of the “Summer” securitisation was Euro 14.9 million.

In paragraph “3.4 Progress of de-risking activities” of the Director’s report on Group operations of the consolidated financial statements as at 31 December 2020, to which in paragraph “1.1 Background” of Chapter “1. The Bank in 2020” of the Director’s report on operations reference is made, and in the qualitative information on securitisation transactions of part E - Information on risks and the related hedging policies of the explanatory notes as at 31 December 2020, disclosures are provided on the above-described aspects with reference to the above-mentioned transactions.

Given the complexity of the transactions and the significance of the related accounting effects, we considered the accounting derecognition of portfolios of bad loans following the transfer through GACS-backed securitisation a key audit matter of the financial statements of BPER Banca S.p.A. as at December 31, 2020.

Audit procedures performed	The main procedures carried out as part of our audit work were, among others, as follows: • gaining an understanding of the structure and of the finalization process of the transfer transactions, through securitisation, by obtaining and analysing signed agreements and further available documentation, as well as through interviews with the management of the Bank; • gaining an understanding of the processes adopted by the Bank with reference to the acknowledgement of the assumptions for the accounting derecognition of the securitised loans and testing the design and implementation of the related key controls; • analysis of the existence of the conditions required by the international accounting standard IFRS 9 for the accounting derecognition from the balance sheet of the Bank of the securitised loans, also supported by specialists of the Deloitte network; • checking the completeness and the compliance of the disclosures provided in the financial statements in accordance with the regulatory framework and applicable accounting standards.
Impairment test of goodwill	
Description of the key audit matter	As reported in the financial statements as at December 31, 2020, intangible assets include goodwill in the amount of Euro 230.4 million allocated to the cash generating unit ("CGU") identified in BPER Banca S.p.A. as a whole. Under IAS 36 "Impairment of assets", goodwill is not amortized but subjected to an impairment test at least once a year, by comparing the carrying amount with the relevant recoverable amount of the CGU. When preparing the impairment test, the Bank determines the recoverable amount of the CGU in terms of value in use estimated on the basis of the "Dividend Discount Model". The process of determining the value in use adopted by the Bank is based on assumptions involving, among other things, a forecast of expected cash flows of the CGU to which goodwill has been allocated, as well as the discount rate to be applied to the expected cash flows and the long-term growth rate. In particular, the Bank has prepared the forecast of expected cash flows taking into account the current market context significantly influenced by the evolution of the sanitary emergency due to the spread of the COVID-19 pandemic. The impairment test carried out by the Bank, supported by a fairness opinion of an independent external expert, confirmed the recoverability of goodwill, as accounted for in the financial statements.

In Part A – Accounting Policies and in "Section 9 – Intangible Assets" of Part B – Information on the balance sheet of the explanatory notes and in "Section 10 – Intangible Assets" of Part B – Information on the balance sheet of the consolidated explanatory notes, to which reference is made, disclosures are provided on these aspects, as well as on the results of the sensitivity analysis performed.

Given the subjectivity of the estimates involved in determining the cash flows of the CGU to which the goodwill has been allocated and the key variables of the impairment model, we considered the impairment test of goodwill a key audit matter of the financial statements of BPER Banca S.p.A. as at December 31, 2020.

Audit procedures performed	The main procedures carried out as part of our audit work were, among others, as follows:

- gaining an understanding, also supported by the specialists of the Deloitte network, of the valuation model and of the assumptions adopted by the Bank to carry out the impairment test;
- gaining an understanding of the process involved in carrying out the impairment test and verifying the implementation and operating effectiveness of the key controls identified in relation to that process;
- performing an analysis of reasonableness, carried out also by obtaining information from the Bank, of the main assumptions adopted to estimate cash flows, considering the current economic context characterized by the COVID-19 pandemic;
- performing an analysis, also supported by the specialists of the Deloitte network, of reasonableness of the key variables adopted in the valuation model, carried out also through in-depth analysis with the independent external expert;
- obtaining and reviewing the fairness opinion issued by the independent external expert, also through discussions with the Bank and the external expert himself;
- performing an analysis of actual figures compared with the original plans, in order to assess the nature of variances and the reliability of the process of determining the forecasts;
- verifying the clerical accuracy of the model used to determine the value in use of the CGU to which the goodwill has been allocated, also supported by the specialists of the Deloitte network;
- reviewing the sensitivity analysis performed by the Bank;

- checking the completeness and the compliance of the disclosures provided in the financial statements in accordance with the regulatory framework and applicable accounting standards, as well as the contents of the interpretative and supporting documents for the application of the accounting standards in relation to the impacts of the COVID-19 pandemic, issued by the national and European regulatory and supervisory bodies.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and to art. 43 of Italian Legislative Decree no. 136/15 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Bank or for the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Bank’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

- conclude on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of BPER Banca S.p.A. has appointed us on November 26, 2016 as auditors of the Bank for the years from December 31, 2017 to December 31, 2025.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of BPER Banca S.p.A. are responsible for the preparation of the Directors' report on operations and the report on corporate governance and ownership structure of BPER Banca S.p.A. as at December 31, 2020, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the Directors' report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of BPER Banca S.p.A. as at December 31, 2020 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned Directors' report on operations and some specific information contained in the report on corporate governance and ownership structure are consistent with the financial statements of BPER Banca S.p.A. as at December 31, 2020 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Marco Benini
Partner

Bologna, Italy
March 29, 2021

This report has been translated into the English language solely for the convenience of international readers.

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING PURSUANT TO ART. 153 OF LEGISLATIVE DECREE 58/1998

Shareholders,

We, as the Board of Statutory Auditors, are required to report to the Shareholders' Meeting of BPER Banca S.p.A. ("BPER" or "Bank") on the supervisory activities that we have carried out and on any omissions or censurable facts that we have identified pursuant to art. 153 of Legislative Decree 58/1998 and art. 2429, para. 2, of the Italian Civil Code, having regard for the instructions contained in CONSOB Communication 1025564/2001 and subsequent amendments and/or additions. We can also make observations and proposals on the financial statements, their approval and other matters within our sphere of competence.

During the year, we carried out our institutional duties in accordance with the Italian Civil Code, Legislative Decrees 385/1993 (Consolidated Banking Act or CBA) and 58/1998 (Consolidated Finance Act or CFA") and the Articles of Association, in compliance with the standards of conduct recommended by the Italian Accounting Profession (represented by the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*), as well as the special laws on the subject, and pursuant to the provisions adopted by the Public Authorities involved in supervisory and control activities in Italy (including the Bank of Italy and CONSOB) and in Europe (the European Central Bank, "ECB"). Following the entry into force in November 2014 of the Single Supervisory Mechanism, the Bank and the Group are now classified respectively as a "significant supervised entity" and a "significant supervised group" and therefore subject to direct Supervision by the ECB, which has taken on the tasks assigned by Regulation (EU) 1024 of 15 October 2013, which are also performed with assistance from the Bank of Italy in the manner envisaged in Regulation (EU) 468/2016 of 6 April 2014.

In particular, we continuously monitored the evolution of the government, legislative and regulatory interventions issued following the Covid-19 epidemic and the related initiatives undertaken by the Bank. The health emergency relating to the spread of Covid-19 and the succession of restrictive measures decided by the Government to protect public health have in fact had a significant impact on the Bank's management methods, adopted to ensure business continuity and essential services to customers, while taking the utmost care and attention for the health and protection of employees, customers and suppliers. In this context, we continuously verified that a high degree of attention was maintained on the precautionary and safety provisions.

With regard to credit, following the adoption of the implementing measures of the regulatory measures to support the economy, we monitored, from time to time, the initiatives, operational approaches and credit management processes.

With regard to anti-money laundering, we have continuously verified the analyses relating to the evolution of the reference regulatory context, including the gap analysis on "Specific provisions for the conservation and use of data and information for anti-money laundering and countering the financing of terrorism" - Bank of Italy Provision of 24 March 2020.

Our activity is supported by the Board's operating rules, which were most recently updated in February 2021 to bring them more into line with how we operate.

During the year, we acquired the information needed to perform the general supervisory duties assigned to us through the detailed system of information flows provided for within the Group, as well as by taking part in meetings of the Board of Directors and the Executive Committee.

In compliance with the health requirements resulting from the Covid-19 pandemic crisis, we met the top management of the Bank in the persons of the Chairman of the Board of Directors and the Chief Executive Officer, also in his capacity as General Manager. Pursuant to Legislative Decree 231/01, we also met the Supervisory Board of the Bank, as well as the Supervisory Board of the Pension Fund of the Bank's employees; further meetings were held with the Chairmen and members of the Control Bodies of the Group's main banking and non-banking companies.

We had frequent meetings with the Manager responsible for preparing the company's financial reports and with the Group's Internal Control Functions: the Internal Audit Department, the Risk Department, the Anti-Money Laundering Unit, the Compliance Unit.

We regularly attended meetings of the various Committees of the Board of the Directors (Control and Risks Committee, Remuneration Committee, Nominations Committee, Independent Directors Committee) and held periodic meetings with the managers of the principal Business Functions (including the Chief Lending Officer-CLO, Chief Legal & Governance Officer-CL&GO, Chief Business Officer-CBO, Chief Information Officer-CIO, Chief Financial Officer-CFO, Chief Operating Officer-COO, Chief Human Resource Officer-CHRO).

Our opinions, recommendations and suggestions were communicated to the recipient functions both during our meetings and through the function of the Bank which supports the Board in its activities or communicated directly to the Body with the function of management or of strategic supervision and the related internal Board Committees, subsequently doing adequate follow-up.

I - INFORMATION ON THE PRINCIPAL ECONOMIC, FINANCIAL AND CAPITAL TRANSACTIONS CARRIED OUT BY THE BANK AND ON SUBSEQUENT EVENTS

We have carried out specific in-depth analyses with top management regarding the significant progress made in achieving the individual objectives that had been set, developing a dynamic of constant and profitable dialogue within their respective areas of competence.

Of the main initiatives carried out in 2020, the report on operations highlights the following:

Increase in capital of BPER Banca and the acquisition of a Business Complex from the Intesa Sanpaolo Group called the "Gemini Project"

On 29 September 2020, the Board of Directors of BPER Banca resolved to increase the share capital in a divisible manner, against payment, for a maximum amount including share premium of Euro 802,258 thousand and approved its final terms and conditions.

During the offer period, 552,724,115 option rights for the subscription of 884,358,584 new shares, equal to 99.21% of the total number of new shares, for a total value of Euro 795,922 thousand.

The unexercised rights, corresponding to 0.79% of the total new shares, for a total value of Euro 6,335 thousand were offered, and all sold, on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. The increase in capital was therefore concluded with the

891,398,064 new shares being fully subscribed for a total of Euro 802,258 thousand, so the underwriters did not have to intervene.

On November 3, 2020, the change in the share capital of BPER Banca S.p.A., increasing by Euro 534,838,838.40 through the issue of 891,398,064 BPER ordinary shares, with full rights and the same characteristics as the shares in circulation, at the same time amending art. 5 of the Articles of Association.

The purpose of the increase in capital was to finance the acquisition of a business complex divided into three business units from Intesa Sanpaolo S.p.a., as part of its acquisition of control of UBI Banca S.p.a. The final purchase contracts, signed on 19 February 2021, include: (i) the legal relationships, assets and liabilities of a business unit owned by UBI Banca (consisting of 455 bank branches and 132 operating points), a business unit owned by Intesa Sanpaolo (consisting of 31 bank branches and 2 operating points) and a business unit owned by UBISS (a consortium company controlled by UBI Banca which essentially provides services to the branches being acquired), (ii) maximum value of risk-weighted assets (RWA) of Euro 15.5 billion, and (iii) total net loans of between Euro 25.2 billion and Euro 27.2 billion.

Business plan of the BPER Banca Group 2019-2021: update of its financial forecasts

The BPER Banca Group integrated its 2019-2021 BEST WAY Business Plan with the announcement that on 17 February 2020 it had signed an agreement, and supplementary agreements later on, with Intesa Sanpaolo for the purchase of a business complex represented by branches formerly belonging to UBI Banca.

The emergency situation linked to the Covid-19 pandemic, the restrictive measures implemented by the Italian government (such as lockdowns), the significant changes in monetary policy at EU level and the consequent significant change in the current and future macroeconomic context, have had a significant impact on the economic and financial dynamics of the BPER Banca Group, as originally outlined in the 2019-21 Business Plan, modifying to not inconsiderable extent the assumptions underlying the economic and financial targets contained in the Plan. The Board of Directors of BPER Banca has acknowledged the substantial change in market prospects, due to the emergency crisis, the most up-to-date forecasts in terms of interest rates, the change in perimeter resulting from the merger of Arca Holding, not foreseen in the original Plan, as well as the acquisition of the business complex referred to in the agreements with Intesa Sanpaolo, approving the update of the 2020-2021 financial forecasts of the BPER Banca Group.

The main extraordinary operations envisaged by the BEST WAY Plan and carried out in 2020 consisted of the absorption of the two subsidiaries Cassa di Risparmio di Bra S.p.a. and Cassa di Risparmio di Saluzzo S.p.a. by the Parent Company.

This whole operation made it possible to further simplify and rationalise the organisational structure and governance of the Group, as well as to improve operational efficiency and facilitate the monitoring and control of risks.

The updated forecasts used in the 2019-2021 Plan - limited to 2021 as this was last year of the Plan - were confirmed when that year's Budget was being prepared on the basis of an even more recently updated macroeconomic scenario.

Covid-19 pandemic: action taken by the BPER Banca Group

A healthcare emergency consultative committee was established immediately in order to monitor the evolution of events. Coordinated by the Group Crisis Manager, this committee comprises the Chief Human Resources Officer (CHRO), the Safety Officer (RSPP), the Chief Operating Officer (COO), the Chief Risk Officer (CRO), the Business Continuity Manager and representatives from the Systems Department, the Risk Management Department and the Service Desk Department.

The branches in the "red zone" were ordered to close, along with abstention from work and quarantine for workers in accordance with the procedures dictated by regional and government ordinances.

As the emergency continued, the Committee's lines of intervention involved various areas: the management of human resources, the Business Continuity Plan, protection of the public and support for the economy, with different lines of action, as described in detail in the Directors' report.

The uncertainty linked to the impact of the pandemic on the real economy also led to the application of correctives to certain valuation methods used by the BPER Banca Group, particularly related to loan classification and assessment, as discussed in details in the explanatory notes.

Progress of de-risking activities

The strategic directions identified in the BEST WAY Plan include objectives for reducing the portfolio of non-performing loans, as described below. This strategic objective, pursued with determination by the Group in recent years, has made it possible to achieve the target gross NPE ratio envisaged in the Plan one year in advance. The NPE Strategy of the BPER Banca Group (still for the three-year period 2019-2021) is currently being updated.

Operation "Spring" - securitisation of bad loans

On 18 June 2020, BPER Banca, Banco di Sardegna and Cassa di Risparmio di Bra formalised the bad loan securitisation known as "Operation Spring". In particular, a portfolio of bad loans, comprising 57% secured loans and 43% unsecured with a gross carrying amount of about Euro 1,219 million at 30 September 2019 (economic effect of the disposal from 1 October 2019), was assigned to Spring SPV s.r.l., a securitisation vehicle formed pursuant to Law 130/99.

The overall negative economic impact of the "Spring" operation was Euro 16.4 million, shown in the financial statements as losses on loans, having aligned the net value of the receivables before the sale to the price offered by the purchaser.

The Senior notes were all retained in the portfolios of the originator banks. The GACS state guarantee was granted on these securities by Decree of the Minister of Economy and Finance signed on 16 October 2020.

Operation Summer" – securitisation of bad loans

On 30 December 2020, BPER Banca and its subsidiary Banco di Sardegna completed the securitisation of bad loans known as “Operation Summer". In particular, a portfolio of bad loans, made up of 49% secured loans and 51% unsecured with a gross carrying amount of about Euro 270.8 million at 31 July 2020 (effective date of disposal: 1 October 2020), was sold to Spring SPV s.r.l., a securitisation vehicle formed pursuant to Law 130/99.

The overall negative economic impact of the "Summer" transaction was Euro 16.6 million, shown in the financial statements as losses on the sale of loans.

The procedure for requesting the GACS State guarantee has been initiated for the Senior securities.

Shareholders' Meeting of 29 January 2021

The Shareholders' Meeting of BPER Banca, which met in an extraordinary session on 29 January 2021, approved the Board of Directors' proposal to amend the Articles of Association, renumbering them as a result: in particular, the number of members of the Control Body was reduced from 5 to 3.

II, III - INFORMATION ON THE EXISTENCE AND ASSESSMENT OF THE ADEQUACY OF INFORMATION MADE AVAILABLE BY THE DIRECTORS ABOUT ATYPICAL OR UNUSUAL TRANSACTIONS, INCLUDING INTERCOMPANY TRANSACTIONS OR TRANSACTIONS WITH RELATED PARTIES.

The report on operations (section 4.3), the Group report on operations (section 8.7) and the information obtained by this Board do not evidence any atypical and/or unusual transactions with third parties, Group Banks and Companies or Related Parties and associated persons.

Please note that the new "Group Policy for the governance of non-compliance risk with regard to conflicts of interest with related parties and risk activities with associated persons" issued pursuant to art. 136 of the CBA, the provisions of the Bank of Italy on risk activities and conflicts of interest versus associated persons (Circular 285 of 17 December 2013), the Consob Regulation on transactions with related parties (Resolution Consob 17221/2010) and IAS 24 on the disclosure of related-party transactions was adopted by the Board of Directors on 14 March 2019. The internal exposure limits of subjects subject to control or significant influence and consequently the maximum total amount of risk activities towards all associated persons were approved by the Board of Directors on 7 August 2019 and have not been changed since. The "Group Regulation of the process of managing conflicts of interest for Corporate Officers" was adopted on 14 March 2019. It aims to regulate the assessment of the suitability of corporate officers to hold their offices by identifying, managing and monitoring conflicts of interest of Directors currently or potentially in conflict with those of the Company, also in light of the EBA-ESMA guidelines of 26 September 2017 and the ECB Guidelines on the professionalism and integrity requirements of May 2018. In this regard, reference is made to the information provided by the Directors to the Shareholders' Meeting, in their report pursuant to art. 125-*ter* of the CFA (para. 17) containing Information on internal control policies in terms of risk activities and conflicts of interest with related parties, in compliance with the requirements of Bank of Italy Circular 285/2013 -Title 3 - Chapter 11 of the Bank of Italy, with regard to the amendments made. Following Consob Resolution 21624 of 10 December 2020, the Bank is reviewing the "Group Policy for the governance of non-compliance risk with regard to conflicts of interest with related parties and risk activities with associated persons", which will be adopted in accordance with the law (1/7/2021) following a resolution by the Board of Directors. Any updates that may be needed to the software used to monitor the situation will also be assessed as a result.

Having said this, information on transactions with associated persons and related parties is also provided in the Directors' report on group operations (para. 8.6) and in the Directors' report on operations accompanying the separate financial statements (paragraph 4.2), as well as in Part H of the explanatory notes to the consolidated financial statements and the draft separate financial statements, as required by art. 2497 bis of the Italian Civil Code and Consob Communication DEM 6064293 of 28 July 2006, giving full disclosure of the transactions in question. As far as we are aware, these transactions were concluded in the interests of the Bank and do not require any comments about their appropriateness; with reference to other transactions concluded with related parties, it should be noted that on 22 July 2020 the deed of merger was signed for the absorption of Cassa di Risparmio di Bra S.p.A. and Cassa di Risparmio di Saluzzo S.p.A. by BPER Banca S.p.A., with effect for accounting and tax purposes from 1 January 2020.

Note, too, that we regularly receive and review periodic information flows on transactions with related parties and with associated and controlling persons; where necessary, we requested additional information and details. In this context, we can say that the Supervisory limits and the maximum amount established for risk activities are fully respected. Overall, they have decreased in percentage terms as a result of the Parent Company's increase in capital.

Through our Chairman and/or another Acting Auditor, we have constantly monitored the entire process regarding the extraordinary transactions completed with Related Parties and Associated Persons and have attended all of the meetings of the Independent Directors' Committee, where we have a permanent invitation.

We can also certify that the transactions carried out pursuant to art. 136 of Legislative Decree 385/93 were unanimously approved by the Board of Directors and with the favourable opinion of all members of the Board of Statutory Auditors.

IV - OBSERVATIONS AND PROPOSALS ON THE FINDINGS AND HIGHLIGHTS CONTAINED IN THE INDEPENDENT AUDITORS' REPORT

Pursuant to the combined provisions of Legislative Decree 39 dated 27 January 2010 (supplemented by Legislative Decree 135/2016 transposing Directive 2014/56/EU) and Regulation (EU) 135/2014, the engagement to perform the independent audit of the accounts and audit the separate and consolidated financial statements for the nine-year period 2017-2025 was assigned at the Shareholders' Meeting held on 26 November 2016 to Deloitte & Touche S.p.A. ("Deloitte" or "Independent Auditors"), together with the issue of opinions on consistency and conformity with the law pursuant to art. 123-bis, para. 4, CFA .

On 29 March 2021, the Independent Auditors issued their report on the separate financial statements for the year ended 31 December 2020, pursuant to art. 14 of Legislative Decree 39/2010 and art. 10 of Regulation (EU) 537/2014.

In that report, the Independent Auditors:

- issued an opinion confirming that the separate financial statements present a true and fair view of the financial position of the Bank as of 31 December 2020, and of its results and cash flows for the year ended on that date, in accordance with the International Financial Reporting Standards endorsed by the European Union and with the measures issued in implementation of art. 9 of Decree 38/2005 and art. 43 of Decree 136/2015;

- confirmed that the report on operations accompanying the separate financial statements and certain specific information contained in the Report on corporate governance and the ownership structure specified in art. 123-bis, para. 4, of the CFA, are consistent with the draft financial statements at 31 December 2020 and were prepared in accordance with the law;

- declared, with reference to possible significant errors in the report on operations, that it had no observations to make based on its knowledge and understanding of the business and related context, obtained during the performance of its audit activities.

The auditors' report does not contain any emphasis of matter or qualifications. In accordance with the new regulations that are applicable, the auditors' report states the auditing standards adopted and indicates the following "key aspects" that emerged during the course of the audit:

- classification of performing high-risk loans to customers measured at amortised cost;
- classification of bad and unlikely-to-pay loans to customers measured at amortised cost;
- derecognition of non-performing loans following their sale through securitisations assisted by GACS;
- Impairment tests on goodwill.

On 29 March 2021 the auditing firm also issued its auditors' report on the consolidated financial statements, also without qualifications or emphasis of matter, which includes at consolidated level attestations and declarations similar to those mentioned above and the same key aspects.

Again on the same date, the auditing firm presented to us the additional Report envisaged in art. 11 of Regulation (EU) 537/2014, which does not identify any significant weaknesses in the system of internal control over the process of making financial disclosures that should be drawn to the attention of those responsible for governance activities; the above report also confirms that, during the course of the audit, no actual or possible non-conformities were found with regard to current laws, regulations or requirements of the Articles of Association; it does not highlight any critical issues regarding the appropriateness of the accounting principles adopted by the Bank and the Group.

The auditing firm has also presented to us the independence declaration required by art. 6 of Regulation (EU) 537/2014, which does not identify any situations that might compromise its independence.

We also acknowledge the Transparency Report prepared by the auditing firm and published on its website pursuant to art. 18 of Decree 39/2010.

As required by Legislative Decree 254/2016 implementing Directive 2014/95/EU, the Bank has also prepared a "Consolidated Non-Financial Statement" (NFS) relating to 2020. This NFS, which was approved by the Board of Directors on 16 March 2021, will be published together with the draft financial statements and the consolidated financial statements.

As required by art. 5, para. 3, letter b) of Legislative Decree 254/2016, the consolidated NFS of the BPER Group constitutes a separate report (Sustainability Report) with respect to the Report on Operations and is made available on the institutional website. The NFS has to contain information of an environmental and social nature, relating to personnel, respect for human rights, the fight against bribery and corruption, to the extent necessary to understand the progress being made by the company, the situation in which it operates and the impact of its activity, developing the material themes identified in the non-financial context through the materiality analysis applied to the issues set forth in Legislative Decree 254/2016 and the reporting framework (GRI Standards). The NFS relating to the 2020 financial year also contains the information referred to in the Consob Notice n.1 / 21 of 16.02.2021 -*COVID 19 - measures to support the economy - Attention is drawn to the information to be provided when preparing the 2020 financial statements.* In particular, the information relating to i) the impact of the pandemic connected to the spread of the Covid-19 virus on non-financial issues, ii) the social and personnel aspects (health, safety at work, remote working, policies adopted towards employees and collaborators), iii) the business model and the creation of value, iv) the connections between financial and non-financial information.

For the preparation of the NFS, in compliance with the national and international regulations, BPER Banca S.p.A. has adopted specific internal procedures and regulations, with the aim of regulating the methodologies and rules governing the reporting process. During 2020, the process of collecting and processing data was implemented with the use of a new management system (Sturnis 365), which clearly made the methods of reporting data and information that flow into the Sustainability Report and the Group's NFS more efficient.

Implementing internal regulations and, in particular, the "Group Regulation governing the process of preparing the consolidated non-financial statement", in 2019 the Bank updated the Materiality Matrix. This is an essential element in the preparation of the BPER Group's consolidated NFS, which involves identifying material aspects and relevant performance indicators capable of reflecting the economic, environmental and social impacts of the company or those which, in any case, influence the decisions of stakeholders and which must therefore be included in the Sustainability Report.

The Materiality Matrix is usually updated every two years, unless significant changes occur with respect to the economic, environmental and social impacts of the Group and the context in general. BPER did not update the Materiality Matrix in 2020, considering the aspects identified as material in 2019 sufficient to include the changes in the context linked to the spread of Covid-19. Complete disclosure was guaranteed by including in the NFS a chapter on the impacts of the pandemic.

As part of the functions assigned to the Board of Statutory Auditors as the Control Body, we supervised compliance with the relevant legal provisions, the adequacy of the organisational, administrative, reporting and control system and the processes established to ensure the proper and complete representation of the business in the NFS, its results and impacts, as well as the main risks identified in a non-financial context, including how they are managed. In particular, we met the organisation within the Bank responsible for preparing the NFS (External Relations and CSR Activities Office) to discuss the processes and systems underlying the production, determination, measurement and presentation of the non-financial results and information, without identifying any weaknesses worthy of mention with respect to the requirements of Legislative Decree 254 of 30 December 2016. At a specific meeting, the Independent Auditors explained to us the work they had performed on the Group NFS with specific attention to the procedures that they followed, the scope of their checks with details of Group companies and the areas sampled for testing.

On 10 March 2020, the Board of Directors approved the "2020-2021 Sustainability Plan", which, by completing and integrating BPER's 2019-2021 Business Plan, identifies the strategic lines for the development of ESG-related business processes. As part of the activities envisaged in the plan, we can confirm that the Managerial Sustainability Committee was set up by resolution on 26 November 2020 to coordinate the Company and Group Functions with regard to sustainability issues and the risks associated with them. The Committee, which supports the Chief Executive Officer in managing ESG issues, at both Parent Company and Group level, is made up of all the heads of control functions and the heads of all the main areas of the Bank.

In compliance with one of the objectives of the Sustainability Plan, at the board meeting on 25 February 2021, the Board of Directors approved the "BPER Group's Sustainability Policy", which identifies the Group's commitments in terms of sustainability. It will act as the main instrument through which the dissemination of an ESG culture will be promoted. Roles and responsibilities on sustainability issues are identified for the Board of Directors, the Control and Risks Committee, the Chief Executive Officer, the Sustainability Committee, the External Relations and CSR Unit, the Sustainability and ESG Management Office.

In 2020 the Group launched a series of projects designed to include ESG risk in the risk management and strategic context, also in response to recommendations from the Supervisory Authority. The projects launched during the year allowed for the preparation of a detailed gap analysis on the positioning of the Group with respect to the "ECB Guide on climate-related & environmental risks" published in November 2020. The assessment carried out by the Bank was also in preparation for the collection of the information needed to fill in the first questionnaire sent by the ECB to all supervised banks, with a view to analysing their positioning with respect to the contents of the guide. This activity forms part of a broader project on the part of the Group, scheduled for the second half of 2021 and the first half of 2022. It is linked to the ECB's planning of various activities to verify the degree of reliability of banks with respect to the guidelines on climate and environmental risk.

On 29 March 2021, the Independent Auditors issued the required report on their limited examination of the "Consolidated Non-Financial Statement", without raising any matters of note and expressing an opinion of compliance pursuant to art. 3 and 4 of Legislative Decree 254/2016.

V - INFORMATION ABOUT ANY COMPLAINTS RECEIVED PURSUANT TO ART. 2408 OF THE ITALIAN CIVIL CODE AND ACTION TAKEN

With reference to the presentation of complaints pursuant to art. 2408 of the Italian Civil Code by shareholders, on facts deemed reprehensible, the action taken and the outcome of it, note that we have not received any complaints up to the date of this report.

VI - INFORMATION ABOUT ANY STATEMENTS RECEIVED AND ACTION TAKEN

During 2020, we received a few letters, or other forms of complaint, potentially qualifying as statements, including 2 signed and the others anonymous. We carried out appropriate investigations and promptly took action to obtain the information necessary to examine and evaluate the cases submitted from the pertinent structures. The analyses that we carried out did not, to date, bring to light any cases worthy of mention.

With regard to the other complaints from customers, the Compliance Function provides business support by monitoring the regulatory environment that governs banking products and services, considering such topics as transparency, the provision of investment and advisory services and usury. In that context, this control function also prepares rules, checks procedures and practices and monitors the trend in complaints. The Compliance Function also helps to analyse and assess the adequacy of possible customer care actions, and other initiatives intended to settle specific situations in which BPER Banca S.p.A. may be involved, in order to obtain the best possible outcome.

We also looked into any reports from whistleblowers up to the date of this report, investigating, with the support of the Internal Audit Function, those reports that could involve problems of misconduct or illegal behaviour regardless of their relevance under Legislative Decree 231/2001. They were then sent to the pertinent functions to be investigated further.

VII - INFORMATION ABOUT ANY ADDITIONAL ASSIGNMENTS TO THE INDEPENDENT AUDITORS AND RELATED COSTS

As required by specific regulations, it is confirmed that the fees recognised by the Bank to Deloitte for the independent audit work performed in relation to 2020, as authorised at the Shareholders' Meeting held on 26 November 2016, and supplemented by resolution adopted at the Shareholders' Meetings held on 17 April 2019 and on 22 April 2020, totalled Euro 754 thousand for the audit of the Parent Company's separate financial statements and the consolidated financial statements. This amount is detailed below:

- Euro 360 thousand for the independent audit of the financial statements of the Bank at 31 December 2020, pursuant to art. 14 of Legislative Decree 39/2010;

- Euro 53 thousand for the independent audit of the consolidated financial statements at 31 December 2020;

- Euro 77 thousand for the work to check that the accounting records are kept properly, including the verification work performed in relation to signature of the tax returns;

- Euro 139 thousand for the limited examination of the Condensed consolidated half-year financial statements and the half-year financial statements of the Parent Company included in the Consolidated half-year financial report at 30 June 2020;

- Euro 125 thousand for the limited examination of the consolidated accounting schedules to determine the interim profit for the periods ended 31 March 2020 and 30 September 2020, for the purpose of including these interim results in the calculation of Common equity Tier 1 capital.

It should also be noted that in February 2021 Deloitte & Touche S.p.A. made a request for an integration of their fees in relation to the increased time involved in the additional auditing activities compared with the initial proposal for the years 2017-2025, and subsequent integrations, already approved on 17 April 2019 and 22 April 2020, as a result of the merger of Cassa di Risparmio di Bra S.p.A. and Cassa di Risparmio di Saluzzo S.p.A. with BPER Banca S.p.A., the application of IFRS 9 on Hedge Accounting, the acquisition of the two business units from the Intesa SanPaolo Group and a change in the method of valuing real estate. As a result of these circumstances and events, the Independent Auditors revised the estimated time needed to carry out the audit for 2020 and 2021 (for extra work considered "one off"), as well as the audit fees for 2020, and for the rest of their mandate from 2021-2025 (for extra work considered "recurring"). The request submitted by Deloitte & Touche S.p.A. for an integration of their fees for the 2020 audit is for a total of € 85 thousand, of which € 82.5 thousand for "one-off" audit work and Euro 2.5 thousand for recurring audit work; then for the 2021 audit, the request is for an additional Euro 272.5 thousand, of which Euro 75 thousand of "one-off" audit work and € 197.5 thousand for recurring audit work. Lastly, they have submitted a request for an integration of their fees for recurring audit work, equal to Euro 197.5 thousand, for the rest of their mandate from 2022-2025. These requests for additional fees are the subject of the reasoned proposal at point 6 of the Agenda for the ordinary part of the Shareholders' Meeting to be held on 21 April 2021.

Deloitte & Touche S.p.A. was also awarded the following additional fees, for other appointments ancillary to and/or connected with the legal audit, for a total of Euro 1,090 thousand, made up as follows:

Certification services (amounting to Euro 1,062 thousand) including:

a) Euro 43 thousand for the work performed to issue a compliance opinion on the Consolidated Non-Financial Statement (Sustainability Report pursuant to Legislative Decree 254/2016);

b) Euro 29 thousand for the work performed on the translation into English of the auditors' reports on the separate and consolidated financial statements at 31 December 2019, as well as on the consolidated half-year financial statements at 30 June 2020;

c) Euro 267 thousand for the work performed as part of the Covered Bond programmes and as part of the Euro Medium Term Notes programme;

d) Euro 33 thousand for certification of the figures reported by BPER Banca S.p.A. to the ECB as a participant in the TLTRO III programme;

e) Euro 320 thousand for the work relating to the issue of comfort letters for the publication of the prospectus as part of the purchase of the two business units from the Intesa SanPaolo Group for the “Gemini Project”;

f) Euro 6 thousand for the work involved in checking the GHG Statement that will be attached to the CDP Questionnaire – Reporting on Climate Change;

g) € 140 thousand for work on the "Spring" and "Summer" securitisations ;

h) Euro 224 thousand for checks relating to MIFID II, pursuant to art. 23, paragraph 7, of the Bank of Italy Regulation of 5 December 2019.

Other services (for a total of Euro 28 thousand):

i) Euro 28 thousand for audit work performed to certify the compliance of the tax returns and supplementary returns for previous years.

To the extent not already authorised by resolutions adopted at the Shareholders' Meeting held on 26 November 2016, the above appointments, other than the legal audit, were approved in advance by us pursuant to arts. 4 and 5 of Regulation (EU) 537/2014. In this regard, on 21 June 2018 BPER Banca S.p.A. adopted the first version of the “Group regulation on the process of granting mandates to Independent Auditors and their networks”, in order to define the process followed by the BPER Group to appoint independent auditors and parties associated with them, the roles and responsibilities at Group level, and the related rules and methodologies. Details of these fees are also included in the attachment to the separate financial statements and consolidated financial statements of BPER Banca as required by article 149-duodecies of the Consob Issuers' Regulation.

Work continued during 2020 on the refinement of internal procedures and regulations intended to strengthen further, for the benefit of the entire Group, the model governing the assignment of non-audit engagements. As a result, the latest update of the above Group regulation was issued on 4 November 2020. The purpose of the Group regulation is to govern the granting of mandates by BPER and the Group to Independent Auditors and parties associated with them, establishing a specific process of internal supervision in this regard, ensuring that their independence is maintained when they also perform the independent audit of the accounts, identifying the only non-audit services (NAS) that are admissible, and ensuring compliance with the quantitative limits envisaged in the Fee Cap regulation applicable from 1 January 2020.

We also took note of the information on non-audit services prepared in advance during the examination of each NAS, with a final report presented by the competent company function in the month following the end of each quarter; in this regard, following the established process, all BPER Group companies contributed to the transmission of the data required by and envisaged in the internal regulation, thus ensuring precise monitoring of the cost of the services provided by the Independent Auditors and all entities belonging to the Deloitte network.

The ratio of the cost of non-audit services relevant for the calculation of the Fee Cap to the three-year average cost of audit services (2017-2018-2019) was 44% at a consolidated level in 2020 and 67% at the Parent Company level, lower then the limit of 70% established in the internal rules and the Fee Cap regulation applicable, as we said, from 1 January 2020.

In addition to the above, the fees paid by subsidiaries to Deloitte & Touche S.p.A. amounted to Euro 424 thousand in 2020, in addition to Euro 104 thousand for certification services and Euro 23 thousand for other services. On the other hand, the independent audit fees paid by the subsidiaries to Deloitte Audit S.a.r.l. for 2020 amounted to Euro 92 thousand.

The independent audit fees paid by the subsidiaries to Deloitte & Touche for 2020 amounted to Euro 424 thousand, with the following amendments and integrations taking place in 2020:

- Optima SIM S.p.A.: request for integration for "one-off" work relating to the migration of assets managed under proxy to a new operating system, which led to a request for integration of the fees for Euro 8 thousand, subject to resolution by the Shareholders' Meeting of the subsidiary called to approve the financial statements for 2020, based on a reasoned proposal by the subsidiary's Board of Statutory Auditors;
- Bibanca S.p.A.: request for integration for additional "one-off" audit work in 2020 as a result of the changes made to the technology infrastructure in use, for a total of Euro 12 thousand and additional "recurring" work because of an increase in the company's turnover of Euro 15 thousand for 2020-2025, subject to resolution by the Shareholders' Meeting of the subsidiary called to approve the related financial statements for 2020, based on a reasoned proposal by the subsidiary's Board of Statutory Auditors;
- Banco di Sardegna s.p.a.: request for an amendment involving (a) a "recurrent" reduction in fees for the period 2020-2025, for an amount equal to Euro 8.75 thousand as the time estimate is lower because there is no longer an obligation to prepare consolidated financial statements, and (b) a "one-off" increase in fees for Euro 8 thousand for 2021, because of the change in the method of valuing real estate, subject to a resolution by the subsidiary's Shareholders' Meeting called to approve the financial statements for 2020, based on a reasoned proposal by the subsidiary's Board of Statutory Auditors.

Lastly, it should also be noted that following the merger of the subsidiary Tholos S.p.A. with Nadia S.p.A., effective 1 January 2021, Deloitte & Touche S.p.A., with letters dated 17 February 2021, requested a "one-off" increase in fees for 2021 for Euro 15 thousand because of the additional audit work to be performed for the subsidiary Nadia in connection with checking the merger records and correct migration of the accounting figures of the merged company, and a further "recurring" amount of Euro 10 thousand for the rest of their mandate (2021-2022) because of the higher aggregates in the company's balance sheet and income statement as a result of the merger. These integrations will also have to be approved by the Shareholders' Meeting of the subsidiary Nadia S.p.A. called to approve the financial statements for 2020, based on a reasoned proposal by the subsidiary's Board of Statutory Auditors.

Furthermore, on the occasion of the Shareholders' Meeting for the approval of the financial statements for the year ended 31 December 2020, the subsidiary Sifà Società Italiana Flotte Aziendali S.p.A. will have to express its opinion on the renewal of the mandate to Deloitte & Touche S.p.A. for the independent audit of its accounts for a further three years (2021-2023) with the forecast of a further increase, compared to those originally approved by the Shareholders' Meeting of 6 November 2018 and integrated by the resolution of the Shareholders' Meeting of 5 November 2019, in the number of hours required and a consequent increase in the fees for a total of Euro 17 thousand, which would bring the Company's total audit fees to Euro 58,000 per year.

Having obtained the report on independence issued by the auditing firm pursuant to art. 6 of Regulation (EU) 2014/537, we do not believe that there are any critical aspects regarding independence or causes of incompatibility pursuant to arts. 10, 10-*bis* and 17 of the Independent Audit Code and the related implementing provisions.

Lastly, it should be noted that, in compliance with the orientation of the Parent Company BPER to use a single auditor for all subsidiaries, in order to coordinate and rationalise the audit work at the level of the group to which the company belongs, in 2020 a process was initiated to arrive at the appointment of Deloitte & Touche S.p.A. as sole auditor, also for the subsidiaries Arca Holding S.p.A. and Arca Fondi Società di Gestione del Risparmio S.p.A., acquired in 2019 and whose auditor is PriceWaterhouse Coopers (PwC). This process provides for the appointment of Deloitte & Touche S.p.A. as the company in charge of the independent audit of both subsidiaries' accounts for the years 2021-2029, subject to consensual termination of the appointment with the previous auditor (PwC), taking effect on the same date as the ordinary Shareholders' Meeting called to approve the financial statements for 2020. From that date, Deloitte & Touche S.p.A. will also take over the audit of the related mutual funds and the management report of the Fondo Pensione Aperto and related sub-funds established and managed by the subsidiary Arca Fondi SGR S.p.A.

VIII - INFORMATION ABOUT ANY ADDITIONAL ASSIGNMENTS TO PARTIES WITH ONGOING RELATIONSHIPS WITH THE INDEPENDENT AUDITORS AND RELATED COSTS

During 2020 the BPER Group granted a number of assignments to companies that have ongoing relationships with the Independent Auditors. These are Deloitte Consulting S.r.l. and Deloitte Financial Advisory S.r.l. in relation to:

a) certification services requested by BPER Banca to Deloitte Financial Advisory S.r.l. for a total of Euro 350 thousand (for issuing fairness opinions on the increases in capital);
b) non-audit services requested by BPER Banca to Deloitte Consulting S.r.l. for a total of Euro 960 thousand (methodological support in the benchmarking with best practice as part of the assessment project to develop the new Client Relationship Management (CRM) ecosystem for Euro 449 thousand; methodological support for benchmarking against best practices and identifying user requirements as part of the ongoing evolution of the Contact Centre – Everyday Bank, for Euro 58 thousand; provide methodological support for benchmarking against best practices and recording user requirements in the context of the project to identify the inputs to the accounting normaliser as part of the system of Supervisory Reporting, for Euro 215 thousand; provide methodological support for identifying user requirements and benchmarking in the context of the Data Governance project, for Euro 238 thousand;
c) non-audit services requested by BPER Group companies to Deloitte Consulting S.r.l. for a total of Euro 22 thousand (methodological support in the benchmarking with best practice and identification of user requirements as part of the evolution of the Contact Centre - Everyday Bank on behalf of Banco di Sardegna).

The above appointments were authorised by the Board of Statutory Auditors pursuant to arts. 4 and 5 of Regulation (EU) 537/2014 in accordance with the process referred to earlier. Details of these fees are also included in the attachment to the separate financial statements and consolidated financial statements of BPER Banca as required by art. 149-duodecies of the Consob Issuers' Regulation.

IX - OPINIONS ISSUED BY THE BOARD OF STATUTORY AUDITORS PURSUANT TO THE LAW DURING 2020

During 2020 and up to the date of this report, we issued a number of opinions requested by current law.

Among the various topics on which we have been called upon to express an opinion, or to make our own observations, we would highlight the following:

1) An opinion on the planning proposal for the activities of the Compliance Department in 2020;
2) An opinion on the nomination of the Group's Data Protection Officer (DPO);
3) An opinion on the Report of the Anti-Money Laundering Function pursuant to art. 15 of Legislative Decree 231/07 and the Bank of Italy Measure dated 26 September 2019;
4) Reasoned proposals for the integration of the auditing firm's fees pursuant to Legislative Decree 39/2010, art. 13, paragraph 1;
5) An opinion on the updating of the regulatory documentation of the Compliance Department;
6) An opinion on the Report on Internal Audit activities pursuant to Consob Decision 17297/2010;
7) A presentation and opinion on the additional report pursuant to art. 11 of Regulation (EU) 537/2014;
8) Observations on the Report on the Outsourcing of Important Operational Functions pursuant to Bank of Italy Circular 263/2006;

9) An opinion on the updating of Group Policy for governance of the risk of non-compliance with the legislation on the correctness of relationships with customers;
10) An opinion on the ICAAP Report and the ILAAP Report;
11) An opinion on the remuneration of Directors with particular responsibilities as per art. 2389 of the Italian Civil Code;
12) An opinion on the process of appointing the Heads of Control Functions;
13) An opinion on the proposals for the appointment of managers in the Parent Company's Departments;
14) An opinion on the results of the internal checks carried out after receiving the letter dated 17 March 2020 issued jointly by IVASS and the Bank of Italy;
15) An opinion on the attestation of the Model Validation Function regarding satisfaction of the requirements for using the internal ratings system for regulatory purposes, pursuant to Regulation (EU) 575/2013 and Bank of Italy Circular 285/2013, Part I, Title IV, Chapter 3, Section II;
16) An opinion on the Guidelines for the definition of the Compliance Department's 2021 activity planning proposal, Bank of Italy Circular 285/2013, Part I, Title V, Chapter 3, Section II. Paragraph 3;
17) An opinion on the self-assessment report of the Action Plan for the evolution of the Compliance Department, Bank of Italy Circular 285/2013, Part I, Title V, Chapter 3, Section II, Paragraph 3;
18) An opinion on the Provisions for the preparation of the Annual Report of the Anti-Money Laundering Function, Legislative Decree 231/07 and Bank of Italy Provision of 26/03/2019;

The Board presented its report on verification of the enquiry log carried out by the Internal Auditors; it also submitted its own reasoned proposals to the Board of Directors for integration of the audit fees pursuant to Legislative Decree 39/2010, art. 13, paragraph 1.

X - MEETINGS ATTENDED BY THE BOARD OF STATUTORY AUDITORS IN 2020

During 2020 we held 49 meetings lasting an average of 5 hours 39 minutes, often holding meetings with several corporate bodies or functions on the same day; the minutes explain the control and supervisory activities that were carried out. During the current year and up to the date of this report, we have held 15 meetings.

The Board took part in all 29 meetings of the Board of Directors during 2020, called in accordance with the current Articles of Association. We also took part in meetings of the Executive Committee, which normally meets with the frequency laid down in the "Operating Rules" of the Executive Committee; there were 14 meetings in 2020.

During 2020, the Control and Risk Committee held 42 meetings, with a total of 94 participations on the part of the Statutory Auditors): of these, 11 were held jointly (or in part jointly) with us to examine matters of common interest, in the context of constant and constructive dialogue with full respect for the different roles and duties. Of the latter, 2 were also held jointly with the Supervisory Body.

During 2020, through our Chairman or another Statutory Auditor appointed by him, we attended 19 of the 21 meetings of the Remuneration Committee (during 2021 and up to the date of this report, 12 meetings have been held).

During 2020, we also attended 11 meetings of the Nominations Committee on invitation from its Chairman (7 meetings have been held during 2021 up to the date of this report).

During 2020, we also attended 17 meetings of the Independent Directors Committee, again on invitation from its Chairman, of which 1 was a joint meeting of the two bodies (5 meetings have been held during 2021 up to the date of this report).

As part of the 2018-2020 three-year training plan, 3 training sessions were held in 2020 on the following issues:

i) functional synergies of the strategic supervisory, management and control bodies and the forms of responsibility in the regulatory framework, including evolutionary ones, of European and national Supervision;

ii) markets having to deal with decisions by central banks, regulators and stimulus plans;

iii) the evolution of lending standards in light of the new regulatory context (accounting and prudential), as well as the importance of the risk of money laundering and terrorist financing in the ECB supervisory action and the new context having to cope with Covid-19.

In conjunction with the event referred to in point (ii), the annual training meeting was held on issues relevant to Legislative Decree no. 231/2001, concerning the introduction of tax offences in the decree and the consequent updating of Organisational Models.

Further information is contained in the Report on Corporate Governance and the Ownership Structure for 2020 (Chapter XIX), prepared pursuant to art. 123-bis CFA and approved by the Board of Directors on 16 March 2021.

XI - COMMENTS ON COMPLIANCE WITH THE PRINCIPLES OF PROPER ADMINISTRATION

We have monitored compliance with the law, the Articles of Association and the requirements of Public Supervisory and Control Authorities; we acquired knowledge about and monitored, within the scope of our sphere of competence, compliance with the principles of correct administration and the adequacy of the organisational and accounting structures, as well as the overall functionality of Bank's Internal Control System. The controls implemented by BPER BANCA in compliance with current regulations and drawing on international best practices are organised on three levels: first-level line controls, second-level risk and compliance controls and third-level internal audit controls carried out by the Internal Audit function.

During the reference year, we exchanged significant information periodically with the above control functions. They also provided us with the required information.

We have determined that the activities of the various Corporate Committees and Bodies were based on respect for the principles of proper administration and protection of the Bank's assets. During the meetings we attended and the checks we carried out, we did not become aware of any transactions which were manifestly imprudent, risky or in potential conflict of interest, nor of actions contrary to the decisions of the Shareholders' Meeting or that might compromise the integrity of the Company's assets.

As mentioned previously, we also checked that the main transactions to be approved were backed by adequate and thorough analysis and evaluation of all relevant aspects, making use, where appropriate, of independent expert appraisals.

In the opinion of this Board of Statutory Auditors, the Bank is administered in compliance with the law and the articles of association, and the system for the delegation of powers and authorities also appears to be adequate. The administrative activity did not give rise to any findings nor to particular or significant observations on our part, nor by any other Corporate Body vested with specific control functions.

With regard to the decision-making processes of the Board of Directors and of the Executive Committee, we monitored, also through direct participation at board meetings, its compliance with the law and the Articles of Association and verified that the resolutions of the Board of Directors and of the Executive Committee were supported by adequate processes of information, analysis and verification.

We took note of the declarations made pursuant to art. 2391 of the Italian Civil Code.

We would recall that the Secretary of the Board of Directors, the Deputy General Managers and other Managers took part in the Board meetings to explain and discuss the matters to be decided, according to the specific items on the agenda. Benefiting from their attendance, we were able to obtain additional information, as appropriate, about the proposed transactions and their economic and financial effects.

During regular meetings with the Chief Executive Officer, we analysed and provided our comments on the issues of greatest interest to the Bank and the Group, including the following.

XII - OBSERVATIONS ON THE ADEQUACY OF THE ORGANISATIONAL STRUCTURE

During the year, we held regular meetings with the Human Resources Department and the Organisation Department and the Business Area, in order to assess the adequacy of the organisational structure and the response of the management and strategic supervisory bodies with respect to the implementation requirements of the business complex acquired from the Intesa SanPaolo Group, the pandemic crisis and the market and competitive situation.

The Group function chart reflects a business and organisational model that ensures efficient decision-making processes and adopts a divisional structure for the governance of certain businesses/products, while maintaining overall supervision of the support functions.

The current organisational structure is focused on the role of the Chief Executive Officer, who from 1 January 2020 also assumed the position of General Manager, exercising direct control, both for the definition of Group Strategy and as the person in charge of Operational Governance.

We checked compliance with the supervisory provisions on the general principles of the internal control system, the role of the Corporate Bodies, as well as the role and requirements of all the functions involved in the control system, verifying their adequacy, correct fulfilment of their duties and their adequate coordination.

The Chief Operating Officer (COO) promotes coordination and synergistic action between the Functions that represent the "operational machine" of the Group, i.e. Organisation and Information System Governance (CIO). This function is responsible for coordinating and monitoring the Group's operational, planning and technological activities, in order to guarantee continuous improvement in terms of effectiveness and efficiency.

The various functions defined as the Internal Audit Department, Planning and Finance Department, Risk Management, Legal Affairs Unit of the General Affairs Department, Compliance Department, Human Resources Department, each for its own area of competence, maintain responsibility for directing, coordinating and controlling the activities of the Group and related risks.

The CRO is Head of the Risk Management Department in accordance with the Bank of Italy Communication dated 7 June 2011 and Bank of Italy Circular no. 285/2013 and Head of the Risk Management Function pursuant to the Joint Consob/Bank of Italy Regulation of 29 October 2007, and therefore of the governance and control of the Risk Appetite Framework (RAF), the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP) and of Group Risks.

The CLO promotes the guidelines on credit policies, defines and governs the guidelines on the granting and management of credit, as well as on quality and credit risk monitoring, coordinating its implementation at Group level, assumes the relevant credit decisions, within their own autonomy limits, and guarantees the governance of performing loans and anomalous loans of the Banking Group.

We believe that this organisational model is appropriate, considering the guidance provided by the Supervisory Authorities and the constant search to improve lending processes, not least by enhancement of the lending culture and sub-division of the Credit Department into three different lines, with three different classifications of loan status - Granted, Proactive Management and Anomalous Loans - consistent with the strategic direction and lending policies.

We monitored the progress of the remediation measures introduced after the findings of the Company's Control Functions and of the Supervisory Authority.

The Board examined the 2021-2023 Group Audit Plan, approved by the Board of Directors on 21 January 2021 and received updates on any changes in the capacity of the Function. In addition, we have constantly monitored the External Quality Assessment Review (EQAR) by the Internal Audit Function, implemented by the Bank to certify the Internal Audit Department according to international internal auditing standards.

We have examined the key elements of the 2021 Activity Plan of the Compliance Function, approved by the Board of Directors on 9 March 2021, which represents an evolution of the plan for the prior year that takes account, among other matters, of the objectives of the new Business Plan. Training programmes for the development of personnel and the enhancement of skills have been further strengthened. We expressed a favourable opinion, recommending timely and adequate planning of the rotation of the Head of the Function, who is due to end his term of office on 31 March 2021; also because of the time needed to ensure an effective handover and pro-active monitoring of the qualitative and quantitative needs of the current staff and of the current operational areas, with particular reference to the impacts of integrating the UBI and Intesa SanPaolo (UBI/ISP) business units.

During 2020, we ensured constant and systematic monitoring of the remedial measures resulting from the self-assessment carried out by BPER Banca on the Internal Audit Department and the Compliance Department in 2019.

We took note of the Risk Management Department's 2021 Activity Plan approved by the Board of Directors on 21 January 2021, strongly oriented towards completion of the work needed to integrate the UBI/ISP business units and answering the ECB's findings on evolutionary aspects. Together with the requests of the Supervisory Authority, also focused on the management of the Covid-19 emergency, these will integrate the core risk management processes. The Plan is consistent with available resources, also with respect to the overall needs of the “Gemini Project”, thanks to the increase in external support activities. With this in mind, we recommended maximum rapidity in locating the resources needed and in reviewing the target size of the structure.

We took note of the Anti-Money Laundering Unit's 2021 Activity Plan approved by the Board of Directors on 9 March 2021.

We also noted that, at the meeting held on 16 March 2021, the Board of Directors approved the overall framework of the 2021 Remuneration Policies to be presented at the Shareholders' Meeting.

XIII – OBSERVATIONS ON THE SYSTEM OF INTERNAL CONTROL AND THE ACTIVITIES OF THOSE RESPONSIBLE FOR INTERNAL CONTROL, HIGHLIGHTING ANY CORRECTIVE ACTIONS TAKEN AND/OR STILL TO BE TAKEN

Internal Control System

The Internal Control System is outlined first of all in the Group Guidelines. Reference is also made to the details provided in the Report on Operations, the Report on Group Operations, the Explanatory notes, the Report on corporate governance and ownership structure and the Third Pillar market disclosure.

Within the framework of the management and coordination responsibilities of the Parent Company, the activities of its control functions ensure effective control over both the strategic decisions made at Group level and the operational equilibrium of each component. The Group's internal control system is designed, implemented and assessed with due regard for the specific characteristics of the business activities of each Group company, in compliance with the principles indicated by the Supervisory Authorities and with reference to the Group Risk Map that identifies actual or potential risk exposures. The system recognises the operational validity of the risk map, not least as a tool for the governance of risk. The risk identification process results in the update of the Group Risk Map by the risk control function. The objective is to identify the impact of significant risks/entities by applying suitable importance criteria, including their effect on the operations of the Group and the legal entities concerned.

We also monitored the consequences for the system of internal control of extending the scope of consolidation to the ARCA Group, comprising ARCA Holding and ARCA Fondi SGR, for which an ad hoc governance control model was adopted, taking account of the specific characteristics of that company, while the role of Manager responsible for preparing the company's financial reports was centralised within the Parent Company.

Following the on-site inspection (OSI) of operational risks carried out in 2018, the Supervisory Authority highlighted the need to strengthen the role of the Control Functions Coordination Committee. In this regard, the Bank sent the ECB its report on the activities aimed at strengthening coordination; The related action plan provides for the activities that need to be carried out to resolve the issues that were identified by the ECB; the action plan to strengthen coordination was completed in 2020.

The Board attaches particular value to such information and has always made every effort to investigate the findings reported therein and to monitor progress on the mitigation measures proposed by the Group structures, especially with reference to the “Gemini Project”, the acquisition of the business complex from the Intesa Sanpaolo Group.

In order to ensure that the Company's Control Functions were adequately coordinated:

- we assessed the Key Issues Report (KIR) prepared by the Control Functions, as we have since it was introduced. We did this together with the Control Functions, discussing the key issues contained in the Report, the remedial action proposed to correct them and the progress being made on it.
- in implementation of the operating rules of the Coordination Committee, we examined the "Overall Assessment of the Internal Control System" which contains the results of the annual assessment of the BPER Banking Group's Control System. There were no critical issues worthy of mention here.

Lastly, it should be noted that, in 2020, the Committee met 8 times and the sessions were preceded by technical discussions, ensuring a more intense and systematic coordination of the various Functions, which was also requested by the Supervisory Authority after its on-site inspection (OSI) mentioned above.

As early as the third quarter of 2019, we met regularly with the Control and Risks Committee, receiving copies of the minutes of the meetings held in the intervening period, as well as a periodic update on the activities carried out at least on a quarterly basis.

As regards line controls, which are designed to ensure that transactions are carried out properly, the checks carried out in this area by the Internal Auditors had a favourable outcome in 95% of cases.

The Group Guidelines provide for a centralised Risk Management function at the Parent Company, which performs its activities towards the Parent Company and, as an outsourcer, towards the Group Companies, with the sole exception of Arca Fondi SGR, given the particular nature of its business.

Likewise, BPER Bank Luxembourg also has its own Risk Management Function, as required by local legislation. Both companies' Risk Management Functions are subject to the guidance and coordination of the Parent Company's RM Function.

The Compliance Function also performs its activities for the Parent Company and, as an outsourcer, for the other Group Companies, with the sole exception of Arca Fondi SGR, given the particular nature of its business, and BPER Bank Luxembourg, as required by local legislation.

The new organisational model of the Compliance Department was introduced on 1 January 2020; the new organisational structure meant updating the Regulation of the Compliance Function, which identifies the "core regulatory areas" where the Function carries out its activities in a totally centralised manner, and the "non-core regulatory areas" where forms of specialist supervision are envisaged.

At the meeting on 10 March 2020, the Parent Company's Board of Directors approved the update of the Group Policy for the Governance of Compliance Risk and on 17 December 2020 it approved the Function's self-assessment document, as requested by the ECB.

The remedial actions to correct the issues found in the assessment in 2019 ended on 31 December 2020.

The Anti-Money Laundering Function also performs its activities for the Parent Company and, under specific outsourcing contracts, for the other Group Companies, with the sole exception of Arca Fondi SGR, given the particular nature of its business, and BPER Bank Luxembourg, as required by local legislation.

During 2019 a leading external consultancy carried out an assessment on the Manager responsible for preparing the company's financial reports, who for Italian legislation on listed issuers is considered a second level control function. This assessment, which was presented to the Control and Risks Committee in early 2020, concluded that there was a substantial alignment with market peers, identifying some areas for improvement, which were addressed and resolved during 2020.

The third-level control function performs its activities for the Parent Company and, as an outsourcer, for the other Group Companies with the sole exception of Arca Fondi SGR: during the course of 2020 it carried out Internal Quality Assurance reviews in accordance with international standards, confirming the opinion given in 2019 by a leading external certifier.

We monitored the internal control system during frequent meetings with the control functions and requested feedback from or action by senior management, or the body responsible for strategic supervision.

During 2020, we paid particular attention to the size and expected strengthening of the Functions, also in light of the “Gemini Project” and its probable impacts.

We monitored constantly during the year the effects of applying the new regulatory requirements in the area of product governance.

We also checked constantly on the implementation of Group instructions and regulations by subsidiaries, requesting action as necessary by their boards of statutory auditors.

Considering the changes in the size and operational characteristics of the Bank and the Group, as well as the facts considered during our supervisory activities, we did not identify any situations suggesting that, taken as a whole, the internal control system may be inadequate.

Despite the extraordinary transactions carried out and the resulting size and organisational changes, the system did not suffer from significant issues due, in part, to the work of the Control and Risk Committee and the constant methodological and organisational checks and refinements implemented by the functions.

Management system, Risk control, SREP letter 2020

The BPER Group uses the Risk Appetite Framework (RAF) to monitor its corporate strategies, the cornerstones of which are formalised and approved by the Parent Company. These are reviewed periodically to ensure their alignment with the strategic guidelines, the business model and the regulatory requirements applicable at the time. The RAF represents a coordinated set of methodologies, processes, policies, controls and systems used by the Group to establish, communicate and monitor the risk appetite (targets), risk tolerance (thresholds) and related operational limits, under both ordinary and stressed conditions, that the Group intends to respect in pursuing its strategic guidelines, having defined the respective levels in a manner consistent with its risk capacity (maximum acceptable risk).

In this context, we confirm that the areas associated with the ICAAP and the ILAAP have continued to evolve; from the Capital Adeguacy Statement it emerged that the capital position of the BPER Group was considered adequate by the Board of Directors, with reference to both 2019 and 2020 and, in particular, the Available Financial Resources adequately cover the risks to which the Group is exposed as the corresponding levels are positioned above the risk appetite defined by the RAF.

The three-year projections carried out on the baseline scenario (Covid-19) and on the alternative scenarios did not highlight any particularly critical issues, despite the awareness that the uncertainties about the future of the health emergency could lead to one or more revisions of the assessments made.

Thanks in part to the increase in capital to finance the UBI/ISP acquisition, the update of the ICAAP and RAF Report at 31 December 2020 shows a level of capital adequacy that is well above the risk appetite threshold updated by the Board of Directors on 23 July 2020; in particular, the update shows a Phased-in CET 1 Ratio of 17.70% compared with an appetite of 12.75% and a Phased-in Total Capital Ratio of 21.18% versus 15.25%.

The Risk Management Function presented an update of the Group Risk Map to the Board of Directors, at the meeting on 21 January 2021. While using the same methodological approach, it introduced, among other things, a new definition of ESG risk in the operational risk area and a new risk sub-category of leveraged transaction risk in the credit risk area.

XIV - COMMENTS ON THE ADEQUACY OF THE ADMINISTRATIVE AND ACCOUNTING SYSTEM AND ITS RELIABILITY TO REPRESENT OPERATING EVENTS CORRECTLY

We have monitored the adequacy of the administrative and accounting system, its reliability in correctly representing operating events, by obtaining information from the heads of the various Corporate Functions and from the Manager responsible for preparing the company's financial reports, examining the most significant corporate documents, analysing the work performed by the Independent Auditors Deloitte & Touche S.p.A.

The administrative and accounting procedures for the preparation of the separate and consolidated financial statements were prepared by the Manager responsible for preparing the company's financial reports who, together with the Chief Executive Officer, has confirmed their adequacy and effective application.

In the context of the system of internal controls over financial disclosures, the Manager responsible for preparing the company's financial reports plays a key role by defining the related control model applied by BPER Banca and, with reference to the procedures for preparing the consolidated financial statements, by the companies included within the scope of consolidation. The Financial Reporting Control Model is a set of requirements to be met for the proper management and control of the risk of unintentional errors and fraud in financial reports and is structurally made up of the following regulation to be approved by the Board of Directors:

- Group policy for managing the risk of unintentional errors and fraud in financial reports;
- Regulation of the Function of Manager responsible for preparing the Company's financial reports;
- Methodological note addressing macro process management of unintentional errors and fraud in financial disclosures.

For the performance of his duties provided for by Law 262/2005 and by art. 154-bis of the Consolidated Law on Finance, the Manager responsible for preparing the Company's financial reports uses the support of a specific internal structure, which in early 2021 was transformed into the Financial Reporting Unit by revising and reallocating responsibilities for areas of competence in the field of accounting standards, the internal control system and IT systems, in line with the growing complexity of the BPER Group and market best practice. Then, from September 2020, following the delisting of the savings shares of Banco di Sardegna after BPER Banca had acquired total control, there was no longer a specific Manager responsible for preparing the Company's financial reports. As a result, control over the direct subsidiary and the indirect subsidiaries Tholos S.p.A. (subsequently absorbed by Nadia S.p.A. with effect from 1 January 2021) and Numera S.p.A. was centralised at the Parent Company.

During the year under review, the Bank's activities were affected by the spread of the COVID-19 epidemic, which also had an impact on the financial reporting process: In early 2020, the Italian and EU Supervisory Authorities were already drawing companies' attention to the fact that they had to update their financial reporting to reflect the impact of both the pandemic and the various regulatory interventions to support the economy on the portfolios of financial assets (loans, securities), providing the necessary disclosure.

The emergency situation due to the spread of the epidemic and the recent events affecting the BPER Group (implementation of the "Gemini Project"), also required the Manager responsible for preparing the company's financial reports to recalibrate his activities in order to reconcile the security measures adopted by the Bank, with an almost prevalent use of remote working, with an expansion of the scope of investigation. This remodelling also led to the adoption of specific sub-certifications by the companies in the scope of consolidation, by the Chief Information Officer, as well as the front lines of the company, confirming the effectiveness of the operational and control processes, whether in standard mode or whether in contingency mode. In addition, checklists have been prepared to ensure that financial disclosures comply with the international accounting standards applicable to the BPER Banca Group and with the interpretative and support documents for their application in relation to the impacts from Covid-19, issued by the EU Regulatory and Supervisory Bodies.

We took note of the content of the report of the Manager responsible for preparing the company's financial reports for the purposes of art. 154-bis, paragraphs 3 and 4, of the CFA that describes the Control Model for Financial Information, the checks carried out, the overall evaluation of the system undoubtedly positive - and any points of interest.

Furthermore, the Board, also in its capacity as Internal Control and Audit Committee pursuant to art. 19, paragraph 2, letter c., of Legislative Decree 39/2010, maintained close coordination with the

Manager responsible for preparing the company's financial reports and with the Administration and Reporting Department, with whom he discussed and analysed the activities implemented. During the periodic meetings for the exchange of information on the reliability of the administrative-accounting system, no shortcomings emerged in the operating and control processes which, if material, could invalidate the judgement of adequacy and effective application of the administrative-accounting procedures set up to monitor timely representation of the results of operations.

We also examined the results of the assessment carried with the support of a leading consultancy to evaluate the degree of maturity of the Financial Reporting Control Model pursuant to Law 262/2005. This showed that the Model was substantially adequate, also in terms of the latest ANDAF Guidelines of October 2020, demonstrating a level of maturity that was "advanced" and "leading”, with some further progress that could be made in addition to what has already been achieved.

As regards the financial reporting process, the project to develop an IT architecture that allowed the use of data and information needed to handle automatically certain activities previously carried out by the Financial Reporting Department was completed in early 2021, along with the updating of the administrative-accounting repository designed to identify activities, risks and controls relating to the administrative-accounting processes. The plan to take steps to ensure more detailed data to support the production of the "Disclosure to the public - Pillar 3" document was completed. The strengthening of the internal control procedures, carried out annually by the Financial Reporting Department in order to verify the compliance and consistency of the document with the legislative and regulatory framework, was implemented, also in light of the guidelines issued by the EBA in 2020 to refine the methods of presenting comparative data.

Additionally during the year, we examined the report on the checks carried out by the pertinent structure, also for Group companies, and the related outcomes, analysing the causes and corrective actions for any weaknesses that had been identified.

We reviewed the planning of activities for 2021, drawn up by SREP areas and in line with the overall synoptic framework of the areas, on which the verification activities of the Control Functions of BPER Banca will be directed, in order to facilitate greater coordination between them. Of the activities related to Business Model Analysis, great attention will be paid to the activities planned to implement the "Gemini Project", in particular, the Purchase Price Allocation relating to the business units acquired from the Intesa SanPaolo Group, the migration of the archives and accounting data to the information systems of BPER Banca and the disclosures to be included in the consolidated interim report on operations as at 31 March 2021 and the consolidated half-year financial statements as at 30 June 2021. Note that the separate and consolidated financial statements have been prepared in accordance with Legislative Decree 38/2005, according to the IAS/IFRS issued by the IASB (International Accounting Standards Board) and following the indications provided by Circular 262/2005 of the Bank of Italy and subsequent amendments and additions, most recently provided in a communication dated 15 December 2020. In drawing up, as applicable, the interpretative and support documents for the application of the accounting standards in relation to the impacts of Covid-19, issued by the European Regulatory and Supervisory Bodies and by the Standard Setters, aimed at clarifying the methods of application of IAS/IFRS in the current context, with particular reference to IFRS 9, and Consob's Call for Attention no. 121, dated 16 February 2021.

We acknowledge that the Bank prepares and updates, on a preliminary basis with respect to the preparation of the periodic financial information, the document entitled "Accounting policies of the BPER Banca Group", to describe the information provided by the applicable IAS/IFRS, as well as the declinations and application choices adopted by the BPER Banca Group for preparation of the financial reports for the period. This document, which represents an instrument through which the Parent Company exercises its guidance and coordination activities over the Banks and Companies of the Group, in order to ensure uniformity of application of the accounting standards, is submitted for our review on a quarterly basis, prior to the approval of the periodic financial information.

With particular regard to the impact deriving from the Covid-19 pandemic situation on accounting estimates, the Board met with the Manager responsible for preparing the company's financial reports and the Independent Auditors to look into the BPER Banca Group's decision not to apply "mechanically" the ordinary valuation models adopted in the estimate of ECL and in determining the significant increase in credit risk (SICR) in the context of impairment as per IFRS 9, in a rare and exceptional situation such that the information needed for the implementation of the ordinary valuation models did not meet the requirements of reasonableness and sustainability. The assessments were therefore carried out also by making reference, for certain aspects, to alternative approaches that comply with the indications of IAS/IFRS in contexts featuring uncertainty and a lack of reasonable and supportable information regarding the spread of the pandemic, the related containment measures and the extent and timing of public support measures.

In this regard, we examined the analyses carried out to identify:

- the best way of intervening on credit risk measurement and forecasting systems to align them with the pandemic situation, avoiding excessive pro-cyclicality in making collective provisions, without finding any critical issues worthy of mention here in the use of the so-called Overlay Approach;
- the best ways of presenting the significant increase in credit risk in the financial statements, noting any critical issues to report in the integration of the automatisms already provided for by the IFRS 9 models with "expert" classification interventions in Stage 2 of the counterparties operating in the economic sectors worst hit by the crisis. They may also have an intrinsic riskiness revealed by a higher rating than the average for the sector, which are reckoned to have run into situations of financial difficulty on the basis of reasoned assumptions, also taking into account the possible granting of Covid-19 moratoria.

Regarding the measurement of expected credit losses on performing loans, we also examined the scenario simulations conducted as part of the application of the ECL model to identify the macroeconomic forecasts, which could better intercept the unexpressed riskiness of the Group's loan portfolio at 31 December 2020, as a consequence of the impossibility of the credit monitoring system to detect any signs of deterioration in credit quality, also in consideration of the same support measures granted to customers. These simulations, based on the macroeconomic scenarios at 31 December 2020 prepared by the ECB and the Bank of Italy (understood as "backstops" compared with the recovery expectations) and the consequent updates, on the same date, prepared by a leading company that specialises in the preparation of forecasts, showed an improvement compared the loss forecasts estimated and accounted for during the course of 2020 based on the scenarios developed in the most acute period of the pandemic (published in June 2020), which included a foreseeable deterioration in the credit quality of customers, which may not yet be fully visible, thanks to government support measures.

In this context, we also examined and discussed with the independent auditors and, as a result of the analyses, did not identify any critical issues worthy of mention in this Report in the approach followed by the BPER Banca Group when it decided to intervene with a top-down "corrective", also through the use of the macroeconomic scenario of June 2020, applied to a database in any case updated following the interventions carried out on the IFRS 9 staging, deeming this approach essentially aimed at including in the model a specific monitoring of the probable deterioration in credit quality which one suspects is not yet fully visible.

In addition, we took note of the verification, with a positive outcome, carried out by the Control Function on financial reporting, concerning the assessment of compliance and effective application of the process adopted for updating the macroeconomic scenarios for estimating the ECL as per IFRS 9 and the related probabilities of occurrence aimed at determining the impact of the scenarios on the respective risk parameters and, therefore, on the level of expected loss considered for the calculation of the IFRS 9 impairment on loans in the financial statements as at 31 December 2020. The "expert" interventions carried out to supplement the automatisms of the IFRS 9 staging model adopted by the Group were also accompanied by some further refinements made to the model. These referred, in particular, to the estimate of the expected loss on sight and short-term exposures, more effective identification of the original rating and recalibration of the interception threshold of the "PD delta”. As regards the contractual changes deriving from COVID-19, in accordance with the provisions of the EBA, the moratoria granted to customers by law and in application of the ABI Agreements, they were not considered as indicators of financial difficulty for the purpose of classifying the individual positions within Forborne exposures.

This set of interventions raised the number of positions classified in Stage 2, which at 31 December 2020 reached a gross exposure of Euro 6.2 billion. In addition, the average coverage of this portfolio increased by approximately 11 bps compared with the equivalent figure of last September.

With reference to the analytical evaluations applied to the non-performing portfolio, we examined the qualitative and quantitative analyses carried out which, to take into account the substantial inactivity of the Courts during the lockdown and consequent lengthening of the judicial recovery times of its credit exposures, led the Group to intervene by reviewing the business plans formulated before the pandemic crisis. This review led to a general increase in analytical adjustments on bad loans (particularly positions with judicial execution already underway) and on unlikely-to-pay loans (assessed as a "gone concern").

These interventions led to a final cost of credit of 101 bps on total loans to customers, which compares with a 2020 budget estimate, prior to the pandemic, of 77 bps.

As regards the impairment test on goodwill, given the current situation of uncertainty linked to the spread of the Covid-19 health emergency and the related impacts on the national economic and financial system, in compliance with ESMA's Public Statement "Implications of the COVID-19 outbreak on the half-yearly financial Reports" of 20 May 2020 and the Consob's Call for Attention no. 8 of 16 July 2020, the BPER Banca Group tested the sustainability of the value of intangibles and of the investments in subsidiaries and associates also at 30 June 2020, on the occasion of the half-year report, as well as at 31 December 2020. The valuation analysis was carried out on the basis of income statement and balance sheet projections prepared by Management to take into account the effects of the health emergency, making reference to the forecasts regarding the most up-to-date economic and market scenarios supplied by external infoproviders. At meetings with the Manager responsible for preparing the company's financial reports, the Planning and Control Department and the Independent Auditors, we examined and discussed the results of the valuations (and related sensitivity analyses), which at 30 June 2020 already showed an impairment of goodwill relating to the investments in the associated banks (CR Fossano and CR Savigliano) for a total of Euro 8 million, while all the other values (goodwill and equity investments) seemed to be holding up reasonable well, which was confirmed during the annual audit carried out with reference to 31 December 2020.

Regarding the amendment introduced in IFRS 16, no significant impacts emerged, as the BPER Group did not make any amendments to its lease contracts as lessee due to the spread of the pandemic.

We also continued to monitor the update by the Group, consistent with the objectives of the 2019-2021 NPE Strategy, of the types of non-performing loan considered for recovery by disposal on the market. These sales made it possible to eliminate the residual portion of the provision made on First-Time Adoption (FTA) of IFRS 9, which had a direct impact on the Group's income statement for the disposals made in the second half of 2020.

We took note of the BPER Group's decision to adopt Chapter 6 Hedge Accounting of IFRS 9 from 1 July 2020, sharing, even if not expressly required by the standard, for the sole purpose of further confirming the qualitative verification of an economic relationship between the hedged object and the hedging instrument, the decision to maintain the pre-existing quantitative testing system for verification of the effectiveness of the hedging relationships (adapted to their new characteristics) according to the Dollar Offset Method.

We then reviewed the choices made by the BPER Group, without noting any particular issues, with regard to the accounting treatment of:

- the funding from the new Targeted Longer-Term Refinancing Operations (so-called TLTRO-III) introduced by the ECB at more favourable conditions to deal with the Covid-19 emergency. This is a situation that cannot be related to cases specifically dealt with by IAS/IFRS, so it has been treated in accordance with the ESMA Public Statement of 6 January 2021 by following the instructions of IFRS 9, considering that the funding terms to which the banks have access are at market conditions, as it is the ECB itself that establishes the level so that it is commensurate with the loan disbursement objectives to be achieved and modifying the interest rate at any moment in time;
- the purchase of tax credits generated by the benefits offered in the "Cura Italia" and "Rilancio" Decrees ("Ecobonus" and "Sismabonus"), which is another situation not specifically dealt with by IAS/IFRS; so, as indicated in the “Bank of Italy/Consob/IVASS Document no. 9 Coordination table between the Bank of Italy, Consob and IVASS regarding the application of

IAS/IFRS" of January 2021, it too follows the instructions of IFRS 9, considering that these tax credits are to all effects financial assets.

During 2020, we continued to monitor the evolution of the process of review and refinement of the valuation methodologies, for both accounting and regulatory purposes, of the portfolio of financial instruments present in Proprietary Assets. With the support of a leading consultancy, this project ended in early 2021 with the identification of the specific methodology for funds that specialise in NPL management.

Deferred tax assets and liabilities are recognised following the positive outcome of the probability test on the consolidated tax perimeter as required by IAS 12. This test, based on the economic forecast developed over a prospective 5-year horizon (2021-2025) and consistent with other types of estimate based on projections of future results, allows for an reasonable estimate to be made of the future taxable income expected to be available for the recovery of deferred tax assets. It has therefore has led to the recognition of deferred tax assets on deductible temporary differences relating principally to the deferred deductibility of the adjustments made on FTA of IFRS 9. Please read the explanatory notes Part C for the related impacts.

In relation to accounting information contained in the separate and consolidated financial statements at 31 December 2020, the Chief Executive Officer and the Manager responsible for preparing the company's financial reports issued the required certification pursuant to art. 81-ter of CONSOB Regulation 11971, without any comments.

It is worth recalling that the BPER Group does not include any companies incorporated under the laws of non-EU countries.

In light of the above, the information received, the analyses carried out, as also mentioned below, the administrative-accounting structure appears to be adequately defined and suitable to meet the business needs that emerged during the year and, overall, it is adequate for what is expected by the current regulations.

The Independent Auditors checked the administrative and accounting procedures without making any comments on their reliability or elements that could affect the internal control system involved in administrative and accounting procedures. They also checked the accuracy of the recognition of operating events in the accounting records, as well as the completeness of the information and accounting policies for the preparation of the separate and consolidated financial statements, without making any comments or observations.

Even though the statutory audit of the accounts as per Legislative Decree 39/2010 is not part of the duties of the Board of Statutory Auditors, being delegated to the Independent Auditors, based on the information received from the latter and from the Manager responsible for preparing the company's financial reports and the checks provided for in arts. 2403 et seq. of the Italian Civil Code, we are of the opinion that the administrative and accounting system, as a whole, is adequate and reliable and that operating events are recognised correctly and punctually.

As regards the scope of consolidation, please refer to the Group report on operations and to Part A of the notes for information on the unification of the line-by-line scope of consolidation for accounting purposes with the scope of consolidation for supervisory purposes for reasons of rationalisation, simplification and control of process for producing the consolidated figures for supervisory and financial reporting purposes, without appreciable effects in terms of equity, economic results or financial performance of the Group.

BPER Banca S.p.A. was admitted to the cooperative compliance regime by a Tax Authority Decision dated 25 July 2018. This regime was created with Legislative Decree 128/2015 with the aim of promoting better forms of communication and cooperation between the Tax Authorities and tax payers who have a system for the recognition, measurement and control of tax risk. BPER Banca is therefore included on the list of companies admitted to the regime, which is published on the institutional website of the Tax Authority. The Bank continued the process of implementing and improving the structure of the Tax Control Framework during 2020: despite the pandemic, the availability of detailed operating manuals and a specific IT platform for the management of tax advice, based on the ticketing system already in use at the Bank, made it possible to continue this activity, also through remote working and hub working.

We acknowledge that, from 1 January 2020, Arca Holding S.p.A., Arca Fondi SGR S.p.A. and Finitalia S.p.A. became part of the BPER VAT Group, a VAT taxable entity governed by EU legislation introduced into the Italian system by Law 232 of 11 December 2016. Just for the application of VAT, this entity replaces the individual participants, who maintain a distinct legal personality from every other point of view, civil, accounting and tax.

XV - OBSERVATIONS ON THE ADEQUACY OF THE INSTRUCTIONS GIVEN TO SUBSIDIARIES UNDER ART. 114 OF CFA

We have monitored the adequacy of the instructions given by the Bank to its subsidiaries, pursuant to art. 114 of Legislative Decree 58/1998, deeming them appropriate for the latter to comply with the legal disclosure requirements.

In relation to the close functional and operational links, a proper and adequate flow of information was guaranteed during 2020, supported by appropriate accounting documents and calculations relating to the management of legal entities under the Bank's control.

We kept in constant contact with the corresponding Bodies of the main banks and companies of the Group, also organising periodic meetings with them; in this context, it should be noted that, during the months of May and October 2020, we held individual meetings with the members of the Supervisory Bodies of the Italian Banks and the main product companies of the Group, for an exchange of information on the primary issues of relevance to the individual companies (assessment of the internal control system, supervision of the independent audit, organisation, IT, human resources; company performance; management and assessment of impaired loans; significant litigation/disputes; anti-money laundering; overall compliance; implementation of the guidelines and coordination provisions, as well as specific issues identified by each company in relation to the events that have occurred to them).

Due to the pandemic, all meetings were held in audio/video conference, while it was not considered appropriate to organise the Group's annual Convention, in which the Chairmen of the Group's Boards of Statutory Auditors used to meet and discuss issues presented by the Corporate Control Functions, by the Manager responsible for preparing the company's financial reports and by the Head of the Lending Policy Planning Department, with discussions on matters of common interest.

As part of the general coordination, at the end of February 2021 we sent the updated version of the “Manual of the Board of Statutory Auditors” to the Statutory Auditors of the Italian banking companies and the main product companies of the Group.

With regard to the above, we have no observations to make regarding the adequacy of the instructions given to Group banks and subsidiaries for the purpose of obtaining the information flows needed to ensure timely compliance with the disclosure requirements envisaged by law.

We would also point out that as a result of the discussions that took place throughout the year with the corresponding control bodies of the main subsidiaries, as well as in light of the directives issued by the Parent Company, no critical issues worthy of mention emerged.

XVI - OBSERVATIONS ON SIGNIFICANT ISSUES THAT AROSE DURING THE COURSE OF MEETINGS HELD WITH THE INDEPENDENT AUDITORS PURSUANT TO ART. 150 PARAGRAPH 3 OF LEGISLATIVE DECREE 58/1998

In accordance with the provisions of art. 19 of Legislative Decree 135/2016, the Board of Statutory Auditors, identified as the "Internal Control and Audit Committee", performed the required supervisory activity also on the operations of the Independent Auditors.

During 2020 and up to the date of this Report, the Board carried out an intense process of monitoring, on an ongoing basis, the activities carried out by the Independent Auditors, analysing the implications for financial reporting, intensifying the frequency of meetings in order to keep the mutual exchange of information effective and timely, acknowledging the solicitations sent out during the year 2020 by the Italian and European Supervisory Authorities.

In this context, we met the Independent Auditors in November 2020 to examine the audit plan for the 2020 financial statements. Particular attention was paid to the scope of the audit, the calculation of materiality, the resources assigned to the engagement and the hours planned for the 2020 audit, the risks identified as significant and a preliminary list of the key aspects of the audit, as well as the risk factors related to the processes of preparing accounting estimates and valuations with a high level of discretion and therefore significantly affected by the uncertainties associated with Covid-19.

During the year, we were updated periodically about the relations with other auditors and the engagement instructions given to them for carrying out their tasks also through the Global Referral Instructions, which detailed the scope of the work, the deliverables and the deadlines requested for their work on Group companies and the requested confirmation of their independence. In the current economic situation characterised by the pandemic, one aspect that has assumed fundamental importance for the Group Audit is careful management and supervision of the auditors of Group companies in terms of the incidence of remote working on audit work and impacts of Covid-19 on the risk assessment of the individual companies, implemented with numerous comparisons and updating of instructions in the event of changes in the audit plan.

We analysed the methodological system adopted by the Independent Auditors and acquired the necessary information during the course of their work, with a constant interaction regarding the audit approach used for significant financial statement areas, sharing the problems relating to business risks, as well as receiving updates on the progress of the audit plan and analyses of the main points of attention for the Independent Auditors. During the year, we were continuously assured by the auditors that the verification and control activity, carried out mainly on a remote basis, was maintaining its effectiveness. Due to the impact of the pandemic and the consequent measures to limit the movement of people, for the internal processes of the bank the auditors created a repository which brought together all of the documents that they needed for the audit, mapping all the changes made in the checks carried out in order to have a constant awareness of the effectiveness of the audit.

We scheduled a series of ad hoc meetings during the various phases of the audit, in which we also examined with reference to 2020:

- the impairment test on goodwill and equity investments with analysis of the models prepared for determining the discount rates, as well as the criteria for updating the forecast data used;
- the calculation of Expected Credit Losses (ECL) and the updating of the macroeconomic scenarios used to determine the impairment provisions;
- the NPE Strategy with a review only of current transactions given the lack of updates due to the ECB's postponement of the deadline for preparing the NPE Plan 2020-2022;
- impairment tests on property, plant and equipment;
- the probability test for tax purposes.

Through checks and information obtained from the Independent Auditors and from the Bank's senior management, we were able to ensure compliance with the rules and laws on the preparation and format of the separate and consolidated financial statements and of the report on operations.

We also supervised, to the extent relevant to this section, the financial reporting process, the effectiveness of the systems of internal control, internal audit and risk management, the legal auditor of the separate and consolidated financial statements, and the independence of the legal auditor pursuant to Regulation (EU) 537/2014.

We met regularly with representatives of the auditing firm appointed by the Parent Company and the audit teams of the main subsidiaries, resulting in a mutually beneficial exchange of information, as required by art. 150 of CFA . In particular, on several occasions we met the partners of the Deloitte network responsible for auditing BPER Bank Luxembourg S.A. and Sifà S.p.A. for the usual annual update on the main results of their respective auditing activities.

In particular, together with the Independent Auditors, we examined the application of accounting standards, the best treatment and presentation of key elements in the financial statements from an economic, financial and capital point of view.

During our periodic meetings with the Independent Auditors, the main issues and changes in processes and organisation with an impact on the accounting systems and on the financial reporting were also discussed. Specific in-depth analyses have been reserved for the acquisition of the business complex consisting of 486 branches and 134 operating points from UBI Banca and Intesa Sanpaolo, which should be completed during the first half of 2021. However, the auditors have already carried out checks on the completeness of the information to be provided in the separate and consolidated financial statements as at 31 December 2020, while also checking the correctness of the accounting treatment of the acquisition of the UBI Banca branches according to IFRS 3. Additional work was also carried out on the change in the method of valuing property: in accordance with IAS 16 for properties held for use in the business and IAS 40 for properties held for investment purposes. Analysis also covered: the breakdown and stratification of the non-performing loan portfolio, the classification of performing loans to higher risk customers, the results of the inspections carried out by the ECB and the assessment processes in the Finance area.

We also informed the Independent Auditors about our activities and reported any relevant and significant facts about the Bank known to us. There are no acts or facts considered reprehensible and/or that need to be reported in accordance with art. 155, paragraph 2 of Legislative Decree 58/1998.

The Independent Auditors explained their analyses, also statistical and with comparisons with system competitors, carried out on the loan book of the Bank and the Group, including: the coverage of performing loans and other categories of non-performing exposures, the measurement of real estate guarantees, the qualitative characteristics of bad loans and unlikely-to-pay exposures (the period spent in that state and the impairment provision) and the incidence of exposures subject to forbearance measures; particular attention was paid to the evolution of the moratoria granted to customers and to the loans subject to Covid 19 support measures with a State guarantee.

The points for improvement recommended by the Auditors, as well as the suggestions made in previous years, subject to in-depth analysis by us and the functions concerned and with the Chief Executive Officer, were adequately addressed, even if not definitively acquired.

During the year, we also continued to verify and monitor the independence of the Auditors Deloitte & Touche S.p.A., particularly as regards the adequacy of the non-audit services provided to the company being audited.

Overall, based on the relations of this Board with the auditing firm, no anomalies, issues or omissions have arisen that should be reported.

XVII - ADOPTION OF THE CODE OF CONDUCT OF THE COMMITTEE FOR CORPORATE GOVERNANCE

The Bank has prepared the "Report on corporate governance and the ownership structure" required by art. 123-bis of Legislative Decree 58/1998, making reference to the "Format for the report on corporate governance and the ownership structure" issued by Borsa Italiana S.p.A., and we confirm approval of that document by the Bank's Board of Directors on 16 March 2021.

Based on the "comply or explain" principle, the Bank stated in the Report on corporate governance and ownership structure that there are no non-conformities that would require explanation and/or description in that Report. The Bank, which has been applying the Corporate Governance Code for Listed Companies since 5 September 2017, will apply the new Corporate Governance Code promoted by the same Committee from 1 January 2021. Full disclosure will be made in the Corporate Governance Report to be published during the course of 2022. At the meeting of 16 March 2021, the Board carried out an initial gap analysis, quantifying the impact of the changes and proposing adaptations to be pursued during the current year to achieve full compliance with the new Corporate Governance Code.

The Bank's sensitivity to the spirit of the Code is also reflected in the fact that, as requested by the Corporate Governance Committee with the Chairman's communication of 22 December 2020, the Board of Directors, at the meeting of 3 February 2021, addressed the recommendations in the scope of initiatives to improve governance in terms of: integrating sustainability in the definition of strategies, system of controls and risk management and of the remuneration policy, information flows to and from the Board of Directors, application of qualitative/quantitative criteria for the assessment of independence, remuneration awarded to non-executive directors and members of the Control Body, the Board's self-assessment process, the appointment and succession of Directors and remuneration policies. All of this is discussed in Chapter 24 of the Corporate Governance Report.

Note that in its guidelines on the composition of the new board, the Bank's Board of Directors took into account the Economy and Finance Ministry's Decree 169 of 23 November 2020, which governs the eligibility of Corporate Officers.

At the meeting on 10 June 2020 we ascertained that all of the Corporate Officers met the independence requirements, also pursuant to sections 3.C.1 and 8.C.1 of the Corporate Governance Code for Listed Companies which lay down the application criteria.

Lastly, by participating as a permanent guest, our Chairman or another member attended the meetings of the Nominations Committee and constantly monitored the self-assessment work regarding the Board of Directors carried out by that committee, which approved its qualitative and quantitative composition and functioning and presented the outcome of the process to the Board of Directors on 9 March 2021.

Following the issuance of the Rules of Conduct of the Board of Statutory Auditors of Listed Companies (8 April 2018) and the Self-Assessment of the Board of Statutory Auditors (May 2019) by the National Council of Chartered Accountants and Accounting Experts, we adapted and integrated our "Rules for the Self-Assessment of the Functioning of the Board of Statutory Auditors". In the last year of our mandate, also following the changes made in the Articles of Association regarding the number of members of the next Board of Statutory Auditors, we considered useful to carry out our own self-assessment with the help of an external consultant, also for the purposes referred to in the Bank of Italy's Circular 285/2013, First Part, Title IV. We have assessed the composition of our Board as adequate overall and we believe that we have effectively carried out our duties of supervision and controls during our mandate, at the end of which we have decided to express to the Shareholders our guidelines on the composition of the new Control Body.

XVIII - FINAL ASSESSMENT OF THE SUPERVISORY ACTIVITIES PERFORMED AND OF ANY OMISSIONS, MISCONDUCT OR IRREGULARITIES FOUND

Shareholders,

We, as the Board of Statutory Auditors, have verified the functionality of the internal procedures, which were found to be suitable for guaranteeing compliance with laws, regulations and the Articles of Association. With regard to compliance with the principles of correct administration, we ascertained that the decision-making process takes into adequate consideration the riskiness and effects of management's decisions and that the corporate bodies have an adequate system of information flows, also with reference to any interests of the Directors. The organisational structure, the accounting system and the independent audit are considered adequate and functional to the tasks they are required to perform.

We have also verified the absence of critical issues that might affect the structure of the internal control system and the risk governance and management process.

Our supervisory and control activity did not give rise to any omissions, reprehensible facts, imprudent operations or irregularities to be reported to you and no significant facts have emerged that ought to be reported to the Supervisory and Control Authorities or mentioned in this Report.

As regards the principal risks and uncertainties to which the Bank and the Group are exposed, business continuity as a going concern and the situation of disputed items, as well as the business outlook, reference should be made to the report of operations and to the Group report on operations.

In referring to the Directors' report on operations and the Directors' report on Group Operations, this Board certifies that, to date, to the best of its knowledge, no other significant facts have occurred subsequent to 31 December 2020.

The economic, financial and equity position of the Bank presented in the draft financial statements report a profit for the year of Euro 143,852,777, a comprehensive profit of Euro 227,419,745 and shareholders' equity of Euro 5,915,566,754.

As regards the result of the year, the Board of Directors proposes (i) the preliminary allocation, pursuant to art. 42 (paragraph 2) of the Articles of Association, of Euro 6,744,944.91, to the restricted reserve under Legislative Decree 38/2005 (art. 6, paragraph 1.a) for unrealised gains, net of the related tax effects; (ii) to allocate the usual portion of profit, equal to Euro 6,855,391.59, to the legal reserve, and (iii) the distribution of a dividend of Euro 56,530,540.48 (Euro 0.04 for each of the 1,413,263,512 shares representing the share capital) corresponding to a share of 39.30% of the profit for the year, and therefore (iv) the allocation to the equity reserve of the residual part of the profit for the year, equal to Euro 73,721,899.70.

In this regard, the Directors have noted that this distribution of reserves does not appreciably affect the capitalisation of the Bank and the Group, according to the parameters established by the prudential supervisory regulations and the decisions of the European Central Bank concerning capital requirements and in line with its guidelines concerning dividend distribution policies during a pandemic.

At the conclusion of the annual SREP 2019 review and prudential assessment process, BPER Banca received notification from the ECB of its decision regarding the prudential requirements to be respected pursuant to art. 16 of Regulation (EU) no. 1024/2013, which translates into the following minimum capital ratios: a Common Equity Tier 1 Ratio of 8.125% and a Total Capital Ratio of 12.50%.

It is worth noting that the capital ratios of the Bank on its own show a Common Equity Tier 1 ratio of 21.01% and a Total Capital Ratio of 25.15%, which are a good deal higher than the minimum levels set by the ECB, including the SREP requirements.

The capital ratios at consolidated level, Common Equity Tier 1 ratio of 17.70% (fully phased: 15.90%) and Total Capital Ratio of 21.18%, are also markedly greater than the established minimums and SREP requirements.

The consolidated financial statements of the BPER Group report a profit of Euro 245,650 thousand, a comprehensive profit of Euro 330,055 thousand and shareholders' equity, including the profit for the year, of Euro 6,196,819 thousand.

The incidence of gross impaired loans at consolidated level is equal to 7.80% (4.0% on a net basis) with an average coverage rate of 50.95%, slightly down compared with the previous year, mainly because of the sales of bad debts and UTP loans in 2020; the Texas ratio has fallen to 55.39%, from 79.04% at 31 December 2019.

Both the draft separate financial statements and consolidated financial statements have been prepared on a going concern basis, without making exceptions when applying the established accounting standards and measurement criteria and, as already stated, they have been audited by the auditing firm without qualifications or emphasis of matter.

XIX - PROPOSALS TO THE SHAREHOLDERS' MEETING

Completing our supervision and control activity, we do not believe that there is any reason to exercise our right to make proposals to the Shareholders' Meeting in accordance with art. 153, paragraph 2, of CFA.

XX - CONCLUSIONS

Shareholders,

Taking into account all of the above, considering the content of the audit reports issued by Deloitte & Touche S.p.A. and taking note of the attestations issued jointly by the Chief Executive Officer and the Manager responsible for preparing the company's financial reports, for our part, we have no objections to you approving the financial statements of BPER Banca S.p.A. as at 31 December 2020 accompanied by the report on operations and the explanatory notes, as approved by the Board of Directors on 16 March 2021.

With regard to the dividend proposal made by the Board of Directors, having acknowledged that it is based on prudent assumptions that should allow constant compliance over time with the prudential capital requirements, we would point out that it is in line with the limitations recommended by the ECB in its press release of 15 December 2020.

On the conclusion of the second year of our mandate, we wish to express our heartfelt thanks for the esteem and confidence shown in the appointment, as well as to express thanks to all the Directors, and among them, in particular, to the Chairman of the Board of Directors, Pietro Ferrari and to the Chief Executive Officer Alessandro Vandelli, to the Management, to the Internal Control Functions as well as to all personnel of the Bank for their assistance in carrying out the functions and duties assigned to us.

The Board of Statutory Auditors

Modena, 29 March 2021

The Board of Statutory Auditors

Paolo De Mitri (Chairman)

Cristina Calandra Buonaura (Acting Auditor)

Diana Rizzo (Acting Auditor)

Francesca Sandrolini (Acting Auditor)

Vincenzo Tardini (Acting Auditor)

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Other attachments

The following documents, which are not attached to the English version of the financial statements as at 31 December 2020, could be consulted in the Italian version:

- Financial statements of subsidiary banks and companies
- Summary statement of key figures from the latest approved financial statements of significant equity investments

Geographical organisation of the Group

Group commercial banks

Details	BPER Banca	BSAR	31.12.2020	31.12.2019
Emilia – Romagna	**293**		**293**	**333**
Bologna	51		51	60
Ferrara	38		38	45
Forlì – Cesena	25		25	31
Modena	74		74	80
Parma	24		24	28
Piacenza	4		4	5
Ravenna	30		30	31
Reggio Emilia	33		33	38
Rimini	14		14	15
Friuli Venezia G.	**2**		**2**	**2**
Pordenone	1		1	1
Trieste	1		1	1
Abruzzo	**87**		**87**	**97**
Chieti	35		35	37
L'Aquila	34		34	41
Pescara	10		10	11
Teramo	8		8	8
Basilicata	**28**		**28**	**30**
Matera	16		16	16
Potenza	12		12	14
Calabria	**37**		**37**	**38**
Catanzaro	9		9	9
Cosenza	14		14	14
Crotone	6		6	7
Reggio Calabria	5		5	5
Vibo Valentia	3		3	3
Campania	**89**		**89**	**96**
Avellino	22		22	23
Benevento	4		4	4
Caserta	6		6	7
Naples	25		25	28
Salerno	32		32	34
Lazio	**73**	**4**	**77**	**88**
Frosinone	6		6	7
Latina	14		14	15
Rieti	2		2	2
Roma	50	4	54	63
Viterbo	1		1	1
Liguria	**8**	**3**	**11**	**11**
Genova	5	1	6	6
La Spezia	2	1	3	3
Savona	1	1	2	2
Lombardy	**56**	**1**	**57**	**61**
Bergamo	2		2	2
Brescia	7		7	7
Como	1		1	1
Cremona	5		5	5
Lecco	1		1	1
Lodi	1		1	1
Mantua	10		10	11
Milan	21	1	22	25
Monza Brianza	3		3	3
Pavia	2		2	2
Varese	3		3	3
Marche	**13**		**13**	**17**
Ancona	5		5	6
Ascoli Piceno	2		2	3
Fermo	1		1	1
Macerata	3		3	3
Pesaro-Urbino	2		2	4

Details	BPER Banca	BSAR	31.12.2020	31.12.2019
Molise	**10**		**10**	**10**
Campobasso	7		7	7
Isernia	3		3	3
Piedmont	**58**		**58**	**61**
Alessandria	5		5	5
Asti	4		4	5
Biella	1		1	1
Cuneo	29		29	30
Novara	1		1	1
Turin	18		18	19
Puglia	**37**		**37**	**40**
Bari	11		11	12
Barletta Andria Trani	4		4	4
Brindisi	1		1	1
Foggia	14		14	16
Lecce	4		4	4
Taranto	3		3	3
Sardinia		**320**	**320**	**334**
Cagliari		30	30	35
Nuoro		62	62	63
Oristano		48	48	50
Sud Sardegna		82	82	83
Sassari		98	98	103
Sicily	**33**		**33**	**36**
Agrigento	3		3	3
Catania	7		7	8
Messina	9		9	10
Palermo	8		8	8
Siracusa	4		4	4
Trapani	2		2	3
Tuscany	**30**	**1**	**31**	**33**
Arezzo	1		1	2
Florence	7		7	8
Grosseto	4		4	4
Livorno	3	1	4	4
Lucca	4		4	4
Massa e Carrara	2		2	2
Pisa	3		3	3
Pistoia	2		2	2
Prato	2		2	2
Siena	2		2	2
Trentino-Alto Adige	**4**		**4**	**4**
Trento	4		4	4
Umbria	**8**		**8**	**9**
Perugia	5		5	6
Terni	3		3	3
Veneto	**42**		**42**	**49**
Belluno	2		2	2
Padua	9		9	10
Rovigo	7		7	10
Treviso	3		3	4
Venice	4		4	4
Verona	12		12	12
Vicenza	5		5	7
Total as at 31.12.2020	908	329	1,237	
Total as at 31.12.2019	1,006	343		1,349
Changes during the year of the Group's territorial organization				(112)

List of IAS/IFRS endorsed by the European Commission as at 31 December 2020

Accounting Standards

IAS/IFRS	Accounting Standards	Endorsement (a)	Amendments
IAS 1	Presentation of Financial Statements	Reg. 1274/2008	Reg. 53/2009, 70/2009, 494/2009, 243/2010, 149/2011, 475/2012, 1254/2012, 1255/2012, 301/2013, 2113/2015, 2406/2015, 1905/2016, 2067/2016, 1986/2017, 2075/2019, 2104/2019
IAS 2	Inventories	Reg. 1126/2008	Reg. 70/2009, 1255/2012, 1905/2016, 2067/2016, 1986/2017
IAS 7	Cash Flow Statement	Reg. 1126/2008	Reg. 1260/2008, 1274/2008, 70/2009, 494/2009, 243/2010, 1254/2012, 1174/2013, 1986/2017, 1990/2017
IAS 8	Accounting Standards, Changes in Accounting Estimates and Errors	Reg. 1126/2008	Reg. 1274/2008, 70/2009, 1255/2012, 2067/2016, 2075/2019, 2104/2019
IAS 10	Events after the Reporting Period	Reg. 1126/2008	Reg. 1274/2008, 70/2009, 1142/2009, 1255/2012, 2067/2016, 2104/2019
IAS 11	Construction contracts	Reg. 1126/2008	Reg. 1260/2008, 1274/2008, 1905/2016
IAS 12	Income Taxes	Reg. 1126/2008	Reg. 1274/2008, 495/2009, 475/2012, 1254/2012, 1255/2012,1174/2013, 1905/2016, 2067/2016, 1986/2017, 1989/2017, 412/2019
IAS 16	Property, Plant and Equipment	Reg. 1126/2008	Reg. 1260/2008, 1274/2008, 70/2009, 495/2009, 1255/2012, 301/2013, 28/2015, 2113/2015, 2231/2015, 1905/2016, 1986/2017
IAS 17	Leases	Reg. 1126/2008	Reg. 243/2010, 1255/2012, 2113/2015
IAS 18	Revenue	Reg. 1126/2008	Reg. 69/2009, 1254/2012, 1255/2012, 1905/2016
IAS 19	Employee Benefits	Reg. 475/2012	Reg. 1255/2012, 29/2015, 2343/2015, 402/2019
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	Reg. 1126/2008	Reg. 1274/2008, 70/2009, 475/2012, 1255/2012, 2067/2016
IAS 21	Effects of Changes in Foreign Exchange Rates	Reg. 1126/2008	Reg. 1274/2008, 69/2009, 494/2009, 149/2011, 475/2012, 1254/2012, 1255/2012, 2067/2016, 1986/2017
IAS 23	Borrowing Costs	Reg. 1260/2008	Reg. 70/2009, 2113/2015, 2067/2016, 1986/2017, 412/2019
IAS 24	Related Party Disclosures	Reg. 632/2010	Reg. 475/2012, 1254/2012, 1174/2013, 28/2015
IAS 26	Accounting and Reporting by Retirement Benefit Plans	Reg. 1126/2008	
IAS 27	Separate financial statements	Reg. 1254/2012	Reg. 1174/2013, 2441/2015

(cont.)

IAS/IFRS	Accounting Standards	Endorsement (a)	Amendments
IAS 28	Investments in Associates and Joint Ventures	Reg. 1254/2012	Reg. 1255/2012, 2441/2015, 1703/2016, 2067/2016, 182/2018, 237/2019
IAS 29	Financial Reporting in Hyperinflationary Economies	Reg. 1126/2008	Reg. 1274/2008, 70/2009
IAS 32	Financial Instruments: Presentation	Reg. 1126/2008	Reg. 1274/2008, 53/2009, 70/2009, 494/2009, 495/2009, 1293/2009, 149/2011, 475/2012, 1254/2012, 1255/2012, 1256/2012, 301/2013, 1174/2013, 1905/2016, 2067/2016, 1986/2017
IAS 33	Earnings Per Share	Reg. 1126/2008	Reg. 1274/2008, 494/2009, 495/2009, 475/2012, 1254/2012, 1255/2012, 2067/2016
IAS 34	Interim Financial Reporting	Reg. 1126/2008	Reg. 1274/2008, 70/2009, 495/2009, 149/2011, 475/2012, 1255/2012, 301/2013, 1174/2013, 2343/2015, 2406/2015, 1905/2016, 2075/2019, 2104/2019
IAS 36	Impairment of assets	Reg. 1126/2008	Reg. 1274/2008, 69/2009, 70/2009, 495/2009, 243/2010, 1254/2012, 1255/2012, 1374/2013, 2113/2015, 1905/2016, 2067/2016
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	Reg. 1126/2008	Reg. 1274/2008, 495/2009, 28/2015, 1905/2016, 2067/2016, 1986/2017, 2075/2019, 2104/2019
IAS 38	Intangible assets	Reg. 1126/2008	Reg. 1260/2008, 1274/2008, 70/2009, 495/2009, 243/2010, 1254/2012, 1255/2012, 28/2015, 2231/2015, 1905/2016, 1986/2017, 2075/2019
IAS 39	Financial Instruments: Recognition and Measurement	Reg. 1126/2008	Reg. 1274/2008, 53/2009, 70/2009, 494/2009, 495/2009, 824/2009, 839/2009, 1171/2009, 243/2010, 149/2011, 1254/2012, 1255/2012, 1174/2013, 1375/2013, 28/2015, 1905/2016, 2067/2016, 1986/2017, 34/2020
IAS 40	Investment Property	Reg. 1126/2008	Reg. 1274/2008, 70/2009, 1255/2012, 1361/2014, 2113/2015, 1905/2016, 1986/2017, 400/2018
IAS 41	Agriculture	Reg. 1126/2008	Reg. 1274/2008, 70/2009, 1255/2012, 2113/2015, 1986/2017

(cont.)

IAS/IFRS	Accounting Standards	Endorsement (a)	Amendments
IFRS 1	First-time Adoption of International Financial Reporting Standards	Reg. 1136/2009	Reg. 1164/2009, 550/2010, 574/2010, 662/2010, 149/2011, 1205/2011, 475/2012, 1254/2012, 1255/2012, 183/2013, 301/2013, 313/2013, 1174/2013, 2343/2015, 2441/2015, 1905/2016, 2067/2016, 1986/2017, 519/2018, 182/2018, 1595/2018
IFRS 2	Share-Based Payment	Reg. 1126/2008	Reg. 1261/2008, 495/2009, 243/2010, 244/2010, 1254/2012, 1255/2012, 28/2015, 2067/2016, 289/2018, 2075/2019
IFRS 3	Business Combinations	Reg. 495/2009	Reg. 149/2011, 1254/2012, 1255/2012, 1174/2013, 1361/2014, 28/2015, 1905/2016, 2067/2016, 1986/2017, 412/2019, 2075/2019, 551/2020
IFRS 4	Insurance Contracts	Reg. 1126/2008	Reg. 1274/2008, 494/2009, 1165/2009, 1255/2012, 1905/2016, 2067/2016, 1986/2017, 1988/2017, 2097/2020
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	Reg. 1126/2008	Reg. 1274/2008, 70/2009, 494/2009, 1142/2009, 243/2010, 475/2012, 1254/2012, 1255/2012, 2343/2015, 2067/2016
IFRS 6	Exploration for and Evaluation of Mineral Resources	Reg. 1126/2008	Reg. 2075/2019
IFRS 7	Financial Instruments: Disclosures	Reg. 1126/2008	Reg. 1274/2008, 53/2009, 70/2009, 495/2009, 824/2009, 1165/2009, 574/2010, 149/2011, 1205/2011, 475/2012, 1254/2012, 1255/2012, 1256/2012, 1174/2013, 2343/2015, 2406/2015, 2067/2016, 1986/2017, 34/2020
IFRS 8	Operating segments	Reg. 1126/2008	Reg. 1274/2008, 243/2010, 632/2010, 475/2012, 28/2015
IFRS 9	Financial Instruments	Reg. 2067/2016	Reg. 1986/2017, 498/2018, 34/2020
IFRS 10	Consolidated Financial Statements	Reg. 1254/2012	Reg. 313/2013, 1174/2013, 1703/2016
IFRS 11	Joint Agreement	Reg. 1254/2012	Reg. 313/2013, 2173/2015, 412/2019
IFRS 12	Disclosure of Interests in Other Entities	Reg. 1254/2012	Reg. 313/2013, 1174/2013, 1703/2016, 182/2018
IFRS 13	Fair Value Measurement	Reg. 1255/2012	Reg. 1361/2014, 2067/2016, 1986/2017
IFRS 15	Revenue from contract with customers	Reg. 1905/2016	Reg. 1986/2017, 1987/2017
IFRS 16	Leasing	Reg.1986/2017	Reg. 1434/2020

Interpretation documents

IFRIC/SIC	Accounting Standards	Endorsement (a)	Amendments
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	Reg. 1126/2008	Reg. 1260/2008, 1274/2008, 1986/2017
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments	Reg. 1126/2008	Reg. 53/2009, 1255/2012, 301/2013, 2067/2016
IFRIC 4	Determining Whether an Arrangement Contains a Lease	Reg. 1126/2008	Reg. 254/2009, 1255/2012
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds	Reg. 1126/2008	Reg. 1254/2012, 2067/2016
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	Reg. 1126/2008	
IFRIC 7	Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies	Reg. 1126/2008	Reg. 1274/2008
IFRIC 9	Reassessment of Embedded Derivatives	Reg. 1126/2008	Reg. 495/2009, 1171/2009, 243/2010, 1254/2012, 2067/2016
IFRIC 10	Interim Financial Reporting and Impairment	Reg. 1126/2008	Reg. 1274/2008, 2067/2016
IFRIC 12	Service Concession Arrangements	Reg. 254/2009	Reg. 1905/2016, 2067/2016, 1986/2017, 2075/2019
IFRIC 13	Customer Loyalty Programmes	Reg. 1262/2008	Reg. 149/2011, 1255/2012, 1905/2016
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Reg. 1263/2008	Reg. 1274/2008, 633/2010, 475/2012
IFRIC 15	Agreements for the Construction of Real Estate	Reg. 636/2009	Reg. 1905/2016
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	Reg. 460/2009	Reg. 243/2010, 1254/2012, 2067/2016
IFRIC 17	Distributions of Non-cash Assets to Owners	Reg. 1142/2009	Reg. 1254/2012, 1255/2012
IFRIC 18	Transfers of Assets from Customers	Reg. 1164/2009	Reg. 1905/2016
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Reg. 662/2010	Reg. 1255/2012, 2067/2016, 2075/2019
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	Reg. 1255/2012	Reg. 2075/2019
IFRIC 21	Levies	Reg. 634/2014	
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Reg. 519/2018	Reg. 2075/2019
IFRIC 23	Uncertainty over Income Tax Treatments	Reg. 1595/2018	
SIC 7	Introduction of the Euro	Reg. 1126/2008	Reg. 1274/2008, 494/2009
SIC 10	Government Assistance – No Specific Relation to Operating Activities	Reg. 1126/2008	Reg. 1274/2008
SIC 15	Operating Leases - Incentives	Reg. 1126/2008	Reg. 1274/2008
SIC 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders	Reg. 1126/2008	Reg. 1274/2008
SIC 27	Evaluating the Substance of Transactions in the Legal Form of a Lease	Reg. 1126/2008	Reg. 1905/2016, 2067/2016

(cont.)

IFRIC/SIC	Accounting Standards	Endorsement (a)	Amendments
SIC 29	Service Concession Arrangements: Disclosures	Reg. 1126/2008	Reg. 1274/2008, 254/2009, 1986/2017
SIC 31	Revenue—Barter Transactions Involving Advertising Services	Reg. 1126/2008	Reg. 1905/2016
SIC 32	Intangible Assets - Web Site Costs	Reg. 1126/2008	Reg. 1274/2008, 1905/2016, 1986/2017, 2075/2019

Key:
(a) The Regulation listed is that of the first publication of the Standard or the replacement of the same.

Resolutions of the Shareholders' Meeting on 21 April 2021

The Ordinary Shareholders' Meeting, in a single calling, chaired by the Chairman dott. ing. Pietro Ferrari, adopted the following resolutions:

- Approval of the Separate financial statements for 2020, the allocation of the profit for the year 2020 and the distribution of a dividend of Euro 0.04 per share for each of the 1,413,263,512 shares representing the share capital (net of those held in portfolio on the ex-coupon date: 455,458 at 31 December 2020, the same as today), for a maximum total amount of Euro 56,530,540.48.
- Board of Directors appointed for three-year period 2021-2023.
- Board of Statutory Auditors appointed for three-year period 2021-2023.
- Directors' remuneration for 2021 established.
- Board of Statutory Auditors' remuneration for 2021-2023 established.
- Approval of the integration, on the reasoned proposal of the Board of Statutory Auditors, of the fees of Deloitte & Touche S.p.A., appointed as independent auditors for the period 2017-2025.
- Approval of the Remuneration Report pursuant to art. 123-ter of Legislative Decree 58, dated 24 February 1998, comprising the remuneration policies for 2021 of the BPER Banca Group and the compensation paid in 2020.
- Approval of the remuneration plan pursuant to art. 114-bis of Legislative Decree 58 dated 24 February 1998, implementing the remuneration policies for 2021 of the BPER Banca Group.
- Authorisation given for the purchase and disposal of treasury shares for the "2019-2021 LongTerm Incentive Plan for Material Risk Takers", for the 2021 MBO incentive plan and for any severance payments.

The Shareholders' Meeting appointed the Board of Directors for the three-year period 2021-2023.
The following Directors were appointed:

1) Ms. Silvia Elisabetta Candini (*independent* *) - taken from List no.1 with a quotient of 335.101.913;
2) Ms. Flavia Mazzarella (*independent**) - taken from List no.3 with a quotient of 267,239,667;
3) Mr. Alessandro Robin Foti (*independent**) - taken from List no.1 with a quotient of 167.550.957;
4) Mr. Riccardo Barbieri - taken from List no.2 with a quotient of 149,635,796;
5) Mr. Piero Luigi Montani - taken from List no.3 with a quotient of 133,619,834;
6) Ms. Marisa Pappalardo (*independent**) - taken from List no.1 with a quotient of 111,700,638;
7) Mr. Gianni Franco Papa (*independent**) - taken from List no.3 with a quotient of 89,079,889;
8) Ms. Alessandra Ruzzu (*independent**) - taken from List no.2 with a quotient of 74,817,898;
9) Ms. Elena Beccalli (*independent**) - taken from List no.3 with a quotient of 66,809,917;
10) Ms. Maria Elena Cappello (*independent**) - taken from List no.3 with a quotient of 53,447,933;
11) Mr. Gianfranco Farre (*independent**) - taken from List no.2 with a quotient of 49,878,599;
12) Mr. Gian Luca Santi - taken from List no.3 with a quotient of 44,539,945;
13) Mr. Roberto Giay - taken from List no.3 with a quotient of 38,177,095;
14) Ms. Monica Pilloni (*independent**) - taken from List no.2 with a quotient of 37,408,949;

** On the basis of the declaration made during the candidacy as to the possession of the independence requirements referred to in Article 17, paragraph 4, of the Articles of Association (ie, Article 148, paragraph 3, CFA; Article 26, Legislative Decree 385 of 1 September 1993 (CBA) and Ministerial Decree 169/2020; Corporate Governance Code).*

15) Mr. Cristiano Cincotti (*independent**) - taken from List no.2 with a quotient of 29,927,159.

The Shareholders' Meeting appointed the Board of Statutory Auditors for the three-year period 2021-2023.
The following were appointed as Acting Auditors:

- Mr. Paolo De Mitri - taken from List no.1;
- Mr. Nicola Bruni, who assumes the office of the Chairman of the Board of Statutory Auditors - taken from List no.3.

The following were appointed as Substitute Auditors:

- Ms. Patrizia Tettamanzi - taken from List no.1 and Mr. Andrea Scianca - taken from List no.3, with the clarification that Ms. Patrizia Tettamanzi assumes the role of Acting Auditor until the next Shareholders' Meeting, due to the need to complete the Supervisory Body, in compliance with the will expressed by the Shareholders' Meeting, in application of Article 33, paragraph 2 of the Articles of Association.

Given the exceptional emergency situation caused by the COVID-19 epidemic, participation in the Shareholders' Meeting took place, without access to the meeting rooms, exclusively through the designated representative pursuant to art.135-undecies of Legislative Decree 58 of 24 February 1998 (CFA), in accordance with the provisions of art.106.4 of Legislative Decree 18 of 17 March 2020, as foreseen in the notice of calling.
The participation of the directors, statutory auditors, secretary to the meeting and designated representative took place in compliance with the containment measures provided for by law; some of the participants were present by means of teleconferencing systems, in compliance with current regulations, where applicable.

Through the Designated Representative, a total of 394 Shareholders attended the Shareholders’ Meeting representing no. 757,177,376 ordinary shares equal to 53.58% of the total share capital.

Directors and officers of the Parent Company on 21 April 2021

Board of Directors

Chairman:	Flavia Mazzarella
Deputy chairman:	Riccardo Barbieri
Chief Executive Officer:	Piero Luigi Montani
Directors:	Elena Beccalli Silvia Elisabetta Candini Maria Elena Cappello Cristiano Cincotti Gianfranco Farre Alessandro Robin Foti Roberto Giay Gianni Franco Papa Marisa Pappalardo Monica Pilloni Alessandra Ruzzu Gian Luca Santi

Board of Statutory Auditors

Chairman:	Nicola Bruni
Acting Auditors:	Paolo De Mitri Patrizia Tettamanzi
Substitute Auditors:	Andrea Scianca

General Management

General Manager:	Alessandro Vandelli
Deputy General Managers:	Stefano Rossetti (Vice) Pierpio Cerfogli

Manager responsible for preparing the Company's financial reports

Manager responsible for preparing the Company's financial reports:	Marco Bonfatti

Independent Auditors

Deloitte & Touche s.p.a