

2019 Remuneration and incentive policies **Executive Summary**



Letter of the Chairman of the Remuneration Committee

Shareholders,

As Chairman of the Remuneration Committee, together with the Directors Elisabetta Gualandri and Roberta Marracino, I have the pleasure of presenting the Annual Remuneration Report of the BPER Group for the year 2019.

For the BPER Group, 2018 was a year of positive results, reflecting management's strong commitment to continuous improvement to achieve the Group's strategic objectives.

In formulating the 2019 Remuneration Policy, the Remuneration Committee has been constantly committed, as in the past, to structuring effective and transparent remuneration policies, oriented towards sustainability, aligned with market best practice and complying with the constantly evolving regulatory framework. The Committee also carried out ongoing checks on the adequacy and consistency of the Policy, also taking into consideration the input received from internal and external stakeholders of the Group.

In carrying out our activities, we have worked together in certain areas with the Chairman and Directors who are members of the Remuneration Committee of Banco di Sardegna, namely Viviana Ferri, Daniela Petitto and Paolo Rinaldi.

The main changes in the 2019 Remuneration Report after bringing the document into line with the regulatory framework concern:

- the introduction of a long-term incentive plan ("Long Term Incentive Plan 2019-2021"), reserved for a select number of BPER Group top managers (the "scope"), identified on the basis of the role and potential contribution to achieving the objectives of the Business Plan. The targets of the Incentive Plan are closely linked to those of the Business Plan approved at the same time; in this way, we want to align the Group's Remuneration Policy with best practice and the demands of Institutional Investors. With this Plan, we introduce into the Group the concept of using real financial instruments in the remuneration of personnel;
- overcoming the 1:1 limit for the ratio between the variable and fixed components of remuneration, raising it to the new limit of 2:1 for key personnel at Group level (with the exception of control functions). Here again, we wanted to align ourselves with best practice to invest in the competitiveness of remuneration packages for strategic professional skills, especially where it was necessary to attract them from outside BPER, also according to the innovative and strategic perspectives defined in the Plan. The

2019 policies, on the other hand, do not provide for significant increases in the short-term incentive schemes aimed at top managers;

- monitoring continues, as does the introduction of minor adjustments and rigorous control over the application of the MBO systems, refining their structure and scope, which is aimed at key figures or areas of the Bank with high added value, in line with the business plan.

The use of virtual shares (or "phantom stock") for the payment of part of the bonus deriving from the short-term incentive scheme will be repeated in 2019, while introducing the use of shares for the payment of bonuses that we expect to invest under the Long Term Incentive Plan 2019-2021.

All of these interventions have been carried out in order to continue improving the remuneration policy and incentive schemes, with a strong focus on personnel policies, the enhancement of the Bank and the protection of customers and investors, all of which keeps us in line with the new regulations introduced with the 25th update of Bank of Italy Circular 285.

In 2019 we will also confirm our emphasis on communication, transparency and information, listening carefully to interested parties, together with the commitment to offer increasingly complete, usable and clear information through:

- an executive summary that shows the remuneration policy for the various categories of staff also in tabular form;
- better disclosure of the Policy on the identification of key personnel;
- in relation to the Group's MBO system:
 - a representation in tabular form of the target and maximum bonuses by categories of personnel;
 - *ex-ante* communication of entry gates and thresholds;
 - a representation in tabular form of the correlation between gross profit and the bonus pool;
 - *ex-post* communication about achievement of the thresholds for the entry gates and the multiplier;
 - an *ex-ante* and *ex-post* communication about the scorecard assigned to the Chief Executive Officer.

I conclude by thanking you, on behalf of myself and my Committee, for your attention and for the support that I hope you will give to the 2019 policies explained in our Report.

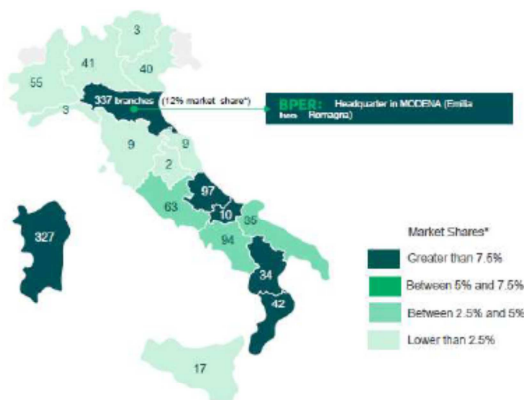
Mara Bernardini

Group profile

National presence and strong regional roots

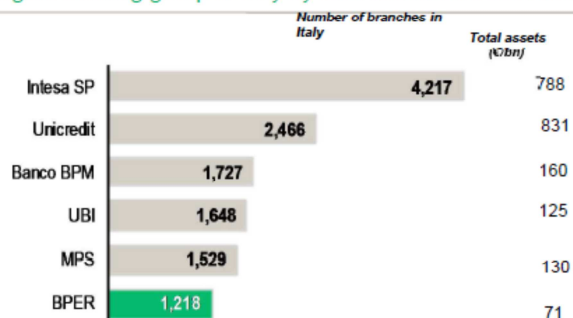
National presence

Geographical areas	no. of branches	Commercial banks	no. of branches
North	479	BPER Banca	827
Centre	180	Banco di	326
South	215	Sardegna	28
Islands	334	CR Bra	27
Total	1,218	CR Saluzzo	27
		Total	1,218

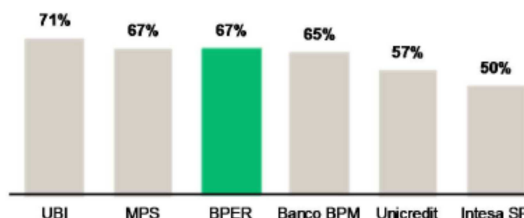


Source: Company Information
Figures at 31.12.2018

Sixth largest banking group in Italy by total assets and branches



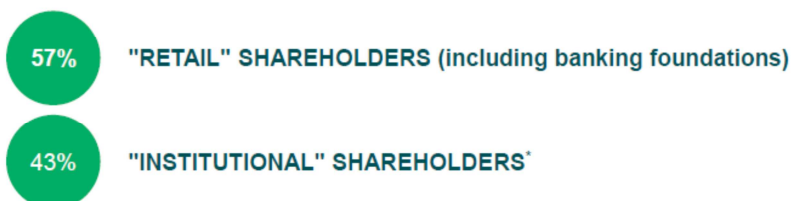
Focus on commercial business (Loans/Total assets)



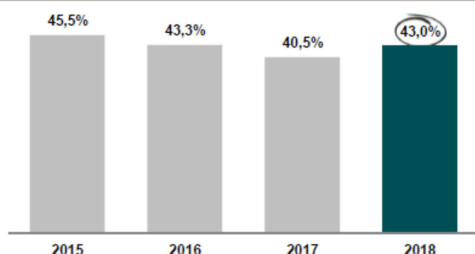
BPER's shareholder structure

Breakdown of BPER Banca shareholders

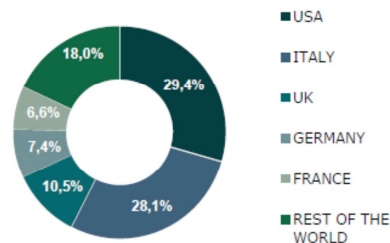
Number of BPER shares outstanding: 481,308,435 including 455,458 treasury shares



BPER shares held by Institutional Investors* (%)



Institutional investors*: geographical breakdown (%)



(*) Institutional Shareholders/Investors: meaning the Italian and foreign entities known as "Undertakings for collective investment of transferable securities" (UCITS), which include mutual funds and SICAVs; these are institutional investors involved in the collective management of assets. All other subjects, including banking foundations, are considered private or "retail" investors. Source: internal data – last figure available when the shares went ex-dividend in May 2018.

Objectives, principles and governance

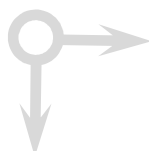
Objectives and principles of the remuneration policy

PRINCIPLES – To create value for:

The BPER Group's remuneration policy is based on sound and shared principles that are firmly based on an awareness that BPER is deeply rooted in the areas that it serves, playing a key role in supporting the development of local economies.

In this context, the remuneration policy is designed with the aim of ensuring a strong alignment between the overall compensation paid, in various capacities, and creating value for our shareholders, with a view to long-term sustainability.

Customers	<ul style="list-style-type: none">Awareness of customers' different needs.Products offered in an appropriate way to each segment or market.Attention to the quality of the relationship.Discouraging any conduct that is considered pure speculation or financial gambling.
Shareholders	<ul style="list-style-type: none">Increase in profitability and investment value over time.Balanced development.Diversification and expansion of markets served.Conscious management of risk.
Group personnel	<ul style="list-style-type: none">Development of internal expertise.Stimulation of human and professional growth.Implementation of a transparent and effective communication at all levels.Continuing education.
Social context	<ul style="list-style-type: none">Adopting a business approach with a broader scope than just making a profit, in line with the mutualistic aims that characterised the Group's origins.



PURPOSE

To orient conduct towards the Group's priorities,	To attract and retain highly qualified personnel and support motivation at an individual level, recognising merit and enhancing professional development	To develop and improve the quality of services offered to customers
To support sound and prudent risk management	To preserve internal and external pay equity, continuing watchful supervision of personnel costs	Support conduct consistent with the code of ethics and with current rules and regulations

Governance of the remuneration and incentive policies

The BPER Group has established a strong governance process in order to regulate the definition, implementation and management of its remuneration policies. This process will involve various control bodies and business functions at different levels, according to their sphere of competence. The Group also periodically contacts external and independent consulting company with expertise in the field of remuneration and incentives.

Definition of the remuneration and incentive policies

CORPORATE BODIES	BUSINESS FUNCTIONS
Shareholders' Meeting	Human Resources Department
Board of Directors	Planning and Control Management
Remuneration Committee	Risk Management
Control and Risk Committee	Investor Relations
	Compliance
	Internal Audit

Remuneration policy

Governance of the remuneration and incentive policies

Remuneration policies, differentiated by categories of personnel are structured in order to ensure maximum effectiveness, in line with the nature and objectives of the relevant corporate function.

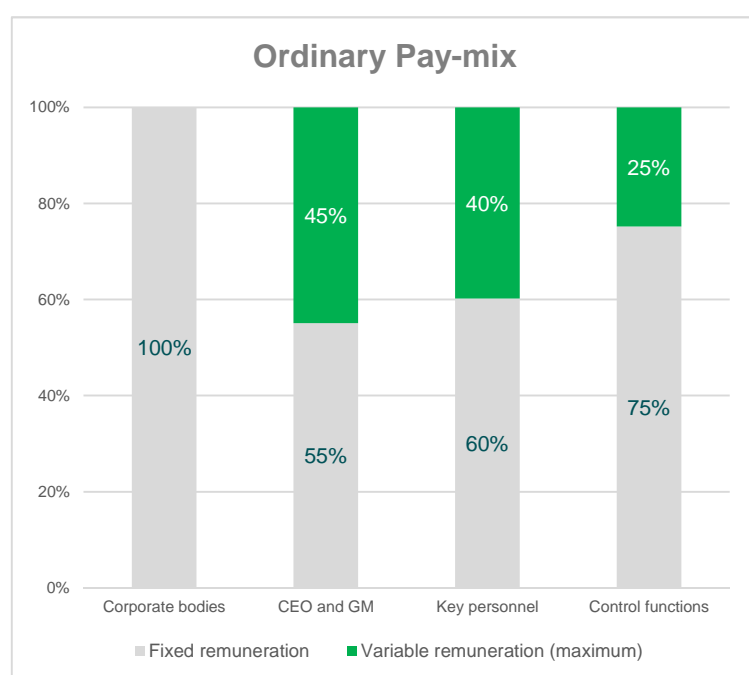
- Corporate bodies
- Key personnel
- Managers
- "Other personnel"
- External collaborators

	2018	2019
Non-Executive Directors	55 (44%)	53 (43%)
MRT	60 (46%)	63 (47%)
MRT – Control functions	13 (10%)	13 (10%)
TOTAL	128 (100%)	129 (100%)
% Total BPER Group personnel (see Bank of Italy Circular 285)	1.07%	1.09%

Pay-Mix

Remuneration packages are defined in order to ensure an appropriate balance between fixed and variable components, in a perspective of strong alignment between managerial behaviour and the creation of value for the shareholders in the medium to long term.

Part of the variable remuneration is paid in financial instruments



Benchmark sample

In defining its remuneration policies, with particular reference to the monitoring of the main practices of the market, the Group typically compared itself with a panel of listed companies belonging to the same business sector and with economic dimensions such as to ensure that the panel is balanced and suitable for the needs of the analysis.

Companies	Unicredit	Intesa San Paolo	Banca MPS	Banco BPM
	UBI Banca	Credito Emiliano	Banca Carige	

Remuneration policy

Fixed remuneration

The remuneration and incentive policy is defined with the aim of rewarding the achievement of company objectives with a view to creating value for the shareholders.

For corporate bodies, except for certain directors with special duties (CEO), this represents the total annual remuneration paid. Each year, the Shareholders' Meeting approves the total remuneration to be paid to the Board of Directors. For 2018, the following fees have been established:

Office	2018 Remuneration
Chairman of the BoD	€ 380,000
Deputy Chairman	€ 115,000
Director	€ 65,000
Attendance fee	€ 300

In addition to this remuneration, directors earn a fixed compensation plus an attendance fee for taking part in committee meetings, differentiated between the members and Chairman of each committee.

Fixed compensation is provided for members of the Board of Statutory Auditors, namely Euro 142,500 for the Chairman and Euro 95,000 for each member.

Variable remuneration

The remuneration and incentive policy is designed in compliance with the Group's fundamental principles and purposes with a view to rewarding those who achieve the company's objectives in order to create value for the shareholders in accordance with the regulations currently in force.

In this direction, the incentive schemes provide for the payment of bonuses in line with the results achieved, with target and maximum payment levels defined as follows:

In line with the regulatory requirements, for 2019, an increase in the limits on the ratio between variable and fixed remuneration from 1:1 to 2:1 for all key personnel (except for control and similar functions) is being proposed to the Shareholders' Meeting. The proposal aims to have the capacity needed to make payments on demand, if required, or in the event of early termination of employment or the office, within the maximum limits already established in these policies, and to have available all possible levers to attract external resources that can help us achieve our corporate objectives. Without prejudice to the purposes mentioned, the Group's intention is to maintain the proportion of variable to fixed remuneration largely within the ordinary limits, as shown in the table below.

	Short-term target bonus		Long-term target bonus*	
	Target bonus (% fixed remuneration)	Maximum bonus (% fixed remuneration)	Target bonus (% fixed remuneration)	Maximum bonus (% fixed remuneration)
CEO and GM	45%	60%	15%	21%
Key personnel	35%	50%	12%	16%
Control functions	33% ¹ (20%)	33% ² (20%)	-	-

*1 This portion is valued on an annual basis, referring to a period of 8 years. As an example, for CEO and GM the cumulative value is therefore equal to 120% (target) and 165% (maximum).

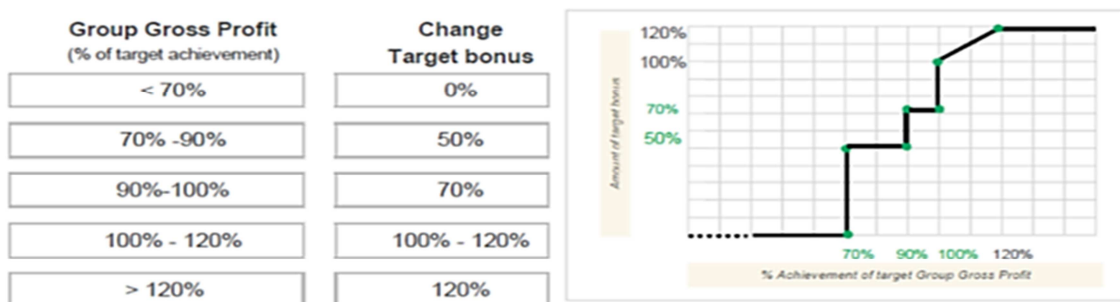
Chief Executive Officer

The CEO is a beneficiary of the MBO system, based on a bonus pool which is the maximum amount of bonuses that can be paid; for the CEO, this is defined at Group level. The amount of the bonus pool is proportional to the results achieved and envisages a maximum limit. In line with current regulations, the MBO system does not pay any bonus in the case of failure to reach the so-called entry gates, i.e. the minimum levels of capital, liquidity and risk-adjusted return ratios.

Entry gate	Minimum threshold
Common Equity Tier 1 (CET 1) – Pillar 1 consolidated ratio	> RAF Tolerance
Consolidated Liquidity Coverage Ratio (LCR)	> RAF Capacity
Consolidated Return On Risk-Weighted Assets (RORWA)	> RAF Tolerance

If all the above entry gates are achieved, the Company's results are subjected to an assessment which can change the bonus pool by means of a multiplier/demultiplier mechanism that acts directly on the individual target bonuses, starting with that of the CEO.

How the target bonus works



¹33% limit set by law

² 33% limit set by law

The CEO's scorecard

		Quantitative objectives	
Weighting 80%		Group 1st Margin	20%
		Group operating costs	20%
		Group default flow	20%
		Group gross non-performing loans	20%
		Group CET 1 ratio - Phase In (%)	20%
		Qualitative objectives	
Weighting 20%		Functional objectives, handling of planned projects, management skills shown, CSR (social and environmental) targets met.	

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Once the results have been measured, the system provides for the application of parameters to adjust for risk, based on those contained in the Risk Appetite Framework (RAF). These parameters act as a corrective with respect to the incentive accrued on the achievement of the objectives set by the CEO's scorecard.

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Correctives	% Weighting
Indicator of Capital Adequacy for ICAAP purposes	33%
LCR	33%
Gross non-performing loans ratio	33%

The incentives accrued by the CEO are paid for 45% up-front (20% cash and 25% through phantom stock) and for the other 55% (25 cash and 30% phantom stock) through deferral in equal annual instalments over 5 years. The portions paid in phantom stock are subject to a retention period of 1 year.

In the event of a particularly high bonus, the up-front portion is 40% (20% cash and 20% phantom stock subject to a retention period of 1 year), while the other 60% (25% cash and 35% phantom stock) gets deferred in equal annual instalments over 5 years with a 1-year retention period (during which the shares cannot be sold).

There is no provision for granting discretionary bonuses and all incentives earned are subject to *malus* and clawback clauses.

The Chief Executive Officer, together with other senior figures, is also the beneficiary of a long-term variable incentive system³ based on a long-term period of performance assessment (2019-2021), consistent with the objectives and duration of the Group's strategic plan. The bonus is recognised at the end of the performance evaluation period. The Board has also decided to use BPER ordinary shares for 100% of the long-term bonus.

³ For the target bonus, see the table at the beginning of page 8.

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, to which reference should be made.

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).

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.

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LTI 2019-2021 scorecard

KPIs	Weighting
Post Provisions Profit (PPP) in 2021 Target: 683 (€M)*	50%
Cost/Income ratio in 2021 Target: <59%*	25%
Gross NPE ratio in 2021 Target: <9%*	25%

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*Here are the objectives stated in the Business Plan: any changes to these objectives automatically constitute variations in the LTI Plan targets.

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.

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Multiplier/demultiplier

Positioning of the TSR of the BPER stock compared with a panel of competitors (Intesa Sanpaolo, Unicredit, UBI, Banco BPM, Credem, Popolare di Sondrio):

- in the case of 1st or 2nd position, the accrued bonus is increased by +15%;
- in the case of 3rd or 4th position, the accrued bonus does not change;
- in the case of 5th, 6th or 7th position the accrued bonus is reduced by -15%.

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Sustainability Corrective

Depending on whether three CSR (social and environmental sustainability) objectives⁴ are achieved or not, the bonus accrued up to this point can be further corrected:

- in the case of three out of three objectives achieved, the accrued bonus does not change;
- in the case of two out of two objectives achieved, the accrued bonus is reduced by -10%;
- otherwise, the accrued bonus is reduced by -15%.

⁴ 1) to acquire the Standard Ethics Rating at EE level, 2) to increase the share of female managers to 15%, from the current level of 8.5% 3) to hold classes in Financial Literacy in 1st and 2nd grade secondary schools (for a total of 3,300 classes and 66,000 people).

In line with what we have just said, payment of the CEO's bonus is structured as follows:

At the end of the three-year period, 45% is attributed at the bonus assignment date (up-front portion), but subject to retention period of one year. The other 55% is deferred in equal annual instalments over five years with a 1-year retention period. Bonuses are subject to ex-post correction, malus and claw back conditions, as for short-term incentive schemes.

The target number of shares promised at the beginning of the three-year period covered by the Plan is calculated based on the ratio of the amount of the target bonus in absolute terms to the BPER share price.

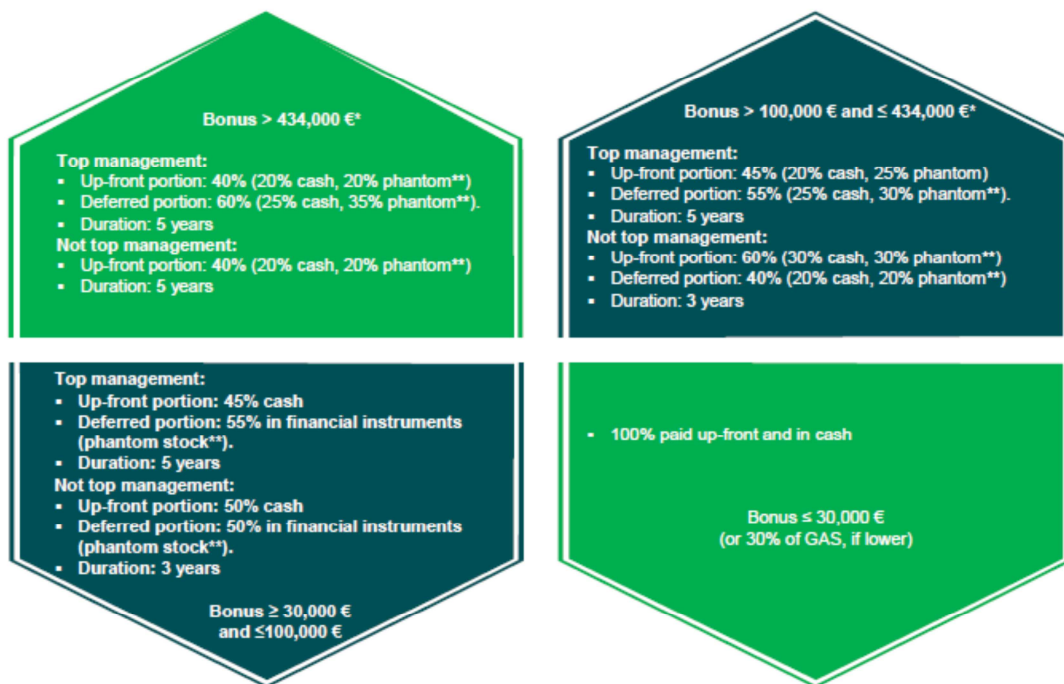
To access the Plan it is necessary, at the end of it, to have held - and still hold - a position within the scope defined by the Board of Directors of the Parent Company for at least 18 months. Any exceptions require a specific resolution of the Parent Company's Board of Directors. Bonuses allocated to beneficiaries who have held positions within the scope for only part of the period of the Plan are calculated proportionally on a time basis.

Key personnel

The MBO system is addressed to resources falling within the scope of key personnel, as described for the CEO. Some figures are also recipients of the long-term variable incentive system as described for the CEO with certain specificities (see para. 7.2 of the Remuneration Report). The maximum opportunity with reference to the annual MBO stands at 60% of fixed remuneration for the General Manager and 50% for the other key personnel, with the exception of resources belonging to control functions, for which a specific policy applies.

As regards the LTI target bonus, please refer to the table at the beginning of page 8.

The payment of accrued bonuses differs according on the amount of the bonus:



* Particularly high amount as defined by Bank of Italy Circular 285, 25th update

** Phantom stocks are subject to a one-year retention period.

There is no provision for granting discretionary bonuses and all incentives earned are subject to malus and clawback clauses. Change of control clauses are not currently foreseen for any Key personnel.

Control functions

The remuneration of those in charge of Control functions is composed of a fixed component supplemented by a specific function indemnity and a variable component which can be up to a maximum of 33% of the fixed component. Unlike what applies for key personnel, the payment of bonuses is subject only to the entry gates based on capital (CET1) and liquidity (LCR) ratios. Once the entry gates have been passed, the amount of the annual bonus is linked to role-related objectives, both quantitative and qualitative.

People in this category have applied to them the rules for deferment of the variable portion, use of financial instruments, the malus and clawback clauses defined for the other Key personnel, as well as the inability to pay discretionary bonuses.

Termination of employment of key personnel

If there are cases of termination of employment on the initiative and/or interest of the Group, in a unilateral or consensual form, additional compensation⁵ may be envisaged as a leaving indemnity or in the case of early retirement (for whatever reason) or paid for the settlement of a current or potential dispute, in order to avoid the risk of the court deciding against the Group.

The amount of such additional remuneration cannot exceed two years' fixed remuneration and will be subject to a maximum limit of € 1.7 million (gross per employee).

Any amounts paid for a non-competition agreement on early termination of employment or office are included in the sum that is subject to this limit.

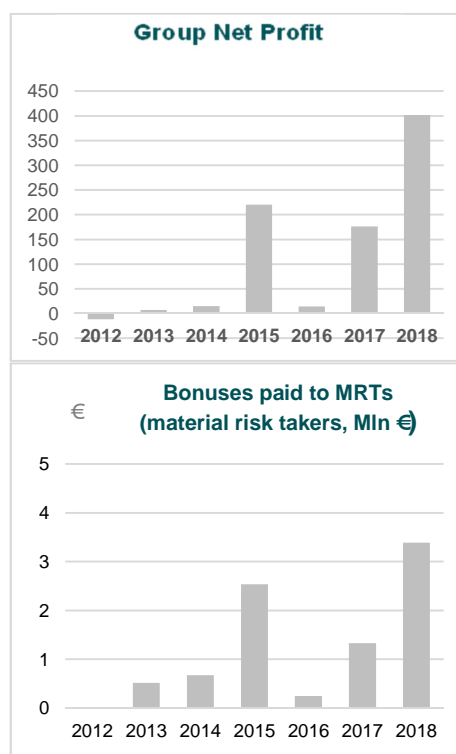
If a party to the agreement is a member of the control functions, the following predefined formula will apply to quantify any additional amounts of remuneration: 1 monthly payment for each year of service provided, up to a maximum of 1 year of fixed remuneration⁶.

Also for the heads of control functions, the overall limit on "additional amounts at the time of termination of employment" is the equivalent of two years' fixed remuneration.

Pay-for-Performance

The interest of the Group, and especially of all corporate functions and corporate bodies involved in the definition of remuneration policies, is to ensure a direct link between results and bonuses. In this direction, incentive schemes are designed to bring managerial behaviour into line with the creation of shareholder value over the long term.

Incentive systems implemented by the Group over the past few years have ensured an adequate correlation between the bonuses paid and the financial results, as shown in the tables on the side where the bonuses granted to key personnel in the last six years are compared with the results of the Group in terms of net profit.



⁵ Compared with what the contracts foresee by way of compensation in lieu of notice.

⁶ Without prejudice to the exemptions referred to in Circ. 285, part one, title IV, Chap. 2, Sec. III, 2.2.3 which are an alternative to the formula

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This document is a summary of the BPER Group's 2019 Remuneration and Incentive Policies. For further information, please refer to the 2019 Remuneration Report, which can be consulted on www.bper.it.

BPER Banca S.p.A., head office in Modena, via San Carlo, 8/20 - Tax Code and Modena Companies Register no. 01153230360 – Company belonging to the BPER BANCA GROUP VAT, VAT no. 03830780361 – Share capital Euro 1,443,925,305 - ABI Code 5387.6 - Register of Banks no. 4932 - Member of the Interbank Deposit Guarantee Fund and of the National Guarantee Fund - Parent Company of the BPER Banca S.p.A. Banking Group - Register of Banking Groups no. 5387.6 - Tel. 059.2021111 - Telefax 059.2022033 - Certified e-mail (PEC): bper@pec.gruppobper.it - bper.it – istituzionale.bper.it



