BPER: Gruppo

BPER: Banca

ANNUAL REPORT 2019.

The present document is the English translation of the Italian Financial Statements (consolidated and separate), prepared for and used in Italy, and have 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, since 7 August 1992
http://www.bper.it, https://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, VAT number and Modena Companies Register no. 01153230360
Modena Chamber of Commerce 222528 Share capital as at 31/12/2019 € 1,561,883,844.00
Member of the Interbank Deposit Protection Fund and of the National Guarantee Fund
Ordinary shares listed on the MTA market

Shareholders' Meeting

Modena, 22nd April 2020

Agenda

Ordinary part:

1) presentation of the draft financial statements for 2019 and related reports; presentation of the consolidated financial statements for 2019 and of related reports; related and consequent resolutions;
2) proposal of the Directors' remuneration for 2020; related and consequent resolutions;
3) 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;
4) remuneration:

   a) report on Remuneration Policy and Payments made, made up of:

      a1) 2020 Remuneration Policies of the BPER Group; related and consequent resolutions;

      a2) Compensation paid in 2019; related and consequent resolutions;

   b) proposal of the remuneration plan pursuant to art. 114-bis of Legislative Decree 58 dated 24 February 1998, implementing the remuneration policies for 2020 of BPER Banca Group; related and consequent resolutions;

   c) exception to the 1:1 limit of variable remuneration on fixed remuneration in favour of personnel belonging to Arca Fondi s.p.a. SGR, Asset Management Company of the BPER Banca Group; related and consequent resolutions.

Staordinary part:

1) proposal pursuant to art. 2443 of the Italian Civil Code to grant the Board of Directors the power to increase share capital for payment, on a divisible basis, on one or more occasions by 31 March 2021, by a total maximum of Euro 1,000,000,000.00, including any premium, by the issue of ordinary shares without nominal value to be offered under option to those entitled pursuant to art. 2441, para. 1, of the Italian Civil Code. Amendment of art. 5 of the Articles of Association. Related and consequent resolutions.

Contents

2019 FINANCIAL STATEMENTS

Directors and officers of the Parent Company at the date of approval of the financial statements

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
		Roberta Marracino
		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 (***)

(°) Paolo De Mitri, substitute Auditor appointed at the Shareholders' Meeting, replaced Giacomo Ramenghi on 8 May 2018 following his resignation from office (please refer to the press release issued on the same day). Mr. De Mitri was appointed to the same position for the rest of the three-year period 2018-2020 by the Shareholders' Meeting of 17 April 2019.
(°°) Cristina Calandra Buonaura, substitute Auditor appointed at the Shareholders' Meeting, replaced Antonio Mele on 22 November 2018 following his resignation from office (please refer to the press release issued on the same day). Ms. Calandra Buonaura was appointed to the same position for the rest of the three-year period 2018-2020 by the Shareholders' Meeting of 17 April 2019.
(***) Patrizia Tettamanzi and Veronica Tibiletti were elected as substitute Statutory Auditors by the Shareholders' Meeting of 17 April 2019.

General Management

General Manager:	Alessandro Vandelli
Deputy General Managers:	Stefano Rossetti (Vice) Eugenio Garavini Claudio Battistella Pierpio Cerfogli Gian Enrico Venturini

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.

Chairman's Message to the Shareholders' Meeting

In terms of change, which is a necessary part of all growth processes, 2019 was packed with important events. However those experienced in this first part of 2020 are no less significant, with the healthcare emergency - rapid spread of the Covid-19 - already having serious repercussions on economic systems throughout the world.
This event, unprecedented in recent history, is placing under great duress not only many of the consolidated certainties that underpin our economic and social order, but also the prospects for an entire growth model.
In such a delicate situation, the banking system is in the front line, playing its essential role as the drive chain of the real economy. Our Group too must face up to this emergency. Timely and efficient action is being taken, due to the commitment of all those who, with different roles and responsibilities, work within the company. I express my warmest thanks to all of them.
The objective of this choral response, which displays great skill, self denial and courage, is to guarantee the continuity of services at a difficult time, while also focusing on the health of employees and all those who, for various reasons, come into contact with activities carried out by the Bank.
Now we must face the additional challenges presented by a reality full of unknowns, certain nevertheless that we will succeed in this task. While progress continues with renewed commitment, it is also important to recall the achievements made during 2019.
In February 2019, the Banking Group announced several major extraordinary transactions to the market, which were implemented on time and in line with the commitments made.
The 2019-2021 Business Plan was presented at the same time of the year. Implementation is ongoing, with a series of actions designed to develop the business, increase operational efficiency and accelerate the de-risking process.
The two shareholders' meetings held in April and July confirmed the new legal form as a limited liability company (S.p.A.), while the core shareholder group was further defined and strengthened.
In short, the business took another step forward, combining the growth strategy and the improvement of asset quality with the maintenance of considerable financial strength.
In addressing the numerous commitments described, the BPER Banca Group was able to count on the contribution of a wide range of players. Above all, the 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 Group banks and companies.
Special recognition goes to the Chief Executive Officer and the General Management team as a whole. We express deep gratitude and regard for all those persons who retired from service during the year.
Sad thoughts remember Guido Leoni, who served the Bank for many years as General Manager, then Chief Executive Officer and Chairman, who finally left us at the end of 2019. He was a key protagonist in the assuring the growth of the Group, leveraging his considerable human and professional qualities and farsighted strategic vision.
Greetings go to the Governor and the Director of the Bank of Italy, to the managers of the Central Administration, as well as to the managers and staff of the relevant structures of the Supervisory Authority and, in particular, to the representatives of the ECB with whom we have had a useful and constructive debate. Also a thought for CONSOB and the Borsa Italiana which runs the Italian Stock Exchange.
Lastly, we would like to thank the firm of independent auditors and all its personnel, with whom we have had positive and effective dialogue that was respectful of the different roles and functions.

Now we must 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.

2019 CONSOLIDATED FINANCIAL STATEMENTS

Directors' Report on Group Operations

Content

1. The macroeconomic context

1.1. Background

The world economy showed numerous signs of weakness during 2019, stemming in particular from the global contraction in manufacturing activity and the marked reduction in international trade. Conditions were affected by the ongoing trade tensions between the United States and China that, for most of the year, fuelled the climate of general uncertainty, contributing to the slowdown in investment and the erosion of business and consumer confidence. Geographically, the principal difficulties have been experienced in China and the Eurozone, with the latter affected mostly by the profound crisis afflicting German industry. In order to tackle this global slowdown, the leading central banks - with the US Federal Reserve (Fed) at the forefront - took advantage of the official absence of inflationary pressures to radically change their economic policies, by returning to an overt accommodative approach. The global economic cycle only began to show timid signs of stabilisation during the final quarter of the year, when confidence was lifted by the partial trade agreement reached between China and the United States, as well as by a temporary reduction in the risk of a hard Brexit in Europe. Despite this dual impediment affecting both the developed and the emerging countries, the global economy closed 2019 with a highly satisfactory level of growth, albeit slower than in the prior year; in fact, based on the latest projections from the International Monetary Fund, world GDP climbed by 2.9% on an annual basis in 2019.

Our comments on the main macro areas are as follows:

With regard to the developed countries, the US economy grew well once again in 2019. The economic cycle maintained a reasonable rate of expansion, although there were various signs of a slowdown during the second half of the year. In particular, the growth rate eased during 2019 (according to the IMF, US GDP rose by 2.3% on an annual basis, compared with 2.9% in 2018) due, above all, to conditions in the manufacturing sector that - not immune to the global slowdown - started to contract after more than three years of growth. Private consumption held up well, essentially due to the apparent health of the jobs market, with steady hiring and headline unemployment firmly anchored at the lowest levels seen in the last fifty years (3.5% in December). Despite having reached the Fed target in recent months, the official inflation rate showed no signs of overheating. This enabled the US central bank to respond to the slowdown in global growth by cutting the cost of money, for the first time since the major 2008 crisis, on three separate occasions, in order to lower the range of Fed funds rate to 1.50-1.75%. On the trade front, the negotiations between China and the U.S.A. - following dangerous escalation during the summer, with the application of reciprocal sanctions by the two superpowers and the imposition by the US Administration of specific measures targeting the business of strategic Chinese companies (especially Huawei, the telecoms giant) - culminated in December with a so-called “Phase 1” deal: although partial, this deal lowered some of the tariffs burdening trade between Washington and Beijing and, above all, laid the foundations for a possible definitive solution to strife that has continued for almost two years.

Among the principal geographical areas, the Eurozone was the most affected by macroeconomic conditions over the past twelve months, although the data for the fourth quarter suggests modest stabilisation. The crisis was particularly acute in the manufacturing sector, which started to contract in February and never recovered. Services, on the other hand, were more buoyant due to the resilience of domestic demand and managed to continue expanding throughout the year, although at a much slower rate than in the recent past. Outside of Italy, the manufacturing sector struggled most in Germany, where activity deteriorated - before achieving a modest rise in the final quarter - to such an extent that the related PMI index dropped to the lowest level since June 2009. In order to tackle the economic slowdown (the IMF estimates that, on an annual basis, the Eurozone only grew by 1.2% in 2019), the European Central Bank (ECB) decided to launch new expansionary measures: it lowered the rate on deposits made by banks with the ECB, confirmed that rates will remain at current or lower rates until official inflation converges with the target rate in a stable manner and, above all, decided to reopen the bond-buying programme (Quantitative Easing) at a rate of Euro 20 billion per month. This initiative taken by the European Central Bank, now led for the first time by a woman, Christine Lagarde from France, was not only necessary in order to support the European economy, but also to stimulate an upturn in the official rate of inflation that, aside from an initial spike, remained only just above 1% on an annual basis during 2019, which was far below the ECB target. There was important news on the Brexit front: at midnight on 31 January 2020, the United Kingdom ceased to be an official member state of the European Union. The transition period began from that moment and, unless extended, will terminate by the end of 2020.

The Italian economy grew somewhat slower than the average for the Eurozone in 2019, largely due to the effects of the contraction in the manufacturing sector. This economic weakness was reflected in the official inflation data that, before the weak recovery seen at year end (0.5% on an annual basis in December), touched the lowest levels since 2016. In addition to the global slowdown, the macroeconomic picture was affected by a decline in business and consumer confidence driven by the domestic political situation that - always clouded by uncertainty - resulted in a change in the governing coalition towards the end of the summer.

Lastly, the global slowdown did not spare the emerging countries either, so much so that - based on the latest IMF estimates - their average 2019 GDP growth was 3.7% on an annual basis, compared with 4.5% in 2018. This check on growth reflected in the global economic slowdown (and, more specifically, in the heightening of protectionist policies and the consequent contraction of international trade) was only partially offset by the expansionary monetary policies put in place, not only by leading central banks in developed countries, but also by their equivalents in the emerging countries. In particular, the monetary authorities in Brazil, India, Russia, and Mexico, to mention just a few of the more significant economies, took action during 2019 to lower the cost of money significantly. In China, which receives special attention as emerging country due to the importance of its economy, the weakness of domestic demand and the wearing trade war with the United States caused 2019 GDP growth to ease to 6.1% on an annual basis, which was the slowest rate in the past 30 years. Only the fiscal and monetary measures put in place from the start of the year by the Chinese authorities prevented a much more rapid economic slowdown. Turning to examine the individual geographical areas in more detail, the effects of the escalating trade differences between China and the United States were not confined to Beijing, of course, but also impacted on the economies of other major macro regions; among these, India was undoubtedly one of the most affected, with a collapse in 2019 GDP growth - based on IMF analysis - by a full two percentage points compared with the prior year. In Latin America, on the other hand, economic and political stability problems have spread steadily from Venezuela to other countries on the continent, including Argentina, where former president Mauricio Macri was forced - with agreement from the IMF - to restructure the foreign debt of the country once again.

(Value %)

	GDP			Inflation (annual average)			Unemployment (annual average)		
	2018	2019e	2020f	2018	2019e	2020f	2018	2019e	2020f
U.S.A.	2.9	2.3	2.0	2.4	1.8	2.3	3.9	3.7	3.5
Japan	0.3	1.0	0.7	1.0	1.0	1.3	2.4	2.4	2.4
European Monetary Union	1.9	1.2	1.3	1.8	1.2	1.4	8.2	7.7	7.5
Italy	0.8	0.2	0.5	1.2	0.7	1.0	10.6	10.3	10.3
Germany	1.5	0.5	1.1	1.9	1.5	1.7	3.4	3.2	3.3
France	1.7	1.3	1.3	2.1	1.2	1.3	9.1	8.6	8.4
Spain	2.4	2.0	1.6	1.7	0.7	1.0	15.3	13.9	13.2
UK	1.3	1.3	1.4	2.5	1.8	1.9	4.1	3.8	3.8
China	6.6	6.1	6.0	2.1	2.3	2.4	3.8	3.8	3.8
India	6.8	4.8	5.8	3.4	3.4	4.1	n.a	n.a	n.a.

Key:
e: estimate
f: forecast

Source: IMF (World Economic Outlook - October 19 and January '20)

The 2020 growth forecasts presented in the above table are very likely to need revision as a consequence of the "coronavirus" pandemic that, from China, is spreading throughout the rest of the world. The initial repercussions were felt in Asia, due to the lengthy suspension of productive activity in China and the resulting decline in household consumption; given the latest developments with regard to COVID-19, the effects will certainly also be felt on the other continents.

1.2 Public-sector finance

The planning scenario discussed below was developed by the Italian Government in the 2020 Budget Document presented by Roberto Gualtieri, Minister of the Economy and Finance, to the EU Commission in October 2019; accordingly, it does not consider the consequences - which cannot be estimated reliably even now - of the events that have taken place from January 2020 due to the global spread of COVID-19.
The planning document expects real Italian GDP to grow by 0.6% in 2020 and 1.0% in 2021, reflecting a recovery from 0.1% in 2019. The 2022 growth rate is expected to remain in line with that for next year, being 1.0% on an annual basis.
The debt/GDP ratio is expected to have climbed to 135.7% by the end of 2019, mainly due to the low rate of economic growth and the delayed effects of the wide sovereign debt spread in 2018 and the early quarters of last year. This ratio is forecast to decline to 135.2% in 2020 (partly due to the collection in 2020 of most of the proceeds from property sales), with further reductions to 133.4% in 2021 and 131.4% in 2022.
The action planned in the 2020 Finance Law reflects the objective to contain the net deficit to 2.2% of GDP, as estimated for 2019. In the following two years, the deficit is expected to fall to 1.8% of GDP in 2021 and 1.4% in 2022. The forecast reduction benefits from the permanent effects of the structural measures to be introduced in the 2020 budget manoeuvre.
After falling to 1.1% of GDP in the current year, the primary surplus is expected to improve to 1.3% in 2021 and 1.6% in 2022.

Public-sector finance balance *(% of GDP)*	2019e	2020f	2021f
Net borrowing	2.2	1.8	1.4
Borrowing	135,7	135,2	133,4

Key:
e = estimate
f = forecast

Source: "2020 Budgetary Planning Document" presented in October 2019 by Roberto Gualtieri, Minister of the Economic and Finance

1.3 The financial market and interest rates

The financial markets performed well in 2019, with a broad willingness to accept risk that enabled almost all the principal financial assets to generate very positive returns. Investor confidence was boosted, above all, by the actions of the leading central banks, which changed their monetary policy orientation in order to adopt expansionary measures. After raising rates four times during 2018, the Federal Reserve first moved to a neutral approach, before progressively adopting overtly expansionary guidance by cutting the cost of money on three separate occasions. As with the Federal Reserve, the ECB adopted various measures in the Eurozone, including a further cut in deposit rates and the restart of Quantitative Easing, in the form of its bond-buying programme. This change in attitude by the central banks reflects their reaction to two major factors: an evident global economic slowdown, especially in the manufacturing sector and, geographically, in Europe, and lower expectations for medium-term inflation on both sides of the Atlantic. In addition to this new stimulus from the central banks, the financial markets were also supported by the partial attenuation of two important political risks: on the trade front, negotiations between China and the U.S.A. – after a number of difficult months – culminated in the achievement of an initial, partial agreement; similarly, the United Kingdom signed an outline agreement with Brussels that should enable Prime Minister Boris Johnson to achieve an orderly Brexit from the EU.

In terms of performance, all principal stockmarkets made excellent progress during 2019, with total annual results that were the best this millennium. The indices climbed most during the last four months, due to the new injections of liquidity promised by the central banks and positive developments on the trade front between Washington and Beijing. The MSCI AC World Index, which measures the progress of global markets, was more than 24% higher, led in particular by two major US indices, the S&P500 and Nasdaq, the technology index, that – setting new historical highs – closed the year up by 28.9% and 35.2% respectively. The leading European stockmarkets were slightly less ebullient, but nevertheless closed 2019 with double-digit increases; EuroStoxx 600, the index for the largest European shares, was 23.2% higher due, in part, to the excellent performance of the Italian market that, given the scaled-back political risk resulting from lower tensions between Rome and Brussels, progressed by 28.3%. The Japanese Topix exchange rose (+15.2%), albeit held back once again by very weak growth there, while the Hong Kong exchange (+9.1%) was penalised by the continuation of anti-government protests there. Lastly, the overall index for emerging markets (MSCI Emerging Markets) was up by 15.4% over the year; among the principal markets in emerging countries, those in Russia (+28.6%) and Brazil (+31.6%) outperformed in the wake of repeated rate cuts by their respective central banks.
The bond markets also performed well, although government bonds sold off strongly towards the end of the year: yields in the developed countries in fact rose from the period minimums recorded at the end of the summer for a variety of reasons: early, timid signs of stabilisation in the global economic cycle and

dual clarification on the political front regarding both Brexit and trade relations between China and the U.S.A. The net annual change, reflecting above all the more expansionary approach adopted by the central banks, was positive: government securities generated good results overall, not only with regard to the so-called core bonds (principally German bunds and US treasuries), but also – and above all – to the bonds of peripheral Euro countries that, historically, have benefited most from monetary easing. Italian government bonds did particularly well, with yields that fell - partly because of a marked reduction in the "country risk" perceived internationally - in all sections of the curve: the gross yield to maturity of 2-year BTPs fell below zero once again, declining from 0.47% at the start of the year to -0.05%, while the ten-year yield actually dropped from 2.74% to 1.41%. The spread markets performed even better than government securities: the marked propensity to accept risk throughout most of last year, and the constant search for yield by investors, benefited both corporate bonds - especially high-yield issues from companies with lower ratings - and the government bonds issued by developing countries. The last mentioned also benefited from the highly expansionary monetary policies adopted around the world.
On the currency front, the Euro essentially reflected the weakness of the Eurozone economy, depreciating - despite a partial recovery during the final quarter - against both the US dollar (-2.3%) and the Japanese yen (-3.3%). Among the principal currencies, the British pound appreciated most against the single currency, climbing by more than 6% due, above all, to the reduced risk of a hard Brexit. With regard to emerging country currencies, the most significant positive change during 2019 was achieved by the Russian rouble, which closed the year up 15% against the Euro due, for the most part, to the upward trend in oil prices. Once again, the greatest falls were experienced by the Argentine peso and the Turkish lira that - given the deteriorating political and financial conditions there - continued the process of depreciation that has been ongoing for several years, dropping by 35.7% and 9.1% respectively.
Lastly with regard to commodities, the general CRB index closed up by more than 9% in 2019, led in particular by the performance of oil (Brent +22.7%) and gold (+18.3%). Although the renewed geopolitical tensions between Iran and the U.S.A. undoubtedly benefit both commodities, crude was also supported by the new production cuts, decided by Opec and its allies (led by Russia) with a view to supporting the price and avoiding an excess of supply at global level. Gold, on the other hand, benefited from the further reduction in bond rates around the world, which has significantly reduced, if not eliminated, the opportunity cost that investors must implicitly accept when holding the yellow metal.

1.4 The banking system and domestic interest rates

In a context of low (or negative) rates due, in part, to the accommodative monetary policy of the ECB (made possible by the absence of evident inflationary pressures), European banks struggle to achieve pre-crisis levels of profitability. Squeezed interest margins, profitability pressures caused by challenger banks, technology giants and every more stringent regulations have all contributed to creating this challenging and complex environment. Undoubted progress has been made in recent years: both in terms of financial solidity and reduction in non-performing loans. The road to achieving greater efficiency remains long however, involving the adoption of a different business model - multi-channel, with a broad range of services - and the reduction of excessive fragmentation, as well as cost reductions and the rationalisation of branches; in the first place, though, to support the banking system as a whole, the Italian economy has to resume a path of solid recovery, which it has abandoned for too long.

Deposits

According to the initial SI-ABI estimates made in December 2019, the funding from bank customers in Italy, comprising deposits from residents and bonds (net of those repurchased by banks), was 4.8% higher than in the previous year. In particular, bank funding from residents totals Euro 1,815 billion (+4.8% on an annual basis), which is comparable to the pre-crisis level of Euro 1,549 billion back in 2008. Deposits amount to Euro 1,572 billion (+5.6% on an annual basis) at the end of December 2019. Bond total about Euro 243 billion (unchanged over the year).

The average rate paid on customer funds (comprising the yield on Euro deposits, bonds and repurchase agreements recognised to households and non-financial companies) was 0.58% in December 2019. More specifically:

- the rate on Euro deposits recognised to households and non-financial companies was 0.37%;
- the yield on bonds was 2.15%;
- the rate on repurchase agreements was 1.40%.

Loans

Lending to Italian residents (private sector plus Public Administrations, net of repurchase agreements with central counterparties) totals Euro 1,681 billion at the end of December 2019. By comparison, these loans amounted to Euro 1,673 billion at the end of 2007 – before the start of the crisis – and Euro 1,720 billion in December 2018. Lending to Italian residents in the private sector amounts to Euro 1,416 billion at the end of December 2019 (Euro 1,455 billion in December 2018), of which: Euro 1,274 billion to households and non-financial companies.

The dynamics of lending continue to be adversely influenced by investment trends and the modest strength of the economic cycle. In particular, setting the real value of gross fixed investment in the first quarter of 2008 at 100, the index in the third quarter of 2019 was 81.7. Additionally, the trials and tribulations of domestic politics, with all the related uncertainty caused, tend to dampen investment by businesses and households.

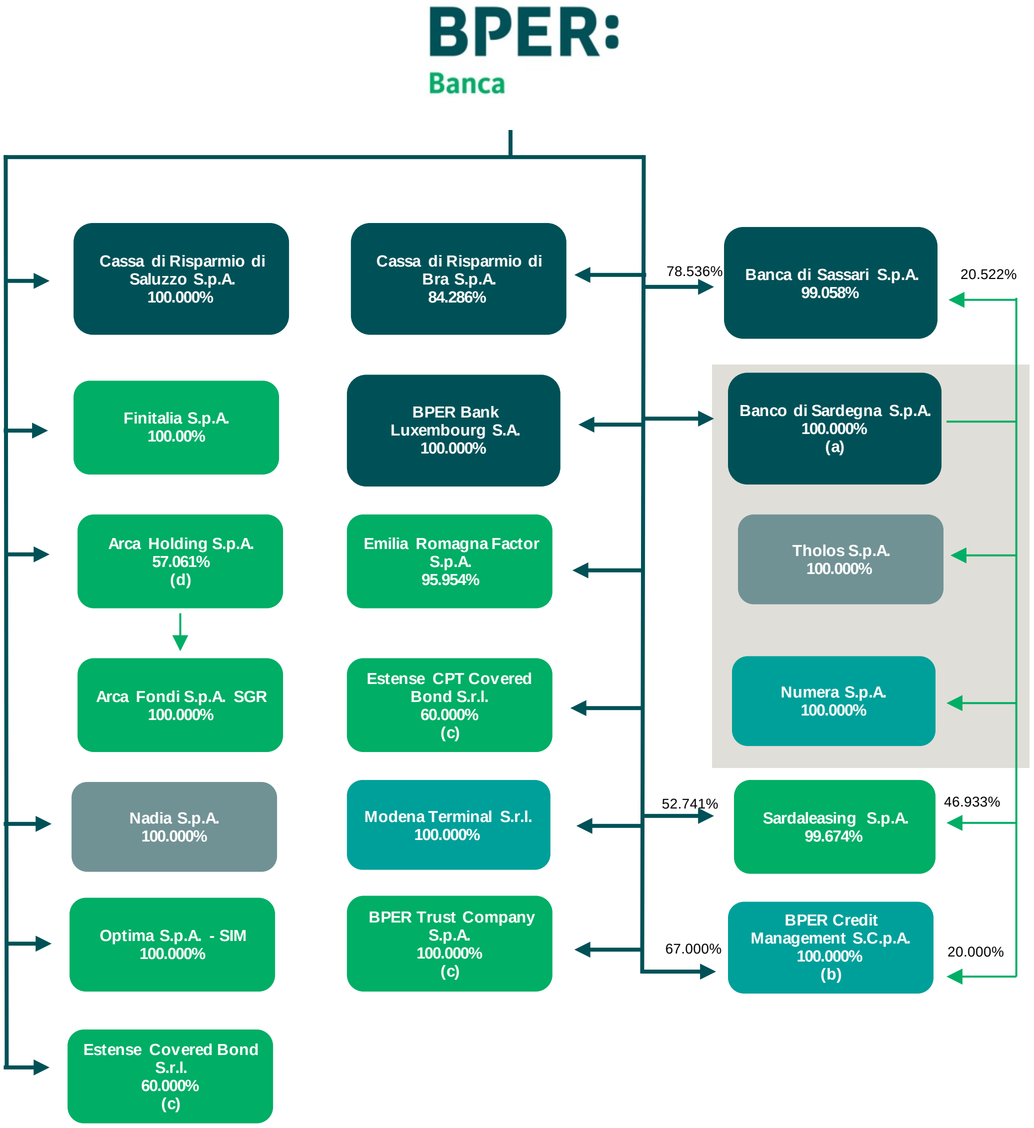
The credit quality of Italian banks continues to improve. Bad loans, net of the write-downs and provisions already made by banks using their own resources, totalled Euro 29.6 billion in November 2019, down from Euro 38.3 billion just one year earlier. The net bad loans/total lending ratio has fallen to 1.70% (from 2.22% in November 2018). This is the lowest level since July 2010.

ABI reports that the rate on Euro loans to households for home purchase purposes - average of fixed and floating rates - is 1.47% at the end of December 2019 (5.72% at the end of 2007, 1.89% in December 2018). Over 84% of new mortgage loans are arranged at a fixed rate. The average rate on new Euro loans to non-financial companies has fallen to 1.27% (1.47% in December 2018; 5.48% at the end of 2007). Lastly, the weighted average interest rate on all lending to households and non-financial companies is 2.48% at the end of December 2019 (2.55% in December 2018, 6.16% at the end of 2007).

With regard to the banks, the spread in December 2019 between the average rate on loans and the average rate on funding from households and non-financial companies was 190 basis points; prior to the start of the financial crisis, that spread exceeded 300 points.

2. Key figures

2.1 BPER Banca Group structure as at 31 December 2019



a) Equivalent to 98.677% of the entire Share Capital consisting of ordinary, preference and savings shares, the latter being non voting shares.

b) The following Companies are also shareholders of BPER Credit Management S.C.p.A.:
- Sardaleasing S.p.A. (6.000%);
- Banca di Sassari S.p.A. (3.000%);
- Cassa di Risparmio di Bra S.p.A. (2.000%);
- Emilia Romagna Factor S.p.A. (1.000%);
- Cassa di Risparmio di Saluzzo 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.

In addition to the above members of the banking group, 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. (51%);

2.2 Summary of results

The following strategic transactions took place during 2019:

- the acquisition of Unipol Banca, subsequently absorbed by the Parent Company, with sale at the same time of a portfolio of bad loans with a gross value of about Euro 1 billion to UnipolReC;
- the purchase of minority holdings in Banco di Sardegna, raising the equity interest owned from 50.940% to 98.677%;
- the purchase of another stake in Arca Holding, reaching 57.1% of its share capital.

As a result of the above transactions, Unipol Banca (together with its subsidiary Finitalia) and Arca Holding (together with its subsidiary Arca Fondi SGR) fell within the scope of consolidation of the BPER Banca Group from 1 July 2019.

In addition to the absorption of Unipol Banca, during the final quarter of 2019 the BPER Banca Group also signed an agreement with the Trade Unions on the reduction in employment envisaged in the 2019-2021 Business Plan; this agreement seeks to optimise employment levels and facilitate generational change.

Net profit for 2019 was Euro 379.6 million. The results for the year were adversely affected by significant non-recurring items, including:

- charges linked to the above-mentioned employment agreement totalling Euro 136.0 million (gross of tax effect), which were incurred in order to reach the Group employment targets established in the 2019-2021 Business Plan;
- higher loan provisions, up by over Euro 222.6 million on the previous year, in line with the expected acceleration of the de-risking process;
- the impairment of property, plant and equipment, intangible assets and equity investments totalling Euro 41.8 million;
- costs associated with executing the strategic transactions that took place in 2019, amounting to Euro 22.2 million;
- the full write-down of the contribution to IDPF-VS for action in support of the banking system (Banca Carige) totalling Euro 13.3 million.

These items were substantially offset by the badwill generated by the acquisition of Unipol Banca of Euro 343.4 million accounted for on completion of the Purchase Price Allocation.
The profit for 2019 is not directly comparable with the result for last year of Euro 402.0 million, which also included non-recurring gains on debt securities.

Asset quality continues to improve, with a decline in the gross NPE ratio to 11.1%, compared with 13.8% at the end of 2018, and a default rate down to 1.7% compared with 1.9% in 2018. In line with the plans for acceleration of the de-risking process, the BPER Banca Group has started work on a new bad loan securitisation, which is expected to be completed by the end of the first half of 2020, the aim being to reach the target gross NPE ratio of less than 9% laid down in the Business Plan for 2021 a year ahead of schedule.

The Group's financial solidity has been confirmed for 2019, also following completion of the extraordinary transactions, with a Fully Phased CET1 ratio of 12.01%, up by 6 bps compared with 11.95% at the end of 2018. Phased-In CET1 ratio stands at 13.91% at 31 December 2019, well above the SREP requirement set by the ECB at 9.0% for 2019.

Operating income is Euro 2,275.7 million, up 9.34% compared with 2018 (Euro 2,081.3 million). In particular:

- net interest income comes to Euro 1,164.5 million, up 3.75% on the comparative figure (Euro 1,122.4 million at 31 December 2018); the positive effect generated, for the most part, by the business combinations described above was partly offset by the lower contribution, Euro 34.6 million, representing the time value of non-performing loans, from the disposal of bad loans in 2019;
- net commission income amounted to Euro 932.0 million, following an increase of 20.06% compared with 2018 that was also due, in part, to the above business combinations. Bancassurance performed well (+40.33%), as did the components linked to loans and guarantees (+9.91%) and cards, collections and payments (+7.66%);
- net income from financial activities (not including dividends of Euro 14.1 million) amounted to Euro 114.0 million (Euro 104.0 million at 31 December 2018). The increase with respect to the prior year was due to the greater net gains on securities and derivatives and other positive elements, which more than offset the lower contribution made from the sale of securities and loans in the market.

Operating costs totalled Euro 1,686.6 million, up by 21.96% compared with 2018. In particular:

- staff costs, Euro 1,049.7 million, were higher than in the comparative period (+27.78%); these include non-recurring charges relating to the personnel retirement plan of Euro 136.0 million;
- other administrative expenses amounted to Euro 451.8 million, up by 2.12% compared with the prior year, and included costs associated with the business combinations completed in 2019 totalling Euro 22.2 million;
- net adjustments to property, plant and equipment and intangible assets totalled Euro 185.1 million, up by 55.61% with respect to 2018 due, in part, to the first-time depreciation of right of use assets in accordance with IFRS 16; the total includes impairment adjustments of Euro 33.4 million.

Net impairment losses for credit risk amounted to Euro 449.3 million (Euro 226.7 million at 31 December 2018), almost entirely referable to financial assets at amortised cost. The above amount includes provisions for loans and advances recorded with a view to accelerating the de-risking process, via a significant new securitisation of bad loans to be completed within 2020. The cost of lending at 31 December 2019, calculated solely with reference to the loans to customers, was 86 b.p. following an increase from 47 b.p. in 2018.

In the balance sheet:

- loans to customers measured at amortised cost come to a total of Euro 52,006.0 million (+10.53% compared with 31 December 2018), also due to the business combinations carried out in the second half of the year;
- direct deposits (Euro 58,055.6 million) increased by 16.12% compared with 31 December 2018, mainly due to the contribution of Unipol Banca. The loans/deposits ratio was 89.58% (94.11% at 31 December 2018);
- indirect deposits of Euro 110,623.4 million increased on 31 December 2018 (+205.11%) due to significant contributions by Unipol Banca and Arca Fondi SGR.

The capital ratios, calculated taking into account the internal model (AIRB) methodology for the credit risk requirements and with reference to the value of Own Funds, including the share of profit realised during the year, net of the likely dividend to be declared by the Parent Company BPER Banca, are as follows:

- Common Equity Tier 1 ratio (Phased In) of 13.91% (13.10% at 30 September 2019, 14.33% at 30 June 2019, 14.24% at 31 March 2019 and 14.27% at 31 December 2018). The ratio calculated on a Fully Phased basis is equal to 12.01% (11.28% at 30 September 2019, 12.33% at 30 June 2019, 12.24% at 31 March 2019 and 11.95% at 31 December 2018);
- phased in Tier 1 ratio of 14.35% (13.55% at 30 September 2019, 14.42% at 30 June 2019, 14.32% at 31 March 2019 and 14.37% at 31 December 2018);
- Total Capital ratio (Phased In) of 16.82% (16.12% at 30 September 2019, 17.32% at 30 June 2019, 17.23% at 31 March 2019 and 17.25% at 31 December 2018).

Leverage ratios:

- transitional arrangements (Phased In) of 6.1% (5.6% at 30 September 2019, 6.1% at 30 June 2019, 6.0% at 31 March 2019 and 6.0% at 31 December 2018);
- under full application (Fully phased) is equal to 5.3% (4.8% at 30 September 2019, 5.3% at 30 June 2019, 5.2% at 31 March 2019 and 5.0% at 31 December 2018).

Liquidity levels are higher than the required minimums:

- Liquidity Coverage Ratio (LCR) of 158.9% (163.9% at 30 September 2019, 174.5% at 30 June 2019, 156.5% at 31 March 2019 and 154.3% at 31 December 2018);
- Net Stable Funding Ratio (NSFR) of 114.0% (117.4% at 30 September 2019, 112.6% at 30 June 2019, 109.1% at 31 March 2019 and 106.8% at 31 December 2018).

2.3 Performance ratios[1]

Financial ratios	31.12.2019	2018 (*)
Structural ratios		
Net loans to customers/total assets	65.80%	66.61%
Net loans to customers/direct deposits from customers	89.58%	94.11%
Financial assets/total assets	23.99%	24.28%
Fixed assets[2]/total assets	2.02%	2.14%
Goodwill/total assets	0.55%	0.37%
Direct deposits/total assets	88.91%	89.36%
Indirect deposits under management/indirect deposits	37.71%	53.32%
Financial assets/tangible equity[3]	4.10	3.85
Total tangible assets[4]/tangible equity	16.96	15.77
Net interbank position (in thousands of Euro)	(9,891,324)	(11,585,739)
Number of employees[5]	13,805	11,615
Number of national bank branches	1,349	1,218
Profitability ratios		
ROE[6]	8.66%	9.06%
ROTE[7]	9.92%	10.15%
ROA[8]	0.50%	0.63%
Cost to income ratio[9]	74.11%	66.44%
Net impairment losses on loans to customers/net loans to customers	0.86%	0.47%
Basic EPS[10]	0.766	0.836
Diluted EPS[11]	0.743	0.836

(*) The comparative ratios have been calculated on figures at 31 December 2018 as per the Consolidated Financial Statements as at 31 December 2018, without considering the effects of applying IFRS 16.

[1] 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 6 of this report "The BPER Banca Group's results of operations".

[2] Fixed assets include both equity investments and property, plant and equipment. The ratio would be at 1.64% without considering the application of IFRS 16. The other ratios represented in this section are not influenced by the application of IFRS 16.

[3] Tangible equity: total shareholders' equity, including minority interests, net of intangible assets.

[4] Total tangible assets = total assets net of intangible assets.

[5] The number of employees (point figure) does not include expectations.

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

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

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

[9] 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 76.80%. If we do not consider non-recurring expenses relating to the personnel retirement plan, the cost to income ratio would be at 70.68% at 31 December 2019 (69.52% at 31 December 2018 as per the Consolidated Financial Statements 31 December 2018).

[10] EPS has been calculated net of treasury shares in portfolio.

[11] See previous note.

(cont.)

Financial ratios	31.12.2019	2018 (*)
Risk ratios		
Net non-performing loans/net loans to customers	5.77%	6.81%
Net bad loans/net loans to customers	2.25%	3.08%
Net unlikely to pay loans/net loans to customers	3.19%	3.60%
Net past due loans/net loans to customers	0.32%	0.13%
Impairment provisions for non-performing loans/gross non-performing loans	51.03%	54.52%
Impairment provisions for bad loans/gross bad loans	66.04%	66.62%
Impairment provisions for unlikely to pay loans/gross unlikely to pay loans	33.01%	35.73%
Impairment provisions for past due loans/gross past due loans	14.57%	12.33%
Impairment provisions for performing loans/gross performing loans	0.33%	0.37%
Texas ratio[12]	79.04%	84.97%
Own Funds (Phased in) (in thousands of Euro)[13]		
Common Equity Tier 1 (CET1)	4,828,807	4,367,711
Own Funds	5,839,914	5,278,852
Risk-weighted assets (RWA)	34,721,277	30,606,171
Capital and liquidity ratios		
Common Equity Tier 1 Ratio (CET1 Ratio) - Phased in	13.91%	14.27%
Tier 1 Ratio (T1 Ratio) - Phased in	14.35%	14.37%
Total Capital Ratio (TC Ratio) - Phased in	16.82%	17.25%
Common Equity Tier 1 Ratio (CET1 Ratio) - Fully Phased	12.01%	11.95%
Leverage Ratio - Phased in[14]	6.1%	6.0%
Leverage Ratio - Fully Phased[15]	5.3%	5.0%
Liquidity Coverage Ratio (LCR)	158.9%	154.3%
Net Stable Funding Ratio (NSFR)	114.0%	106.8%

Non-financial ratios	31.12.2019	2018 (*)
Productivity ratios (in thousands of Euro)		
Direct deposits per employee	4,205.40	4,304.47
Loans to customers per employee	3,767.19	4,050.88
Assets managed per employee	3,021.68	1,664.31
Assets administered per employee	4,991.60	1,457.29
Core revenues[16] per employee	151.86	163.47
Net interest and other banking income per employee	161.14	175.38
Operating costs per employee	123.75	121.93

(*) The comparative ratios have been calculated on figures at 31 December 2018 as per the Consolidated Financial Statements as at 31 December 2018, without considering the effects of applying IFRS 16.

[12] *The texas ratio is calculated as total gross non-performing loans on net tangible equity increased by impairment provisions for non-performing loans.*
[13] *Items have been calculated according to the provisions of Regulation (EU) 575/2013 (CRR), as amended by the Commission Delegated Regulation (EU) 2395/2017.*
[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.*
[16] *Core revenues = net interest income + net commission income.*

3. Significant events and strategic transactions

3.1 BEST WAY - The 2019-2021 Business Plan of the BPER Banca Group

On 27 February 2019, the BPER Banca Group approved and presented to the market the new "Business Plan 19/21 – BEST WAY".
This Plan builds on the significant benefits deriving from the extraordinary corporate transactions carried out at the end of July 2019, including the purchase of Unipol Banca (and, therefore, indirectly, of Finitalia) and the minority interests in Banco di Sardegna, the disposal of a portfolio of bad loans for about Euro 1 billion and the increase in the equity investment in Arca Holding (and therefore, indirectly, in Arca Fondi SGR).
The Plan is divided into three pillars:

1. Growth and development of the business with a particular focus on Bancassurance, Wealth Management and Business Global Advisory, as well as Consumer Credit;
2. Acceleration of de-risking and further capital strengthening;
3. Strong increase in operational efficiency and organisational simplification.

Growth and development of the business

During 2019, the extraordinary corporate transactions indicated above allowed the BPER Banca Group to accelerate strongly in achieving the growth targets set by the Plan.
In addition to these non-recurring effects, the Plan provides for organic growth, characterised by a strong focus on customers' more sophisticated needs, mainly relating to high value-added products and services.
In particular, the Plan provides for:

- acceleration of the growth and development of the customer base, helped by the extraordinary transactions with the acquisition of approximately 500,000 new customers and expansion in high-potential areas not previously served by BPER Banca;
- the focus on more sophisticated customer needs through high value-added products and services mainly by strengthening the Bancassurance partnership with Arca Vita and Arca Assicurazioni and further development of the Wealth Management sector with Arca Fondi SGR, as well as through enhancement of the Luxembourg SICAV, taking a multimanager approach, and the development and specialisation of the distribution model by fostering former Unipol Banca's network of financial advisors.

Acceleration of de-risking, confirming maximum capital solidity

The de-risking process, already undertaken by the Group in recent years, is expected to be further strengthened thanks to the introduction of new credit management processes, with particular focus on the continuation of activities aimed at reducing non-performing loans. In addition to the evolution of the credit management process, both in the underwriting phase and in the proactive management of ordinary loans with the first signs of anomalies (partly through the early use of forbearance) and the recovery of non-performing loans (improved efficiency of the work-out and outsourcing process), the objective of reducing the non-performing portfolio is also expected to be achieved through further sales of NPEs, in addition to the sale of bad loans to UnipolReC totalling approximately Euro 1 billion carried out on 1 August 2019.
As confirmation, the Board of Directors of BPER Banca has approved the Group's NPE Strategy for 2019-2021 (NPE target ratio of less than 9% by 2021), which takes into consideration the qualitative recommendations of the ECB contained in SREP Decision 2018, described in the section below.

Consistent with this update, the BPER Banca Group has started work on a new bad loan securitisation (assisted by GACS), which is expected to be completed by the end of the first half of 2020, with the aim of reaching the target NPE ratio, of less than 9% laid down the Business Plan for 2021, one year ahead of schedule.

Effective operations and simplified organisation

The Plan focuses strongly on cost containment, to be achieved through rationalisation and simplification of the distribution model, corporate structure and internal processes, as well as by optimising the size of the workforce and reducing organisational complexity. Lastly, further cost synergies are envisaged by creating a centre to specialise in the real estate sector ("Active Real Estate Management"). This will take place through:

- evolution of the distribution model, reorganising the territorial footprint and introducing new branch formats;
- the rationalisation and simplification of the Group's corporate structure, with the absorption by BPER Banca of BPER Services (carried out on 10 June 2019) and Unipol Banca (carried out on 25 November 2019), as well as Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo (during the Plan period), the creation of a full range of product companies and the strengthening of the consumer credit company;
- the optimisation of operations and the continuous IT evolution with the aim of increasing process productivity through the dematerialisation and creation of control and governance tools, the activation of robotics systems and artificial intelligence, BPER Banca's internalisation of the IT systems used by Unipol Banca, extension of the use of cloud technologies to promote commercial effectiveness and operational efficiency;
- staff reduction of 1,300 resources by 2021.

3.2 Growth and development of the business

Extraordinary corporate transactions

- *Acquisition of control of Arca Holding (and, indirectly, of Arca Fondi SGR)*

On 22 July 2019 BPER Banca completed the acquisition of part of the 39.99% interest in the share capital of Arca Holding s.p.a. made available by the government-appointed commission of Banca Popolare di Vicenza s.p.a. in LCA (Compulsory Administrative Liquidation) and Veneto Banca s.p.a. in LCA. As a consequence, a 24.31% interest was acquired. The remainder of the shares was purchased by Banca Popolare di Sondrio, with which BPER Banca has signed a shareholders' agreement covering the reciprocal relations of the two banks in such areas as corporate governance and the transfer of shares. Following the above transaction, BPER Banca owns 57.06% of Arca Holding (which wholly owns Arca Fondi SGR) and has therefore added that company and its subsidiary to the BPER Banca Group.
The objectives pursued by BPER Banca on acquiring control of Arca Holding and, indirectly, Arca Fondi SGR include:

- promoting Arca Fondi SGR as a leader in asset management, with the strengthening of relations with distributors and expansion of the network in order to facilitate growth in the value of assets under management;
- facilitating greater participation by the minority shareholders and, where appropriate, allowing the entry of new shareholders in order to expand the distribution network and/or enhance the business profile of the company;

- strengthening the strategic positioning of the BPER Banca Group in the asset management sector.

- *Acquisition and merger of Unipol Banca (and, indirectly, of Finitalia)*

On 31 July 2019, BPER Banca acquired from Unipol Gruppo s.p.a. and UnipolSai Assicurazioni s.p.a. respectively 85.24% and 14.76% of the share capital of Unipol Banca s.p.a., which was than wholly owned.
More specifically, Unipol Gruppo sold 764,955,603 ordinary shares to BPER Banca for Euro 187,534,209, while UnipolSai sold 132,428,578 ordinary shares to BPER Banca for Euro 32,465,791. As a result, BPER Banca acquired 100% of the share capital for a total price of Euro 220,000,000.
Unipol Banca wholly owned the share capital of Finitalia, a company specialised in consumer credit. With the acquisition of Unipol Banca, Finitalia was indirectly controlled by BPER Banca Group.
In addition to increasing the scale of loans and deposits and developing the customer portfolio, the objectives of this operation also include further consolidation by the BPER Banca Group of its partnership with the Unipol insurance group.

On 7 August 2019, the Board of Directors of BPER approved the Merger plan (the "Plan") for the absorption of Unipol Banca by BPER Banca, pursuant to articles 2501 *et seq*. of the Italian Civil Code. Following the approval of the competent Supervisory Authority pursuant to art. 57 of Legislative Decree 385/1993 (CBA), the Plan (drafted in simplified form pursuant to art. 2505 of the Italian Civil Code, since it involves the absorption of a wholly-owned company) was filed in the Companies Registers of Modena and Bologna on 25 and 26 September 2019, respectively.
The Board also approved two transactions to be completed prior to the absorption: (i) the sale by Unipol Banca to Banco di Sardegna s.p.a. of a business unit consisting of 10 bank branches located in Sardinia; (ii) the as a whole sale by Unipol Banca in favour of Sardaleasing of a lease portfolio, pursuant to art. 58 of Legislative Decree 385/1993 (CBA).
On 30 October, BPER Banca S.p.A. ("Merging Company") and Unipol Banca S.p.A. ("Company being merged"), having obtained the required approval from the competent Supervisory Authority, commenced on the various activities aimed at completing the integration through the adoption of the respective merger resolutions.
The resolution of the Merging Company was adopted by its Board of Directors as no requests were received within the terms prescribed by its Shareholders pursuant to art. 2505, paragraph 3, of the Italian Civil Code, intended to require the competence of the Shareholders' Meeting.
The merger deed was signed on 15 November 2019 and filing with the competent Companies Registers took place on 18 November 2019. The merger took legal effect from 25 November 2019; the tax and accounting effects were backdated to 1 July 2019.

- *Acquisition of the minority interest in Banco di Sardegna*

On 4 July 2019 the Extraordinary Shareholders' Meeting of BPER Banca approved the delegation of the following powers to the Board of Directors in the context of acquiring the minority interest in Banco di Sardegna[17]:

- authorise by no later than 31 December 2019 a capital increase for payment, by a maximum total amount of Euro 171,708,624.00, on a non-divisible basis reserved for subscription solely to

[17] *In completion of the action described in relation to the Banco di Sardegna transaction, the Shareholders' Meeting also granted powers to increase share capital for payment, by a maximum total amount of Euro 13,000,000.00, on a divisible basis, on one or more occasions over a period of five years by the Shareholders' Meeting resolution, via the issue, with the exclusion of option rights, of a maximum of 2,500,000 ordinary shares, at an issue price to be determined in compliance with the law.*

Fondazione di Sardegna, via the issue with the exclusion of option rights of 33,000,000 BPER Banca ordinary shares, to be settled on one occasion by the contribution of 10,731,789 Banco di Sardegna ordinary shares;

- (i) issue by no later than 31 December 2019 an Additional Tier 1 convertible bond for up to a maximum total nominal amount of Euro 150,000,000, to be offered for subscription solely to Fondazione di Sardegna and consequently (ii) increase share capital for payment, by a maximum total amount of Euro 150,000,000, on one or more occasions and on a divisible basis to service solely and irrevocably the conversion of that bond, by issuing a maximum of 35,714,286 BPER Banca ordinary shares;
- by no later than 30 June 2020, increase share capital by a maximum total amount of Euro 40,993,513.60, on one or more occasions and on a divisible basis, via the issue with the exclusion of option rights of a maximum of 7,883,368 BPER Banca ordinary shares, at an issue price to be determined in compliance with the law, to serve a public offer for the exchange of Banco di Sardegna savings shares;
- amend the Articles of Association as a consequence of the above.

On 11 July 2019 the Board of Directors of BPER Banca resolved to exercise the powers assigned by the Extraordinary Shareholders' Meeting held on 4 July 2019.
As a result of exercising those powers and obtaining authorisations from the Supervisory Authorities, all the conditions precedent envisaged in the framework agreement signed between BPER Banca and Fondazione di Sardegna on 7 February 2019 were satisfied.
Accordingly, on 25 July 2019, BPER Banca acquired 49% of the ordinary share capital of Banco di Sardegna s.p.a. and about 36.90% of the preference shares from Fondazione di Sardegna, and now holds 100% of the ordinary share capital and about 98.67% of the preference shares. In particular, Fondazione:

(i) transferred 10,819,150 Banco di Sardegna ordinary shares and 430,850 preference shares to BPER Banca for a total consideration of Euro 180,000,000 and
(ii) contributed a further 10,731,789 Banco di Sardegna ordinary shares, in execution of the capital increase, reserved to Fondazione di Sardegna, resolved upon by BPER Board of Directors on the basis of the power granted by the Extraordinary Shareholders' Meeting of 4 July 2019, receiving in exchange 33,000,000 new BPER Banca ordinary shares already subscribed for by Fondazione di Sardegna at a unit price of Euro 5.1 (of which Euro 3 allocated to capital and Euro 2.1 to share premium).

BPER Banca also issued the Additional Tier 1 convertible bond for a total nominal amount of Euro 150,000,000, which was immediately and fully subscribed for by Fondazione for a total price of Euro 180,000,000 (the bond conditions allow their conversion into BPER Banca shares with a maximum nominal value of Euro 150,000,000, including a premium of Euro 42,857,142, via the issue of up to 35,714,286 ordinary shares at a unit price of Euro 4.2, of which Euro 3 allocated to capital and Euro 1.2 to share premium, on the basis of the same power granted by the Extraordinary Shareholders' Meeting).

- *Public Offer of Exchange for savings shares in Banco di Sardegna S.p.A.*

On 7 November 2019, BPER Banca notified its decision pursuant to art. 102, para. 1, of Legislative Decree 58/98 to promote a voluntary Public Offer of Exchange (POE) for all the savings shares in Banco di Sardegna, held by parties other than BPER Banca, that are listed on the electronic equities market (Mercato Telematico Azionario - MTA) organised and managed by Borsa Italiana. S.p.A.
On the same date, the Board of Directors of BPER Banca resolved to exercise the mandate granted at the Extraordinary Meeting held on 4 July 2019, regarding the capital increase to serve the POE, and fixed the maximum amount of the increase at Euro 23,650,104, plus a maximum premium of Euro 4,178,185, via

the issue of a maximum of 7,883,368 BPER ordinary shares at a price of Euro 3.53 each, of which Euro 3 to be recognised as share capital and Euro 0.53 as premium.
CONSOB authorised the publication of the offering prospectus on 14 November 2019 and approved the offering document on 21 November 2019.
The POE acceptance period began on 25 November 2019 and ended on 13 December 2019.
Acceptances were received for 2,708,363 savings shares out of 3,378,586 saving shares addressed by the POE. The unit consideration offered was of 7 BPER Banca ordinary shares for each 3 Banco di Sardegna savings shares, i.e. 2.33 BPER Banca ordinary shares for each Banco di Sardegna savings share, was recognised to the parties that accepted.
The number of BPER Banca ordinary shares subscribed and issued following execution of the capital increase reserved for subscription by the parties accepting the POE totals 6,319,513.

"Optima Cube" project

Consistent with the business plan of the BPER Banca Group, during 2019 the boards of directors of BPER Banca and Optima SIM approved the Optima Cube project following the feasibility study that commenced during 2018.
The objective of the Optima Cube project is to develop the offer of investment services and position BPER Banca in the Wealth Management sector.
Work to implement the project has commenced and the new product catalogue, dedicated to the managed portfolios of the banks that have granted mandates to Optima SIM, entered into force during the first half of 2019.
Optima SIM has been identified as the Sole Investment Centre of the BPER Banca Group, carrying out all phases of the investment advisory services envisaged.
The Optima Cube project will be completed during 2020, after completion of the various progress stages and/or entry into production of the relevant IT procedures.
In addition, during 2019 Optima SIM transferred its registered offices, administration and general management to new premises at Via Emilia Est 421, Modena, which are organised to absorb the expansion of activities on completion of the Optima Cube project.

3.3 Acceleration of de-risking

2019-2021 NPE Strategy: main actions and targets

With respect to the initial 2018-2020 version, the NPE Strategy of BPER Banca Group was updated at the end of March 2019 to consider the results for 2018 and the entrance of Unipol Banca in the banking Group.
During 2018, the BPER Group reduced the gross NPE stock from Euro 10.5 billion to Euro 7.0 billion, thus lowering the Gross NPE ratio from 19.9% to 13.8%; these results were achieved, in part, by bulk sales of bad loans (the "4Mori" and "Aqui" transactions).
The NPE Strategy sets a quantitative objective for the Gross NPE ratio of less than 9% in 2021 (down from 13.8% in 2018), which means reducing the stock by Euro 2.7 billion between 2018 and 2021 (from Euro 7.0 billion to Euro 4.4 billion) via active and efficient management of the NPEs, as well as by additional major sales.

The priority initiatives identified in the Group's operating plan, and intended to create solid foundations for steadily improving the management of NPEs over time, include:

- the creation of a «Proactive Management» unit to manage both forborne exposures and performing loans at risk;
- greater use of outsourcing for the recovery of "small ticket" exposures, allowing internal resources to focus on the larger positions;
- development of the organisational models for Anomalous Credit and BPER Credit Management, with further work on capacity planning and on-going initiatives for the training and specialisation of personnel;
- bulk sales of bad loans and UTPs.

Focusing specifically on these sales and the results achieved during 2019, the NPE disposals made by the BPER Banca Group during the year are detailed below together with brief comments on the principal transactions.

(in thousands)

Type of Disposal	GBV disposed
Bad loans - Massive "EMILIA"	925.70
Bad loans - Others "single name"	82.30
Bad loans Leasing - Massive "CREAM 3"	28.40
Bad loans Leasing - Massive "Small Ticket"	24.20
UTP - Disposal to NPL Funds	27.70
UTP - Others "single name"	194.10
	1,282.40

- *Disposal of "Emilia"*

On 31 July 2019, BPER Banca and Banco di Sardegna sold a portfolio of bad loans to UnipolRec (wholly owned by the Unipol Group), with a gross carrying amount at 30 September 2018 (reference date for the sale) of about Euro 1 billion (gross recoverable value of about Euro 1.3 billion), against a consideration of Euro 102 million, in line with the net carrying amount of the assignors. About 68% of the portfolio sold consisted of unsecured loans, while about 32% was secured.

- *Disposal of "Cream 3"*

A bulk sale of 42 bad loans deriving from terminated property leases was formalised in December 2019 with two SPVs associated with an institutional investor. This is known as the "Cream 3". This third operation by Sardaleasing follows those formalised in 2017 and 2018, with the strategic objective of reducing its gross and net NPL ratios. By contrast with the first two, the new operation was structured in a manner compliant with the new regulations added to Law 130/99: sale of immediately transferable assets to a LeaseCo owned by the Inventor, together with the sale of loans to an SPV in relation to those properties that were not immediately transferable.

- *Disposal of Unlikely to pay (UTP)*

Consistent with the 2019-2021 NPE Strategy, during 2019 the Group activated a structured and continuous programme for the disposal of Unlikely-to-Pay (UTP) loans.
This activity involves holding competitive auctions to sell single files, mainly to institutional investors that are contacted first to gauge their specific interest, as well as participation in multi-originator and multi-target operations with Funds that specialise in corporate portfolios.
Loans to 25 counterparties were sold during 2019, of which 13 related to two Industrial Groups based in Emilia Romagna, with a total GBV of Euro 221.8 million and total proceeds essentially in line with the total NBV.

In particular, delinquent loans to 5 industrial counterparties with a GBV of Euro 27.7 million were contributed on 25 September 2019 to Clessidra Restructuring Fund, which specialises in distressed industrial firms: this multi-originator operation involved a further 9 domestic banks, which subscribed for quotas in the Fund in proportion to the value of their contributions.
Additionally, non-performing loans to 20 counterparties, with a total GBV of Euro 194.1 million, were sold via the competitive process described above to domestic and international investors, which paid the agreed amount in "cash" during 2019.
The profile of this UTP deleveraging via the disposal of single files consisted of loans to the real estate, for 29.4%, with an average recovery of about 42%, and loans to industrial firms, for 70.6%, with an average recovery of about 39%.

Dynamics of Stage 3 provisions

- *Introduction*

Consistent with the objectives of the NPE Strategy communicated to the market, when determining the expected losses on the non-performing portfolio (Stage 3), the BPER Banca Group considers the flows deemed recoverable using a multi-scenario approach that takes into account external sales as well as internal recoveries. This approach was applied on the first-time adoption of IFRS 9 and has been used at each subsequent reporting date.
See the Explanatory notes, Part A - Accounting policies for information about the related accounting and application methodology. This approach was used in 2018 and 2019 when, in order to address the ever more challenging objectives set by the Group's NPE Strategy (first released for 2018-2020 and later updated to 2019-2021, with significant revisions to consider the disposals made and changed market conditions), the scope of potential sales was widened with changes to the related provisions (the "workout" provision, being the amount required in the event of internal recovery, and the "disposal" provision, being the amount required in the event of sale on the market).
In order to understand properly the accounting effects of the "workout" and "disposal" provisions associated with the positions to be sold, a quali-quantitative description of the principal changes that were recorded in 2018 and 2019 is provided below.

- *Quantitative review*

The following table identifies the changes in the total provision ("Workout" and "Disposal") for positions to be sold, which amounted to Euro 4,155 million at 1 January 2018, analysing the two components separately.

(in thousands)

	Impairment (Workout+Disposal)	of which Disposal	of which Workout
Opening balance of impairment provisions at 1.1.2018	**4,402**	**1,113**	**3,289**
Decreases for default interest related to IFRS 9 first time adoption (262 Circular)	(247)	-	(247)
Opening balance of IFRS 9 impairment provisions	**4,155**	**1,113**	**3,042**
Changes in impairment provisions 1.1.2018 - 31.12.2018	**(1,849)**	**(709)**	**(1,140)**
Uses for Disposal Aqui	(1,213)	(284)	(928)
Uses for Disposal 4Mori Sardegna	(647)	(187)	(460)
Uses for Disposal Cream 2	(24)	(17)	(8)
Adjustment of the scope of the NPE Strategy and accounting effects associated with management of the positions	35	(221)	256
Closing balance at 31.12.2018	**2,306**	**404**	**1,902**
Changes in impairment provisions 1.1.2019 - 31.12.2019	**(628)**	**(190)**	**(438)**
Uses for Disposal Emilia	(824)	(180)	(644)
Uses for Disposal Cream 3	(41)	(9)	(32)
Uses for Disposals "Single name"	(188)	(13)	(175)
Adjustment of the scope of the NPE Strategy and accounting effects associated with management of the positions	425	12	413
Closing balance at 31.12.2019	**1,678**	**214**	**1,464**

The following information is provided to facilitate understanding of the quantitative effects indicated:

- both in 2018 and in 2019, the vast majority of the provision was used to cover the various disposals, comprising packages of positions and single files, that were carried out in accordance with the guidelines identified in the NPE Strategy;
- the "adjustment of the scope of the NPE Strategy and accounting effects associated with management of the positions" line item reflects the accounting effects of the various activities carried out to manage the positions to be sold (such as use of the provision to cover the closure of positions via routine workout activities, which still continue in relation to the positions addressed, and to offset release of the related time value effects);
- this line item also includes the effects of adjusting the scope of the positions considered, given redefinition of the objectives established for the NPE Strategy. In particular, during 2019 the Group prepared a new 2019-2021 NPE Strategy with objectives for broadening the scope of the disposals that are reflected in the dynamics of the provision.

With specific reference to the composition of the disposal provision at 31 December 2019, the large majority totalling about Euro 160 million relates to positions that will be securitised in a transaction (assisted by GACS) to be completed during the first half of 2020.

3.4 Effective operations and simplified organisation

- *Merger by absorption of BPER Services s.c.p.a. into BPER Banca S.p.A.*

BPER Services s.c.p.a. was absorbed by BPER Banca S.p.A. on 10 June 2019, after obtaining the required authorisations in April 2019; the related plan was authorised on 10 January 2019 by the Board of Directors of BPER Banca S.p.A. and on 11 January 2019 by the Board of Directors of the subsidiary BPER Services s.c.p.a.

The transaction was consistent with the action plan that has reduced the number of legal entities belonging to the BPER Group with a view to improving operating efficiency and creating cost/income synergies.
The merger was a transaction with a related party of BPER Banca and is classified as "less significant" as it did not exceed the materiality indices referred to in Consob Regulation no. 17221/10, as well as the internal regulations of BPER Banca contained in the "Group policy for the governance of non-compliance risk concerning conflicts of interest with related parties and risk activities with associated persons".
The transaction was part of the internal reorganisation of the BPER Banca Group and did not affect the consolidated financial statements, as the company was already a wholly-owned subsidiary.

- *Italiana Valorizzazioni Immobiliari s.r.l.: merger by absorption of Frara s.r.l. and Costruire Mulino s.r.l.*

Costruire Mulino s.r.l. and Frara s.r.l. were absorbed by Italiana Valorizzazioni Immobiliari s.r.l. on 6 December 2019 with tax and accounting effect from 1 November 2019.
This transaction released significant entrepreneurial synergies by maximising the efficient administrative, accounting and financial management of a single legal entity, while benefiting from the experience and skills accumulated by each company in their respective fields of activity, thus responding to changed market conditions and grasping new growth opportunities.
The simplified procedures envisaged in arts. 2505 and 2505 quarter of the Italian Civil Code were applied to these mergers.

- *Activation of the solidarity Fund for the banking sector*

As previously mentioned, the 2019-2021 Business Plan features a strong focus on cost containment, also by optimising the size of the workforce. In this regard, it should be noted that the trade union procedure that began with a communication dated 28 June 2019 ended on 29 October 2019 with the signing of an Agreement between the BPER Group and the Trade Unions.

The Agreement envisages:

- voluntary termination, starting from 31 March 2020, of personnel who have accrued or who will have accrued the right retire by 1 January 2022, with the payment of an incentive;
- the possibility of applying to the Sector Solidarity Fund, from 1 April 2020 up to the date that pension payments commence, for those who will meet these requirements between 1 January 2021 and 31 December 2025, with payment of an incentive;
- that these early retirement plans will lead to the resignation of 1,289 members of staff;
- hiring 645 people, who will bring new skills and a degree of generational turnover;
- a reduction in the workforce that will make it possible to achieve the target for the end of the Business Plan (a workforce of 12,739).

The total cost of the plan amounts to Euro 136 million at Group level and has already been provided for in provisions for risks and charges at 31 December 2019.

- *Development of the territorial network and the central functions*

The Group carried out the planned reorganisation of the territorial network following the absorption of Unipol Banca by BPER Banca.
In particular, of the 258 former Unipol Banca branches, 248 were absorbed by BPER Banca and 10 were transferred to Banco di Sardegna. Of these 248 branches, 176 remained operational and 72 were closed. Of the 10 branches taken over by Banco di Sardegna, 2 remained operational, 3 were closed and 5 were the subject of a divestment request from the Antitrust Authority (AGCM).

With regard to this AGCM divestment request, in October 2019 the Board of Directors of BPER Banca resolved to begin the disposal process, still in progress at year end, by identifying assets held for disposal of Euro 97.1 million (mainly loans to customers) and related liabilities of Euro 134.1 million (mainly due to customers).
At the same time, 5 limited service branches operated by Cassa di Risparmio di Saluzzo were closed as part of the broader project envisaged in the Business Plan to rationalise the branch network of the BPER Banca Group.
In addition, two new operational hubs were created in Bologna and Turin in order to optimise the redeployment of resources in the territory and the related duties, thus drawing on the synergies released from the absorption of Unipol Banca by BPER Banca.
Lastly, the absorption of Unipol Banca resulted in the acquisition of a network of about 250 financial advisors, enabling the BPER Banca Group to expand further the distribution channels available to customers.

3.5 Subsequent events to the year end

- *Potential acquisition of a line of business from the Intesa Sanpaolo Group*

On 17 February 2020, the Board of Directors of BPER Banca approved the planned acquisition of a line of business comprising 400/500 bank branches from the Intesa Sanpaolo Group, signing on that date a specific agreement with the counterparty that is conditional on completion of the voluntary POE by Intesa Sanpaolo for the entire share capital of UBI Banca.
More specifically, this line of business comprises about 1.2 million customers distributed among 400/500 bank branches, mostly located in Northern Italy, and the related assets, liabilities and legal relationships. The transaction would be served by a capital increase to be offered under option to existing shareholders, for an amount prudently estimated not to exceed Euro 1 billion.

- *Spread of COVID-19 and related consequences*

See section 7.5 of this Report on operations and Part A Section 4 - Subsequent events in the Explanatory notes for information about the COVID-19 pandemic.

3.6 European Single Supervisory Mechanism (SSM)

BPER Banca and its banking Group are among the major European banks supervised directly by the ECB[18].
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 5 February 2019, after completing the 2018 annual SREP prudential review[19] and the evaluation process, 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

[18] *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.*
[19] *As required by CONSOB Communication 6 of 15 March 2019.*

SREP performed, the ECB decided that BPER Banca should maintain the following consolidated minimum capital ratios from 1 March 2019:

- Common Equity Tier 1 Ratio: of 9%, being the sum of the minimum requirement pursuant to art. 92 of EU Regulation 575/2013 (4.50%), plus the additional Pillar 2 requirement in accordance with art. 16 of EU Regulation 1024/2013 (P2R component equal to 2%), plus the capital conservation buffer in accordance with art. 129 of Directive 2013/36/EU as transposed into national law (2.5%);
- Total Capital Ratio: of 12.50%, being the sum of the minimum requirement pursuant to art. 92 of EU Regulation 575/2013 (8.00%), plus the additional Pillar 2 requirement in accordance with art. 16 of EU Regulation 1024/2013 (P2R component equal to 2%), plus the capital conservation buffer in accordance with art. 129 of Directive 2013/36/EU as transposed into national 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 Regulation (EU) 575/2013, of national legislation enabling Directive 2013/36/EU, and of any applicable national liquidity requirement, in compliance with Article 412 paragraph 5 of EU Regulation 575/2013.

These quantitative capital objectives were accompanied by the following qualitative requests to be sent to the ECB, related principally to the achievement of the targets established in the Business Plan and the management of the Non-Performing Exposures (NPE).

Specifically, the ECB made a recommendation to BPER Banca to implement 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: 1) by 2025 for the guaranteed NPEs with an age of more than 7 years and 2) by the end by 2024 for unsecured NPEs with an age of more than 2 years. Non-performing loans classified as such from 1 April 2018 onwards are treated in the Addendum to the ECB Guidelines on NPEs.

On 26 November 2019, BPER Banca received the SREP Letter from the ECB finalising the SREP assessment for 2019. This confirmed for 2020 the previous quantitative capital requirements and related qualitative requirements (see the BPER Banca press release dated 26/11/2019).

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

3.7 Other significant events

Shareholders' Meeting of the Parent Company:

- *Corporate bodies: new appointments*

The Shareholders' Meeting, held on 17 April 2019, integrated the Board of Statutory Auditors for the rest of the three-year period 2018-2020 by appointing the Chairman and another Acting Auditor, as well as two Alternate Auditors.
Pursuant to art. 34 of the Articles of Association, the following were elected for the rest of the three-year period 2018-2020:

- Paolo De Mitri as Chairman of the Board of Statutory Auditors;
- Cristina Calandra Buonaura as Acting Auditor;
- Patrizia Tettamanzi as Alternate Auditor, to replace the Alternate Auditor taken from the list that came second in terms of number of votes at the Shareholders' Meeting of 14 April 2018;
- Veronica Tibiletti as Alternate Auditor, to replace the Alternate Auditor taken from the list that came second in terms of number of votes at the Shareholders' Meeting of 14 April 2018.

- *Allocation of the net profit for 2018 of the Parent Company*

On 17 April 2019, the Shareholders' Meeting approved the allocation of the net profit of Euro 306.7 million earned in 2018 by the Parent Company, with the declaration of a dividend of Euro 0.13 per share (Euro 62.6 million in total) and an allocation to the extraordinary reserve of Euro 203.3 million, after the allocations to reserves required by law (Euro 40.8 million).

Changes in Top Management

On 28 November 2019, the Board of Directors of BPER Banca resolved to revise the organisational model at top management level, with a view to enhancing the efficiency with which the Bank and the Group are governed and managed.
More specifically, given the desire to shorten decision-making processes, the administrative body of the Bank considered it appropriate, moving forward, to appoint just one top manager to supervise all governance, business and operating activities.
In view of this, after involving and obtaining the favourable opinion of the Remuneration Committee, an agreement was reached with the current General Manager, Fabrizio Togni, for the early termination of his employment relationship at 31 December 2019.
Accordingly, as from 1 January 2020, Alessandro Vandelli is both the Chief Executive Officer and the General Manager of the Bank. Lastly, after involving and obtaining the favourable opinion of the Nominations Committee, the Board of Directors resolved to strengthen the General Management team by appointing Stefano Rossetti (formerly the General Manager of Unipol Banca S.p.A.) as the Vice Deputy General Manager of the Bank.

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

4.1 Introduction

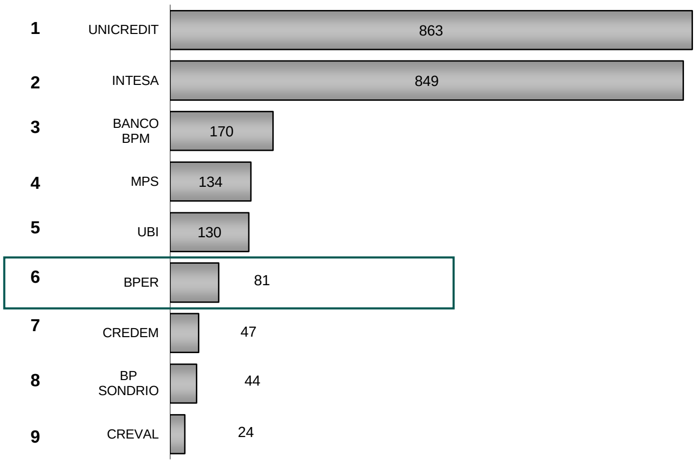
The consolidated non-financial statement ("consolidated NFS") of the BPER Banca Group, prepared pursuant to Legislative Decree 254/16, constitutes a separate report (Sustainability Report) with respect to this Report on Operations, as provided for in art. 5, paragraph 3, letter b) of Legislative Decree 254/16, and is available on the website https://istituzionale.bper.it.
The disclosures dedicated to "Our employees" and "Relationship with the community" are contained in the Sustainability Report (Consolidated Non-Financial Statements - 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 businesses.
The parent company BPER Banca operates throughout the country, except in Piedmont and Sardinia: the former is served by Cassa di Risparmio di Bra s.p.a. and Cassa di Risparmio di Saluzzo s.p.a., the latter by Banco di Sardegna s.p.a. Unipol Banca s.p.a. became part of the Group in July 2019 and was absorbed by BPER Banca during the second half of the year.
At 31 December 2019, the Group's network consists of 1,349 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 2019, of 5.79%[20].
On the Italian banking scene, the BPER Banca Group ranks sixth by total assets and loans.

Positioning with respect to competitors

Figures at 30 September 2019 (total assets in Euro/billion)



Source: Accounts of banking groups

[20] *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 3.02% at 31 October 2019, while the market share of deposits in October 2019 was 3.07%.

	Loans		Deposits	
	October 2018	October 2019	October 2018	October 2019
Producer households	4.20%	4.68%	5.45%	5.72%
Consumer households	2.46%	3.13%	2.20%	2.48%
Corporates	3.29%	3.71%	3.98%	4.33%
Total customers	2.63%	3.02%	2.59%	3.07%

The market share of assets under management was 1.68% in October 2019[21], partly because Arca SGR is now part of the BPER Group.

4.3 Relations with customers

Breakdown of the customer base

Originally with a vocation for serving households and SMEs, the BPER Banca Group comprises four regional banks with 2.7 million customers, of which over 400,000 acquired on the absorption of Unipol Banca.

The age distribution of the private customer base is consistent with the average for the traditional banking system, with 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 in five customers are younger than 35. The breakdown of customers by gender remains essentially balanced (51% men and 49% women). The average duration of existing customer relationships is higher: two in three customers have been with the Group for more than ten years, with 39% having been account holders for in excess of twenty years.

For more information on customer relations, please refer to the "Consolidated non-financial statement" at 31 December 2019.

4.4 Lending policies

Considering the macroeconomic conditions experienced in Europe and around the world during 2019, the modest growth in world trade forecast for 2020 and the risk assessments carried out in relation to outstanding loans (situation at 31 December 2019 that is likely to be revised as a result of the COVID-19 pandemic), the BPER Group has defined lending policy guidelines for 2020 that seek to:

- optimise the asset allocation of the portfolio in quali-quantitative terms;
- guide network operations;
- prevent deterioration over the medium term.

These guidelines, updated for 2020, envisage:

- specific instructions to increase/maintain/reduce lending based on the different combinations of risk segment, sector and rating class;

[21] *Source: Assogestioni.*

- changes to the classification of economic sectors, based on market forecasts and the loan portfolio dynamics observed internally.

The following drivers were also used in order to define the portfolio targeted for the end of 2020:

- maintenance of broad equilibrium between Retail and Corporate growth;
- growth of green and technological innovation loans across the various economic sectors, which should enable the beneficiary businesses to become more competitive;
- continuity in the various technical forms of lending to private customers.

Specific guidelines have been prepared for the Group's Product Companies, in consideration of the intrinsic characteristics of the products being distributed (lease, factoring, personal loans and salary-backed loans) and the lower risk profile with respect to similar banking transactions.

Lastly, given the desire to support the territory, the BPER Banca Group has confirmed participation in the ABI initiatives in favour of individuals ("Mortgage loans Solidarity Fund" and "First Home Guarantee Fund") and companies (2019 Lending Agreement – Recovering Companies 2.0), as well as the various measures required by law that suspend loan repayments in areas hit by natural calamities.

4.5 IT research, development and innovation

Given the banking nature of the BPER Banca Group, Research, Development and Innovation activities are mainly aimed at studying the potential application of technological innovations in relations with customers, to improve and expand the offer of products and services, also in internal processes, to simplify them and make them more efficient.

Following the absorption of BPER Services by BPER Banca, the IT Area is supervised by the Chief Operating Officer of the Parent Company, who is responsible for:

- the study, design, development, supply, management, maintenance and enhancement of IT and related systems and applications, as well as the provision of data processing and transmission services (Systems Department);
- the provision of back office services, including accounting, administration and operational support, as well as the management of purchasing and shipments of all kinds, the handling of correspondence, valuables and accounting materials, the processing, management and storage of data, and the management of archives and stores (Operations Department).

During the year, the principal projects carried out by the Systems Department of BPER Banca (previously the Systems Department of BPER Services) related to:

- PSD2 (SCA). The European Payment Services Directive on digital payments (PSD2), issued in January 2018, introduced some important changes to the processes and methods of communication between banks and end users, both directly and through third-party providers (TPP). As required by the regulations, the new method of accessing multi-channel applications was activated on 14 September; on 10 November, a new App was released that enhances the user experience when accessing applications and authorising transactions.
- Strong Customer Authentication. A new technology to defend electronic payments made on the Smart Web platform was devised and put into production during 2019. This system was introduced to provide a higher level of protection against IT fraud to the detriment of Smart Web customers, as well as to comply with PSD2 requirements.

- Financial advisers. Work to render the out-of-office operational of financial advisers who joined on the absorption of UnipolBanca was completed.
- GDPR. Application of the General Data Protection Regulation (GDPR), in force from May 2018, has required work in the area of IT security. In particular, new technologies were devised and applied during 2019 in order to implement the Data Classification requirements. Additionally, conceptual revisions were made to a number of supervisory tools with a view, in particular, to making the monitoring and control of access to structured data more efficient.
- SCT Inst - Instant Sepa Credit Transfers on Smart digital channels. Instant credit transfers that move funds within 10 seconds. From 10 July 2019, the BPER Banca Group is a member of the SEPA circuit for SCT Inst inbound from other banks. The functionality for authorising outbound instant credit transfers has been fully activated.
- Customer Centricity – NPS. Activation of a system for listening to customers and generating and collecting their feedback, with a view to improving constantly the customer experience at the various contact points and in the various contact channels. Identification of the drivers of customer satisfaction, differentiated by service model and prioritised considering their impact on the various categories of customer, with a view to the appropriate revision of operational models.
- Advanced Analytics. Implementation of Machine Learning and Artificial Intelligence techniques for the automatic or semi-automatic investigation of data or content using sophisticated instruments and techniques, with a view to extracting greater knowledge from data, making predictions, supporting business strategies in many different fields (e.g. enhancement of customer loyalty, propensity to purchase products, identification of customers/business operators with multiple banking relationships).
- Anti-virus enhancements. The enhancement of the Endpoint Protection system has been completed, adding tools that provide more efficient protection against advanced IT threats and better monitoring and detection of IT attacks.
- New Definition of Default. Lending applications and processes (management of provisions, electronic case management, past due calculation) have been enhanced to reflect the EBA Guidelines for the New Definition of Default.
- Groups of related customers. The application for managing groups of related customers has been completed, in compliance with the EBA guidelines on the adoption of tools that can identify all possible links between customers, with a view to grouping them together for risk profiling purposes.
- Legal platform. During 2019, the Group implemented a proper operational platform that supports the provision of legal advice, which is now an integral part of all processes within the Bank
- LAWEB4: Activation of a new enterprise application that enhances the management of bad loans.
- Adoption of the Gsuite Cloud platform. The Gsuite Cloud platform adopted includes an office automation and e-mail suite.
- Upgrade of datawarehouse systems. Major expansion of the memory available and additional processing power dedicated to inertial growth, thus cutting processing times
- Expansion of the Internet bandwidth available from two different providers (for disaster recovery purposes) in order to strengthen the Cloud services provided.
- R.I.S.E. (Research & Innovation for a Smart Enterprise) programme. Migration from Unipol Banca to BPER Banca. Alongside the migration:
  - Reorganisation of the distributive/semi-central model;

- Addition of a network of financial advisors;
- Sale of a portfolio of bad loans to UnipolRec s.p.a.;
- Transfer of the leasing portfolio of Unipol Banca s.p.a. to Sardaleasing s.p.a.

The BPER Banca Group also includes Numera s.p.a. (based in Sardinia and wholly owned by Banco di Sardegna), which is essentially involved in e-money and electronic document management and the provision of services within and outside the Group.

4.6 Real estate sector

The real estate sector within the Group is managed by the Real Estate Department within the Parent Company. The Group includes 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.
The real estate assets of the BPER Banca Group are managed and developed by the competent organisations within the legal entities and coordinated by the Real Estate Department of the Parent Company.
At 31 December 2019, the total carrying amount of the real estate owned by the Group totals Euro 933.6 million, of which Euro 275.5 million relating to "land" and Euro 658.1 million of "buildings" (total includes Euro 16.8 million in property held for sale).
The principal income statement captions involved:

- ordinary maintenance (expenses);
- work that adds value to properties (capital expenditure).

Ordinary maintenance work is principally dedicated to:

- implementing safety measures for properties whose defects or deterioration could cause injury to persons and/or possessions;
- guaranteeing reasonable usability;
- rendering properties that currently do not generate income capable of being leased or sold.

Significant work to increase the value of property in Italy (capital expenditure) has included:

- work to prepare new premises for the following branches: L'Aquila 1, Naples 1, Pesaro and Reggio Emilia 10. Renovations were carried out during the year at the following branches: Barcellona Pozzo di Gotto, Ferrara 11, Torvaianica, Spilamberto and Vignola, while the branch at San Giovanni Teatino was expanded;
- L'Aquila head office: the building was hit by an earthquake in 2009; following the receipt of government grants for reconstruction (obtained on 26 October 2015), reconstruction work started on the property on 30 March 2016 and was completed at the end of 2018. plans were finalised during the first half of 2019 for the transfer of the L'Aquila head and territorial offices from the via Strinella Management Centre to the new building; this work is expected to begin during the first half of 2020.
- Cavezzo (Modena): the building was hit by an earthquake in 2012 and, based on the receipt of government grants for reconstruction (obtained in January 2017), reconstruction work started on the property in December 2016 and was completed on 30 December 2019. The transfer of the branch is scheduled for early 2020;
- self-service areas have been created, with the installation of advanced ATMs at the Amantea, Siderno, Messina and Siracusa branches;

- significant work to modernise and improve the efficiency of the working environment was also carried out at other branches, not least following the absorption of Unipol Banca s.p.a.

In the context of the business plan, 46 branches were closed on 22 March 2019 and another 75 were closed on 25 November 2019 following the absorption of Unipol Banca s.p.a. Major efforts were dedicated to returning the premises to their owners, involving significant restoration work in some cases.

During 2019, Nadia S.p.a. continued significant repurposing and restructuring work to improve its real estate assets and make them available for sale/rent. Key elements included work in Modena at Centro Emilia Est, including work related to the transfer of Optima s.p.a. (lease with effect from 1/9/2019) and of Forum Monzani in Corso Canalgrande.
Work was completed on the property in Piazza Martiri, Carpi, with the development of 6 apartments and 4 cellars that will be rented out during 2020.
In addition to managing real estate maintenance, Nadia s.p.a. is also responsible for leasing properties to the Group and to third parties.

The Real Estate Department within the Parent Company arranged new lease contracts on behalf of BPER Banca and Nadia s.p.a., generating annual income of Euro 3.3 million, of which from third parties Euro 551 thousand.
It also completed 24 sales on behalf of the Parent Company and Nadia s.p.a. for a total of Euro 9.4 million, giving rise to a capital gain of Euro 1.2 million.

The carrying amount of the real estate assets of Tholos s.p.a., a subsidiary of Banco di Sardegna, is Euro 72 million. The company is continuing to take all possible steps to enhance the value of its real estate assets, via their sale or rental. At the same time, the technical and administrative management of leased properties continues, in order to safeguard and increase the returns generated.

5. Scope of consolidation of the BPER Banca Group

5.1 Composition of the Group as at 31 December 2018

The BPER Banca Group has been registered since 7 August 1992 with code 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 2019, distinguishing between banks and companies consolidated line-by-line and banks and companies, whether or not belonging to the Group, measured 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[22], 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 ordinary shares, 98.750% of preference shares and 89.845% of savings shares (without voting rights, listed on the Italian Stock Exchange), representing 98.677% of total capital;
4) Banca di Sassari s.p.a., based in Sassari (99.058%)[23];
5) Cassa di Risparmio di Bra s.p.a., based in Bra (Cuneo) (84.286%);
6) Cassa di Risparmio di Saluzzo s.p.a., based in Saluzzo (Cuneo) (100%);
7) Nadia s.p.a., based in Modena, property company (100%);
8) 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%);
9) Emilia Romagna Factor s.p.a, based in Bologna, a factoring company (95.954%);
10) Optima s.p.a. SIM, based in Modena, investment broker (100%);
11) Sardaleasing s.p.a., based in Sassari, leasing company (99.674%)[24];
12) Numera s.p.a., based in Sassari, IT company and subsidiary of Banco di Sardegna s.p.a. which holds 100% of share capital;
13) Tholos s.p.a., based in Sassari, property company and subsidiary of Banco di Sardegna s.p.a. which holds 100% of share capital;
14) BPER Credit Management s.cons.p.a., based in Modena, a consortium for the recovery and management of non-performing loans (100%)[25];
15) Arca Holding s.p.a.[26] based in Milan (57.061%);

[22] unless otherwise specified, the percentage shown refers to the Parent Company.
[23] held by:the Parent Company (78.536%) and Banco di Sardegna s.p.a. (20.522%).
[24] held by: the Parent Company (52.741%) and Banco di Sardegna s.p.a. (46.933%).
[25] held by: the Parent Company (67.000%), Banco di Sardegna s.p.a. (20.000%), Sardaleasing s.p.a. (6.000%), Banca di Sassari s.p.a. (3.000%), Cassa di Risparmio di Bra s.p.a. (2.000%), Emilia Romagna Factor s.p.a. (1.000%) and Cassa di Risparmio di Saluzzo s.p.a. (1.000%).
[26] The company is not a member of the banking group.

16) Arca Fondi SGR s.p.a. based in Milan, asset management company wholly owned by Arca Holding s.p.a.;
17) Finitalia s.p.a. based in Milan, company that specialises in consumer lending (100%).

b) Other subsidiaries measured using the equity method[27]:

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 (Treviso), a vehicle for the issue of Guaranteed Bank Bonds under art. 7 *bis* of Law 130/99 (60%).

With regard to Mutina s.r.l., on 19 June 2019 the Shareholders' Meeting resolved to put the company into liquidation from 1 July 2019. The company was wound up on 18 December 2019.

In addition to the above companies that belong to the Banking Group, the following direct and indirect subsidiaries are including in this grouping at 31 December 2019, even though they are not members of the Banking Group since they do not contribute to its banking activities[28]:

- Italiana Valorizzazioni Immobiliari s.r.l. (100%);
- Adras s.p.a. (100%);
- SIFA'- Società Italiana Flotte Aziendali s.p.a. (51%);

Costruire Mulino s.r.l. and Frara s.r.l. were absorbed by Italiana Valorizzazioni Immobiliari s.r.l. on 6 December 2019 with tax and accounting effect from 1 November 2019.

The final liquidation financial statements of Banca Farnese has as reference date 30 December 2019. The company will be formally struck off after 90 days have elapsed from filing of the financial statements with the Companies Register. Prior to formalisation of the liquidation, this investment has been classified in asset caption 20 c) "Financial assets measured at fair value through profit or loss – other financial assets required to be measured at fair value".

c) 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) CONFORM - Consulenza Formazione e Management s.c.a.r.l., based in Avellino (49.410%)[29];
7) CAT Progetto Impresa Modena s.c.r.l., based in Modena (20%);
8) Resiban s.p.a., based in Modena (20%);
9) Unione Fiduciaria s.p.a., based in Milan (24%);
10) Atriké s.p.a., based in Modena (45%);
11) Sarda Factoring s.p.a., based in Cagliari (21.484%)[30];

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[27] *following alignment of the scope of consolidation for accounting purposes with that used for regulatory purposes.*
[28] *following alignment of the scope of consolidation for accounting purposes with that used for supervisory purposes.*
[29] *held by: the Parent Company (46.430%) and Banco di Sardegna s.p.a. (2.980%).*

12) Emil-Ro Service s.r.l., based in Bologna (25%)[31];
13) Lanciano Fiera - Polo fieristico d'Abruzzo - consortium based in Lanciano (25%);
14) Immobiliare Oasi nel Parco s.r.l., based in Milan (36.80%).

Further information about any changes in the scope of consolidation of strategic important is provided in the section of this report on "Significant events and strategic transactions", as well as in the section on the scope of consolidation in Part A of the Explanatory notes and in Part G of the Explanatory notes on "Business combinations".

[30] *held by: Banco di Sardegna s.p.a. (13.401%) and the Parent Company (8.083%).*
[31] *held by: the Parent Company (16.667%) and Emilia Romagna Factor s.p.a. (8.333%).*

6. The BPER Banca Group's results of operations

6.1 Balance sheet aggregates

The most important balance sheet aggregates and captions at 31 December 2019 are presented below on a comparative basis with 31 December 2018, in thousands of Euro, indicating the changes between periods in absolute and percentage terms.

The balance sheet data at 31 December 2019 includes the amounts for Unipol Banca s.p.a. (absorbed by the Parent Company on 25 November 2019), Finitalia s.p.a. and Arca Holding s.p.a. (subconsolidated with Arca Fondi SGR), following acquisition of control over them by BPER Banca during the third quarter of the year, as discussed further in the section on *"Significant events and strategic operations"*.

The footnotes to the tables show the principal changes resulting from the entry of the new companies in the scope of consolidation, where significant.

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

- debt securities measured 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[32].

[32] *The balance sheet data at 31 December 2019 include the amounts for 5 branches held for sale. These branches belong to the group of 10 Unipol Banca branches acquired by BPER Banca on 25 November 2019 and subsequently transferred to Banco di Sardegna. In that regard, the Italian Antitrust 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 due to the absorption of Unipol Banca by BPER Banca.*

Assets

(in thousands)

Assets	31.12.2019	31.12.2018	Change	% Change
Cash and cash equivalents	566,930	459,782	107,148	23.30
Financial assets	18,956,906	17,152,084	1,804,822	10.52
a) Financial assets held for trading	270,374	247,219	23,155	9.37
b) Financial assets designated at fair value	130,955	218,662	(87,707)	-40.11
c) Other financial assets mandatorily measured at fair value	692,995	662,744	30,251	4.56
d) Financial assets measured at fair value through other comprehensive income	6,556,202	8,560,568	(2,004,366)	-23.41
e) Debt securities measured at amortised cost	11,306,380	7,462,891	3,843,489	51.50
- banks	2,744,570	1,766,169	978,401	55.40
- customers	8,561,810	5,696,722	2,865,088	50.29
Loans	54,353,634	48,594,875	5,758,759	11.85
a) Loans to banks	2,321,809	1,540,509	781,300	50.72
b) Loans to customers	52,006,038	47,050,942	4,955,096	10.53
c) Financial assets measured at fair value	25,787	3,424	22,363	653.13
Hedging derivatives	82,185	35,564	46,621	131.09
Equity investments	225,869	446,049	(220,180)	-49.36
Property, plant and equipment	1,369,724	1,063,273	306,451	28.82
Intangible assets	669,847	445,689	224,158	50.29
- of which: goodwill	434,758	264,740	170,018	64.22
Other assets	2,808,403	2,437,451	370,952	15.22
Total assets	**79,033,498**	**70,634,767**	**8,398,731**	**11.89**

Loans to customers

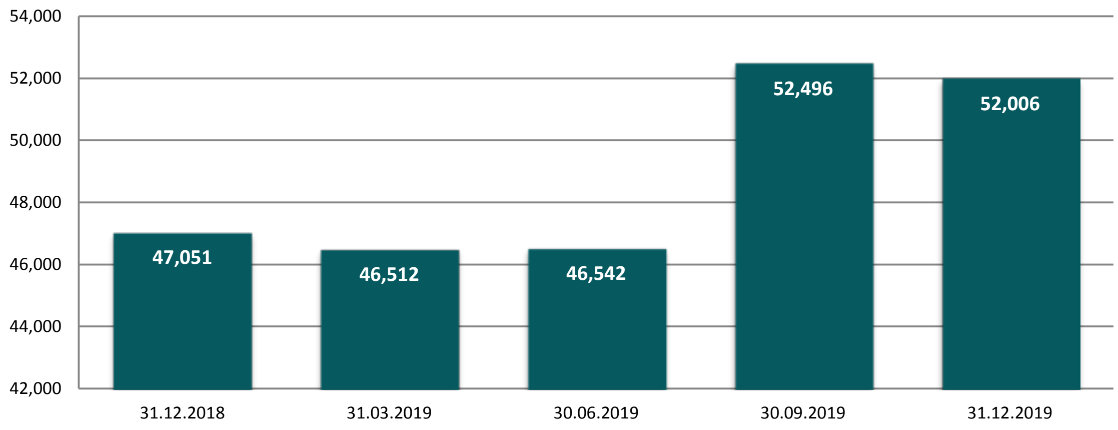
Net loans to customer comprise solely loans allocated to balance sheet caption 40 b) "Financial assets measured at amortised cost – loans to customers" and 120 "Non current assets and disposal groups classified as held for sale".

(in thousands)

Captions	31.12.2019	31.12.2018	Change	% Change
Current accounts	4,841,510	4,690,606	150,904	3.22
Mortgage loans	32,540,195	28,373,757	4,166,438	14.68
Repurchase Agreement	591,175	202,778	388,397	191.54
Leases and factoring	3,833,890	3,666,579	167,311	4.56
Other transactions	10,199,268	10,117,222	82,046	0.81
Net loans to customers	**52,006,038**	**47,050,942**	**4,955,096**	**10.53**

Loans to customers, net of adjustments, total Euro 52,006.0 million (Euro 47,050.9 million at 31 December 2018) up by Euro 4,955.1 million since 31 December 2018 due to the business combinations carried out in the third quarter of the year (Euro 8,298.9 million of net loans acquired at 1st of July 2019, after completion of the Purchase Price Allocation).

Net loans to customers in millions



(in thousands)

Captions	31.12.2019	31.12.2018	Change	% Change
Gross non-performing exposures	**6,122,541**	**7,045,555**	**(923,014)**	**-13.10**
Bad loans	3,448,761	4,338,160	(889,399)	-20.50
Unlikely to pay loans	2,478,777	2,638,374	(159,597)	-6.05
Past due loans	195,003	69,021	125,982	182.53
Gross performing exposures	**49,169,481**	**44,011,304**	**5,158,177**	**11.72**
Total gross exposure	**55,292,022**	**51,056,859**	**4,235,163**	**8.29**
Impairment provisions for non-performing exposures	**3,124,116**	**3,841,000**	**(716,884)**	**-18.66**
Bad loans	2,277,480	2,889,903	(612,423)	-21.19
Unlikely to pay loans	818,231	942,585	(124,354)	-13.19
Past due loans	28,405	8,512	19,893	233.71
Impairment provisions for performing exposures	**161,868**	**164,917**	**(3,049)**	**-1.85**
Total impairment provisions	**3,285,984**	**4,005,917**	**(719,933)**	**-17.97**
Net non-performing exposures	**2,998,425**	**3,204,555**	**(206,130)**	**-6.43**
Bad loans	1,171,281	1,448,257	(276,976)	-19.12
Unlikely to pay loans	1,660,546	1,695,789	(35,243)	-2.08
Past due loans	166,598	60,509	106,089	175.33
Net performing exposures	**49,007,613**	**43,846,387**	**5,161,226**	**11.77**
Total net exposure	**52,006,038**	**47,050,942**	**4,955,096**	**10.53**

At 31 December 2019, the provisions relating to non-performing loans amount to Euro 3,124.1 million (Euro 3,841 million at 31 December 2018; -18.66%), for a coverage ratio of 51.03% (54.52% at 31 December 2018), while provisions relating to performing loans amount to Euro 161.9 million (Euro 164.9 million at 31 December 2018; -1.85%), leading to a coverage ratio of 0.33% (0.37% at 31 December 2018), which reflects the general improvement in credit quality of the Group's performing portfolio.
Considering the direct write-offs of bad loans still outstanding, Euro 444.0 million (Euro 727.4 million at 31 December 2018), the coverage ratio increases to 54.34% (58.77% at 31 December 2018).

The total coverage ratio is therefore 5.94%, down compared with 7.85% at 31 December 2018. Based on the same considerations set out above concerning direct write-offs, the total effective coverage of loans comes to 6.69% (9.14% at 31 December 2018).

(in thousands)

Loans to customers	31.12.2019		31.12.2018		%	%	%
	Gross	Net	Gross	Net	Gross change	Net change	Coverage ratio
1. BPER Banca S.p.A.	43,119,832	40,829,483	39,677,286	36,673,479	8.68	11.33	5.31
2. BPER Bank Luxembourg s.a.	248,608	240,039	236,743	229,163	5.01	4.75	3.45
3. Banca di Sassari s.p.a.	1,299,644	1,282,601	930,338	919,329	39.70	39.51	1.31
4. Banco di Sardegna s.p.a.	8,052,242	7,550,322	7,772,814	7,231,641	3.59	4.41	6.23
5. Cassa di Risparmio di Bra s.p.a.	1,148,305	1,024,404	1,183,697	1,060,168	-2.99	-3.37	10.79
6. Cassa di Risparmio di Saluzzo s.p.a.	603,265	568,555	636,243	597,273	-5.18	-4.81	5.75
Total banks	**54,471,896**	**51,495,404**	**50,437,121**	**46,711,053**	**8.00**	**10.24**	**5.46**
7. Sardaleasing s.p.a.	3,356,780	3,081,446	3,377,874	3,116,700	-0.62	-1.13	8.20
8. Emil-Ro Factor s.p.a.	1,090,696	1,071,966	877,339	858,664	24.32	24.84	1.72
9. Finitalia S.p.a.	593,824	578,396	-	-	n.s.	n.s.	2.60
Other companies and consolidation adjustments	(4,221,174)	(4,221,174)	(3,635,475)	(3,635,475)	16.11	16.11	-
Total of balance sheet	**55,292,022**	**52,006,038**	**51,056,859**	**47,050,942**	**8.29**	**10.53**	**5.94**

Net non-performing loans amount to Euro 2,998.4 million (-6.43%), equating to 5.77% of total net loans to customers (6.81% at 31 December 2018), whereas, on a gross basis, the non-performing loans on loans to customers ratio equates to 11.07% (13.80% at 31 December 2018).
More specifically, net bad loans amount to Euro 1,171.3 million (-19.12%), net unlikely to pay loans total Euro 1,660.5 million (-2.08%) and net past due loans amount to Euro 166.6 million (+175.33%).
The net non-performing loans acquired on the absorption of Unipol Banca amount to Euro 309.6 million following completion of the Purchase Price Allocation; more specifically, bad loans amount to Euro 21.8 million, unlikely to pay loans total Euro 257.4 million and past due loans total Euro 30.4 million.
The coverage ratio, 51.03%, was down compared with 31 December 2018 (54.52%), mainly due to the sale of a portfolio of bad loans to UnipolReC with a gross amount of around Euro 1 billion, as reported in the section on "Significant events and strategic transactions", as well as to the recognition of former Unipol Banca non-performing loans directly at their fair value, without any provisions.

(in thousands)

Non-performing loans	31.12.2019		31.12.2018		% Gross change	% Net change	% Coverage ratio
	Gross	Net	Gross	Net			
1. BPER Banca S.p.A.	4,123,336	1,951,565	4,905,782	2,028,553	-15.95	-3.80	52.67
2. BPER Bank Luxembourg s.a.	9,898	1,776	13,514	6,318	-26.76	-71.89	82.06
3. Banca di Sassari s.p.a.	35,434	23,397	12,502	6,304	183.43	271.15	33.97
4. Banco di Sardegna s.p.a.	983,153	497,976	1,101,353	578,967	-10.73	-13.99	49.35
5. Cassa di Risparmio di Bra s.p.a.	235,957	114,300	248,292	127,576	-4.97	-10.41	51.56
6. Cassa di Risparmio di Saluzzo s.p.a.	62,660	29,349	77,388	40,120	-19.03	-26.85	53.16
Total banks	**5,450,438**	**2,618,363**	**6,358,831**	**2,787,838**	**-14.29**	**-6.08**	**51.96**
7. Sardaleasing s.p.a.	624,791	360,570	651,179	398,386	-4.05	-9.49	42.29
8. Emil-Ro Factor s.p.a.	29,109	12,494	35,545	18,331	-18.11	-31.84	57.08
9. Finitalia S.p.a.	18,203	6,998	-	-	n.s.	n.s.	61.56
Total of balance sheet	**6,122,541**	**2,998,425**	**7,045,555**	**3,204,555**	**-13.10**	**-6.43**	**51.03**
Direct write-offs of bad loans	444,039	-	727,371	-	-38.95	n.s.	100.00
Adjusted total	**6,566,580**	**2,998,425**	**7,772,926**	**3,204,555**	**-15.52**	**-6.43**	**54.34**
Non-performing loans (Total of balance sheet)/Loans to customers	**11.07%**	**5.77%**	**13.80%**	**6.81%**			

Net bad loans amount to Euro 1,171.3 million (-19.12%), representing 2.25% of total net loans to customers (3.08% at 31 December 2018), whereas, on a gross basis, the bad loans on total loans to customers ratio comes to 6.24% (8.50% at 31 December 2018).
The coverage of bad loans is 66.04%, in line with 66.62% at 31 December 2018.

(in thousands)

Bad loans	31.12.2019		31.12.2018		%	%	%
	Gross	Net	Gross	Net	Gross change	Net change	Coverage ratio
1. BPER Banca S.p.A.	2,285,012	724,625	3,071,119	894,519	-25.60	-18.99	68.29
2. BPER Bank Luxembourg s.a.	6,004	262	5,734	262	4.71	-	95.64
3. Banca di Sassari s.p.a.	7,312	1,521	5,393	1,061	35.58	43.36	79.20
4. Banco di Sardegna s.p.a.	613,293	249,194	690,969	314,947	-11.24	-20.88	59.37
5. Cassa di Risparmio di Bra s.p.a.	138,034	40,474	148,600	50,368	-7.11	-19.64	70.68
6. Cassa di Risparmio di Saluzzo s.p.a.	40,846	11,760	46,256	14,878	-11.70	-20.96	71.21
Total banks	**3,090,501**	**1,027,836**	**3,968,071**	**1,276,035**	**-22.12**	**-19.45**	**66.74**
7. Sardaleasing s.p.a.	321,987	131,725	343,247	162,016	-6.19	-18.70	59.09
8. Emil-Ro Factor s.p.a.	23,613	7,647	26,842	10,206	-12.03	-25.07	67.62
9. Finitalia S.p.a.	12,660	4,073	-	-	n.s.	n.s.	67.83
Total of balance sheet	**3,448,761**	**1,171,281**	**4,338,160**	**1,448,257**	**-20.50**	**-19.12**	**66.04**
Direct write-offs of bad loans	444,039	-	727,371	-	-38.95	n.s.	100.00
Adjusted total	**3,892,800**	**1,171,281**	**5,065,531**	**1,448,257**	**-23.15**	**-19.12**	**69.91**
Bad loans (Total of balance sheet)/Loans to customers	**6.24%**	**2.25%**	**8.50%**	**3.08%**			

Net unlikely-to-pay loans total Euro 1,660.5 million (-2.08%), representing 3.19% of total net loans to customers (3.60% at 31 December 2018), while on a gross basis the ratio is 4.48% (5.17% at 31 December 2018).
The coverage of unlikely-to-pay loans has decreased since the end of 2018 to 33.01%, compared with 35.73% at 31 December 2018.

(in thousands)

Unlikely to pay loans	31.12.2019		31.12.2018		%	%	%
	Gross	Net	Gross	Net	Gross change	Net change	Coverage ratio
1. BPER Banca S.p.A.	1,734,539	1,136,127	1,807,840	1,111,408	-4.05	2.22	34.50
2. BPER Bank Luxembourg s.a.	3,894	1,514	7,780	6,056	-49.95	-75.00	61.12
3. Banca di Sassari s.p.a.	7,139	4,715	3,986	2,585	79.10	82.40	33.95
4. Banco di Sardegna s.p.a.	332,535	216,927	396,181	251,804	-16.06	-13.85	34.77
5. Cassa di Risparmio di Bra s.p.a.	90,274	67,868	97,139	74,947	-7.07	-9.45	24.82
6. Cassa di Risparmio di Saluzzo s.p.a.	21,690	17,484	31,068	25,188	-30.19	-30.59	19.39
Total banks	**2,190,071**	**1,444,635**	**2,343,994**	**1,471,988**	**-6.57**	**-1.86**	**34.04**
7. Sardaleasing s.p.a.	281,588	210,722	292,189	222,086	-3.63	-5.12	25.17
8. Emil-Ro Factor s.p.a.	4,600	4,003	2,191	1,715	109.95	133.41	12.98
9. Finitalia S.p.a.	2,518	1,186	-	-	n.s.	n.s.	52.90
Total of balance sheet	**2,478,777**	**1,660,546**	**2,638,374**	**1,695,789**	**-6.05**	**-2.08**	**33.01**
Unlikely to pay loans/Loans to customers	**4.48%**	**3.19%**	**5.17%**	**3.60%**			

The net amount of past due loans is Euro 166.6 million, significantly increased (+175.33%) as consequence to application of the "New Definition of Default – NDoD", and represents 0.32% of total net loans to customers (0.13% at 31 December 2018), while, on a gross basis, the ratio of past due loans on total loans to customers is 0.35% (0.14% at 31 December 2018). The coverage of past due loans is 14.57% (12.33% at 31 December 2018).

(in thousands)

Past due loans	31.12.2019		31.12.2018		%	%	%
	Gross	Net	Gross	Net	Gross change	Net change	Coverage ratio
1. BPER Banca S.p.A.	103,785	90,813	26,823	22,626	286.93	301.37	12.50
2. Banca di Sassari s.p.a.	20,983	17,161	3,123	2,658	571.89	545.64	18.21
3. Banco di Sardegna s.p.a.	37,325	31,855	14,203	12,216	162.80	160.76	14.66
4. Cassa di Risparmio di Bra s.p.a.	7,649	5,958	2,553	2,261	199.61	163.51	22.11
5. Cassa di Risparmio di Saluzzo s.p.a.	124	105	64	54	93.75	94.44	15.32
Total banks	**169,866**	**145,892**	**46,766**	**39,815**	**263.23**	**266.42**	**14.11**
6. Sardaleasing s.p.a.	21,216	18,123	15,743	14,284	34.76	26.88	14.58
7. Emil-Ro Factor s.p.a.	896	844	6,512	6,410	-86.24	-86.83	5.80
8. Finitalia S.p.a.	3,025	1,739	-	-	n.s.	n.s.	42.51
Total of balance sheet	**195,003**	**166,598**	**69,021**	**60,509**	**182.53**	**175.33**	**14.57**
Past due loans/Loans to customers	**0.35%**	**0.32%**	**0.14%**	**0.13%**			

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

(in thousands)

Distribution of loans to non-financial corporates	31.12.2019	%
A. Agriculture, forestry and fishing	848,309	1.63
B. Mining and quarrying	38,258	0.07
C. Manufacturing	7,411,084	14.27
D. Provision of electricity, gas, steam and air-conditioning	657,765	1.26
E. Provision of water, sewerage, waste management and rehabilitation	338,988	0.65
F. Construction	2,417,385	4.65
G. Wholesaling and retailing, car and motorcycle repairs	4,655,976	8.95
H. Transport and storage	922,480	1.77
I. Hotel and restaurants	1,319,977	2.54
J. Information and communication	314,345	0.60
L. Real estate	3,140,580	6.04
M. Professional, scientific and technical activities	752,439	1.45
N. Rentals, travel agencies, business support services	1,065,936	2.05
O. Public administration and defence, compulsory social security	7,280	0.01
P. Education	28,010	0.05
Q. Health and welfare	356,895	0.69
R. Arts, sport and entertainment	171,219	0.33
S. Other services	373,272	0.72
Total loans to non-financial corporates	**24,820,198**	**47.73**
Individuals and other not included above	21,191,159	40.75
Financial corporates	3,599,739	6.92
Insurance companies	42,900	0.08
Governments and other public entities	2,352,042	4.52
Total loans	**52,006,038**	**100.00**

Financial assets and equity investments

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

(in thousands)

Captions	31.12.2019	31.12.2018	Change	% Change
Financial assets measured at fair value through profit or loss	1,094,324	1,128,625	(34,301)	-3.04
- of which derivatives	*142,662*	*90,659*	*52,003*	*57.36*
Financial assets measured at fair value through other comprehensive income	6,556,202	8,560,568	(2,004,366)	-23.41
Debt securities measured at amortised cost	11,306,380	7,462,891	3,843,489	51.50
a) banks	2,744,570	1,766,169	978,401	55.40
b) customers	8,561,810	5,696,722	2,865,088	50.29
Total financial assets	**18,956,906**	**17,152,084**	**1,804,822**	**10.52**

Financial assets total Euro 18,956.9 million (Euro 1,459.1 million acquired in 2019 via the business combinations), of which Euro 17,993.5 million (94.92% of the total) consists of debt securities: of these, Euro 8,307.2 million relates to sovereign States and Central Banks (+25.51% compared with 31 December 2018) and Euro 6,874.5 million to Banks (+2.95%).
Equity instruments come to Euro 356.5 million (1.88% of the total), inclusive of Euro 225.0 million of stable equity investments classified in the FVOCI portfolio.
"Financial assets held for trading" include financial derivatives of Euro 142.7 million (+57.36% compared with 31 December 2018) made up of derivatives linked to debt securities classified in "Financial assets measured at fair value through profit or loss" and forward transactions in foreign currencies (traded with customers and/or used in managing the foreign exchange position), interest rate and foreign exchange derivatives intermediated with customers, derivatives related to securitisations and other operational hedging derivatives. At 31 December 2019 the Group has not entered into any of the "long-term structured repo transactions" mentioned in the document issued jointly by the Bank of Italy, CONSOB and IVASS on 8 March 2013.

(in thousands)

Financial assets	31.12.2019	31.12.2018	Change	% Change
1. BPER Banca S.p.A.	16,829,319	15,084,004	1,745,315	11.57
2. BPER Bank Luxembourg s.a.	152,243	172,973	(20,730)	-11.98
3. Banca di Sassari s.p.a.	10,956	7,686	3,270	42.54
4. Banco di Sardegna s.p.a.	1,578,812	1,457,923	120,889	8.29
5. Cassa di Risparmio di Bra s.p.a.	110,072	149,394	(39,322)	-26.32
6. Cassa di Risparmio di Saluzzo s.p.a.	273,171	255,873	17,298	6.76
Total banks	**18,954,573**	**17,127,853**	**1,826,720**	**10.67**
Other companies and consolidation adjustments	2,333	24,231	(21,898)	-90.37
Total	**18,956,906**	**17,152,084**	**1,804,822**	**10.52**

(in thousands)

Captions	31.12.2019	31.12.2018	Change	% Change
Equity investments	225,869	446,049	(220,180)	-49.36
of which subsidiaries	*6,712*	*27,507*	*(20,795)*	*-75.60*
of which associates	*219,157*	*418,542*	*(199,385)*	*-47.64*

Following the alignment of the consolidation methodologies described in Part A of the Explanatory notes, this caption comprises significant investments (non-Group companies subject to considerable influence being, usually, investments in which the equity interest is greater than or equal to 20%), subsidiaries that are not members of the Banking Group since they do not contribute to its banking activities, and Group companies not meeting the requirements of art. 19 of EU Regulation 575/2013 that are measured using the equity method.
Among the subsidiaries, the investment in Banca Farnese s.p.a. in liquidation has been classified among the Financial assets mandatorily measured at fair value, given the advanced stage of the liquidation process.
The change in associates principally relates to the acquisition of control over Arca Holding s.p.a. and the results of the impairment test that required impairment losses totalling Euro 8.4 million; these events also influenced the value of the implicit goodwill embedded in the carrying amount of "Equity investments", which has fallen to Euro 6.9 million (Euro 112.3 million at 31 December 2018).

Fixed assets

(in thousands)

Captions	31.12.2019	31.12.2018	Change	% Change
Intangible assets	669,847	445,689	224,158	50.29
of which goodwill	*434,758*	*264,740*	*170,018*	*64.22*

Intangible assets include goodwill for a total of Euro 434.8 million, up compared with the previous year due to recognition of the goodwill of Arca Holding (Euro 170 million) following completion of the PPA (Purchase Price Allocation). The table shows the amounts of goodwill recorded at 31 December 2019:

(in thousands)

Goodwill	31.12.2019	31.12.2018
1. Group companies	**434,758**	**264,740**
1.1 Banks	**32,180**	**32,180**
- Banco di Sardegna s.p.a.	27,606	27,606
- Cassa di Risparmio di Bra s.p.a.	4,574	4,574
1.2 Parent Company BPER Banca	**225,792**	**225,792**
1.3 Other companies	**176,786**	**6,768**
- Emilia Romagna Factor s.p.a.	6,768	6,768
- Arca Holding s.p.a.	170,018	-
Total	**434,758**	**264,740**

The BPER Banca CGU includes goodwill arising from bank acquisitions and subsequent mergers by absorption in past years, as well as goodwill relating to purchases of bank branches from the Unicredit Group.
The impairment test, carried out pursuant to IAS 36 when preparing the 2019 financial statements, did not identify any requirement to recognise impairment loss on goodwill while, among the other intangible assets, the core deposit identified on the PPA carried out following the acquisition of Cassa di Risparmio di Saluzzo (Euro 5 million) was fully written off.

(in thousands)

Captions	31.12.2019	31.12.2018	Change	% Change
Property, plant and equipment	1,369,724	1,063,273	306,451	28.82
of which owned land and buildings	*916,771*	*915,575*	*1,196*	*0.13*
of which rights of use acquired with leasing	*302,573*	*13,783*	*288,790*	*--*

The increase reflects the application of IFRS 16, given the decision of the BPER Banca Group to transition to IFRS 16 without restating the comparative amounts; the amounts reported at 31 December 2018 relate to assets acquired under finance leases and recognised in accordance with IAS 17.

Interbank and liquidity position

(in thousands)

Net interbank position	31.12.2019	31.12.2018	Change	% Change
A. Loans to banks	**2,321,809**	**1,540,509**	**781,300**	**50.72**
1. Current accounts and deposits	441,913	169,438	272,475	160.81
2. Reverse repurchase agreements	-	-	-	n.s.
3. Other	1,879,896	1,371,071	508,825	37.11
B. Due to banks	**12,213,133**	**13,126,248**	**(913,115)**	**-6.96**
Total (A-B)	**(9,891,324)**	**(11,585,739)**	**1,694,415**	**-14.63**

The following table gives details of such operations with the ECB. Compared with 31 December 2018, the balance includes the quota taken up by Unipol Banca, which was absorbed by the Parent Company on 25 November 2019.

(in millions)

Refinancing transactions with the European Central Bank	Capital	Maturity
1. Targeted Long Term Refinancing Operation (TLTRO-II) -BPER Banca	4,400	24.06.2020
2. Targeted Long Term Refinancing Operation (TLTRO-II) - CR Saluzzo	95	24.06.2020
3. Targeted Long Term Refinancing Operation (TLTRO-II) - BPER Banca	1,000	16.12.2020
4. Targeted Long Term Refinancing Operation (TLTRO-II) -BPER Banca	4,136	24.03.2021
5. Targeted Long Term Refinancing Operation (TLTRO-II) - CR Saluzzo	34	24.03.2021
Total	**9,665**	

The BPER Banca Group has therefore obtained Euro 9,665 million of TLTRO II loans, against a loan limit of Euro 10,991 million, with a valuation at 31 December 2019 of Euro 9,542 million, after deducting accrued interest income.

At 31 December 2019, 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 20,911 million (Euro 18,716 million at 31 December 2018). The available portion amounts to Euro 10,363 million (Euro 5,692 million at 31 December 2018).

(in millions)

Counterbalancing Capacity	Nominal value	Guarantee value	Restricted portion	Available portion
Eligible securities and loans		**20,911**	**10,548**	**10,363**
1 Securities as collateral for own and third-party commitments		363	363	
2 Securities subject to funding repurchase agreements		643	643	
3 Securities and loans not transferred to the Pooling Account		8,507		8,507
4 Securities and loans transferred to the Pooling Account		11,398	9,542	1,856
of which:				
Own securitisations	*1,938*	*1,757*		
Guaranteed Bank Bonds issued by the Bank	*3,400*	*2,858*		
COllateralized BAnk Assets	*4,950*	*2,762*		

As summarised in the table, at 31 December 2019, the Pooling account of the Central Treasury possessed significant resources relating to securities eligible for refinancing by the European Central Bank, of an overall amount, net of margin call, of Euro 11,398 million, of which Euro 9,542 million has been refinanced (Euro 1,856 million is still available).

These include:

- securities from self-securitisations of performing residential mortgage portfolios given to the Bank's own customers (currently Euro 1,433.2 million, eligible for refinancing up to Euro 1,297.1 million), using the special purpose vehicles Dedalo s.r.l., Sardegna RE Finance s.r.l. and Grecale s.r.l.;
- securities from self-securitisations of performing loans portfolios given to the Bank's own customers in the small and medium-sized businesses segment (currently Euro 504.8 million, eligible for refinancing up to Euro 459.8 million), using the special purpose vehicle Multi Lease AS s.r.l.;
- Guaranteed Bank Bonds issue by the Bank with a nominal value of Euro 3,400 million, eligible for refinancing up to Euro 2,858.3 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 4,949.6 million at 31 December 2019, of which Euro 2,761.7 million eligible for refinancing.

Liabilities and shareholders' equity

(in thousands)

Liabilities and shareholders' equity	31.12.2019	31.12.2018	Change	% Change
Due to banks	12,213,133	13,126,248	(913,115)	-6.96
Direct deposits	58,055,608	49,996,419	8,059,189	16.12
a) Due to customers	52,220,719	44,594,863	7,625,856	17.10
b) Debt securities issued	5,834,889	5,401,556	433,333	8.02
Financial liabilities held for trading	165,970	143,824	22,146	15.40
Hedging derivatives	294,114	92,374	201,740	218.39
Other liabilities	3,013,126	2,379,334	633,792	26.64
Minority interests	131,662	507,457	(375,795)	-74.05
Shareholders' equity pertaining to the Parent Company	5,159,885	4,389,111	770,774	17.56
a) Valuation reserves	37,750	949	36,801	--
b) Reserves	2,035,205	1,619,469	415,736	25.67
c) Equity instruments	150,000	-	150,000	n.s.
d) Share premium reserve	1,002,722	930,073	72,649	7.81
e) Share capital	1,561,884	1,443,925	117,959	8.17
f) Treasury shares	(7,259)	(7,258)	(1)	0.01
g) Profit (Loss) for the year	379,583	401,953	(22,370)	-5.57
Total liabilities and shareholders' equity	**79,033,498**	**70,634,767**	**8,398,731**	**11.89**

Deposits

(in thousands)

Captions	31.12.2019	31.12.2018	Change	% Change
Current accounts and demand deposits	47,724,679	37,413,210	10,311,469	27.56
Time deposits	954,077	1,901,381	(947,304)	-49.82
Repurchase agreements	238,736	2,539,391	(2,300,655)	-90.60
Lease liabilities	306,037	11,883	294,154	--
Other short-term loans	2,997,190	2,728,998	268,192	9.83
Bonds	5,089,892	3,990,573	1,099,319	27.55
- subscribed by institutional customers	3,278,364	2,531,595	746,769	29.50
- subscribed by ordinary customers	1,811,528	1,458,978	352,550	24.16
Certificates	36,541	52,672	(16,131)	-30.63
Certificates of deposit	708,456	1,358,311	(649,855)	-47.84
Direct deposits from customers	**58,055,608**	**49,996,419**	**8,059,189**	**16.12**
Indirect deposits (off-balance sheet figure)	110,623,352	36,257,418	74,365,934	205.11
- of which managed	41,714,305	19,330,962	22,383,343	115.79
- of which administered	68,909,047	16,926,456	51,982,591	307.11
Customer funds under administration	**168,678,960**	**86,253,837**	**82,425,123**	**95.56**
Bank borrowing	12,213,133	13,126,248	(913,115)	-6.96
Funds under administration or management	**180,892,093**	**99,380,085**	**81,512,008**	**82.02**

Direct deposits from customers of Euro 58,055.6 million have increased by 16.12%.The increase was mainly influenced by the contribution of Unipol Banca (Euro 9,955.2 million acquired on 1st of July 2019 following completion of the Purchase Price Allocation), as well as by the recognition of lease liabilities, as a technicality involved in the application of IFRS 16.
Among the various technical forms, bonds have increased by Euro 1,099.3 million (27.55%), following new covered bond issues and acquisition of the loans issued by Unipol Banca (Euro 1,263.4 million acquired on 1st of July 2019 following the Purchase Price Allocation), and current accounts have increased by Euro 10,311.5 million (+27.56%), also due to the acquisition of direct funding from Unipol Banca.

By contrast, repurchase agreements have decreased by Euro 2,300.7 million (-90.60%), following the termination of certain relationships with institutional customers, certificates of deposit by Euro 649.9 million (-47.84%) and time deposits by Euro 947.3 million (-49.82%).
Indirect deposits from customers, marked to market, total Euro 110,623.4 million, up from 31 December 2018 (+205.11%) due to the significant contribution made by Unipol Banca (Euro 51,898 million at 1st of July 2019) and Arca Fondi SGR (Euro 29,822.5 million at 31 December 2019, of which around Euro 12,686.4 million previously placed by the Group banks).
Total funds under administration or management by the Group, including bank borrowing (Euro 12,213.1 million) amount to Euro 180,892.1 million.

(in thousands)

Direct deposits	31.12.2019	31.12.2018	Change	% Change
1. BPER Banca S.p.A.	45,859,374	36,292,280	9,567,094	26.36
2. BPER Bank Luxembourg s.a.	817,559	900,837	(83,278)	-9.24
3. Banca di Sassari s.p.a.	133,271	124,905	8,366	6.70
4. Banco di Sardegna s.p.a.	10,009,648	11,229,434	(1,219,786)	-10.86
5. Cassa di Risparmio di Bra s.p.a.	783,123	803,429	(20,306)	-2.53
6. Cassa di Risparmio di Saluzzo s.p.a.	685,005	727,329	(42,324)	-5.82
Total banks	**58,287,980**	**50,078,214**	**8,209,766**	**16.39**
Other companies and consolidation adjustments	(232,372)	(81,795)	(150,577)	184.09
Total	**58,055,608**	**49,996,419**	**8,059,189**	**16.12**

Direct deposits include subordinated liabilities:

(in thousands)

Captions	31.12.2019	31.12.2018	Change	% Change
Non-convertible subordinated liabilities	761,177	775,973	(14,796)	-1.91
Total subordinated liabilities	**761,177**	**775,973**	**(14,796)**	**-1.91**

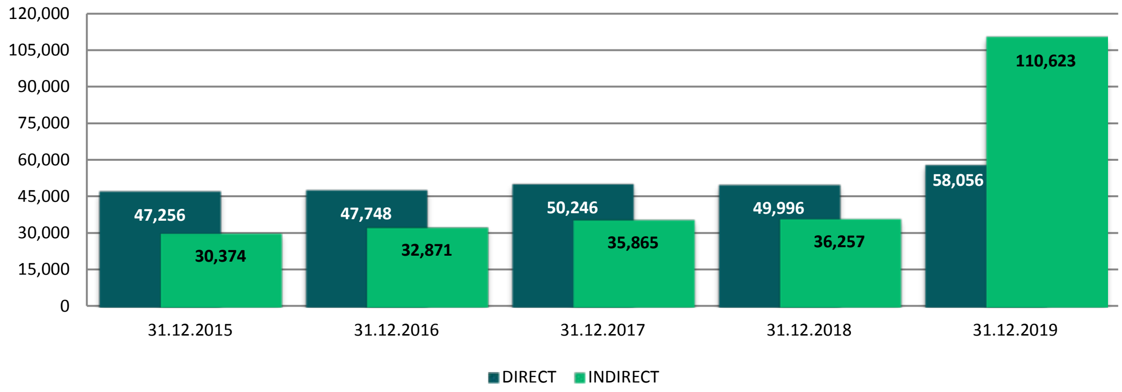
There are no convertible subordinated liabilities at 31 December 2019 (as at 31 December 2018).

(in thousands)

Indirect deposits	31.12.2019	31.12.2018	Change	% Change
1. BPER Banca S.p.A.	88,416,773	31,978,280	56,438,493	176.49
2. BPER Bank Luxembourg s.a.	575,377	624,615	(49,238)	-7.88
3. Banco di Sardegna s.p.a.	4,750,082	4,025,753	724,329	17.99
4. Cassa di Risparmio di Bra s.p.a.	558,599	504,858	53,741	10.64
5. Cassa di Risparmio di Saluzzo s.p.a.	379,962	312,859	67,103	21.45
Total banks	**94,680,793**	**37,446,365**	**57,234,428**	**152.84**
6. Arca Fondi SGR s.p.a.	29,822,478	-	29,822,478	n.s.
Other companies and consolidation adjustments	(13,879,919)	(1,188,947)	(12,690,972)	--
Total	**110,623,352**	**36,257,418**	**74,365,934**	**205.11**

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

Deposits in millions



Indirect deposits do not include the placement of insurance policies; total customer assets invested in insurance products have risen by 36.10% since 31 December 2018, mainly due to the contribution of Unipol Banca and Arca Holding, as well as the good performance in terms of net inflows for the life insurance products during the year.

(in thousands)

Bancassurance	31.12.2019	31.12.2018	Change	% Change
Insurance premiums portfolio	**6,937,036**	**5,097,170**	**1,839,866**	**36.10**
- of which life sector	*6,821,131*	*4,993,428*	*1,827,703*	*36.60*
- of which non-life sector	*115,905*	*103,742*	*12,163*	*11.72*

If life insurance premiums are added to the managed portion of indirect deposits, the total comes to Euro 48,535.4 million, which represents 41.33% of the overall total of indirect deposits and life insurance premiums (Euro 117,444.5 million).

Shareholders' equity

(in thousands)

Captions	31.12.2019	31.12.2018	Change	% Change
Shareholders' equity pertaining to the Parent Company	**5,159,885**	**4,389,111**	**770,774**	**17.56**
- of which profit (loss) for the year	*379,583*	*401,953*	*(22,370)*	*-5.57*
- of which shareholders' equity excluding profit (loss) for the year	*4,780,302*	*3,987,158*	*793,144*	*19.89*

(in thousands)

Captions	31.12.2019	31.12.2018	Change	% Change
Minority interests	**131,662**	**507,457**	**(375,795)**	**-74.05**
- of which profit (loss) for the year pertaining to minority interests	*14,869*	*43,837*	*(28,968)*	*-66.08*
- of which shareholders' equity pertaining to minority interests excluding their share of profit (loss) for the year	*116,793*	*463,620*	*(346,827)*	*-74.81*

(in thousands)

Shareholders' equity	31.12.2019	31.12.2018	Change	% Change
1. BPER Banca S.p.A.	4,611,346	4,081,335	530,011	12.99
2. BPER Bank Luxembourg s.a.	59,480	55,433	4,047	7.30
3. Banca di Sassari s.p.a.	273,856	263,982	9,874	3.74
4. Banco di Sardegna s.p.a.	925,866	862,082	63,784	7.40
5. Cassa di Risparmio di Bra s.p.a.	65,292	54,525	10,767	19.75
6. Cassa di Risparmio di Saluzzo s.p.a.	51,694	46,529	5,165	11.10
Total banks	**5,987,534**	**5,363,886**	**623,648**	**11.63**
Other companies and consolidation adjustments	(1,090,439)	(913,108)	(177,331)	19.42
Total	**4,897,095**	**4,450,778**	**446,317**	**10.03**
Profit (Loss) for the year pertaining to the Parent Company	379,583	401,953	(22,370)	-5.57
Profit (loss) for the year pertaining to minority interests	14,869	43,837	(28,968)	-66.08
Total shareholders' equity	**5,291,547**	**4,896,568**	**394,979**	**8.07**

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

The total net tangible shareholders' equity (after deduction of intangible assets of Euro 669.8 million) amounted to Euro 4,621.7 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.

On 31 December 2019, the BPER Banca Group adopted internal models for measuring the capital requirements relating to the credit risk represented by both business and retail customers. The scope[33] of the models includes BPER Banca, Banco di Sardegna and Banca di Sassari and, from the first quarter of 2019, also Cassa di Risparmio di BRA. Sardaleasing and Cassa di Risparmio di Saluzzo are formally included in the roll-out plan and will adopt the IRB Approach as scheduled in the plan. The other BPER Banca Group companies and asset classes not included in the roll-out plan will continue to use the Standardised Approach.
The use of internal models has given rise to an increase in the capital buffer over and above the ECB's minimum requirement at the time of 2018 SREP in force from 1 March 2019 (9% Phased In and Fully Phased).

[33] *The ECB authorised the use of internal models on 24 June 2016.*

At 31 December 2019 the Common Equity Tier 1 Ratio requirement to be complied with was equal to 9.018% Phased In and Fully Phased, as it was also influenced by the additional requirement constituted by the specific countercyclical capital reserve of the BPER Banca Group of 0.018% at 31 December 2019. Compared with that limit, the amount of available equity at 31 December 2019 can be quantified at Euro 1,699 million (about 489 bps of CET1) under the Phased In transitional arrangements, while on a Fully Phased basis it can be put at Euro 1,035 million, about 299 bps.

With regard to the above, we note that the amount of CET1 has been calculated taking into account the portion of the profit for the year allocable to equity, totalling Euro 306.7 million, 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) for the purpose of its computability.

The following table shows the BPER Banca Group's capital ratios and the minimum capital adequacy requirements for regulatory purposes as at 31 December 2019.

(in thousands)

	31.12.2019 Fully Phased	31.12.2019 Phased in	31.12.2018 Fully Phased	31.12.2018 Phased in	Change in Phased in	% Change
Common Equity Tier 1 capital-CET1	4,154,505	4,828,807	3,642,754	4,367,711	461,096	10.56
Additional Tier 1 capital - AT1	152,092	152,092	31,554	31,554	120,538	382.01
Tier 1 capital - Tier 1	**4,306,597**	**4,980,899**	**3,674,308**	**4,399,265**	**581,634**	**13.22**
Tier 2 capital - Tier 2 - T2	858,760	859,015	878,992	879,587	(20,572)	-2.34
Total Own Funds	**5,165,357**	**5,839,914**	**4,553,300**	**5,278,852**	**561,062**	**10.63**
Total Risk-weighted assets (RWA)	**34,579,423**	**34,721,277**	**30,489,167**	**30,606,171**	**4,115,106**	**13.45**
CET1 Ratio (CET1/RWA)	**12.01%**	**13.91%**	**11.95%**	**14.27%**	**- 36 bps**	
Tier 1 Ratio (Tier 1/RWA)	**12.45%**	**14.35%**	**12.05%**	**14.37%**	**-2 bps**	
Total Capital Ratio (Total Own Funds/RWA)	**14.94%**	**16.82%**	**14.93%**	**17.25%**	**-43 bps**	
RWA/Total assets	**43.75%**	**43.93%**	**43.16%**	**43.33%**	**60 bps**	

The capital ratios are as follows:

- Common Equity Tier 1 Ratio (Phased In) of 13.91% (13.10% at 30 September 2019, 14.33% at 30 June 2019, 14.24% at 31 March 2019 and 14.27% at 31 December 2018). The ratio calculated on Fully Phased basis is equal to 12.01% (11.28% at 30 September 2019, 12.33% at 30 June 2019, 12.24% at 31 March 2019 and 11.95% at 31 December 2018);
- Phased In Tier 1 ratio of 14.35% (13.55% at 30 September 2019, 14.42% at 30 June 2019, 14.32% at 31 March 2019 and 14.37% at 31 December 2018);
- Total Capital ratio (Phased In) of 16.82% (16.12% at 30 September 2019, 17.32% at 30 June 2019, 17.23% at 31 March 2019 and 17.25% at 31 December 2018).

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, Banca di Sassari and Cassa di Risparmio di BRA, 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 standardized approach has been maintained;
- credit down-rating risk - the standardized approach is used;

- market risk - the standardized approach is used for assessing market risk (general and specific risk on equities, general risk on debt securities and positioning risk for units in investment funds) to determine the related individual and consolidated capital requirement;
- operational risk - operational risk measurement uses the standardized approach (TSA).

6.3 Reconciliation of consolidated net profit/shareholders' equity

Consolidated net profit pertaining to the Parent Company comprises, on shareholding basis, the sum of profits (losses) at 31 December 2019 of the following Group banks and companies included in the scope of line-by-line consolidation.

(in thousands)

Reconciliation of consolidated profit (loss) for the year	31.12.2019
BPER Banca S.p.A.	**385,435**
Other Group companies:	**(25,192)**
BPER Bank Luxembourg s.a.	*5,100*
Banco di Sardegna s.p.a. (consolidated figure)	*(24,585)*
Banca di Sassari s.p.a.	*9,027*
Cassa di Risparmio di Bra s.p.a.	*732*
Cassa di Risparmio di Saluzzo s.p.a.	*584*
Finitalia s.p.a.	*3,544*
Nadia s.p.a.	*(10,858)*
Optima s.p.a. SIM	*4,615*
Modena Terminal s.r.l.	*664*
Emilia Romagna Factor s.p.a.	*4,999*
Sardaleasing s.p.a.	*(31,243)*
BPER Credit Management s.c.p.a.	*(19)*
Arca Holding s.p.a. (consolidated figure)	*12,248*
Total profit (loss) of the Group	**360,243**
Consolidation adjustments	19,340
Consolidated profit (loss) for the year	**379,583**

The following statement is presented with regard to the position at 31 December 2019:

Reconciliation of the shareholders' equity and results 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	385,435	4,996,780
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:	12,886	143,905
- Core Deposits adjustments related to consolidated companies	*(4,969)*	
- badwill related to consolidated companies	-	
- consolidation adjustments	*37,401*	
- derecognition of intercompany profits and losses	*5,646*	
- share of the results of companies consolidated on a line-by-line basis after tax effect	*(25,192)*	
DIVIDENDS collected from companies consolidated on a line-by-line basis or stated under the equity method	(20,469)	
DIFFERENCE between the interest in shareholders' equity (including results for the year) and the book value of companies consolidated under the equity method.	1,731	19,200
Profit (Loss) for the year and shareholders' equity of the Parent Company as at 31.12.2019	**379,583**	**5,159,885**
Profit (Loss) for the year and shareholders' equity of minority interests	14,869	131,662
Total consolidated Profit (Loss) for the year and shareholders' equity as at 31.12.2019	**394,452**	**5,291,547**
Total consolidated Profit (Loss) for the year and shareholders' equity as at 31.12.2018	**445,790**	**4,896,568**

6.4 Income statement aggregates

The following are the key figures (in Euro thousands) from the consolidated income statement for the period ended 31 December 2019, with comparative figures for the period ended 31 December 2018, together with an indication of the changes between periods in absolute and percentage terms.
The results for the year were influenced by the business combinations carried out during the third quarter: Unipol Banca, Finitalia and Arca Holding (subconsolidated with Arca Fondi SGR); the contribution of those transactions to the income statement was limited to the second half of the year, as they were effective from 1 July 2019.

The results presented have been reclassified to the formats envisaged in the 6th update to Bank of Italy Circular 262/2005. 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 item 230 *"Other operating expense/income"*, have been reclassified as a reduction in the related costs under *"Other administrative expenses"* (Euro 137,269 thousand at 31 December 2019 and Euro 126,014 thousand at 31 December 2018);
- *"Net adjustments to property, plant and equipment and intangible assets"* include captions 210 and 220 in the standard reporting format;
- *"Gains (Losses) on equity investments, disposal investments and impairment losses on goodwill"* include captions 250, 270 and 280 in the 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 2019, this caption represents the component allocated for accounting purposes to administrative costs in relation to:
    - the 2019 contribution to the SRF (European Single Resolution Fund) of Euro 23,043 thousand;
    - additional contribution requested by the SRF (European Single Resolution Fund) for 2017 from Italian banks for Euro 9,587 thousand;
    - 2019 contribution to the DGS (Deposit Guarantee Scheme) for Euro 28,051 thousand.
- appropriate specifications ("of which") have been included in *"Net interest income"*, *"Other administrative expenses"* and *"Net adjustments to property, plant and equipment and intangible assets"* captions in order to highlight the impact of applying IFRS 16 (from 1 January 2019[34]) and, solely with regard to the effect on *"Net interest income"*, of applying IFRS 9 (from 1 January 2018).

[34] *The "of which interest expense lease liabilities IFRS 16" and "of which depreciation of rights of use as per IFRS 16" captions show a value at 31.12.2018 that referred to the interest and depreciation of "Property, plant and equipment" recognized as finance leases.*

Consolidated income statement

(in thousands)

Captions		31.12.2019	31.12.2018	Change	% Change
10+20	Net interest income	1,164,539	1,122,437	42,102	3.75
	*of which IFRS 9 components**	*43,643*	*76,367*	*(32,724)*	*-42.85*
	of which interest expense lease liabilities IFRS 16	*(1,834)*	*(64)*	*(1,770)*	*--*
40+50	Net commission income	931,950	776,265	155,685	20.06
70	Dividends	14,101	34,339	(20,238)	-58.94
80+90+100+110	Net income from financial activities	113,993	104,022	9,971	9.59
230	Other operating expense/income	51,079	44,209	6,870	15.54
	Operating income	**2,275,662**	**2,081,272**	**194,390**	**9.34**
190 a)	Staff costs	(1,049,686)	(821,494)	(228,192)	27.78
190 b)	Other administrative expenses	(451,830)	(442,431)	(9,399)	2.12
	of which rental expenses	*(17,077)*	*(63,032)*	*45,955*	*-72.91*
210+220	Net adjustments to property, plant and equipment and intangible assets	(185,076)	(118,939)	(66,137)	55.61
	of which depreciation right of use IFRS 16	*(58,059)*	*(2,941)*	*(55,118)*	*--*
	Operating costs	**(1,686,592)**	**(1,382,864)**	**(303,728)**	**21.96**
	Net operating income	**589,070**	**698,408**	**(109,338)**	**-15.66**
130 a)	Net impairment losses to financial assets at amortised cost	(447,547)	(225,772)	(221,775)	98.23
130 b)	Net impairment losses to financial assets at fair value	1,256	2,066	(810)	-39.21
140	Gains (Losses) from contractual modifications without derecognition	(2,979)	(2,956)	(23)	0.78
	Net impairment losses for credit risk	**(449,270)**	**(226,662)**	**(222,608)**	**98.21**
200	Net provisions for risks and charges	(12,193)	(25,194)	13,001	-51.60
###	Contributions to SRF, DGS, IDPF - VS	(60,681)	(52,325)	(8,356)	15.97
250+270 +280	Gains (Losses) on equity investments, disposal investments and impairment losses on goodwill	6,611	(48,701)	55,312	-113.57
275	Gain on a bargain purchase	343,361	-	343,361	n.s.
290	**Profit (Loss) from current operations before tax**	**416,898**	**345,526**	**71,372**	**20.66**
300	Income taxes on current operations for the year	(22,446)	100,264	(122,710)	-122.39
330	**Profit (Loss) for the year**	**394,452**	**445,790**	**(51,338)**	**-11.52**
340	Profit (Loss) for the year pertaining to minority interests	(14,869)	(43,837)	28,968	-66.08
350	**Profit (Loss) for the year pertaining to the Parent Company**	**379,583**	**401,953**	**(22,370)**	**-5.57**

** The "of which IFRS 9 components" caption includes the time value on bad loans and the write-down of part of the interest charged on non-performing exposures.*

Consolidated income statement by quarter as at 31 December 2019

(in thousands)

Captions		1st quarter 2019	2nd quarter 2019	3rd quarter 2019	4th quarter 2019	1st quarter 2018	2nd quarter 2018	3rd quarter 2018	4th quarter 2018
10+20	Net interest income	273,896	272,288	315,909	302,446	293,234	280,268	276,590	272,345
	*of which IFRS 9 components**	*13,352*	*15,083*	*11,748*	*3,460*	25,637	20,757	17,576	12,397
	of which interest expense lease liabilities IFRS 16	*(361)*	*(381)*	*(563)*	*(529)*	(18)	(15)	(16)	(15)
40+50	Net commission income	192,544	195,210	268,316	275,880	198,120	190,936	188,025	199,184
70	Dividends	539	9,687	3,424	451	584	12,877	325	20,553
80+90+100+110	Net income from financial activities	22,062	5,403	49,721	36,807	153,634	16,431	20,879	(86,922)
230	Other operating expense/income	6,337	8,923	19,511	16,308	11,485	8,174	10,998	13,552
	Operating income	**495,378**	**491,511**	**656,881**	**631,892**	**657,057**	**508,686**	**496,817**	**418,712**
190 a)	Staff costs	(213,631)	(213,109)	(230,936)	(392,010)	(207,534)	(212,900)	(194,553)	(206,507)
190 b)	Other administrative expenses	(90,930)	(96,204)	(118,223)	(146,473)	(102,285)	(109,981)	(104,323)	(125,842)
	of which rental expenses	*(4,692)*	*(4,007)*	*(4,825)*	*(3,553)*	(15,615)	(15,540)	(15,883)	(15,994)
210+220	Net adjustments to property, plant and equipment and intangible assets	(33,172)	(35,380)	(40,189)	(76,335)	(21,339)	(34,986)	(22,933)	(39,681)
	of which depreciation right of use IFRS 16	*(11,249)*	*(11,135)*	*(16,033)*	*(19,642)*	(726)	(733)	(741)	(741)
	Operating costs	**(337,733)**	**(344,693)**	**(389,348)**	**(614,818)**	**(331,158)**	**(357,867)**	**(321,809)**	**(372,030)**
	Net operating income	**157,645**	**146,818**	**267,533**	**17,074**	**325,899**	**150,819**	**175,008**	**46,682**
130 a)	Net impairment losses to financial assets at amortised cost	(72,485)	(74,551)	(160,985)	(139,526)	(26,141)	(58,793)	(70,272)	(70,566)
130 b)	Net impairment losses to financial assets at fair value	421	(392)	553	674	1,763	141	150	12
140	Gains (Losses) from contractual modifications without derecognition	(891)	(76)	(651)	(1,361)	-	(1,183)	(1,536)	(237)
	Net impairment losses for credit risk	**(72,955)**	**(75,019)**	**(161,083)**	**(140,213)**	**(24,378)**	**(59,835)**	**(71,658)**	**(70,791)**
200	Net provisions for risks and charges	(1,995)	(9,698)	2,491	(2,991)	(11,663)	(25,376)	(12,091)	23,936
###	Contributions to SRF, DGS, IDPF - VS	(23,184)	(9,459)	(25,771)	(2,267)	(20,282)	(8,670)	(23,448)	75
250+270+280	Gains (Losses) on equity investments, disposal investments and impairment losses on goodwill	3,809	4,586	415	(2,199)	2,827	2,591	3,535	(57,654)
275	Gain on a bargain purchase	-	-	353,805	(10,444)	-	-	-	-
290	**Profit (Loss) from current operations before tax**	**63,320**	**57,228**	**437,390**	**(141,040)**	**272,403**	**59,529**	**71,346**	**(57,752)**
300	Income taxes on current operations for the year	(12,266)	987	(8,666)	(2,501)	(6,918)	(2,850)	(14,206)	124,238
330	**Profit (Loss) for the year**	**51,054**	**58,215**	**428,724**	**(143,541)**	**265,485**	**56,679**	**57,140**	**66,486**
340	Profit (Loss) for the year pertaining to minority interests	(3,083)	(5,694)	(6,291)	199	(14,462)	183	(6,899)	(22,659)
350	**Profit (Loss) for the year pertaining to the Parent Company**	**47,971**	**52,521**	**422,433**	**(143,342)**	**251,023**	**56,862**	**50,241**	**43,827**

** The "of which IFRS 9 components" caption includes the time value on bad loans and the write-down of part of the interest charged on non-performing exposures.*

Net interest income

Net interest income comes to Euro 1,164.5 million, up 3.75% on 31 December 2018 (Euro 1,122.4 million), due to the business combinations described above.

The result includes the benefit for the year of participating in emissions of TLTRO II for Euro 38.4 million.

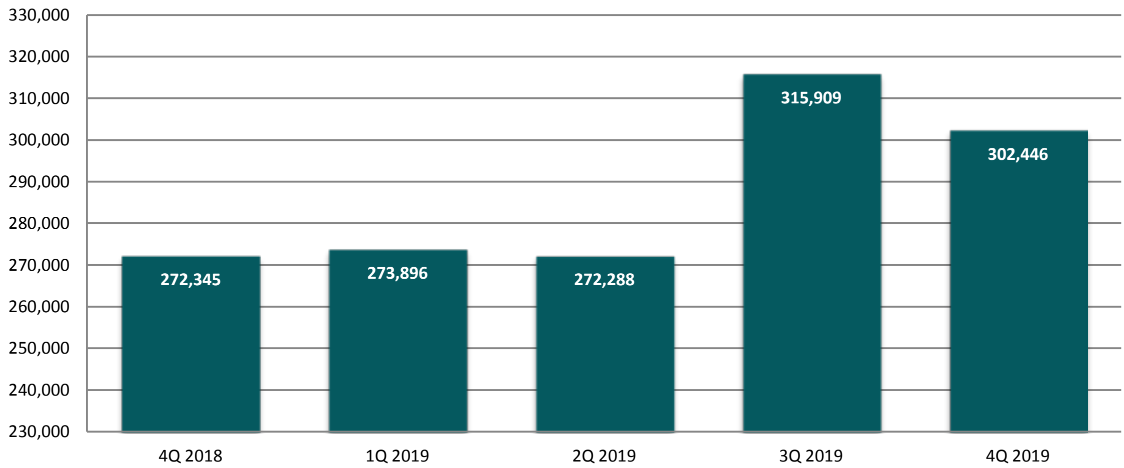
In addition to recalling the dynamics of loans and interest-bearing deposits, already highlighted in paragraph 6.1 *"Balance sheet aggregates"* (which feature a generalised growth in volumes), an indication of the trend in average lending/funding rates is given below for a better understanding of the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

- the average interest rate for the year on Group's loans to customers amounted to 2.31%, a decrease of about 6 bps compared with the previous year's average rate;
- the average cost of direct funding from customers was 0.34%, which is down by about 5 bps on 2018 (0.39%).
- total interest-bearing liabilities involved a cost of 0.29%, substantially in line with 0.30% of the previous year;
- the spread between lending and deposit rates of Group relationships with customers came to 1.96% (1.98% at 31 December 2018);
- 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 1.59%, down on last year (when it was 1.63%).

(in thousands)

Net interest income	31.12.2019	31.12.2018	Change	% Change
1. BPER Banca S.p.A.	786,682	773,860	12,822	1.66
2. BPER Bank Luxembourg s.a.	4,833	4,290	543	12.66
3. Banca di Sassari s.p.a.	43,467	33,085	10,382	31.38
4. Banco di Sardegna s.p.a.	206,534	210,576	(4,042)	-1.92
5. Cassa di Risparmio di Bra s.p.a.	19,828	21,338	(1,510)	-7.08
6. Cassa di Risparmio di Saluzzo s.p.a.	12,951	14,318	(1,367)	-9.55
Total banks	**1,074,295**	**1,057,467**	**16,828**	**1.59**
Other companies and consolidation adjustments	90,244	64,970	25,274	38.90
Total	**1,164,539**	**1,122,437**	**42,102**	**3.75**

Net interest income in thousands



Net commission income

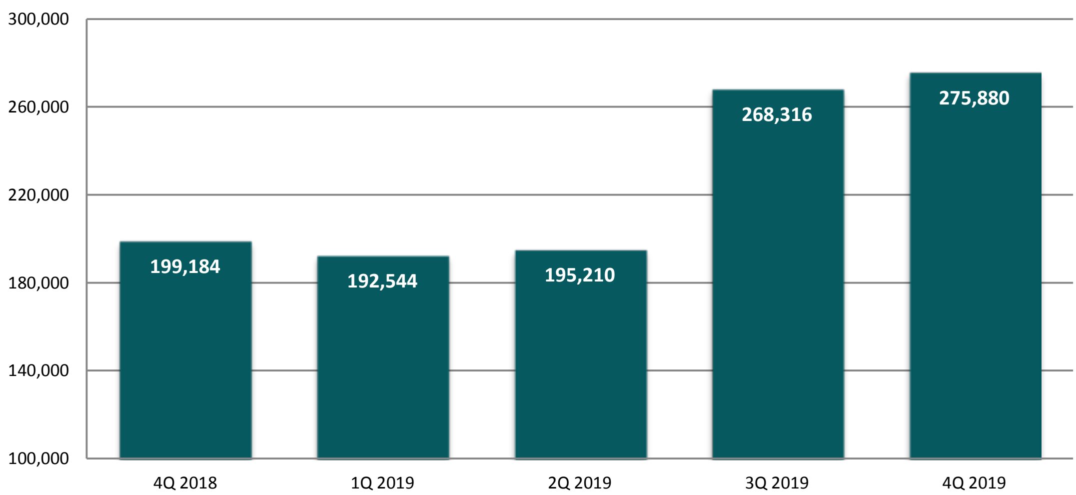
Net commissions, Euro 932.0 million, increased on 31 December 2018 (Euro 776.3 million +20.06%).

(in thousands)

Net commission income	31.12.2019	31.12.2018	Change	% Change
Trading in currency/financial instruments	9,222	5,908	3,314	56.09
Indirect deposits and insurance policies	374,588	266,925	107,663	40.33
Credit cards, collections and payments	162,150	150,611	11,539	7.66
Loans and guarantees	346,082	314,868	31,214	9.91
Other commissions	39,908	37,953	1,955	5.15
Total net commission income	**931,950**	**776,265**	**155,685**	**20.06**

Considering the quarterly trends in net commission income shown in the chart, the increase in the final quarter with respect to the third was about 2.82%, with particularly good results from Bancassurance (+51.90%), loans and guarantees (+2.38%) and cards, collections and payments (+4.71%).

Net commission income in thousands



Net income from financial activities

Net income from financial activities (including dividends of Euro 14.1 million) was Euro 128.1 million (Euro 138.4 million at 31 December 2018); the reduction compared with the prior year was due to lower sales of securities in the market than in 2018, as partially offset by greater net unrealised gains on the financial assets held.

The result was determined by:

- gains on the disposal of financial assets for Euro 77.2 million;
- losses on the sale of loans for Euro 8.6 million;
- net unrealised gains on financial assets for Euro 36.7 million. This result includes the impairment adjustments of the instruments recorded following the contributions paid to the IDPF Voluntary Scheme, needed to assist Carige, for a total of Euro 13.3 million, more than offset by capital gains on other instruments in the portfolio;
- other positive elements for Euro 8.7 million.

(in thousands)

Net income from financial activities (including dividends)	31.12.2019	31.12.2018	Change	% Change
Dividends	14,101	34,339	(20,238)	-58.94
Gain from disposal of financial assets and loans	68,638	116,610	(47,972)	-41.14
Capital gains on financial assets	66,411	38,217	28,194	73.77
Capital losses on financial assets	(29,710)	(59,006)	29,296	-49.65
Other revenues (losses)	8,654	8,201	453	5.52
Total	**128,094**	**138,361**	**(10,267)**	**-7.42**

Operating income

Considering Other operating expense/income for Euro 51.1 million (Euro 44.2 million at 31 December 2018), Operating income totalled Euro 2,275.7 million (+9.34% higher than last year).

Operating costs

Operating costs totalled Euro 1,686.6 million, up by 21.96% on 31 December 2018. The main components of operating costs are as follows.

Staff costs, Euro 1,049.7 million, are up by 27.78% compared with the previous year. In addition to the effect of the above business combinations, the change reflects the provisions for leaving incentives and to the Solidarity Fund totalling Euro 136 million, which were recorded after signature of the agreement with the Trade Unions on 29 October 2019 (the reduction in the workforce, already envisaged in the 2019-2021 Business Plan, seeks to optimise employment levels and facilitate generational change).

Other administrative expenses, stated net of indirect taxes recovered (Euro 137.3 million) and the contributions paid to the Resolution Fund (Euro 60.7 million), amounted to Euro 451.8 million, up by 2.12% compared with the previous year.
This outcome was influenced by the non-recurring expenses incurred on extraordinary transactions during the year, totalling about Euro 22.2 million, as well as by the application from the current year of IFRS 16, which involved the reversal of lease instalment payments previously recognised as *"Other administrative expenses"*.

Net adjustments to property, plant and equipment and intangible assets amounted to Euro 185.1 million (Euro 118.9 million in 2018).
The result was influenced by the adoption of IFRS 16, symmetrically to what was explained above, for *"Other administrative expenses"*. The adjustments of leased right-of-use assets totalled Euro 58.1 million, of which Euro 2.8 million for impairment linked to contracts terminated early, while the difference represents depreciation (Euro 2.9 million of depreciation on assets held under finance leases at 31 December 2018).
Impairment test identified further adjustments of land and buildings totalling Euro 25.7 million (Euro 29.7 million at 31 December 2018); this adjustment reflects the update of real estate values and, in part, changes in the expected use of certain properties.

(in thousands)

Operating costs	31.12.2019	31.12.2018	Change	% Change
1. BPER Banca S.p.A.	1,249,887	997,082	252,805	25.35
2. BPER Bank Luxembourg s.a.	4,342	4,178	164	3.93
3. Banca di Sassari s.p.a.	35,370	35,355	15	0.04
4. Banco di Sardegna s.p.a.	307,998	272,594	35,404	12.99
5. Cassa di Risparmio di Bra s.p.a.	23,534	22,628	906	4.00
6. Cassa di Risparmio di Saluzzo s.p.a.	21,726	23,174	(1,448)	-6.25
Total banks	**1,642,857**	**1,355,011**	**287,846**	**21.24**
Other companies and consolidation adjustments	43,735	27,853	15,882	57.02
Total	**1,686,592**	**1,382,864**	**303,728**	**21.96**

The net result from operations was therefore Euro 589.1 million (Euro 698.4 million at 31 December 2018).

Net impairment losses for credit risk

Net impairment losses for credit risk amounted to Euro 449.3 million (Euro 226.7 million at 31 December 2018). More specifically, the net adjustment of financial assets measured at amortised cost totalled Euro 447.5 million (Euro 225.8 million at 31 December 2018). This increase also reflects acceleration of the de-risking process that the Group seeks to pursue via a significant new securitisation of bad loans, assisted by GACS, to be completed in early 2020.
The measurement of debt securities at fair value through other comprehensive income resulted in a net write-back of Euro 1.3 million (positive change in the overall impairment).

The 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	31.12.2019	31.12.2018	Change	% Change
1. BPER Banca S.p.A.	286,571	147,280	139,291	94.58
2. BPER Bank Luxembourg s.a.	1,049	2,745	(1,696)	-61.79
3. Banca di Sassari s.p.a.	6,281	3,483	2,798	80.33
4. Banco di Sardegna s.p.a.	84,699	23,347	61,352	262.78
5. Cassa di Risparmio di Bra s.p.a.	12,202	7,616	4,586	60.22
6. Cassa di Risparmio di Saluzzo s.p.a.	552	(51)	603	--
Total banks	**391,354**	**184,420**	**206,934**	**112.21**
Other companies and consolidation adjustments	53,464	37,895	15,569	41.08
Total	**444,818**	**222,315**	**222,503**	**100.08**

The overall cost of credit at 31 December 2019, calculated solely on loans to customers, is 86 bps (47 bps at 31 December 2018).

Net provisions for risks and charges

Net provisions for risks and charges come to Euro 12.2 million; the caption includes net write-backs on commitments and guarantees granted of Euro 9.0 million (Euro 16.2 million in the prior year), and other net provisions for risks and charges for Euro 21.2 million (24.0 million at 31 December 2018), mainly related to legal action taken against the Bank.

Contributions to the SRF, DGS and IDPF-VS Funds

The total amount of contributions paid during the year was Euro 60.7 million (Euro 52.3 million at 31 December 2018). This amount comprises the ordinary contribution for 2019 paid to the SRF (European Single Resolution Fund), Euro 23 million, the additional contributions for 2017 requested from Italian banks by the SRF (Euro 9.6 million) and the amount paid to the DGS (Deposit Guarantee Fund), Euro 28.1 million.

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

The caption presents a net gain of Euro 6.6 million (loss of Euro 48.7 million at 31 December 2018, due to adverse results from the impairment test of goodwill).
The total principally comprises the gain resulting from the measurement of equity investments using the equity method, Euro 15.8 million, net of impairment adjustments amounting to Euro 8.4 million and losses on the disposal of investments of Euro 0.6 million.

Badwill

This caption includes the badwill - being the difference between the purchase price and the fair value of the acquired assets and liabilities - generated on the acquisition of Unipol Banca. The amount calculated at the end of the Purchase Price Allocation (PPA) process came to Euro 343.4 million.
Please refer to Part G of the notes to the financial statements for further details.

Net profit for the year

The profit from current operations before tax amounts to Euro 416.9 million (Euro 345.5 million at 31 December 2018).
The income tax charge of Euro 22.4 million was determined by applying the regulations in force at 31 December 2019, having regard to the changes introduced by the 2020 Finance Law, including:

- re-introduction of the ACE benefit from the 2019 tax year, with related rate adjustment of 1.3%;
- deferral to 2028 of the deductibility in the 2019 tax year of the impairment adjustments made to customer loans on the FTA of IFRS 9;
- redefinition of the deductibility of the impairment adjustments made to customer loans due to be recoverable in 2019, now deferred in equal tranches to the 2022 tax year and the three subsequent years (2023, 2024, 2025);
- redefinition of the deductibility of convertible goodwill due to be recoverable in 2019, now deferred in equal tranches to the 2025 tax year and the four subsequent years (2026, 2027, 2028, 2029).

No deferred tax assets have been recognised on temporary differences due to reverse after the five-year time horizon considered for the Probability test (2020-2024).
No new deferred tax assets have been recognised on carried-forward tax losses, considering the results of the probability test required by IAS 12.

Profit for the year after taxes is Euro 394.5 million (Euro 445.8 million at 31 December 2018). The profit attributable to minority interests is Euro 14.9 million (Euro 43.8 million at 31 December 2018).
The profit pertaining to the Parent Company amounts to Euro 379.6 million (Euro 402.0 million at 31 December 2018).

(in thousands)

Net profit	31.12.2019	31.12.2018	Change	% Change
1. BPER Banca S.p.A.	385,435	306,715	78,720	25.67
2. BPER Bank Luxembourg s.a.	5,100	2,750	2,350	85.45
3. Banca di Sassari s.p.a.	9,138	9,873	(735)	-7.44
4. Banco di Sardegna s.p.a.	(29,596)	74,910	(104,506)	-139.51
5. Cassa di Risparmio di Bra s.p.a.	869	6,707	(5,838)	-87.04
6. Cassa di Risparmio di Saluzzo s.p.a.	584	717	(133)	-18.55
Total banks	**371,530**	**401,672**	**(30,142)**	**-7.50**
Other companies and consolidation adjustments	8,053	281	7,772	--
Total	**379,583**	**401,953**	**(22,370)**	**-5.57**

6.5 Employees

Employees	31.12.2019	31.12.2018	Change
1. BPER Banca S.p.A.	10,416	8,292	2,124
2. BPER Bank Luxembourg s.a.	22	20	2
3. Banca di Sassari s.p.a.	144	146	(2)
4. Banco di Sardegna s.p.a.	2,468	2,425	43
5. Cassa di Risparmio di Bra s.p.a.	158	164	(6)
6. Cassa di Risparmio di Saluzzo s.p.a.	174	183	(9)
Total banks	**13,382**	**11,230**	**2,152**
Subsidiaries consolidated line-by-line	423	385	38
Total of balance sheet	**13,805**	**11,615**	**2,190**

The figures refer to the point number of employees at 31 December 2019.
The Group companies' employees at 31 December 2019 include 667 persons seconded within the Group (1,461 at 31 December 2018).

6.6 Geographical organisation

Branches	31.12.2019	31.12.2018	Change
1. BPER Banca S.p.A.	958	827	131
2. Banco di Sardegna s.p.a.	343	336	7
3. Cassa di Risparmio di Bra s.p.a.	26	28	(2)
4. Cassa di Risparmio di Saluzzo s.p.a.	22	27	(5)
Total Italian banks	**1,349**	**1,218**	**131**
5. BPER Bank Luxembourg s.a.	1	1	-
Total	**1,350**	**1,219**	**131**

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) to be a fundamental element of the risk governance system and as a means of ensuring that the business is run in line with Group 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 consider 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), the instrument to monitor the risk profile, that 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 policy of the Notes to these consolidated financial statements).
To ensure implementation and in compliance with the prudential supervisory regulations (Bank of Italy Circular 285 of 17 December 2013 and subsequent updates), the BPER Banca Group carefully identifies the first and second pillar risks to which it is or could be exposed, taking account of its operations and 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[35], 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. These make it possible to distinguish different levels of risk and allow the identification of those that, although affecting the ordinary operations of the Group, do not compromise the pursuit of its strategic objectives.

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

The scope of "material risks" is as follows:

- Pillar 1 risks (credit, counterparty, market, operational);
- Pillar 2 risks (banking book interest rate, liquidity, strategy/business, reputational, equity investments).

They are therefore 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[36].

Identification of these risks also considered their inherent uncertainties, understood as possible events whose potential impact is not quantifiable at present. The outlook for operations, formulated in December 2019 on the basis of what is included in the 2019-2021 Business Plan of the BPER Banca Group, considers a scenario in which growth expectations are favourable, while there are also some uncertainties, among which we would highlight in particular:

- the evolution of the Italian macroeconomic framework (in turn influenced mainly by the spread between Italian and German government bonds, the trend in market rates, the trend of the global economy);
- the evolution of the political situation (dependent on political alliances at national level, the change in relations between the United Kingdom and the European Union at the end of the Brexit transition period, the progressive elimination of the exceptional stimulus measures implemented by several leading central banks, and the high level of global indebtedness);
- the evolution of the regulatory context, characterised by continuous updating at both European and national level.

In line with the RAF defined by the Parent Company, for each risk identified as significant, the Board of Directors of BPER Banca sets, with a special "governance policy", 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.

[36] *EBA Guidelines on SREP, ECB guidelines on ICAAP and ILAAP*

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 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 (also expanded to include the General Management of Group Banks), monitoring of 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 officer responsible for the area, 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 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 identified control body or function, please refer to the information provided in the Explanatory notes, Part E - Information on risks and related hedging policy of the Consolidated financial statements at 31 December 2019 (particularly the "Introduction" to the qualitative and quantitative information).

Credit risk

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

- on a quarterly basis we elaborate the Credit Risk Book, which is the basic information support for the Risk Committee and contains detailed reports at a consolidated and individual company level;
- a summary report is prepared 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 Division, General Management, Bank and Group) and hierarchical visibility cones.

With reference to the Internal Rating System, the significant activities of 2019 include:

- completion of the activities related to the "Targeted Review of Internal Models" (TRIM) with communication of the final assessment report by the Supervisory Authority in March 2019;
- extension of the AIRB advanced methodologies to the exposures of Cassa di Risparmio di Bra, commencing from the March 2019 Regulatory Reports;
- update of the IFRS 9 risk models;
- continuation of the activities to adapt internal models to the new definition of default, implemented for credit exposure classification purposes from 8 October 2019, following the authorisation granted by the Supervisory Authority on 19 September 2019, without having any significant impact in terms of higher impairment adjustments.

AIRB methodologies have long been used as part of the process of defining capital adequacy (ICAAP).

Following the ECB's authorisation in June 2016 to use internal models for measuring capital requirements for credit risk, starting from the June 2016 Regulatory Reports, the BPER Banca Group applies AIRB methodologies for the banks included within the scope of the first validation (BPER Banca, Banco di Sardegna and Banca di Sassari). This perimeter has now been extended to Cassa di Risparmio di

Bra, commencing from the March 2019 Regulatory Report, following the authorisation granted by the ECB on 28 March 2019. The following asset classes are subject to AIRB methodologies:

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

Financial risk

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 risks is presented to the Risks Committee and the Board of Directors.

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.
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[37].
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 operational risks via the Risk Self Assessment, in order to determine over a one-year time horizon the exposure of significant segments to operational risks and assess the adequacy of line processes and controls;
- 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

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

the underlying causes and highlight the opportunity for corrective actions, including insurance cover (external transfer of risk).
The process of measuring the exposure to operational risks, comprising the collection of subjective estimates about potential riskiness provided by individual business units within the Group (*Risk Self Assessment*), has been supplemented since 2016 by a quantitative measurement model that was further refined during 2019 in order to obtain a summary measure of operational 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.
Specific analysis is conducted on the security of internet payments.

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 Operations 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.

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.

Business Continuity

Routine work in the area of business continuity was completed in 2019, 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.
In addition, the following innovative elements were introduced during 2019:

- Direct access to Orbit by the managers of organisational units required to complete the BIA analyses relevant to them;
- Implementation and updates to the "Test" module of the Orbit application used to prepare documentation for the Operational Continuity checks carried out by those Group companies whose IT systems are aligned;

- Enhanced monitoring of critical suppliers via the incremental identification of Operational continuity contacts;
- Identification of back-up sites for the critical processes of Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo, respectively in Lagnasco and Bra.

Two internal audits were carried out, covering the "Routine management of Operational Continuity and Disaster Recovery and Test Participation" and "Participation in Operational Continuity tests by suppliers and third parties". The outcomes were widely satisfactory.

Additionally, two training sessions were delivered to:

- Managers of the functions involved in the impact analysis carried out at all banks and companies regarding the "Routine management of Operational Continuity" sub-process;
- Contact persons assigned to monitor critical suppliers.

With regard to the Group's annual testing plan, 18 operational continuity tests were carried out (1 on the cyber-theft of data in walk-through mode; 9 exercises covering the non-availability of human resources, of which 3 in walk-through mode; 4 exercises covering the non-availability of sites, including 1 in walk-through mode; 1 exercise covering the non-availability of infrastructure; 1 exercise covering the non-availability of infrastructure and the primary site; 1 walk-through exercise on the non-availability of the primary site, infrastructure and human resources; 1 exercise on the chain of command during the non-availability of infrastructure and critical IT systems), as well as 4 disaster recovery tests (non-availability of IT systems). Overall positive outcomes were achieved.
Group entities also participated in and/or received the results of 14 tests carried out by critical suppliers.

The annual analysis of the Bank's critical processes also highlighted the residual risks, which were brought to the attention of the Risk Committee on 20 November 2019 and then to the Board of Directors on 19 December 2019. The Board meeting held on 19 December 2019 approved the updates to the continuity plan.
Work is also well advanced on an update to the Group Regulation governing the "Management of Operational Continuity" (and related Operating Instructions), with a view to adopting the relevant new internal and external regulations, including the new EBA Guidelines. In particular, the document is being finalised and agreed with the internal functions involved.

Climate Change

The decision by the BPER Banca Group to expand the risk management system to cover Environmental, Social, Governance (ESG) factors was made in view of the increasing attention paid to this topic by the Group, regulators and various stakeholders.
As a first step in revising the mapping of Group risks, ESG Risk was added as a sub-category of operational risk; in addition, as part of the periodic update of the Group's RAF, monitoring of the Group's ESG ratings was added as an early warning indicator with periodic reporting to corporate bodies.
Both the Standard Ethics Rating (SER) and the Carbon Disclosure Project (CDP) are monitored. The latter focuses on environmental risks and, specifically, on the direct and indirect impacts of climate change.
In order to control and mitigate this risk, the BPER Banca Group has:

- Updated the business continuity plan, as discussed earlier;
- Carried out a scenario analysis, which is discussed below;
- Prepared an internal regulation: Commitments of the BPER Banca Group with regard to the environment, which is described further in the consolidated Non-Financial Statement.

Underlying the scenario analysis carried out by the BPER Banca Group, the "Action plan to finance sustainable growth", published by the European Union in March 2018, established the EU strategy with regard to sustainable finance. Following this, the European Banking Authority (EBA) published an action plan in December 2019 focused on the results and activities linked to ESG factors and the related risks. The principal objectives include:

- outline the approach and related deadlines for the technical analyses of sustainable finance assigned to the EBA;
- focus attention on the key topics relating to sustainable finance to give clarity to the direction taken by the EBA and the expectations with regard to ESG risks;
- analyse environmental risks and, in particular, the risk of climate change.

Additionally, the EBA has identified three areas that it encourages entities to evaluate ahead of the mandatory regulations:

- risk management and strategy
- disclosure standards
- stress test and scenario analysis.

Based on these indications, BPER Banca has commenced a scenario analysis as an exploratory tool for, on the one hand, understanding how the domestic and global economies will be affected by climate change in terms of physical and transitional risks and, on the other, evaluating the direct impact of the transition risks on its corporate portfolio.
Three different scenarios were considered in the analysis:

1. Large temperature rise scenario («business-as-usual» BAU): envisages weak mitigation actions, applied differently in each area; temperature rise of 4.3°C by 2100;
2. Intermediate temperature rise scenario («baseline», most probable): envisages intermediate mitigation actions, applied differently in each area; temperature rise of 3.1°C by 2100;
3. "Paris Agreement" scenario: strong mitigation actions, applied differently in each area; temperature rise of 1.5° by 2100, with an objective to reach full carbon neutrality by 2070 (in Europe by 2050).

The results of the study confirm that the loans made by the BPER Banca Group are mostly distributed in sectors characterised by low specific emissions, when compared with those of the banking system as a whole, and are therefore less exposed to the transition risks when moving to carbon neutrality.
The study was supported by research into the resilience of the key corporate customers of the BPER Banca Group with regard to climate change.
Here too, the results were comforting given that 76% were found to monitor their sustainability performance, preparing a Sustainability Report, 40% have an ESG rating and 82% have commenced action to mitigate climate change.
Further information about this risk and the response of the BPER Banca Group is provided in the consolidated Non-Financial Statement at 31 December 2019.

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 governmental entities, as well as about the loans granted to them.

Debt securities

Issuer	Rating	Cat	Nominal value	Book value	Fair Value	OCI Reserves	%
Governments (*):			**7,487,287**	**8,059,005**	**8,216,637**	**5,671**	**97.01%**
Italy	BBB		**5,831,916**	**6,352,735**	**6,489,159**	**5,083**	**76.47%**
		FVTPLT	14,491	14,801	14,801	#	
		FVO	100,000	123,901	123,901	#	
		FVTPLM	50,000	51,859	51,859	#	
		FVOCI	341,425	370,101	370,101	5,083	
		AC	5,326,000	5,792,073	5,928,497	#	
European Stability Fund	AA		**212,500**	**237,022**	**244,549**	**1,070**	**2.85%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	95,000	106,349	106,349	1,070	
		AC	117,500	130,673	138,200	#	
U.S.A.	AAA		**120,000**	**107,580**	**107,580**	**(537)**	**1.30%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	120,000	107,580	107,580	(537)	
		AC	-	-	-	#	
Spain	A-		**1,007,500**	**1,040,583**	**1,050,083**	**-**	**12.53%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	-	-	-	-	
		AC	1,007,500	1,040,583	1,050,083	#	
France	AA		**100,000**	**113,323**	**116,167**	**-**	**1.36%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI		-	-	-	
		AC	100,000	113,323	116,167	#	
Others	-		**215,371**	**207,762**	**209,099**	**55**	**2.50%**
		FVTPLT	1,371	1,412	1,412	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	19,000	17,922	17,922	55	
		AC	195,000	188,428	189,765	#	

(*) The individual percentages shown in the above table may not agree with the total because of roundings.
The ratings indicated are those of Fitch Rating at 31 December 2019.

(cont.)

Issuer	Rating	Cat	Nominal value	Book value	Fair Value	OCI Reserves	%
Other public entities:			**402,446**	**248,175**	**248,141**	**102**	**2.99%**
Italy	-		**196,422**	**23,632**	**24,421**	**130**	**0.28%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	6,473	6,619	6,619	130	
		AC	189,949	17,013	17,802	#	
Germany	-		**102,000**	**118,313**	**117,490**	**-**	**1.42%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	-	-	-	-	
		AC	102,000	118,313	117,490	#	
Others	-		**104,024**	**106,230**	**106,230**	**(28)**	**1.28%**
		FVTPLT	24	8	8	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	104,000	106,222	106,222	(28)	
		AC	-	-	-	#	
Total as at 31.12.2019			**7,889,733**	**8,307,180**	**8,464,778**	**5,773**	**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 Rating at 31 December 2019.

Loans

Issuer	Rating	Cat	Nominal value	Book value	Fair value	OCI Reserves	%
Governments:			**1,992,184**	**1,992,184**	**1,992,184**	**-**	**84.70%**
Italy	BBB		**1,992,184**	**1,992,184**	**1,992,184**	**-**	**84.70%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	-	
		FVOCI	-	-	-	#	
		AC	1,992,184	1,992,184	1,992,184	#	
Other public entities:			**359,858**	**359,858**	**379,376**	**-**	**15.30%**
Italy	-		**358,430**	**358,430**	**377,948**	**-**	**15.24%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	-	
		FVOCI	-	-	-	#	
		AC	358,430	358,430	377,948	#	
Algeria	-		**1,428**	**1,428**	**1,428**	**-**	**0.06%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	-	
		FVOCI	-	-	-	#	
		AC	1,428	1,428	1,428	#	
Total loans as at 31.12.2019			**2,352,042**	**2,352,042**	**2,371,560**	**-**	**100.00%**

The ratings indicated are those of Scope Ratings at 31 December 2019.

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	-	37,680	2,696,204	5,573,296	**8,307,180**
Loans	231,390	40,757	77,007	2,002,888	**2,352,042**
Total	**231,390**	**78,437**	**2,773,211**	**7,576,184**	**10,659,222**

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, the Deposit Guarantee Fund and developments in the Interbank Deposit Guarantee Fund: Voluntary scheme and Solidarity Fund

Once again in 2019, 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 2019, the BPER Banca Group received the request for ordinary contributions to the Single Resolution Fund (SRF) for 2019. Against this request, this contribution was recognised in the first quarter of 2019 for a total Euro 23 million (BPER Banca: Euro 19.6 million), exercising the right to pay 15% of the overall quota according to the "Irrevocable Payment Commitments" (IPC) method. Further, in June 2019, the BPER Banca Group received requests for additional 2017 contributions from its Italian banks totalling Euro 9.6 million (BPER Banca: Euro 8.5 million), which were also paid and recognised as a cost in the income statement.
Calculation of the required contribution to the Deposit Guarantee Scheme (DGS), based on the level of protected funding at 31 December 2019, resulted in BPER Banca and the Italian Group banks charging a total of Euro 28.1 million (Parent Company: Euro 21 million) to Other administrative expenses.
The Interbank Deposit Protection Fund – Scheme of intervention on a voluntary basis (IDPF-VS) and the Solidarity Fund established by the 2016 Stability Law did not require specific contributions at 31 December 2019. During the first quarter of 2019, the BPER Banca Group wrote off in full its share, Euro 13.3 million, of the support provided by the Voluntary Scheme to Banca Carige. The Voluntary Scheme recognised the interest collected on the loan concerned to the participating banks on 27 December 2019. As a result, BPER Banca received Euro 2 million. The loan was converted at the time of the capital increase carried out by Banca Carige on 20 December 2019, by subscribing ordinary shares totalling Euro 313.2 million (part of which, Euro 10 million, was assigned without charge to retail shareholders).

7.4 IBOR Reform

The interest benchmark rates (such as the rates applied to interbank deposits – IBOR) play a fundamental role in the global financial markets. These reference rates index transactions for trillions of dollars (and other currencies) in a wide range of financial products, from derivatives to residential mortgages. Attempts to manipulate certain reference parameters, combined with the liquidity crisis in the markets in the period following the economic crisis, have undermined confidence in the reliability and robust nature of certain benchmark rates currently in use. In this context, the G20 requested the Financial Stability Board (FSB) to carry out a structural review of the principal reference rates. Authorities in most jurisdictions adopted measures to implement these recommendations. Some jurisdictions have made clear progress, with the replacement of current benchmark rates with "alternative interest rates" that are largely based on transactions and, therefore, compliant with the EU Benchmark Regulation – BMR.
The situation has however created uncertainty about the long-term availability of certain commonly-used benchmark rates (including: GBP Libor, USD Libor, Euribor, CHF Libor, JPY Libor, JPY Tibor, Euroyen Tibor, EONIA), raising a number of issues for financial operators to address (in particular: fallback clauses, contract amendments, accounting measurements).

Given this situation, the BPER Banca Group has activated a Task Force on IBOR Reform (established in the fourth quarter of 2018, on termination by the European Money Market Institution – EMMI of certain tenors of EURIBOR and EURIBOR Act/365) in order to identify:

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

considering that:

- pursuant to the BMR, the BPER Banca Group is affected solely as a «user» (and not a contributor) of the benchmark/RFR;
- the reform affects (or not) the retail customers of Group banks/companies;

and define, based on the principal effects identified, an action plan to address each of them, with the related timeline for work.

With reference to the exposure of the BPER Banca Group to the benchmarks considered, the analyses identified:

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

The situation described must also be read in the light of the process to adopt the new method for calculating Euribor (so-called "hybrid Euribor"), which is recognised as consistent with the BMR by the Financial Services and Markets Authority (FSMA), given the objectives achieved by the administrator of the benchmark rate in this regard, including the recent contribution to its calculation by all panel operators starting from 29 November 2019.
In addition, as a result of work by the Task Force, the Group expects to activate a specific project that, following a specific assessment, will lay the groundwork for all the new activities.
The accounting effects of the IBOR Reform and consequent early 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, section 1.3.2 Accounting hedges.

7.5 COVID-19 pandemic: action taken by the BPER Banca Group

Following news of the spread of Covid-19 (aka "coronavirus") in Italy, the BPER Banca Group adopted guidelines and initiatives designed to contain the risks, safeguard the health of employees and customers and ensure, via various internal security measures, business continuity and the maintenance of critical processes.
A work group ("Consultative Committee") was immediately established to monitor the healthcare emergency and the unfolding events. The members of this Committee, coordinated by the Group Crisis Manager, comprise the Chief Human Resource Officer (CHRO), the Safety Officer, the Chief Operating Officer (COO), the Chief Risk Officer (CRO), the Business Continuity Manager, the Organisation Department, the Risks Department and the Service Desk Department.
The initial action taken included the closure of the Codogno and Sesto San Giovanni branches (both re-opened later after sanitising their premises) located in "red zone" municipalities which were worst hit by the early contagion, with the cessation of work and sheltering at home for workers and local residents, in compliance with regional orders and government decrees.

Since the start of the emergency, the Bank has monitored developments constantly and maintained dialogue with the Bodies and Institutions, striving to implement promptly their instructions and measures, as in the case of the Prime Minister's Decree on 9 March 2020, which promulgated new measures at national level to contain and prevent the spread of the virus (ban on assemblies in public places or locations open to the public).
The principal actions taken by the Committee addressed the following areas:

Management of human resources and internal communications

Timely provision of information to all personnel about actions in progress and initial instructions to be followed: immediate suspension of all travel (replaced by audio/video conference meetings) and cancellation of classroom training nationwide until further notice.
Upgrade of hygiene and sanitary facilities at all branches and central offices.
Authorisation to work from home for colleagues in possession of the necessary IT equipment, extending the concept of hub worker (testing already well advanced) to that of home worker, in order to limit local travel for as many colleagues as possible by the adoption of flexible working, while ensuring in all cases the proper functioning of each organisational unit.
Recognition of unpaid leave to look after children unable to go to school due to closures, following authorisation from the unit manager after having assessed the organisational sustainability aspects.
Activation of a page on BLink, the corporate intranet, dedicated to COVID-19 with constant updates and all useful information (FAQ, technical, organisational and regulatory news and information about protective measures), with simultaneous creation of an e-mail address monitored in real time by the Human Resources Department in order to respond to operational questions.
In parallel with all these initiatives, the Safety Officer (RSPP) maintains constant contact with the Workers' Representatives (RLS) in order to facilitate the nationwide exchange of information about COVID-19.

Business Continuity

In addition to the immediate solutions already envisaged in the continuity plans (alternative sites, twin units, back-up resources), mobile equipment has also been made available to persons responsible for ensuring the maintenance of critical processes. As the same time, the stocks of mobile devices (laptops, connection keys, smart phones etc.) have been increased to ensure the greatest possible coverage should crisis scenarios persist.

Other operational activities

Since Monday, 25 February 2020, all Group branches throughout Italy have displayed a notice requiring customers to wear a mask inside the premises and limiting their presence to not more than the number of employees.
Business services at branches are guaranteed during the normal days and hours of work, while maintaining the social distance of at least one metre and solely for the time needed to complete the banking operations.
In addition, suppliers based in areas at risk, especially external advisors, have been requested to avoid travel and, where possible, to work remotely. Critical suppliers (as defined in Bank of Italy Circular 285) have been requested to report their actions, in support of operational continuity, to cope with the exceptional circumstances.
Since the beginning of 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 flow of information to the directors is and will remain normal throughout the crisis period.
Similar action, coordinated with the Parent Company, has been taken by all Group companies involved in critical processes.
In order to mitigate the adverse effect of the COVID-19 emergency on the real economy, the Bank has also activated a series of measures in favour of households, small economic operators and businesses, in addition to implementing the relevant ABI agreements and Ministerial Decrees.

8. Other information

8.1 Treasury shares

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.

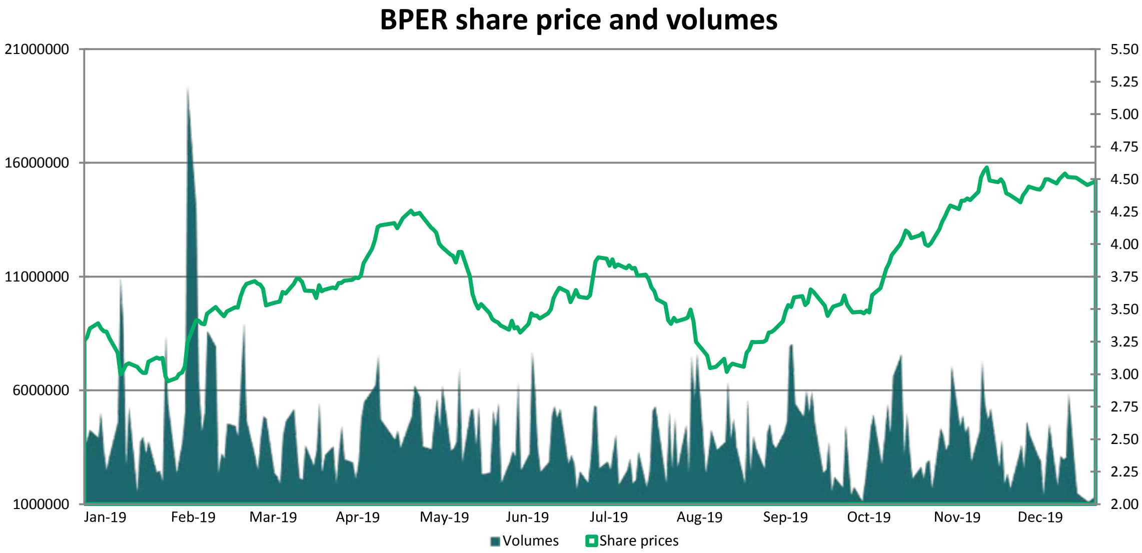
The carrying amount of the Group's interest in the treasury shares held by consolidated companies, classified as a deduction from shareholders' equity caption 180, is Euro 7,259 thousand, of which Euro 7,253 thousand relates to BPER Banca shares held by the Parent Company.

Shares of BPER Banca S.p.A.	Number of shares	Total par value
Total as at 31.12.2019	455,458	7,253,180
Total as at 31.12.2018	455,458	7,253,180

There are also 62,104 shares relating to Banca di Sassari s.p.a., held by it, for a total of Euro 6 thousand.

8.2 Share price performance

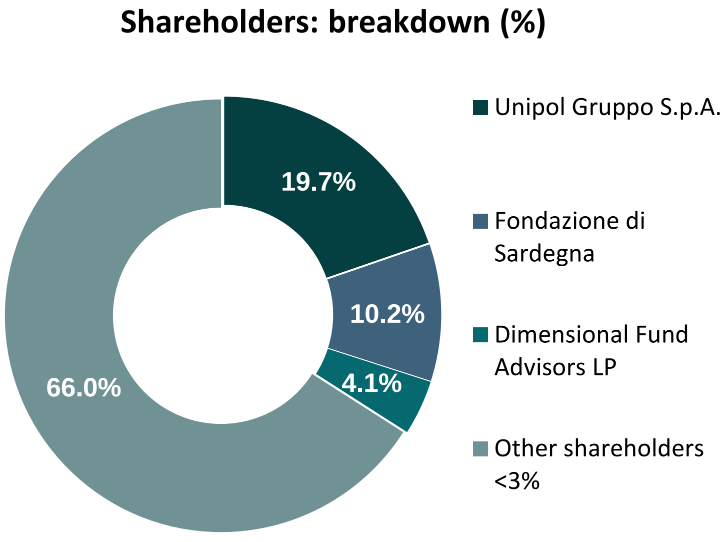
There was a generalised increase in the prices quoted on international stockmarkets during 2019.
Following a strong rise at the start of the year, price indices tended to fluctuate due to the heightened trade tensions and the uncertain prospects for international economic growth. Markets picked up again during the last quarter, stimulated by the more relaxed climate on political and trade matters, signs of the stabilisation of global economic activity and the return to expansionary monetary policy.
In the United States, the S&P500 index rose by 29.6% overall in 2019; while in Europe the Euro Stoxx 50 grew by 25.5%. Against this background, the Italian FTSE MIB climbed by 28.3% in 2019, returning the best result in Europe despite uncertainties about the growth prospects of the domestic economy and the evolution of the internal political situation. This rise was achieved despite the effects of the government crisis at the beginning of August, with marked losses for both the banking and other sectors. The formation of an alternative government majority and the lower likelihood of new elections within a short time favoured a recovery in prices.
In this context, the shares of BPER Banca outperformed the entire Italian banking sector in 2019. In fact, the BPER Banca market price jumped by 38.6% over the year, which was significantly better than the 23% rise in the sector index (FTSE It. All Shares Banks). BPER Banca's official share price went from Euro 3.3437 at 31 December 2018 to Euro 4.483 at 30 December 2019.
The trading volumes of BPER Banca shares have stabilised at a daily average of about 4.1 million shares since the beginning of the year, reflecting the stock's good liquidity and visibility for investors.



8.3 Breakdown of ownership structure

The share capital of BPER Banca (fully subscribed and paid in) amounts to Euro 1,561,883,844 and consists of 520,627,948 registered ordinary shares (including 455,458 treasury shares), with no nominal value.

The main shareholders of BPER Banca are: Unipol Gruppo Spa (19.73%), Fondazione di Sardegna (10.23%) and Dimensional Fund Advisors LP (4.09%).



8.4 Ratings as at 31 December 2019

Fitch Ratings

On 17 April 2019, the Fitch ratings agency confirmed the long-term and short-term ratings assigned to BPER Banca on 21 February 2019, being "BB" and "B" with a positive outlook, as analysed below.

International Rating Agency	Last review date	Short Term	Long Term	Outlook	Viability Rating	Support rating	Support rating floor
Fitch Ratings	17.04.2019	B	BB	Positive	bb	5	No floor

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, seen on the assumption that it cannot rely on extraordinary forms of external support (aaa: best rating – f: default).
Support rating: Judgement on the probability of any extraordinary external intervention (by the Government or by reference shareholders) if the bank finds it difficult to honour its senior bonds [1: high probability of external support – 5: inability to rely on any support (as in the case of European banks under the BRRD resolution scheme).
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).

Moody's

On 13 February 2019, Moody's confirmed the following ratings assigned to BPER Banca.

International Rating Agency	Last review date	Short Term Deposit	Long Term Deposit	Outlook (Long-term Deposit)	Long Term Issuer	Outlook (Long-term Issuer)	Senior Unsecured Medium-Term Note Program	Baseline Credit Assessment ("BCA")
Moody's	13.02.2019	P-3	Baa3	Positive	Ba3	Positive	Ba3	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: it 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).
Senior Unsecured Medium Term Note Program: it represents the long-term rating assigned to the debt.

Updates received from rating companies

On 12 February 2020, Moody's raised the stand-alone rating ("Baseline Credit Assessment - BCA") of BPER Banca to ba2 from ba3 with outlook "stable". At the same time, the subordinated debt rating has improved to Ba3 from B1. The long-term deposit and issuer ratings of Baa3 and Ba3 have been confirmed.

The improvement in BCA reflects Moody's opinion that BPER Banca has a more solid financial profile, also as a result of the acquisition and subsequent absorption of Unipol Banca, which has helped to strengthen the distribution network and improve asset quality, at the same time creating opportunities for cost synergies and higher profitability in the future.

Set out below are the ratings assigned to BPER:

International Rating Agency	Last review date	Short Term Deposit	Long Term Deposit	Outlook (Long-term Deposit)	Long Term Issuer	Outlook (Long-term Issuer)	Senior Unsecured Medium-Term Note Program	Subordinate Medium-Term Note Program	Baseline Credit Assessment ("BCA")
Moody's	12.02.2020	P-3	Baa3	Stable	Ba3	Stable	Ba3	Ba3	ba2

8.5 Investigations and audits

Note that the disclosure provided below is for information purposes only with regards to the checks carried out as part of the ordinary supervisory activity to which the BPER Banca Group is subject, as it operates in a highly regulated sector. As indicated in the Explanatory notes to this Consolidated Financial Statements, the directors are of the opinion that the observations that emerged in the various inspection areas will not have any significant impact on the profitability, net assets or cash flows of the BPER Banca Group. In any case, the Group always prepares suitable action plans to implement the Supervisory Authority's recommendations as quickly as possible.
The most significant updates relating to all Authorities are detailed below.

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 2019).

1) The BPER Banca Group was audited between 12 March 2018 and 8 June 2018 in order to assess its operational risks. The ECB follow-up letter on the results of the inspection was received on 6 February 2019 and the Bank answered it on 6 March 2019 by sending a specific action plan with respect to the following areas of intervention:

- further strengthening of Loss Data Collection processes - LDC and reporting;
- better mapping of business lines;
- strengthening of the limits and risk monitoring system;
- complete implementation of the system for asset management and configuration;
- completion of the system for problem and change management.

2) In September 2018 an inspection was also initiated at BPER Banca s.p.a. concerning the assessment of internal models (Targeted Review of Internal Models – TRIM).
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 inspection was received on 2 March 2020. BPER Banca was asked to submit an action plan to the ECB on how it intended to address the Supervisory Authority's recommendations.

3) November 2018 saw the start of the Credit Quality Review (CQR) at BPER Banca which the ECB also carried out at all supervised banks. 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 comply 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 with respect to 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.

4) In May 2019 the ECB commenced an on-site audit designed to evaluate the corporate governance of the Group.
The follow-up letter on the results of the inspection had not yet been received at the date this document was prepared.

5) At the end of 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 are capable of reporting correctly the required information about the debtors considered potentially eligible for monetary policy refinancing (static pools), as measured by the internal rating system (IRB).
The letter about the outcome of the inspection was received on 29 January 2020, indicating that the check on the process of managing the static pools was "mostly satisfactory": activities are carried out using a process that is sufficiently automated and controlled and the data communicated is substantially correct.
Nevertheless, a number of possible improvements were identified and, in its reply dated 28 February 2020, the Bank presented a specific action plan covering 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 the static pools;
- greater formalisation of the related internal documentation.

6) From 14 October 2019 to January 2020, the BPER Banca Group has been 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 had not yet been received at the date this document was prepared.

7) Other supervisory activities:

- extension of the AIRB advanced methodologies to the exposures of Cassa di Risparmio di Bra, commencing from the March 2019 Regulatory Reports;
- further work 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;
- during the first half of the year, a stress test promoted by the European Central Bank was carried out on liquidity risk;
- with regard to Resolution, in order to comply with the requirements of the Resolution Authority regarding the working priorities for 2019, the playbook for the bail-in process was prepared and sent to the Resolution Authority in December;
- with regard to the Recovery Plan, the 2019 work to update this document was approved by the Board of Directors on 19 December and then sent to the Supervisory Authority.

Financial administration - admission to cooperative compliance regime

Following completion of a process that began in December 2017, the Tax Authority Measure dated 25 July 2018 admitted BPER Banca to the cooperative compliance regime pursuant to Legislative Decree 128 dated 5 August 2015.

This important result was obtained after presentation of the relevant application and consequent investigation by the Tax Administration, in order to check the adequacy of the tax control framework implemented by BPER Banca. Following the positive outcome of these checks, BPER Banca was included in the list of companies admitted to the regime, which is published on the institutional website of the Tax Authority.

The objective of the cooperative compliance regime, introduced in Italy by the above 2015 Decree, is to establish rules and procedures that enable the Tax Administration and the Taxpayer to reach a higher level of dialogue and interaction based on a relationship of trust between the parties. This enables the Taxpayer to benefit from membership status in a number of ways, including:

- Determination, together with the Tax Authority, of a joint assessment regarding situations that may generate tax risks prior to the presentation of tax declarations, via forms of regular advance discussion of the facts, thereby increasing the level of certainty about significant tax matters;
- Accelerated procedure for advance rulings on the application of tax law in concrete situations;
- Reduced penalties, with collection deferred until finalisation of the assessment, for tax risks notified fully and in good time by the Taxpayer to the Tax Authority, if the latter does not accept the position proposed;
- If charges are brought for tax offences, the Tax Authority notifies the Magistrature that the taxpayer is a member of the cooperative compliance regime, providing upon request all useful information regarding verification of the tax risk;
- In addition, members of the cooperative compliance regime are not required to make guarantee deposits in order to obtain the reimbursement of direct and indirect taxes.

For its part, the Bank must guarantee to maintain a Tax Control Framework (TCF) that is systematically managed, updated and monitored. For this purpose, the Tax Office within the Parent Company 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.

Accordingly, work continued during 2019 on the implementation and improvement of the TCF structure with a series of initiatives that included:

- Adoption of a specific IT platform with measurement metrics consistent with the methodology adopted by the Compliance Department of the Bank;
- Formalisation of an operating manual that describes in detail the activities carried out;
- Update of the policies for the management of tax risks;
- Creation of a telematic platform for the management of tax advice, based on the ticketing system already used by the Bank;
- Definition of formalised models for the assessment of interpretation risk.

Among the various elements analysed and discussed with the relevant Tax Authority organisation, an inspection of the 2018 tax year was commenced on 18 April 2019 with specific focus on the tax effects of the absorption of Nuova Cassa di Risparmio di Ferrara. At the time of approving this report, no risks have emerged in relation to the above inspection.

8.6 Information on intercompany and related-party transactions

Relations between the various companies included within 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 consolidated Explanatory notes.

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 the 9th update on 12 December 2011 of Circular 263 dated 27 December 2006.
The document is published on BPER Banca's website (www.bper.it, in the "Information & Regulation" / "Associated persons" section) and on the websites of the other Group banks.

Note that at the end of the period under review, the only Group Bank that is listed and therefore required to observe CONSOB Regulation 17221/10, in addition to the Parent Company, is Banco di Sardegna s.p.a.
Without prejudice to the disclosure requirements of IAS 24 (explained in Part H of the Consolidated 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) more 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.	Gruppo Unipol (*)	Significant shareholder	Acquisition of Unipol Banca S.p.A.	220,000	Information document of 14 February 2019
2	BPER Banca S.p.A. / Banco di Sardegna S.p.A.	Unipol Rec S.p.A	Subsidiary controlled by the significant shareholder	Sale of a non-performing loans portfolio to Unipol Rec S.p.A.	102,010	Information document of 14 February 2019
3	BPER Banca S.p.A.	Fondazione di Sardegna	Significant shareholder	Acquisition of the minority interest in Banco di Sardegna and issue of AT1 convertible bond	(**)	Information document of 14 February 2019
4	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
5	BPER Banca S.p.A.	Banco di Sardegna S.p.A.	Directly controlled subsidiary	Repo transaction	268,974	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
6	BPER Banca S.p.A.	Banca di Sassari S.p.A.	Directly controlled subsidiary	Credit line	970,000	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	900,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221

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.	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
9	BPER Banca S.p.A.	Sardaleasing S.p.A.	Directly controlled subsidiary	Credit line	425,000	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	402,000	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.	Cassa di Risparmio di Bra S.p.A.	Directly controlled subsidiary	Credit line	300,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
13	Banco di Sardegna S.p.A.	Banca di Sassari S.p.A.	Directly controlled subsidiary	Credit line	400,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
14	BPER Banca S.p.A.	Alba Leasing S.p.A.	Directly associated company	Credit line	570,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221

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	Banco di Sardegna S.p.A.	BPER Banca S.p.A.	Direct parent company	Credit line	2,900,000	Information document of 13 December 2019
16	Banco di Sardegna S.p.A.	BPER Banca S.p.A.	Direct parent company	Credit line	950,000	Information document of 13 December 2019
17	Banco di Sardegna S.p.A.	BPER Banca S.p.A.	Direct parent company	Credit line	300,000	Information document of 13 December 2019
18	BPER Banca S.p.A.	Unipol Banca S.p.A	Directly controlled subsidiary	Merger by absorption	-	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
19	BPER Banca S.p.A.	Banco di Sardegna S.p.A.	Directly controlled subsidiary	Repo transaction	288,929	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
20	BPER Banca S.p.A.	Banco di Sardegna S.p.A.	Directly controlled subsidiary	Repo transaction	338,388	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
21	BPER Banca S.p.A.	Banco di Sardegna S.p.A.	Directly controlled subsidiary	Repo transaction	348,602	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
22	BPER Banca S.p.A.	Banco di Sardegna S.p.A.	Directly controlled subsidiary	Repo transaction	315,540	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221

(*) The operation was completed with the acquisition of the shares in Unipol Banca s.p.a. from Unipol Gruppo s.p.a. for Euro 187.5 million and from Unipol SAI Assicurazioni s.p.a. for Euro 32.5 million;
(**) The total consideration for the operation comprises two components:
- subscription by Fondazione di Sardegna of the subordinated convertible bond (AT1) for Euro 180 million issued by BPER Banca;
- subscription for 33,000,000 new ordinary shares in BPER Banca S.p.A. (private issue) at a unit price of Euro 5.1 each, settled by the contribution in kind of 10,731,789 shares in Banco di Sardegna s.p.a.

b) other individual transactions with related parties as defined under article 2427[38], 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 BPER Services s.c.p.a. by BPER Banca S.p.A. was signed on 3 June 2019. This internal operation, which took legal effect from 10 June 2019, was considered to be of lesser importance.
Lastly, the absorptions of Costruire Mulino s.r.l. and Frara s.r.l. by Italiana Valorizzazioni Immobiliari s.r.l. were filed with the Companies Register on 6 December 2019. This is considered to be of lesser importance.

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 the last annual report that would have an effect on the financial position or results of the Company.

8.7 Information on atypical, unusual or non-recurring transactions

During 2019 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.

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 has adjusted its policies to the new rules on staff remuneration.
In confirming and consolidating the pillars of its policy, the Group proceeded to the evolution of the remuneration systems to ensure consistency with the Company's strategies and priorities, alignment

[38] *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.*

with the rules and compliance with shareholders' expectations, also with reference to 2020, the next financial year.
In light of the foregoing and in accordance with the provisions of CONSOB on remuneration policies, we prepared a "Remuneration Report pursuant to art. 123-*ter* of Legislative Decree 58 of 24 February 1998, comprising the remuneration policies for 2020 of the BPER Banca Group and the annual disclosure regarding implementation of the remuneration policies for 2019".
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. 2020 Remuneration Policies of the BPER Group: this section defines the model adopted by the Group in relation to policies that will be implemented with reference to 2020;
II. Annual report on 2019 remuneration, which provides the main information about:
    a) Part 1: the items that make up the remuneration, including the conditions applied in the event of the resignation or termination of employment;
    b) Part 2: with particular regard to members of the boards of directors and statutory auditors, general managers and any other managers with strategic responsibilities, it provides a detailed list of the compensation paid in 2019 for any purpose and in any form by the Company, its subsidiaries and affiliates.

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 2020 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 the Phantom Stock Plan pursuant to article 84-*bis* of the Issuers' Regulations and in accordance with the instructions contained in schedule 7 of Appendix 3A.
The Plan provides for a cash bonus that is determined on the basis of the quoted market price of BPER's shares, and is defined as a Phantom Stock Plan, as it is not based on physical delivery of the underlying securities, but on the payment in cash of sums of money corresponding to the value of the underlying shares on specified dates that are decided ex-ante.

The BPER Banca Group also has a Long-Term Incentive Plan 2019-2021 (the LTI Plan) based on shares in the Parent Company. The Group considers the adoption of an LTI Plan to be strategic; this plan is aimed at a small group of top managers with the objective of aligning their interests with those of the shareholders. The objectives to be achieved were defined in accordance with the relevant provisions and with the 2019-2021 Business Plan presented to the market at the end of February 2019. 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 notes for further details.

Effects of Impairment Stage 3 on the remuneration of manager

The remuneration policies of the BPER Banca Group have always focused on sustainability, with an incidence on total personnel expenses that is lower than that of leading competitors. This approach has also guided the consideration of specific elements linked to the application of IFRS 9, which are summarised below.
At the end of 2017, on application of IFRS 9, the Group elected in accordance with the transition rules to record a negative FTA (First Time Adoption) reserve directly in equity, without restating the income statements for prior years (full retrospective approach).
The new measurement model, known as the “three buckets model”, adopts a forward-looking approach with the ability to recognise provisions and expected losses with reference to the degree of deterioration

in the credit risk associated with financial instruments. Accordingly, the introduction of IFRS 9 involved adopting an expected loss approach, rather than the previous IAS 39 methodology (incurred loss).
As part of work to align the asset structure with the direct supervision requests made by the ECB, the Group had already activated various de-risking initiatives, including the adoption of a long-term plan to sell non-performing loans. The FTA of IFRS 9 resulted in the recognition of additional adjustments to the pool of NPE to be sold, allowing the effects to be recognised in equity rather than in the income statement.
In this regard, the European Parliament determined that the first-time adoption of IFRS 9 might result in a significant and unexpected increase in loan provisions, with consequent deterioration of the Class 1 capital of banks. For this reason, Regulation (EU) 2395/2017 of the European Parliament and of the Council decided to allow a prudent mechanism for the gradual introduction of the related accounting effects, with a view to mitigating and diluting the impact on Own Funds.
The transition period envisaged in the new standard will last for five years: FY 2018 was the starting point, with full application from 1 January 2023. During the first year, the correction factor applicable by adopters was 5% of the total amount of the FTA reserve recorded. In the specific case of the BPER Group, the initial negative reserve at 1 January 2018 amounted to Euro 977 million, of which just Euro 49 million affected regulatory CET1 at that date.
The Group has monitored carefully this delicate transition and continues to ensure compliance with all financial constraints, including the distribution of dividends and the assignment of variable remuneration. These checks have confirmed that ample equity margins are maintained, even considering the fully-phased projection of the above FTA effects required in the ECB letter dated 9 February 2019 from Andrea Enria, Chairman of the Supervisory Board. In particular, considering the above fully-phased CET1, the equity buffer with respect to the MDA (Maximum Distributable Amount) remains very high, even in 2018, at about Euro 1.2 billion, while dividends and variable remuneration total 8.0% of that buffer (4.9% of the regulatory amount).
The following table shows the equity buffer with respect to the MDA and its reduction in 2018 on recognition of the negative IFRS 9 FTA reserve, the amount of dividends and the variable remuneration distributed, as well as their incidence on the equity buffer:

Buffer on Maximum Distributable Amount (MDA) trigger

(in millions)

	2017	2018	2019
Regulatory CET1 vs. MDA trigger	2,163	1,881	1,701
Fully Phased CET1 vs. MDA trigger	2,094	1,166	1,042
Dividends1	52,9	62,5	72,8
Variable remuneration2	25,7	30,5	X
Percentage on Regulatory Buffer	3.6%	4.9%	X
Percentage on Fully Phased Buffer	3.8%	8.0%	X

[1] *Dividends paid in the following year (estimate included for 2019)*
[2] *Remuneration paid in the following year*

The regulatory opportunity offered by this phasing in of the effects on equity of applying IFRS 9 for the first time has facilitated the implementation of a significant NPE disposal plan. Further, this election has not affected the financial strength of the Group or influenced the total amount of variable remuneration, as the mechanism for quantifying the maximum amount of that aggregate (the bonus pool) is mainly correlated with the levels of remuneration paid in prior years and less with events affecting current results.

At the same time, the above phenomena, while contributing to the determination of certain parameters that activate the entry gates for access to the variable remuneration, did not affect their positive application.
Further details and analysis of the Remuneration Policies adopted are contained in specific documents presented from time to time for approval at the Shareholders' Meeting and available on the institutional website of the Group.

8.9 Report on the Arms Industry

The BPER Banca Group prepared the 2019 Report on the Arms Industry, in compliance with the "Group guidelines governing the relations with defence contractors and manufacturers of armaments".
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, as well as in the "Sustainability" section.

8.10 Establishment of the VAT Group

The BPER VAT Group is operational from 1 January 2019 as a VAT payer regulated by the EU legislation recently 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.
The VAT Group operates externally with a single VAT number, it fulfils the obligations and exercises the rights deriving from application of the VAT rules through the group representative (BPER Banca), who is responsible for performance of the obligations, as well as for payment of the sums due for tax, interest and penalties, jointly with the participants.

8.11 Application of the MiFID

Work on alignment with Directive 2014/65/EU (the MiFID II Directive) continued during 2019; in particular, the first summary report on costs and charges incurred in relation to financial products and investment services was prepared and sent to customers with security deposit accounts or that hold financial products. This new statement is intended to provide ever greater transparency to customers.
In addition, there were multiple contacts with Consob, which sent specific letters to various leading banks, including BPER Banca, requesting data and information pursuant to art. 6 bis, para. 4.a), of Legislative Decree 58/1998. This interaction included requests for information about how Group banks are implementing the MiFID II Directive (especially with regard to the information for customers about

the costs and charges associated with financial products and investment services), as well as specific questions about the decisions made concerning the provision of investment services and, accordingly, the design of the customer protection model. As a result of these requests for clarification and points of emphasis, revisions were made to certain logic underlying the adequacy and target market checks, to ensure that financial products and investment services are consistent with the financial characteristics and requirements of customers.
Lastly, with regard to transaction reporting, the Supervisory Authority sent a specific request for clarification about certain anomalies involving the delayed sending of reports, which included semantic errors. Appropriate analyses were carried out and IT procedures were revised as necessary in order to correct the above anomalies.

8.12 Transition to IFRS 16

Organisation of the project for implementation within BPER Banca Group
IFRS 16, in force from 1 January 2019, provides for new rules to identify whether a contract contains a lease and has changed the methods of accounting for lease transactions in the lessee's and user's financial statements, introducing a single model of accounting for lease contracts by the lessee, regardless of whether they are classified as operating or finance leases.

During 2018, the BPER Banca Group launched a specific project to analyse the accounting impacts of applying IFRS 16 and to determine the repercussions thereof on the corporate, organisational, process and IT environments. In short, the project has been split into the following stages:
- a first phase of scoping, assessment and definition of the various transition choices to be made;
- a second phase involving the design of target operating models;
- a third phase of implementation of the impacted processes and adaptation of internal regulations.

This project was managed centrally by the Parent Company, taking into consideration the specific aspects of each Group company; the various implementation steps are defined centrally for all subsidiaries, involving each of them appropriately according to the extent of the impact, ensuring constant alignment.

The assessment made on the existing lease contracts at Group level identified three categories of assets on which to carry out the impact analysis:
- Property;
- Cars
- Other contracts (mainly represented by ATM machines and multifunction printers).

It should also be noted that based on the indications of IFRS 16 and the clarifications provided by IFRIC (document "Cloud Computing Arrangements" of September 2018), software is excluded from the scope of application of IFRS 16; it will therefore be accounted for according to IAS 38 and its requirements.
In addition, the scope of contracts identified as significant already discounts the application of the simplifications allowed by this standard; the following contracts were in fact excluded:
- "Short-term", i.e. with a residual life of less than 12 months on first-time adoption (FTA);
- "Low-value", i.e. with an estimated value of the asset of less than Euro 5,000.

With respect to the methods adopted for the transition to IFRS 16, the other application choices defined by the BPER Banca Group and the related impacts of first-time adoption, please refer to the Explanatory notes to the consolidated financial statements.

9. Outlook for operations

Globally, the macroeconomic situation observed in the early days of 2020 seems to reflect a certain stabilisation, as confirmed by recent data on the performance of both the American and European economies. The Chinese economy continues to expand, though growth is slowing. In this scenario, thanks to the support of economic policies and a decrease in US-China tensions on commercial tariffs on the one hand and the good level of consumption and corporate profits on the other, the risks of entering into a potential international recessionary spiral appear limited, even if the global growth rate seems to be stuck at the lowest levels in recent years, at around +2.6%. The Italian economy is expected to grow by about half a percentage point in 2020, bolstered by this stabilisation in the international context, by a drop in the spread and a slight recovery in consumption, although the growth rate is put at over half a percentage point lower than the European average, at around 1%. These forecasts of global economic growth will be affected by the "coronavirus" pandemic that spread throughout China and then, subsequently, to other countries including Italy. This has caused local slowdowns or interruptions in economic and commercial activity in multiple sectors. The Bank takes this subsequent event seriously although, given the rapidly changing circumstances and the multiple key factors that remain unknown and undefined, it is not currently possible to quantify the impact on the economic and financial position of the Bank and the Group, in future profitability or, more generally, on the economic and financial forecasts made to date. Especially considering these "coronavirus" uncertainties, the monetary policy adopted by the European Central Bank under the guidance of its new President, Christine Lagarde, seems to be based on continuity with that introduced by her predecessor: still weak growth in Europe and the absence of inflationary pressures should keep monetary policy rates stable at current levels in the medium term.

In this context, revenues of the BPER Banca Group will be supported by growth in commission income, especially from the asset management and bancassurance segments, while expectations for growth in net interest income remain modest, mainly due to the persistence of market rates at all-time lows, the increase in competition for less risky customers and the prospects of still weak economic growth; margin support should come from the positive dynamics expected from the consumer credit sector, where important commercial initiatives are planned. A significant contribution to Group profitability is expected from a substantial reduction in operating costs and the cost of credit (in a scenario in which it remains difficult to estimate the adverse effects of the "coronavirus" on the Expected Credit Loss), as well as from the contribution offered by the potential acquisition of a line of business related to the POE promoted by Intesa Sanpaolo on UBI Banca, which is discussed below. Asset quality is again expected to improve significantly, helped by the new bad loan securitisation, which is already at an advanced stage of execution and should be completed by the end of the first half of 2020, with the aim of reaching the target NPE ratio of less than 9% laid down in the Business Plan for 2021 a year ahead of schedule. All of these factors should help to bolster the Group's profitability prospects for the current year, together with maintenance of a high capital solidity.

Strategic project – potential acquisition of a line of business from the Intesa Sanpaolo Group

On 17 February 2020, the Board of Directors of BPER Banca approved the potential acquisition of a line of business from the Intesa Sanpaolo Group, comprising 400/500 branches concentrated in Northern Italy, conditional on completion of the voluntary Public Offer of Exchange promoted by Intesa Sanpaolo for the entire share capital of UBI Banca.

Strategically, the project is consistent with the objectives of the BPER Banca Group, which seek increasing size, increasing profitability and improved asset quality, while maintaining a strong financial position.

Further information is contained in the market communications.

Modena, 10 March 2020

The Board of Directors
The Chairman
Pietro Ferrari

Consolidated financial statements

Consolidated balance sheet as at 31 December 2019

(in thousands)

	Assets	31.12.2019	31.12.2018
10.	Cash and cash equivalents	566,924	459,782
20.	Financial assets measured at fair value through profit or loss	1,120,111	1,128,625
	a) financial assets held for trading	270,374	247,219
	b) financial assets designated at fair value	130,955	218,662
	c) other financial assets mandatorily measured at fair value	718,782	662,744
30.	Financial assets measured at fair value through other comprehensive income	6,556,202	8,563,992
40.	Financial assets measured at amortised cost	65,541,246	56,054,342
	a) loans to banks	5,066,379	3,306,678
	b) loans to customers	60,474,867	52,747,664
50.	Hedging derivatives	82,185	35,564
70.	Equity investments	225,869	446,049
90.	Property, plant and equipment	1,368,696	1,063,273
100.	Intangible assets	669,847	445,689
	of which:		
	- goodwill	434,758	264,740
110.	Tax assets	2,024,579	1,885,616
	a) current	466,312	457,838
	b) deferred	1,558,267	1,427,778
120.	Non current assets and disposal groups classified as held for sale	97,142	2,800
130.	Other assets	780,697	549,035
	Total assets	**79,033,498**	**70,634,767**

(in thousands)

Liabilities and shareholders' equity		31.12.2019	31.12.2018
10.	Financial liabilities measured at amortised cost	70,135,262	63,122,667
	a) due to banks	12,213,133	13,126,248
	b) due to customers	52,087,240	44,594,863
	c) debt securities issued	5,834,889	5,401,556
20.	Financial liabilities held for trading	165,970	143,824
40.	Hedging derivatives	294,114	92,374
60.	Tax liabilities	75,737	62,644
	a) current	5,405	3,966
	b) deferred	70,332	58,678
70.	Liabilities associated with assets classified as held for sale	134,077	-
80.	Other liabilities	2,069,511	1,663,946
90.	Employee termination indemnities	191,120	182,793
100.	Provisions for risks and charges	676,160	469,951
	a) commitments and guarantees granted	55,995	63,059
	b) pension and similar obligations	161,619	131,126
	c) other provisions for risks and charges	458,546	275,766
120.	Valuation reserves	37,750	949
140.	Equity instruments	150,000	-
150.	Reserves	2,035,205	1,619,469
160.	Share premium reserve	1,002,722	930,073
170.	Share capital	1,561,884	1,443,925
180.	Treasury shares (-)	(7,259)	(7,258)
190.	Minority interests (+/-)	131,662	507,457
200.	Profit (Loss) for the year pertaining to the Parent Company (+/-)	379,583	401,953
	Total liabilities and shareholders' equity	**79,033,498**	**70,634,767**

Consolidated income statement as at 31 December 2019

(in thousands)

	Captions	31.12.2019	31.12.2018
10.	Interest and similar income	1,419,767	1,375,925
	of which: interest income calculated using the effective interest method	1,395,908	1,358,857
20.	Interest and similar expense	(255,228)	(253,488)
30.	**Net interest income**	**1,164,539**	**1,122,437**
40.	Commission income	1,043,000	812,147
50.	Commission expense	(111,050)	(35,882)
60.	**Net commission income**	**931,950**	**776,265**
70.	Dividends and similar income	14,101	34,339
80.	Net income from trading activities	180	1,812
90.	Net income from hedging activities	(1,546)	1,621
100.	Gains (Losses) on disposal or repurchase of:	116,600	91,925
	a) financial assets measured at amortised cost	38,710	(77,645)
	b) financial assets measured at fair value through other comprehensive income	77,664	168,662
	c) financial liabilities	226	908
110.	Net income on financial assets and liabilities measured at fair value through profit or loss	(1,241)	8,664
	a) financial assets and liabilities designated at fair value	(8,436)	(4,378)
	b) other financial assets mandatorily measured at fair value	7,195	13,042
120.	**Net interest and other banking income**	**2,224,583**	**2,037,063**
130.	Net impairment losses for credit risk relating to:	(446,291)	(223,706)
	a) financial assets measured at amortised cost	(447,547)	(225,772)
	b) financial assets measured at fair value through other comprehensive income	1,256	2,066
140.	Gains (Losses) from contractual modifications without derecognition	(2,979)	(2,956)
150.	**Net income from financial activities**	**1,775,313**	**1,810,401**
180.	**Net income from financial and insurance activities**	**1,775,313**	**1,810,401**
190.	Administrative expenses:	(1,699,466)	(1,442,264)
	a) staff costs	(1,049,686)	(821,494)
	b) other administrative expenses	(649,780)	(620,770)
200.	Net provisions for risks and charges	(12,193)	(7,794)
	a) commitments and guarantees granted	9,032	16,197
	b) other net provisions	(21,225)	(23,991)
210.	Net adjustments to property, plant and equipment	(125,524)	(70,405)
220.	Net adjustments to intangible assets	(59,552)	(48,534)
230.	Other operating expense/income	188,348	152,823
240.	**Operating costs**	**(1,708,387)**	**(1,416,174)**
250.	Gains (Losses) of equity investments	7,213	13,349
270.	Impairment losses on goodwill	-	(62,344)
275.	Gain on a bargain purchase	343,361	-
280.	Gains (Losses) on disposal investments	(602)	294
290.	**Profit (Loss) from current operations before tax**	**416,898**	**345,526**
300.	Income taxes on current operations for the year	(22,446)	100,264
310.	**Profit (Loss) from current operations after tax**	**394,452**	**445,790**
330.	**Profit (Loss) for the year**	**394,452**	**445,790**
340.	Profit (Loss) for the year pertaining to minority interests	(14,869)	(43,837)
350.	**Profit (Loss) for the year pertaining to the Parent Company**	**379,583**	**401,953**

	Earning per share (Euro) 31.12.2019	Earning per share (Euro) 31.12.2018
Basic EPS	0.766	0.836
Diluted EPS	0.743	0.836

Consolidated statement of other comprehensive income

(in thousands)

Captions		31.12.2019	31.12.2018
10.	**Profit (Loss) for the year**	**394,452**	**445,790**
	Other comprehensive income, after tax, that will not be reclassified to profit or loss		
20.	Equity instruments measured at fair value through other comprehensive income	(53,182)	20,186
70.	Defined benefit plans	(30,998)	(210)
90.	Share of the valuation reserves of equity investments carried at equity	1,632	(3,741)
	Other comprehensive income, after tax, that may be reclassified to profit or loss		
120.	Cash-flow hedges	(143)	748
140.	Financial assets (no equity instruments) measured at fair value through other comprehensive income	68,310	(236,839)
170.	**Total other comprehensive income after tax**	**(14,381)**	**(219,856)**
180.	**Total other comprehensive income (Captions 10+170)**	**380,071**	**225,934**
190.	Consolidated other comprehensive income pertaining to minority interests	19,042	33,415
200.	**Consolidated other comprehensive income pertaining to the Parent Company**	**361,029**	**192,519**

Consolidated statement of changes in shareholders' equity

(in thousands)

	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	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	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**

	Balance as at 31.12.17 (*)	Changes in opening balances (**)	Balance as at 1.1.18	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	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in participatory interests	Other comprehensive income as at 31.12.2018	Shareholders' equity as at 31.12.2018: Group	Shareholders' equity as at 31.12.2018: Minority interests
Share capital:	**1,563,027**	**-**	**1,563,027**	**-**	**-**	**(13)**	**20,017**	**-**	**-**	**-**	**-**	**-**	**(96)**	**-**	**1,443,925**	**139,010**
a) ordinary shares	1,563,027	-	1,563,027	-	-	(13)	20,017	-	-	-	-	-	(96)	-	1,443,925	139,010
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**1,013,409**	**-**	**1,013,409**	**-**	**-**	**(7)**	**479**	**-**	**-**	**-**	**-**	**-**	**(2,579)**	**-**	**930,073**	**81,229**
Reserves:	**2,860,235**	**(1,213,067)**	**1,647,168**	**122,192**	**-**	**69,478**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,619,469**	**219,369**
a) from profits	2,259,633	(1,213,067)	1,046,566	122,192		65,855	-	-		-	-	-	-	-	1,059,329	175,284
b) other	600,602	-	600,602			3,623	-	-	-	-	-	-	-	-	560,140	44,085
Valuation reserves	**110,437**	**129,206**	**239,643**	**-**	**-**	**5,175**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(219,856)**	**949**	**24,013**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		
Treasury shares	**(7,259)**	**-**	**(7,259)**	**-**	**-**				**-**	**-**	**-**	**-**	**-**	**-**	**(7,258)**	**(1)**
Profit (Loss) for the year	**176,882**	**-**	**176,882**	**(122,192)**	**(54,690)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**445,790**	**401,953**	**43,837**
Group shareholders' equity	**5,063,721**	**(882,676)**	**4,181,045**	**-**	**(52,894)**	**62,817**	**-**	**-**	**-**	**-**	**-**	**-**	**5,624**	**192,519**	**4,389,111**	
Minority interests	**653,010**	**(201,185)**	**451,825**	**-**	**(1,796)**	**11,816**	**20,496**	**-**	**-**	**-**	**-**	**-**	**(8,299)**	**33,415**	**-**	**507,457**

(*) With the entry into force of IFRS 9, the figure as at 31 December 2017 has been reclassified in order to understand the effects of the new measurement rules for financial instruments.

(**) The change in opening balances relating to reserves from profits and valuation reserves is due to the first time adoption of IFRS9 international standard entered into force on 1 January 2018 as detailed in Part A of Explanatory Notes contained in Consolidated financial statements as at 31 December 2018.

Consolidated statement of cash flows

Indirect method

(in thousands)

A. OPERATING ACTIVITIES	31.12.2019	31.12.2018
1. Operations	**983,449**	**910,638**
- profit (loss) for the year (+/-)	379,583	401,953
- gains/losses from financial assets held for trading and financial assets/liabilities measured at fair value through profit and loss (-/+)	(35,016)	14,356
- gains (losses) from hedging activities (-/+)	1,546	(1,621)
- impairment losses/write-backs for credit risk (+/-)	576,725	401,173
- impairment losses/write-backs to property, plant and equipment and intangible assets (+/-)	185,076	118,939
- net provisions for risks and charges and other expense/income (+/-)	238,555	89,745
- net uncashed premiums (-)	-	-
- other uncashed income/insurance charges (-/+)	-	-
- unsettled taxes (+/-)	(12,824)	(100,264)
- disposal groups classified as held for sale (+/-)	-	-
- other adjustments (+/-)	(350,196)	(13,643)
2. Cash generated/absorbed by financial assets	**3,517,170**	**(939,472)**
- financial assets held for trading	16,754	150,217
- financial assets designated at fair value	89,644	152
- other financial assets mandatorily measured at fair value	108,655	(410)
- financial assets measured at fair value through other comprehensive income	2,549,586	4,779,889
- financial assets measured at amortised cost	850,689	(5,981,652)
- other assets	(98,158)	112,332
3. Cash generated/absorbed by financial liabilities	**(4,122,752)**	**182,845**
- financial liabilities measured at amortised cost	(4,054,947)	(108,491)
- financial liabilities held for trading	22,107	(26,222)
- financial liabilities designated at fair value	-	-
- other liabilities	(89,912)	317,558
Net cash generated/absorbed by operating activities	**377,867**	**154,011**

B. INVESTMENT ACTIVITIES	31.12.2019	31.12.2018
1. Cash generated by	**12,940**	**3,218**
- disposal of equity investments	6,706	-
- collected dividends on equity investments	-	-
- disposal of property, plant and equipment	6,234	3,218
- disposal of intangible assets	-	-
- disposal of subsidiaries and business lines	-	-
2. Cash absorbed by	**(388,939)**	**(83,202)**
- purchase of equity investments	-	-
- purchase of property, plant and equipment	(86,639)	(33,983)
- purchase of intangible assets	(75,393)	(49,219)
- purchase of subsidiaries and business lines	(226,907)	-
Net cash generated/absorbed by investment activities	**(375,999)**	**(79,984)**

C. FUNDING ACTIVITIES	31.12.2019	31.12.2018
- issue/purchase of equity instruments	180,000	-
- distribution of dividends and other scopes	(74,489)	(54,690)
- sale/purchase of control of third parties	-	20,004
Net cash generated/absorbed by funding activities	**105,511**	**(34,686)**
Net cash generated/absorbed in the year	**107,379**	**39,341**

Reconciliation

Captions	31.12.2019	31.12.2018
Cash and cash equivalents at the beginning of the year	459,782	420,299
Total net cash generated/absorbed in the year	107,379	39,341
Cash and cash equivalents: effect of change in exchange rate	(237)	142
Cash and cash equivalents at the end of the year	**566,924**	**459,782**

Key:
(+) generated
(-) absorbed

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 2019 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 has been 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 Banks and Companies of the Group 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, whose application is mandatory from 2019.

EC Approval Regulation	Title	In force from years beginning
1986/2017	The Commission Regulation (EU) 2017/1986 of 31 October 2017, published in the Official Journal L 291 of 9 November 2017, adopts IFRS 16 Leases, which aims to improve the accounting treatment of leasing contracts.	1 January 2019
498/2018	The Commission Regulation (EU) 2018/498 of 22 March 2018, published in the Official Journal of 26 March 2018, adopts amendments concerning IFRS 9. The date of entry into force and the transitional provisions of the prepayment elements with negative compensation have been changed.	1 January 2019
1595/2018	The Commission Regulation (EU) 2018/1595 of 23 October 2018, published in the Official Journal L 265 of 24 October 2018, adopts IFRIC 23 - Uncertainty over Income Tax Treatments. This interpretation specifies how to reflect the uncertainty when accounting for income taxes.	1 January 2019
237/2019	The Commission Regulation (EU) 2019/237 of 8 February 2019, published in the Official Journal of the European Union L. 39 of 11 February 2019, which amends Regulation (EC) 1126/2008 which adopts certain international accounting standards in accordance with regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IAS 28.	1 January 2019
402/2019	The Commission Regulation (EU) 2019/402 of 13 March 2019, published in the Official Journal of the European Union L. 72 of 14 March 2019, adopts "Plan Amendment, Curtailment or Settlement" (Amendments to IAS 19). The objective of the amendments is to clarify that, after a defined-benefit plan amendment, curtailment or settlement occurs, an entity should apply the updated assumptions from the remeasurement of its net defined benefit liability (asset) for the remainder of the reporting period.	1 January 2019
412/2019	The Commission Regulation (EU) No 2019/412 of 14 March 2019, published in the Official Journal of the European Union L 73 on 15 March 2019, adopts “Annual Improvements to International Financial Reporting Standards 2015-2017 Cycle” that amends IAS 12 Income Taxes, IAS 23 Borrowing Costs, IFRS 3 Business Combinations and IFRS 11 Joint Arrangements.	1 January 2019

With respect to the new standards and the amendments to them that came into effect on 1 January 2019, the Group has not identified significant impacts on the Consolidated financial statements at 31 December 2019, except as set forth below in relation to the first-time adoption of IFRS 16.

Concerning the application of IFRIC 23, disclosures about the tax risks deriving from the interpretation of regulations and any related provisions, the most significant tax aspects of new regulations and extraordinary transactions are discussed with the Tax Authority in the context of the cooperative compliance regime, which essentially enables the BPER Group to eliminate the related tax risk.

IFRS 16

From 1 January 2019, IFRS 16 replaced IAS 17 "Leases", IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC 15 "Operating Leases - Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease", regulating the requirements for the accounting of lease contracts.

In addition to providing new rules to identify whether a contract contains a lease, the standard has changed the methods of accounting for lease transactions in the lessee's and user's financial statements, introducing a single model of accounting for lease contracts by the lessee, regardless of whether they are classified as operating or financial leases.
Specifically, this new accounting method includes the recognition on the assets side of the balance sheet of a right to use the asset covered by the contract ("Right of Use") and the recognition on the liabilities side of a lease payable, quantified as the discounted sum of instalments still to be paid to the lessor. The new model also changes the method of recording items in the income statement, which include depreciation of the right of use and interest expense on the lease liability.
However there are no substantial changes in the lease accounting model for the lessor, which continues to distinguish between operating leases and finance leases, in line with the previous standard.
IFRS 16 also establishes that if the lessee chooses to apply the standard in accordance with paragraph C5, letter b) to leases that have been classified as finance leases by applying IAS 17, the carrying amount of the asset consisting of the right of use and the liability of the lease at the initial application date is the carrying amount of the asset subject to the lease and of the lease liability assessed immediately before that date by applying IAS 17 (i.e. the carrying amount at 31 December 2018). For these leases, the lessee must account for the "right of use asset" and the lease liability by applying IFRS 16 from the date of first-time adoption (IFRS 16.C11).

Disclosure requirements for the financial statements have been changed for both lessee and lessor[39]; the former will have to disclose, among other things:

- the subdivision between the different "classes" of leased assets, the balance at the end of the period and depreciation;
- the amount of interest relating to lease payables;
- the breakdown of lease payables by maturity.

With respect to the transition methods allowed by IFRS 16, the BPER Banca Group has chosen to adopt the practical expedient of not restating the FTA scope, instead applying the new standard to all of the lease contracts already identified according to the definition contained in IAS 17. In addition, the Group has adopted the modified retrospective approach for the impact assessments and the reference approach for the transition, noting the cumulative impact of FTA of the standard to existing contracts as an adjustment of the opening balances at 1 January 2019, without recalculating and restating comparative figures (31 December 2018). For the determination of the Right of Use during the transition, reference is made to the option that allows quantification of the asset at the same amount as the lease liability, calculated by discounting future contractual lease instalments to the FTA date at an appropriate discount rate.

With respect to the other decisions made by the Group both during the transition and for the on-going management of the transactions (as described in more detail below), it should be noted that:

- with reference to the duration of the property leases, the Group considered as reasonably certain only the first renewal period, subject to contractual clauses and specific circumstances that involved considering different contractual durations;
- at the transition date and at the start date of each contract stipulated after 1 January 2019, each Group Company has defined the duration of the lease, based on the facts and circumstances

[39] *This update was also adopted in Bank of Italy Circular 262/2005, the 6th update of which requires the addition of an explanatory note dedicated to leasing – Part M.*

that exist at that particular date and have an impact on the reasonable certainty to exercise the options included in the lease agreements;

- with reference to the discount rate of flows for the quantification of the lease liability, as the internal rate of return is not available for most of the contracts, the Group used a marginal rate of financing as an alternative indicated by the standard itself;
- finally, the Group decided not to separate the service components from the lease components and consequently account for the entire contract as a lease following a cost-benefit analysis.

During the transition to IFRS 16, there were no impacts on consolidated shareholders' equity as, following the decision to adopt the modified approach (option B), the value of the recorded assets and liabilities coincides, net of the reclassification of the accruals/prepayments and exposure of leases previously classified as finance leases in accordance with IAS 17.

The following table shows the individual balance sheet items affected by the change in opening balances.

(in thousands)

Assets		31.12.2018 (a)	IFRS 16 impact (b)	01.01.2019 C = (a) + (b)
90.	Property, plant and equipment	1,063,273	229,631	1,292,904
130.	Other assets	549,035	(651)	548,384
	Total assets	**70,634,767**	**228,980**	**70,863,747**

(in thousands)

Liabilities and shareholders' equity		31.12.2018 (a)	IFRS 16 impact (b)	01.01.2019 C = (a) + (b)
10.	Financial liabilities measured at amortised cost	63,122,667	228,980	63,351,647
	Total liabilities and shareholders' equity	**70,634,767**	**228,980**	**70,863,747**

With respect to the commitments involving operating leases, already represented in the financial statements at 31 December 2018 in accordance with IAS 17, the liabilities recorded at the FTA date in accordance with IFRS 16 mainly exclude future payments relating to contracts involving low-value assets or those classified as short-term, as well as other payments not falling within the scope of application of the new standard, as shown in the following reconciliation.

(in thousands)

Lease Liabilities reconciliation	Total consolidated
Undiscounted IAS 17 operating lease commitments at 31.12.2018	**261,222**
Exceptions for IFRS 16 recognition	(9,442)
Short-term leasing	(1,104)
Low value leasing	(8,338)
Other changes	(17,999)
Undiscounted Lease Liabilities to recognise in balance sheet at 1.1.2019	**233,781**
Discounting effect at FTA RATE (*)	(4,801)
IFRS 16 Lease Liabilities at 1.1.2019	**228,980**
Finance Leases Liabilities at 1.1.2019 under ex IAS 17	12,420
Total IFRS 16 Lease Liabilities at 1.1.2019	**241,400**

(*) The marginal weighted average financing rate used in calculating the lease liability at the FTA date is approximately 1%.

The following table shows the new international accounting standards or amendments to standards already in force, whose application is mandatory from 1 January 2020 or later date (if the financial statements do not coincide with the calendar year).

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

The BPER Banca Group has elected to apply early, from the financial statements at 31 December 2019, the amendments made to IAS 39, IFRS 9 and IFRS 7, as introduced by Regulation (EU) 34/2020. The reasons for this election and the additional disclosures required by the amendments are presented in Part E, Market risk, of the Explanatory notes.

The amendments introduced in other Regulations do not require early disclosure of the potential impact of their application from the 2020 financial year.

Lastly, the Explanatory notes have been supplemented, when deemed necessary, with reference to the communication from the Bank of Italy dated 23 December 2019, which reminds banking and financial intermediaries to make disclosures, from their financial statements for periods ending on or after 31 December 2019, about the following topics:

- multi-originator sales of non-performing loans to mutual funds, with the provisions of related quantitative and qualitative Explanatory notes as if they were securitisation transactions[40];
- the scope of application of IFRS 16, IFRS 9, IFRS 15 and IAS 12, with respect to the disclosures required in the ESMA communication dated 22 October 2019[41].

[40] *This information has been included in Part E – Credit risk, Sub-section D. Disposal transactions, Point D.3 Prudential consolidation – Financial assets sold and derecognised in full.*
[41] *This information has been integrated with the information contained in Part M, dedicated to IFRS 16 Leases, in Part B - Assets and in Part E – Credit risk, regarding the ECL disclosures required by IFRS 9.*

Section 2 - Basis of preparation

With regard to formats and technical forms, the consolidated financial statements were prepared on the basis of Circular no. 262/2005 and subsequent amendments (most recently the 6th update on 30 November 2018, applicable from 1 January 2019) - issued in implementation of art. 9 of Legislative Decree no. 38/2005. The financial statements also reflect the requirements of the Italian Civil Code.
The consolidated financial statements consist of the consolidated balance sheet, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in shareholders' equity, the consolidated 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[42].

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.
- *Accrual Basis of Accounting:* costs and revenues are recognised 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 notes and attachments to the 2019 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.

[42] *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 charges/income" in the income statement.*

Uncertainties in the use of estimates[43]

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;
- measurements at fair value, not included in the above points, as part of the Purchase Price Allocations carried out in relation to the business combinations completed during the year.

The impairment losses on loans and advances and, in general, on other financial assets, the fair value of financial instruments and the recoverability of deferred tax assets, as well as the related estimates and assumptions used to prepare the financial statements at 31 December 2019, might all be subject to change due to the effects of the COVID-19 emergency over the next few months of 2020.

The description of the accounting policies adopted in relation to the principal financial statement aggregates is presented in sufficient detail to identify the principal assumptions and assessments made for the preparation of these financial statements.

Going Concern[44]

In preparing the consolidated financial statements for the year ended 31 December 2019, 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 business continuity.

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

Inspections and audits

The directors are of the opinion that the observations that emerged in the various inspection areas do not entail significant impacts in terms of income, assets and cash flows of the BPER Banca Group. In any case, the Group always prepares suitable action plans to implement the Supervisory Authority's recommendations as quickly as possible.

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 subsequent amendments), 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 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)[45], 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. There has to be a correlation between the powers and returns, which occurs when the investor holds valid rights that give it the ability to direct the relevant 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.

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 2019.

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

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 the 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 (at the end of the period in which business combinations result in the recognition of additional goodwill, 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[46] "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 effective from 1 July 2019 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[47] 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.
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

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

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 2019 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.;

Banca Farnese s.p.a. in liquidation has been deconsolidated at 31 December 2019, due to the advanced stage of the liquidation process.

1. Investments in 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	98.677	100.000
2.	Banca di Sassari s.p.a.	Sassari	Sassari	1	74,458,607	BPER Banca	78.536	
						B. Sard.	20.522	
3.	Cassa di Risparmio di Bra s.p.a.	Bra	Bra	1	57,330,000	BPER Banca	84.286	
4.	Cassa di Risparmio di Saluzzo s.p.a.	Saluzzo	Saluzzo	1	33,280,000	BPER Banca	100.000	
5.	BPER Bank Luxembourg SA	Luxembourg	Luxembourg	1	30,667,500	BPER Banca	100.000	
6.	Nadia s.p.a.	Modena	Modena	1	87,000,000	BPER Banca	100.000	
7.	Sardaleasing s.p.a.	Milan	Sassari	1	184,173,750	BPER Banca	52.741	
						B. Sard.	46.933	
8.	Optima s.p.a. S.I.M.	Modena	Modena	1	13,000,000	BPER Banca	100.000	
9.	Tholos s.p.a.	Sassari	Sassari	1	52,015,811	B. Sard.	100.000	
10.	Numera Sistemi e Informatica s.p.a.	Sassari	Sassari	1	2,065,840	B. Sard.	100.000	
11.	Modena Terminal s.r.l.	Campogalliano	Campogalliano	1	8,000,000	BPER Banca	100.000	
12.	Emilia Romagna Factor s.p.a.	Bologna	Bologna	1	54,590,910	BPER Banca	95.954	
13.	BPER Credit Management s.cons.p.a.	Modena	Modena	1	1,000,000	BPER Banca	67.000	
						B. Sard.	20.000	
						B. Sassari	3.000	
						CR Bra	2.000	
						CR Saluzzo	1.000	
						EmilRo Factor	1.000	
						Sardaleasing	6.000	
14.	Arca Holding s.p.a.(*)	Milan	Milan	1	50,000,000	BPER Banca	57.061	
15.	Arca Fondi SGR s.p.a	Milan	Milan	1	50,000,000	Arca Holding	100.000	
16.	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.

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	51.000	
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.

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

The following events that took place during the year changed the scope of consolidation or the percentages held by the Parent Company in certain Group companies. In particular:

- on 10 June 2019, BPER Services was absorbed by the Parent Company BPER Banca with tax and accounting effect from 1 January 2019; as a business Combination between entities under common control, the transaction is not addressed by IFRS 3;
- on 19 June 2019, the Quotaholders' Meeting of Mutina s.r.l. resolved to put the company into liquidation from 1 July 2019. The company was wound up on 18 December 2019;
- on 22 July 2019 BPER Banca completed the acquisition of an additional 24.310% interest in the share capital of Arca Holding s.p.a., formerly a 32.75%-held associate, after obtaining the related authorisations from the competent Authorities. IFRS 3 "Business combinations" is the reference accounting standard for the recognition of the acquisition of Arca Holding and, indirectly, of Arca Fondi SGR in the consolidated financial statements of the BPER Banca Group; specifically, this transaction was recognised as a step acquisition (governed by IFRS 3.41 and 42), which requires the investment already held at the date of the business combination to be remeasured at fair value, recognizing of any adjustments in the income statement. See Part G – "Business combinations" in these Explanatory notes for further information;
- on 25 July 2019, BPER Banca acquired 49% of the ordinary shares of Banco di Sardegna s.p.a. and about 36.9% of the preference shares from Fondazione di Sardegna, and now holds 100% of the ordinary share capital and about 98.67% of the preference shares;
- on 31 July 2019 BPER Banca acquired from Unipol Gruppo s.p.a. and UnipolSai Assicurazioni s.p.a. respectively 85.24% and 14.76% of the share capital of Unipol Banca s.p.a., which was

than wholly owned. Also in this case, IFRS 3 "Business combinations" is the reference accounting standard for the recognition of the acquisition of Unipol Banca and, indirectly, of Finitalia in the consolidated financial statements of the BPER Banca Group. The acquisition of Unipol Banca resulted in obtaining indirect control over Finitalia s.p.a. Unipol Banca was subsequently absorbed by BPER Banca on 25 November 2019, with tax and accounting effect from 1 July 2019. See Part G – “Business combinations” in these Explanatory notes for further information;

- Costruire Mulino s.r.l. and Frara s.r.l. were absorbed by Italiana Valorizzazioni Immobiliari s.r.l. on 6 December 2019 with tax and accounting effect from 1 November 2019; as a business Combination between entities under common control, the transaction is not addressed by IFRS 3;
- the period available for accepting the voluntary Public Offer of Exchange for all the savings shares in Banco di Sardegna S.p.A. terminated on 13 December 2019. This offer was promoted by the Parent Company under a mandate granted at the Extraordinary Shareholders' Meeting held on 4 July 2019. Following the POE, BPER Banca holds 5,929,777 savings shares in Banco di Sardegna, representing 89.845% of the total savings shares;
- the final liquidation financial statements of Banca Farnese has as reference date on 30 December 2019. The company will be formally struck off after 90 days have elapsed from filing with the Companies Register of the financial statements.

3. Investments in 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. Cassa di Risparmio di Bra s.p.a.	15.714	15.714	-
2. Banco di Sardegna s.p.a.	1.323	-	11,655
3. Banca di Sassari s.p.a.	0.942	0.942	26
4. Arca Holding s.p.a.	42.939	42.939	5,044
5. Emilia Romagna Factor s.p.a.	4.046	4.046	-
6. Sardaleasing s.p.a.	0.326	0.326	-

On 25 July 2019, BPER Banca acquired 49% of the ordinary share capital of Banco di Sardegna s.p.a. from Fondazione di Sardegna, and now holds 100% of the ordinary share capital.
The consolidation was carried out using the sub-consolidations prepared for Banco di Sardegna and its subsidiaries and for Arca Holding and its wholly-owned subsidiary, Arca Fondi SGR s.p.a.
The dividends relate to profit for 2018 that was distributed in 2019.

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. Cassa di Risparmio di Bra s.p.a.	1,289,618	7,808	1,210,898	17,237	1,175,780	66,161	19,828	36,854
2. Banco di Sardegna s.p.a.	13,410,879	122,254	12,649,528	327,780	12,093,407	916,502	206,498	382,721
3. Banca di Sassari s.p.a.	1,588,876	2	1,536,404	17,561	1,262,543	282,994	43,467	61,206
4. Arca Holding s.p.a.	450,746	2	275,173	138,501	83,920	339,959	(151)	112,953
5. Emilia Romagna Factor s.p.a.	1,101,286	2	1,083,344	10,859	898,487	132,951	10,061	17,742
6. Sardaleasing s.p.a.	3,317,020	2	3,182,418	37,797	3,122,118	118,246	49,531	42,073

(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 Compre-hensive income after taxes (2)	Compre-hensive income (3)= (1)+(2)
2. Cassa di Risparmio di Bra s.p.a.	(23,955)	558	869	-	869	4,053	4,922
1. Banco di Sardegna s.p.a.	(306,512)	(22,488)	(24,914)	-	(24,914)	15,285	(9,629)
3. Banca di Sassari s.p.a.	(40,514)	14,434	9,138	-	9,138	3,098	12,236
4. Arca Holding s.p.a.	(52,597)	60,356	41,959	-	41,959	(15)	41,944
4. Emilia Romagna Factor s.p.a.	(9,281)	7,500	5,209	-	5,209	38	5,247
5. Sardaleasing s.p.a.	(29,777)	(37,251)	(31,542)	-	(31,542)	(28)	(31,570)

The amounts provided are before intercompany eliminations.
The economic and financial information refers to the situation at 31 December 2019.

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 was carried out using the approved financial statements prepared at 31 December 2019 by the subsidiaries concerned. These financial statements have been prepared in accordance with IAS/IFRS by the individual banks and financial companies subject to Bank of Italy supervision. All the other Italian Group companies and BPER Bank Luxembourg s.a. included within the scope of consolidation normally prepare their financial statements under Italian accounting standards.

These companies therefore prepared separate accounting schedules and data under the international accounting standards used for consolidation purposes.

The value of Group subsidiaries carried at equity was measured with reference to their accounting information prepared and approved at 31 December 2019.

The other investments carried at equity were measured with reference to financial statements prepared, in some cases, prior to 31 December 2019, in compliance with the related requirements of IAS 28 (for example, the holdings in Cassa di Risparmio di Fossano s.p.a., Cassa di Risparmio di Savigliano s.p.a. and Alba Leasing s.p.a. were measured with reference to financial statements prepared and approved at 30 September 2019).

Section 4 – Subsequent events

These Consolidated Financial Statements have been approved on 10 March 2020 by BPER Banca's Board of Directors, which authorised their publication.

The events subsequent to the end of 2019 described in the Directors' Report on Group Operations and relating, in particular, to the potential acquisition of a line of business from the Intesa Sanpaolo Group, took place prior to approval of the consolidated financial statements by the Board of Directors and had no effect on these financial statements.

It’s worthy to mention, the coronavirus epidemic spread in China from early January 2020, later reaching other countries including Italy, which has caused locally the slowdown or suspension of economic and commercial activity in many sectors. The Bank considers this to be a non-adjusting subsequent event pursuant to IAS 10. Since the current situation is evolving rapidly, it is not possible at this time to make a quantitative estimate of the potential impact of COVID-19 on the economic and financial position of the Bank and the Group, given the multiple determining factors that still remain unknown and undefined. The impact will therefore be considered in the accounting estimates to be made during 2020. In particular, the Expected Credit Loss (ECL) at 31 December 2019 was estimated with reference to the changes in the principal economic variables expected at that date, as properly weighted by the probability of occurrence assigned to the various scenarios identified. Part E - Credit risk, Section 2, sub-section 2.3, of the Explanatory notes analyses the sensitivity of the ECL to changes in the macroeconomic scenarios used for the estimate. Similarly, the economic-financial projections used to carry out the impairment test on goodwill and the probability test performed to support the recognition of deferred tax assets were developed with reference to the macroeconomic scenario envisaged at 31 December 2019 and, therefore, do not take into account the possible effects of the spread of COVID-19. Part B - Information on the consolidated balance sheet, Section 10 Intangible assets, of the Explanatory notes provides a sensitivity analysis of the effects on the estimated value in use of goodwill as a result of changes in the principal parameters underlying the measurement model used.

Section 5 – Other aspects

Domestic tax group election

Starting from 2007, 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 optional arrangement, which is binding for three years, the subordinate members transfer their results to the parent, for fiscal purposes only, which then calculates the consolidated taxable income or tax loss.

The tax group elections made by Banco di Sardegna s.p.a., BPER Trust Company s.p.a. and Optima s.p.a. SIM expired on 31 December 2018 and Nadia s.p.a. was included in the scope of consolidation as of 1 January 2019.
The election for the three-year period 2019-2021 was made regularly by the companies on 29 November 2019, on presentation of the income tax return of the consolidating company.

Consolidated companies	2017	2018	2019	2020	2021
Banca di Sassari s.p.a.		x	x	x	
Banco di Sardegna s.p.a.			x	x	x
Cassa di Risparmio di Bra s.p.a.	x	x	x		
Cassa di Risparmio di Saluzzo 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

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 from 125[48] to 129). In particular, this law states that the companies must provide in the 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[49].
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.

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

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 2019 by the Parent Company and by the subsidiaries by way of "grants, contributions, remunerated offices and economic advantages of any type" are listed below.

(in thousands)

BPER Banca Group companies	Type of grants	Amounts received in 2019
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 regime pursuant to EC regulation 1407/2013	1,074
BPER Banca s.p.a.	Contributions for the earthquake	74
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	368
Banca di Sassari 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 regime pursuant to EC regulation 1407/2013	180
Arca Fondi SGR 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 regime pursuant to EC regulation 1407/2013	48
Nadia s.p.a.	Contributions for the earthquake	117

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 and 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 of Business Model.

Another sector of activity for the BPER 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 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:
  - o optimise the interest margin;
  - o increase the amount of assets that can be readily liquidated to mitigate the Group's exposure to liquidity risk;
  - o diversify credit risk.

  The strategy of this portfolio therefore involves management of the principal risks such as liquidity risk, 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 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.
- *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.
  In application of IFRS 9, this portfolio has been included in the "Other" Business Model.

IFRS 9 envisages the possibility of change in 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 "increase in 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 portfolio of loans and the debt securities portfolio. The main choices are shown below.

- in relation to the debt securities portfolio, the mutual fund units, both opened 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 main balance sheet captions are shown below.

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 instruments held for trading, for which it is not possible to exercise the irrevocable election option to present subsequent changes in fair value through 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 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 modifications 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 – financial assets and liabilities designated at fair value", while financial assets mandatorily measured at fair value are recognised in caption "Net income on financial assets and liabilities measured at fair value through profit or loss – other financial assets mandatorily 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 for trading purpose, for which an irrevocable election option was exercised on initial recognition to record subsequent changes in fair through 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 are classified in a specific equity reserve, net of the ECL and related tax effect.

Changes in the fair value of investments in equity instruments for which the above irrevocable election option was exercised 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 modifications 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 option has been exercised, 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 caption "Net impairment losses for credit risks 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 income statement caption "Gains/losses on disposal or 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 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 sale date 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 ceases 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 that aim to define 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 impairment loss 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 losses by recognising any Expected Credit Losses - ECLs. Any impairment losses 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[50]. 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 for "unlikely to pay" loans with exposures above the thresholds set by internal procedures. The expected losses on unlikely to

[50] *The scope of non-performing loans (or those in default) defined in art. 178 of Reg. (Eu) 575/2013 (CRR) has been updated with reference to the EBA Guidelines for applying the definition of default and the subsequent Reg. (EU) 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 amendments 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.*

pays (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 BPER Banca Group to estimate the Expected Credit Losses (ECL) on non-performing loans, please refer to the below paragraph 20 "Method for determining the extent of impairment". Impairment losses are recorded in the income statement.
The original value of loans is reinstated in subsequent periods, to the extent that the reasons for the impairment loss made cease to apply, on condition that this assessment is objectively linked with events that took place subsequent 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.

- 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 the below paragraph 20 "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.

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 modifications 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 (amounts due from 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, 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.
Impairment losses or write-backs deriving from the model of adopted Expected Credit Losses are recognised in the income statement under caption "Net impairment losses for credit risk".
Amounts deriving from alignment of the carrying amounts of financial assets to reflect modifications 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

As allowed on the first-time application of IFRS 9, the BPER Banca Group has elected to manage its hedge accounting according to IAS 39, which was mostly recently amended by Regulation (EU) 34/2020.

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.
Specific tests are performed to verify the effectiveness of hedging transactions. The effectiveness of a hedge depends on the extent to which changes in the fair value of the hedged instrument, caused by changes in the risk factor addressed by the hedge, are offset by changes in the value of the hedging instrument. In order to be effective, the hedge must be made with a counterparty outside the Group.
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.

The BPER Banca Group established the hedge effectiveness 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 in the range from 80% to 125%).
The evaluation of effectiveness 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;
- retrospective tests that show the effectiveness of the hedge during the period under review. In other words, they measure by how the actual results differ from the "perfect" hedge..

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 transaction is revoked prior to the expiry date;
- 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 special *equity reserve "cash flow hedges"*, net of the related deferred tax effect. Gains and losses relating to the ineffective part of such hedges are recorded in the *"Net income from hedging activities"* caption of the income statement.

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 line-by-line 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 the 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 related difference is charged to the income statement under caption "Gains (Losses) of equity investments", as described in the below paragraph 20 "Method for determining the extent of impairment".
If the reasons for making the impairment loss cease to apply as a result of an event subsequent to the recognition of 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 loss/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;
- the 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 in 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 has assessed the non-lease component as not significant.

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 at the 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 the below paragraph 20 "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 value between 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 "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 the Group's 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 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 20 "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 the below paragraph 20 "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 caption "Gains (losses) on disposal of investments".

Any impairment losses to the value of goodwill are recorded in 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 asset caption "Non current assets and disposal groups classified as held for sale" and 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 2018, also taking into account the changes introduced by the 2020 Finance Act, such as:

- the re-introduction of the ACE benefit starting from 2019, updating the rate to 1.3%;
- deferral to 2028 of the deductibility of the 10% portion of the IFRS 9 FTA impairment adjustments that was originally scheduled for 2019;
- deferral in equal tranches to 2022 and to the following 3 tax years of the planned 2019 deductibility of impairment adjustments on loans for which so-called convertible DTAs were recognised;
- deferral in equal tranches to 2025 and to the following 4 tax years of the planned 2019 deductibility of the amortisation of goodwill for which so-called convertible DTAs were recognised.

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 (2020-2024) 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 probable. 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-years horizon, adjusting the before 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 potential 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 the below paragraph "Employee benefits", 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 the below paragraph 20. “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 "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 the balance sheet date. 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.

In relation to lease payables, on the effective date the lessee has to assess the lease payable at the present value of the payments due for the lease 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 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.

Amendments 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 a change in the rental amount).

Debt securities in issue are recorded net of the repurchased amount.

Derecognition

Financial liabilities are derecognised when they expire or are settled. The derecognition occurs also in case of repurchase of debt securities issued in prior periods.

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 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 liabilities 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 shareholders'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 issued 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 using the closing rate for the 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 in "Treasury shares" caption with a negative sign. 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 expense (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

- overtime, 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 caption "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 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 is deemed to be a defined contributions plan for which no actuarial calculations are required;
- the employee termination indemnities already earned at the dates indicated above, on the other hand, continues to be treated as a defined benefits plan, although 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".

The employee termination indemnities is 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.
The BPER Banca Group has approved its first share-based payment plan, which envisages the grant without charge of a certain number of shares in the Parent Company to beneficiaries, without envisaging capital increases 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 payment 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:

- aligning the interests of Management with long-term value creation for shareholders;
- 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) for a period of 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. Method for determining the extent of impairment[51]

A. Financial assets

Impairment models

The calculation of adjustments of financial assets according to the expected credit losses 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 sales scenarios where the Bank's strategy envisages recovery of the loans through their assignment.
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:

$$LtEL_t = \sum_{t=1}^{T} PDF_t \text{ x } LGD_t \text{ x } EaD_t \text{ x } D_t$$

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

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 Life Time Expected Loss:

$$EL = EaD \times LGD \times PD \times D$$

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.

Finally, 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 impairment loss 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 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 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.

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, consistent with the current processes adopted for the recovery of non-performing loans, which include realisation via disposal on the market, the impairment model now includes a disposal scenario as a possible alternative to the internal recovery or 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 Group has adopted a model for calculating the multi-scenario net value of impaired financial assets, which considers the following parameters:

$$\mathrm{NBV}_{\mathrm{Multiscenario}} = FMV \times Disposal\ Scenario\ \% + \mathrm{NBV}_{\mathrm{Workout}} \times (1 - Disposal\ Scenario\ \%)$$

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 the workout and disposal scenario 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 becomes 100%). The best estimate of the disposal price of 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 in which the positions are classified (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 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 BPER 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 purchased) 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.

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 (or transition to the standard), 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 Originated Credit Impaired - POCI - financial assets

If a credit exposure (including those purchased through business combinations) classified at the time of initial recognition in 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.

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).

Paragraph 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, paragraphs from 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 value of the CGU (Value in use) 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 performed at the end of each reporting period and involves the determination of recoverable value, being the greater of fair value less selling costs or 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 and equipment and intangible assets with a defined 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.

The criteria adopted to select positions for analysis and prepare documentation to justify the sustainability of adverse differences between net carrying amount and fair value are described below:

- Buildings (business and non-business use): no further analysis is needed if positive values emerge from comparison of the total value of the property (ground up or otherwise), or if negative differences fall within the following parameters:
  - 10% of net book value. If the negative difference exceeds that limit, a check is carried out to see if it amounts to less than 5 years of depreciation for properties used for business purposes;
  - 10% of net book value. If the negative difference exceeds that limit, a check is carried out to see if it amounts to less than 3 years of depreciation or, alternatively, one year of rental, in the case of non-business properties that are rented out;
  - 5% of net book value. If the negative difference exceeds that limit, a check is carried out to see if it amounts to less than 3 years of depreciation for non-business properties that are not rented out.
- Mixed use buildings: no further analysis is needed if positive values emerge from comparison of the total value of the property (ground up or otherwise), or if negative differences are contained within 10% of their net carrying amount. If the negative difference exceeds that limit, a check is carried out to see if it amounts to less than the absolute value of 3 years of total depreciation.
- Rented land: no further analysis is needed if negative differences are less than 10% of the net carrying amount or, alternatively, one year of rental.
- Unrented land: negative differences are only considered if they exceed 5% of the net carrying amount.
- Special blocks (buildings used for several purposes or property complexes): the valuation requires an expert appraisal confirmed by a specific Board resolution.

Any adjustment 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.

21. 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.
The required disclosures about any business combinations carried out in the reporting period are provided in Part G of the Explanatory notes.
Under IFRS 3, business combinations must be recognised using the acquisition method.
Using the acquisition method, the price of the business combination must be allocated (Purchase Price Allocation – PPA) at the date of acquisition of the control by recognising the assets acquired and the liabilities (including contingent liabilities) assumed at their fair values and minority interests, as well as identifying any implicit intangible assets previously not recognised in the financial statements 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 as Gain on a bargain purchase (or “Badwill”).
IFRS 3 allows for the final purchase price allocation 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 assets, liabilities and contingent liabilities. 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 the below Part A.4, 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 (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. 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 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 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 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;
- presence of a significant increase in the embedded risk premiums, or default rates, of the transactions being considered or in quoted prices;
- presence of a wide bid-ask spread or of a significant increase therein;
- significant decline in the level of trading activity;
- 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 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.

As from 2013, the Bank started issuing protection certificates. 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 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 (usually that at the end of the previous half-year period) 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 periodically 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[52] the fund, in order to identify any differences that might be reflected immediately in market value, but not in the NAV calculated according to the relevant method of determination. 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.

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:

- 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;

[52] *Fair market value included, for example, in the EVCA reports.*

- 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 (with a positive current exposure) 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 (with a negative current exposure) 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 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.

In particular, for the BPER Banca Group, there are two factors that mitigate the impact on fair value of credit risk:

- the signing of ISDA (International Swaps and Derivatives Association, the international industry standard on OTC derivatives) agreements with the main corporate and all the institutional counterparties to OTC derivatives. In respect of the institutional counterparties the related CSA (Credit Support Annex) was also executed in order to cover the provision of collateral and to further reduce current exposure and consequent risks;
- the entry into force of the new EMIR (European Market Infrastructure Regulation) platform, in respect of the exclusion from the scope of CVAs and DVAs of derivatives entered into on that platform/market. On the basis of assessments made, it is likely that most derivative transactions will go through the new system as they mainly consist of derivatives that are eligible for that purpose.

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.
With reference to the above, 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

Assets and liabilities categorised within Level 3 of the fair value hierarchy mainly consist of:
- inter-related derivative transactions offsetting each other and linked with self-securitisation contracts classified as "Financial assets measured at fair value through profit or loss - financial assets held for trading" and "Financial liabilities held for trading";
- limited investments in equities measured at nominal value or using the equity method, classified as "Financial assets measured at fair value through other comprehensive income";
- non-controlling equity investments, often held to maintain contact with the territory, or to develop commercial relations (mainly measured using the equity method or at cost), classified as "Financial assets measured at fair value through other comprehensive income";
- investments in asset-backed securities classified as "Financial assets measured at amortised cost" or "Financial assets measured at fair value through profit or loss - other financial assets mandatorily measured at fair value".

For the latter, the related sensitivity is provided below:

Financial asset/liability	Non-observable parameter	Change in parameter	Sensitivity (in thousands)
Investments in Asset Backed Securities	Credit Spread	+25 bps	(4,861)

For the other positions which have just been illustrated, given the use of valuation techniques involving the use of estimates, the measurement thereof is incapable of being significantly impacted by changes in inputs.

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[53]:

- 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.

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 BPER Banca Group has a procedure in place to:

[53] 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.

- 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 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 line item(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	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	354,867	381,195	384,049	390,323	343,324	394,978
a) Financial assets held for trading	103,514	152,091	14,769	128,005	108,066	11,148
b) Financial assets designated at fair value	-	129,872	1,083	82,536	136,126	-
c) Other financial assets mandatorily measured at fair value	251,353	99,232	368,197	179,782	99,132	383,830
2. Financial assets measured at amortised cost	5,824,868	487,613	243,721	7,627,572	649,802	286,618
3. Hedging derivatives	-	82,185	-	-	35,564	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**6,179,735**	**950,993**	**627,770**	**8,017,895**	**1,028,690**	**681,596**
1. Financial liabilities held for trading	1,137	158,357	6,476	44	134,934	8,846
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	294,114	-	-	92,374	-
Total	**1,137**	**452,471**	**6,476**	**44**	**227,308**	**8,846**

Transfers of assets from Level 2 to Level 1 of the fair value hierarchy during the period amounted to € 114,142 thousand and those from Level 1 to Level 2 amounted to € 38,607 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 were due to the reduction in the number of contributors below the minimum threshold established.

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	**394,978**	**11,148**	**-**	**383,830**	**286,618**	**-**	**-**	**-**
2. Increases	**156,897**	**6,929**	**1,083**	**148,885**	**30,469**	**-**	**-**	**-**
2.1. Purchases	65,910	3,227	-	62,683	4,502	-	-	-
2.2. Gains recognised to:	20,712	3,702	-	17,010	5,580	-	-	-
2.2.1. Income statement	20,712	3,702	-	17,010	2	-	-	-
- of which capital gains	9,776	3,692	-	6,084	2	-	-	-
2.2.2. Shareholders'equity	-	X	X	X	5,578	-	-	-
2.3. Transfers from other levels	11,323	-	1,083	10,240	20,387	-	-	-
2.4. Other increases	58,952	-	-	58,952	-	-	-	-
3. Decreases	**167,826**	**3,308**	**-**	**164,518**	**73,366**	**-**	**-**	**-**
3.1. Sales	78,648	3,217	-	75,431	4,483	-	-	-
3.2. Refunds	61,037	79	-	60,958	5,121	-	-	-
3.3. Losses recognised to:	27,657	11	-	27,646	63,747	-	-	-
3.3.1. Income statement	27,657	11	-	27,646	-	-	-	-
- of which capital losses	19,658	10	-	19,648	-	-	-	-
3.3.2. Shareholders'equity	-	X	X	X	63,747	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	484	1	-	483	15	-	-	-
4. Closing balance	**384,049**	**14,769**	**1,083**	**368,197**	**243,721**	**-**	**-**	**-**

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	**8,846**	**-**	**-**
2. Increases	**210**	**-**	**-**
2.1 Issues	-	-	-
2.2. Losses recognised to:	210	-	-
2.2.1. Income statement	210	-	-
- of which capital losses	210	-	-
2.2.2. Shareholders' equity	X	-	-
2.3. Trasferts from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**2,580**	**-**	**-**
3.1. Refunds	883	-	-
3.2. Repurchases	-	-	-
3.3. Profits recognised to:	1,697	-	-
3.3.1. Income statement	1,697	-	-
- of which capital gains	1,697	-	-
3.3.2. Shareholders' equity	X	-	-
3.4. Trasferts from other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**6,476**	**-**	**-**

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-	31.12.2019				31.12.2018			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised	65,541,246	10,569,512	251,446	57,072,313	56,054,342	6,397,723	93,708	51,207,578
2. Property, plant and equipment held for investment	271,556	-	-	304,372	275,871	-	-	297,392
3. Non-current assets and disposal groups classified as held for sale	97,142	-	-	97,142	2,800	-	-	2,800
Total	**65,909,944**	**10,569,512**	**251,446**	**57,473,827**	**56,333,013**	**6,397,723**	**93,708**	**51,507,770**
1. Financial liabilities measured at amortised cost	70,135,262	3,231,215	2,026,474	65,009,259	63,122,667	2,509,988	1,523,181	59,079,422
2. Liabilities related to non-current assets classified as held for sale	134,077	-	-	134,077	-	-	-	-
Total	**70,269,339**	**3,231,215**	**2,026,474**	**65,143,336**	**63,122,667**	**2,509,988**	**1,523,181**	**59,079,422**

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 2019 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 31.12.2019	Total 31.12.2018
a) Cash	566,924	459,782
b) On demand deposits with Central banks	-	-
Total	**566,924**	**459,782**

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 31.12.2019			Total 31.12.2018		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	41,823	20,749	8	60,999	26,156	3
1.1 Structured securities	27,060	1,571	-	21,004	4,843	-
1.2 Other debt securities	14,763	19,178	8	39,995	21,313	3
2. Equity instruments	61,684	3,416	32	66,979	2,391	32
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	**103,507**	**24,165**	**40**	**127,978**	**28,547**	**35**
B. Derivative instruments						
1. Financial derivatives	7	127,926	14,729	27	79,519	11,113
1.1 trading	7	127,926	14,729	27	79,519	11,113
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)	**7**	**127,926**	**14,729**	**27**	**79,519**	**11,113**
Total (A+B)	**103,514**	**152,091**	**14,769**	**128,005**	**108,066**	**11,148**

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

2.2 Financial assets held for trading: breakdown by borrowers/issuers/counterparties

Description/Amounts	Total 31.12.2019	Total 31.12.2018
A. Cash assets		
1. Debt securities	62,580	87,158
a) Central Banks	-	-
b) Public Administrations	16,221	14,802
c) Banks	11,706	35,003
d) Other financial companies	31,389	27,931
of which: insurance companies	1,327	941
e) Non financial companies	3,264	9,422
2. Equity instruments	65,132	69,402
a) Banks	16,102	16,117
b) Other financial companies	5,319	6,247
of which: Insurance companies	2,570	3,578
c) Non financial companies	43,711	47,038
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)	**127,712**	**156,560**
B. Derivative instruments		
a) Central counterparties	-	-
b) Others	142,662	90,659
Total (B)	**142,662**	**90,659**
Total (A+B)	**270,374**	**247,219**

2.3 Financial assets designed at fair value: breakdown by product

Description/Amounts	Total 31.12.2019			Total 31.12.2018		
	L1	L2	L3	L1	L2	L3
1.Debt securities	**-**	**129,872**	**1,083**	**82,536**	**136,126**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	129,872	1,083	82,536	136,126	-
2. Loans	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	-	-
2.2 Others	-	-	-	-	-	-
Total	**-**	**129,872**	**1,083**	**82,536**	**136,126**	**-**

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

2.4 Financial assets designated at fair value: breakdown by borrowers/issuers

Description/Amounts	Total 31.12.2019	Total 31.12.2018
1. Debt securities	**130,955**	**218,662**
a) Central Banks	-	-
b) Public Administrations	123,901	203,256
c) Banks	1,963	6,961
d) Other financial companies	4,008	6,125
of which: Insurance companies	4,008	3,883
e) Non financial companies	1,083	2,320
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	**130,955**	**218,662**

2.5 Other financial assets mandatorily measured at fair value: breakdown by product

Description/Amounts	Total 31.12.2019			Total 31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**99,232**	**63,117**	**9,774**	**99,132**	**126,185**
1.1 Structured securities	-	-	-	3,437	-	-
1.2 Other debt securities	-	99,232	63,117	6,337	99,132	126,185
2. Equity instruments	**2,301**	**-**	**64,149**	**2,133**	**-**	**64,739**
3. UCITS units	**249,052**	**-**	**215,144**	**167,875**	**-**	**192,906**
4. Loans	**-**	**-**	**25,787**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	25,787	-	-	-
Total	**251,353**	**99,232**	**368,197**	**179,782**	**99,132**	**383,830**

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

2.6 Other financial assets mandatorily measured at fair value: breakdown by borrowers/issuer

	Total 31.12.2019	Total 31.12.2018
1. Equity instruments	**66,450**	**66,872**
of which: banks	16	6,576
of which: other financial companies	31,000	53,404
of which: non-financial companies	35,434	6,892
2. Debts securities	**162,349**	**235,091**
a) Central Banks	-	-
b) Public Administrations	51,859	51,569
c) Banks	29,720	39,926
d) Other financial companies	78,516	141,736
of which: insurance companies	-	-
e) Non financial companies	2,254	1,860
3. UCITS Units	**464,196**	**360,781**
4. Loans	**25,787**	**-**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	25,787	-
of which: insurance companies	25,787	-
e) Non financial companies	-	-
f) Households	-	-
Total	**718,782**	**662,744**

2.6 bis UCITS units breakdown

Description	31.12.2019	31.12.2018
1. Equities	25,154	8,356
2. Property - closed end	114,109	117,534
3. Equities - open end	25,975	23,913
4. Balanced - open end	4,666	4,555
5. Bonds - open end	12,811	9,465
6. Equities closed end	37,572	20,408
7. Speculative securities	6,611	-
8. Bonds - short term	-	-
9. Bonds - long term	10,643	8,092
10. Other	226,655	168,458
Total	**464,196**	**360,781**

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 31.12.2019			Total 31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debts securities	**5,824,852**	**485,236**	**21,156**	**7,627,562**	**647,153**	**8,994**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	5,824,852	485,236	21,156	7,627,562	647,153	8,994
2. Equity instruments	**16**	**2,377**	**222,565**	**10**	**2,649**	**274,200**
3. Loans	**-**	**-**	**-**	**-**	**-**	**3,424**
Total	**5,824,868**	**487,613**	**243,721**	**7,627,572**	**649,802**	**286,618**

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

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by borrowers/issuers

Description/Amounts	Total 31.12.2019	Total 31.12.2018
1. Debt securities	**6,331,244**	**8,283,709**
a) Central Banks	-	-
b) Public Administrations	714,793	1,811,095
c) Banks	4,086,582	4,829,221
d) Other financial companies	1,030,167	1,133,274
of which: insurance companies	41,878	55,552
e) Non financial companies	499,702	510,119
2. Equity instruments	**224,958**	**276,859**
a) Banks	32,166	85,480
b) Other issuers:	192,792	191,379
- other financial companies	163,826	162,416
of which: insurance companies	104,330	104,330
- non financial companies	28,924	28,913
- others	42	50
3. Loans	**-**	**3,424**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	-	3,424
of which: insurance companies	-	3,424
e) Non financial companies	-	-
f) Households	-	-
Total	**6,556,202**	**8,563,992**

3.3 Financial assets measured at fair value through other comprehensive income: gross carrying amount and total impairment provisions

	Gross value				Total impairment provisions			
	First stage	of which: low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Total partial write-off
Debt securities	6,031,315	-	304,428	26	3,458	1,059	8	-
Loans	-	-	-	-	-	-	-	-
Total 31.12.2019	**6,031,315**	**-**	**304,428**	**26**	**3,458**	**1,059**	**8**	**-**
Total 31.12.2018	**7,820,124**	**106,637**	**471,884**	**18**	**4,420**	**473**	**-**	**-**
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

At 31 December 2019 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.

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 31.12.2019						Total 31.12.2018					
	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	**1,142,900**	**-**	**-**	**-**	**-**	**1,142,900**	**917,619**	**-**	**-**	**-**	**-**	**917,619**
1. Time deposits	63,322	-	-	X	X	X	8,434	-	-	X	X	X
2. Reserve requirement	1,068,684	-	-	X	X	X	901,739	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Others	10,894	-	-	X	X	X	7,446	-	-	X	X	X
B.Loans to banks	**3,923,479**	**-**	**-**	**2,628,345**	**159,248**	**1,178,909**	**2,389,059**	**-**	**-**	**1,737,173**	**13,361**	**622,890**
1. Loans	1,178,909	-	-	-	-	1,178,909	622,890	-	-	-	-	622,890
1.1 Current accounts and demand deposits	372,822	-	-	X	X	X	100,545	-	-	X	X	X
1.2. Time deposits	69,091	-	-	X	X	X	68,893	-	-	X	X	X
1.3 Other loans:	736,996	-	-	X	X	X	453,452	-	-	X	X	X
- Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Others	736,996	-	-	X	X	X	453,452	-	-	X	X	X
2. Debts securities	2,744,570	-	-	2,628,345	159,248	-	1,766,169	-	-	1,737,173	13,361	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	2,744,570	-	-	2,628,345	159,248	-	1,766,169	-	-	1,737,173	13,361	-
Total	**5,066,379**	**-**	**-**	**2,628,345**	**159,248**	**2,321,809**	**3,306,678**	**-**	**-**	**1,737,173**	**13,361**	**1,540,509**

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

4.2 Financial assets measured at amortised cost: breakdown by product of loans to customers

Type of transaction/Amounts	Total 31.12.2019						Total 31.12.2018					
	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	**48,917,173**	**2,995,884**	**1,209,236**	**-**	**-**	**54,055,240**	**43,846,387**	**3,204,555**	**894,885**	**-**	**-**	**48,871,339**
1.1.Current accounts	4,356,780	480,226	188,651	X	X	X	4,224,234	466,372	130,275	X	X	X
1.2. Repurchase agreements	591,175	-	-	X	X	X	202,778	-	-	X	X	X
1.3. Mortgages	30,781,966	1,676,662	860,236	X	X	X	26,510,823	1,862,934	650,072	X	X	X
1.4. Credit cards, personal loans and assignments of one-fifth of salary	2,773,256	46,842	15,693	X	X	X	1,974,595	23,786	11,166	X	X	X
1.5. Financial leasing	2,404,847	353,379	14,539	X	X	X	2,415,742	393,177	4,092	X	X	X
1.6. Factoring	1,068,044	7,620	587	X	X	X	845,984	11,676	8,139	X	X	X
1.7. Other loans	6,941,105	431,155	129,530	X	X	X	7,672,231	446,610	91,141	X	X	X
2. Debt securities	**8,561,810**	**-**	**-**	**7,941,167**	**92,198**	**695,264**	**5,696,722**	**-**	**-**	**4,660,550**	**80,347**	**795,730**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	8,561,810	-	-	7,941,167	92,198	695,264	5,696,722	-	-	4,660,550	80,347	795,730
Total	**57,478,983**	**2,995,884**	**1,209,236**	**7,941,167**	**92,198**	**54,750,504**	**49,543,109**	**3,204,555**	**894,885**	**4,660,550**	**80,347**	**49,667,069**

The purchased or originated credit-impaired assets at 31 December 2019 in relation to the absorption of Unipol Banca total € 333.6 million.
The sub-caption "Other loans" of performing loans includes:€ 3,036 million of bullet loans (-19.19%), € 2,295 million of advances on invoices subject to collection (+3.15%), € 877 thousand of import/export advances (+11.86%), € 52 thousand of credit assignment (+6.12%) and € 681 thousand of other miscellaneous entries (-20.54%).
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".
Detailed information on loans disbursed with third-party funds is reported in the specific Attachment to these financial statements "Information on loans to third-party funds".

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 31.12.2019			Total 31.12.2018		
	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	**8,561,810**	**-**	**-**	**5,696,722**	**-**	**-**
a) Public Administration	7,400,406	-	-	4,537,856	-	-
b) Other financial companies	1,042,760	-	-	1,101,089	-	-
of which: insurance companies	4,990	-	-	4,985	-	-
c) Non financial companies	118,644	-	-	57,777	-	-
2. Loans:	**48,917,173**	**2,995,884**	**1,209,236**	**43,846,387**	**3,204,555**	**894,885**
a) Public Administration	2,332,522	19,520	4,855	2,319,490	3,520	-
b) Other financial companies	3,526,215	116,165	75,666	3,247,082	110,249	43,594
of which: insurance companies	42,900	-	-	25,411	-	-
c) Non financial companies	22,591,200	2,211,484	807,671	22,184,837	2,518,506	625,863
d) Households	20,467,236	648,715	321,044	16,094,978	572,280	225,428
Total	**57,478,983**	**2,995,884**	**1,209,236**	**49,543,109**	**3,204,555**	**894,885**

The classification of loans to customers between Stage 1 and Stage 2 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
Current accounts	**98,571**	**394**	**98,178**	**1,157,055**	**2,463**	**1,154,592**
- First stage	95,541	382	95,159	1,143,935	2,270	1,141,664
- Second stage	3,031	12	3,018	13,120	193	12,927
Repurchase agreements	**-**	**-**	**-**	**591,175**	**-**	**591,175**
- First stage	-	-	-	586,426	-	586,426
- Second stage	-	-	-	4,748	-	4,748
Mortgages and Other loans	**2,242,664**	**8,320**	**2,234,344**	**1,785,213**	**4,764**	**1,780,449**
- First stage	2,227,924	1,911	2,226,013	1,727,653	3,279	1,724,374
- Second stage	14,740	6,409	8,331	57,560	1,485	56,075
Total	**2,341,235**	**8,714**	**2,332,522**	**3,533,442**	**7,227**	**3,526,215**

(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	
Current accounts	**2,497,258**	**12,620**	**2,484,637**	**622,838**	**3,458**	**619,374**	**4,356,780**
- First stage	2,137,726	8,191	2,129,534	560,279	2,222	558,055	3,924,413
- Second stage	359,533	4,429	355,104	62,559	1,236	61,318	432,367
Repurchase agreements	**-**	**-**	**-**	**-**	**-**	**-**	**591,175**
- First stage	-	-	-	-	-	-	586,426
- Second stage	-	-	-	-	-	-	4,748
Mortgages and Other loans	**20,192,269**	**85,706**	**20,106,563**	**19,891,998**	**44,143**	**19,847,862**	**43,969,218**
- First stage	17,972,714	26,861	17,945,853	17,949,822	15,771	17,934,054	39,830,294
- Second stage	2,219,555	58,845	2,160,710	1,942,176	28,372	1,913,809	4,138,924
Total	**22,689,527**	**98,326**	**22,591,200**	**20,514,836**	**47,601**	**20,467,236**	**48,917,173**

4.4 Financial assets measured at amortised cost: gross carrying amount and total impairment provisions

	Gross book 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	11,311,793	-	-	-	5,413	-	-	-
Loans	46,733,390	-	4,671,520	6,118,985	65,038	100,890	3,123,101	443,912
Total 31.12.2019	**58,045,183**	**-**	**4,671,520**	**6,118,985**	**70,451**	**100,890**	**3,123,101**	**443,912**
Total 31.12.2018	**46,675,060**	**-**	**6,346,050**	**7,045,555**	**101,761**	**69,562**	**3,841,000**	**727,371**
of which: purchased or originated credit-impaired financial assets	X	X	262,232	1,334,562	X	3,965	383,593	1,664

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.

Section 5 – Hedging derivatives
Caption 50

5.1 Hedging derivatives: breakdown by type of hedge and level

	FV 31.12.2019			NV	FV 31.12.2018			NV
	L1	L2	L3	31.12.2019	L1	L2	L3	31.12.2018
A. Financial derivatives								
1. Fair Value	-	80,964	-	2,675,330	-	35,564	-	2,133,217
2. Cash flows	-	1,221	-	54,446	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair Value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**82,185**	**-**	**2,729,776**	**-**	**35,564**	**-**	**2,133,217**

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	221	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	34,952	X	-	-	X	X	X	1,221	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other operations	-	-	-	-	-	-	X	-	X	-
Total assets	35,173	-	-	-	-	-	-	1,221	-	-
1. Financial Liabilities	45,791	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	45,791	-	-	-	-	-	-	-	-	-
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 s.p.a.	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	29,275	BPER Banca	23.587	
7 CONFORM Consulenza Formazione e Management s.cons.a r.l.	Avellino	Avellino	8	eur	562,715	BPER Banca	46.430	
			8			B. Sard.	2.980	
8 Emil-Ro Service s.r.l.	Bologna	Bologna	8	eur	93,600	BPER Banca	16.667	
			8			Emil-Ro Factor	8.333	
9 Immobiliare Oasi nel Parco s.r.l.	Milan	Milan	8	eur	1,000,000	BPER Banca	36.800	
10 Lanciano Fiera - Polo Fieristico d'Abruzzo Consorzio	Lanciano	Lanciano	8	eur	250,000	BPER Banca	25.000	
11 Resiban s.p.a.	Modena	Modena	8	eur	165,000	BPER Banca	20.000	
12 Sarda Factoring s.p.a.	Cagliari	Cagliari	8	eur	9,027,079	B. Sard.	13.401	
			8			BPER Banca	8.083	
13 Sofipo s.a. in liquidation	Lugano	Lugano	8	chf	2,000,000	B.P.E.R. Europe	30.000	
14 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.	135,916	-	-
2. Cassa di Risparmio di Fossano s.p.a.	38,213	-	692
3. Cassa di Risparmio di Savigliano s.p.a.	26,913	-	406
4. Immobiliare Oasi nel Parco s.r.l.	5,699	-	-
5. Sarda Factoring s.p.a.	1,957	-	-
6. Unione Fiduciaria s.p.a.	9,865	-	363
Total	**218,563**	**-**	**1,461**

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.	#	5,115,193	148,716	4,700,232	157,933	100,924	#
2. Cassa di Risparmio di Fossano s.p.a.	#	1,940,246	84,984	1,833,454	63,808	43,885	#
3. Cassa di Risparmio di Savigliano s.p.a.	#	1,346,923	49,923	1,259,045	65,089	32,887	#
4. Immobiliare Oasi nel Parco s.r.l.	#	346	16,253	904	11	4,656	#
5. Sarda Factoring s.p.a.	#	41,892	1,700	33,916	566	1,276	#
6. Unione Fiduciaria s.p.a.	#	53,603	19,078	27,614	9,365	22,361	#

(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.	#	5,480	3,180	-	3,180	-	3,180
2. Cassa di Risparmio di Fossano s.p.a.	#	11,772	6,891	-	6,891	-	6,891
3. Cassa di Risparmio di Savigliano s.p.a.	#	6,693	4,472	-	4,472	2,140	6,612
4. Immobiliare Oasi nel Parco s.r.l.	#	(1,855)	(1,855)	-	(1,855)		(1,855)
5. Sarda Factoring s.p.a.	#	148	89	-	89	(12)	77
6. Unione Fiduciaria s.p.a.	#	9,557	10,302	-	10,302	-	10,302

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)	Other changes	Book value
A. Companies subject to joint control					
B. Companies subject to significant influence					
1. Alba Leasing s.p.a.	405,748	135,916	-	-	135,916
2. Cassa di Risparmio di Fossano s.p.a.	135,939	31,371	6,842	-	38,213
3. Cassa di Risparmio di Savigliano s.p.a.	82,513	25,584	1,329	-	26,913
4. Immobiliare Oasi nel Parco s.r.l.	15,486	5,699	-	-	5,699
5. Sarda Factoring s.p.a.	9,110	1,957	-	-	1,957
6. Unione Fiduciaria s.p.a.	46,641	11,194	(1,329)	-	9,865

For the values and parameters, please refer to Part A.1 of these Explanatory notes.
The goodwill relating to and included in the value of significant equity investments (formerly positive/negative differences in shareholders' equity) amounts to € 6,842 thousand.

Alba Leasing s.p.a. was founded in 2010 on the initiative of some of the major Italian cooperative banks and is the fifth largest leasing company in Italy with more than 23,000 active customers all over the country. 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 credit institution that offers a wide range of banking services.

Cassa di Risparmio di Savigliano s.p.a., active in Piedmont, aims to increase the spread of credit among small entrepreneurs, artisans and farmers.

Sarda Factoring s.p.a. provides financing services and hedging of business risk to companies in Sardinia.
Unione Fiduciaria s.p.a. was founded by a group of cooperative banks and offers trust services, consultancy, organisational and IT services for financial intermediaries.

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.

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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, described further in Section 10 of these financial statements, was used for the calculations. The same cost of capital and long-term growth rate "g" identified for the impairment testing of goodwill were used, while the target minimum regulatory requirement was aligned with the Supervisory instructions applicable to 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 potentiallly distributable over an explicit forecast period of five years (2020-2024). The forecasts for the period 2020-2024 were made with reference to the 2019 pre-closing data and other financial forecasts, where available. In particular, this work considered the historical trends of the savings banks, in terms of their under or over performance in each year with respect to the banking system as a whole, and used system forecasts for the coming years (obtained from external info providers) to prepare internal analyses of their sustainable normalised profitability over the five-year period.

This fairness check identified impairment of the carrying amount of the equity investment in Cassa di Risparmio di Fossano by Euro 6.3 million and of that in Cassa di Risparmio di Savigliano by Euro 651 thousand.

The Parent Company acquired an opinion from an independent external expert on the impairment testing process adopted.

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 Compre-hensive income after taxes (2)	Comprehensive income (3)= (1)+(2)
Investments in companies under joint control									
Companies subject to significant influence	594	4,906	4,393	2,849	145	-	145	-	145

7.5 Equity investments: annual changes

	Total 31.12.2019	Total 31.12.2018
A. Opening balance	**446,049**	**454,367**
B. Increases	**26,590**	**22,709**
B.1 Purchases	6,706	-
of which: business combinations	6,706	-
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	19,884	22,709
C. Decreases	**246,770**	**31,027**
C.1 Sales	209,768	-
of which: business combinations	203,062	-
C.2 Impairment losses	8,436	3,488
C.3 Depreciations	-	-
C.4 Other changes	28,566	27,539
D. Closing balance	**225,869**	**446,049**
E. Total revaluations	**-**	**-**
F. Total adjustments	**180,468**	**172,042**

"Purchases" relate to the acquisition of control of Unipol Banca s.p.a. and the holdings in Promorest s.r.l. and SCS Azioninnova s.p.a.
"Sales" relate to the acquisition of control of Arca Holding s.p.a. and disposal of the holdings in Promorest s.r.l. and SCS Azioninnova s.p.a.
"Impairment losses" refer to the impairment test mainly performed on the following companies subject to significant influence: Cassa di Risparmio di Fossano s.p.a. (€ 6,283), Immobiliare Oasi nel Parco s.r.l. (€ 682 thousand), Cassa di Risparmio di Savigliano s.p.a. (€ 651 thousand); and on Italiana Valorizzazioni Immobiliari s.r.l. (€ 758 thousand), which is a subsidiary carried at equity.
"Other changes" mainly include the Group's portions of the positive or negative results of affiliates and the consolidation entries 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 2019.

7.8 Commitments related to equity investments in companies subject to significant influence

At 31 December 2019 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	6,712	242,630	235,879	78,553	1,515	-	1,515	-	1,515

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 2019.
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 2019 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 31.12.2019	Total 31.12.2018
1. Assets owned	**778,747**	**755,503**
a) lands	185,693	183,339
b) buildings	459,522	456,365
c) furniture	35,129	32,226
d) electronic system	29,053	22,710
e) other	69,350	60,863
2. Rights of use acquired through leases	**301,545**	**13,783**
a) lands	-	-
b) buildings	265,213	3,190
c) furniture	-	-
d) electronic system	31,450	10,593
e) other	4,882	-
Total	**1,080,292**	**769,286**
of which: arising from the recovery of guarantees received	-	-

Rights of use acquired through leases reported at 31 December 2018 comprise the leased property, plant and equipment recognised in accordance with IAS 17, given the decision by the BPER Banca Group not to restate the comparative amounts on the first-time application of IFRS 16.

9.2 Property, plant and equipment held for investment: breakdown of assets measured at cost

Description/Amounts	Total 31.12.2019				Total 31.12.2018			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Assets owned	**271,556**	**-**	**-**	**304,372**	**275,871**	**-**	**-**	**297,392**
a) lands	89,777	-	-	75,944	92,238	-	-	74,712
b) buildings	181,779	-	-	228,428	183,633	-	-	222,680
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) lands	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**271,556**	**-**	**-**	**304,372**	**275,871**	**-**	**-**	**297,392**
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

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 financial statements do not include any property, plant and equipment measured at fair value as mentioned previously.

9.5 Inventories of property, plant and equipment governed by IAS 2: breakdown

Description/Amounts	Total 31.12.2019	Total 31.12.2018
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	**16,848**	**18,116**
Total	**16,848**	**18,116**
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	**184,975**	**969,019**	**214,266**	**211,002**	**288,556**	**1,867,818**
A.1 Total net value adjustments	1,636	303,182	182,040	152,167	222,855	861,880
A.2 Net opening balance	**183,339**	**665,837**	**32,226**	**58,835**	**65,701**	**1,005,938**
B. Increases:	**4,047**	**182,257**	**7,511**	**23,400**	**39,017**	**256,232**
B.1 Purchases	2,299	148,641	6,978	20,703	31,939	210,560
- of which business combinations	2,299	122,506	3,433	5,347	4,353	137,938
B.2 Capitalised expenditure on improvements	20	5,214	-	-	4,644	9,878
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	1,728	2,563	-	-	-	4,291
B.7 Other changes	-	25,839	533	2,697	2,434	31,503
C. Decreases:	**1,693**	**123,359**	**4,608**	**21,732**	**30,486**	**181,878**
C.1 Sales	-	8,007	36	2,317	903	11,263
C.2 Depreciations	-	58,939	4,019	17,349	11,262	91,569
C.3 Impairment losses allocated to	4	4,464	-	-	6,088	10,556
a) shareholders' equity	-	-	-	-	-	-
b) profit or loss	4	4,464	-	-	6,088	10,556
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:	1,660	4,615	-	-	-	6,275
a) transfer to property, plant and equipment held for investment	1,660	2,015	-	-	-	3,675
b) non-current assets and groups of assets held for sale	-	2,600	-	-	-	2,600
C.7 Other changes	29	47,334	553	2,066	12,233	62,215
D. Net closing balance	**185,693**	**724,735**	**35,129**	**60,503**	**74,232**	**1,080,292**
D.1 Total net value adjustments	1,608	366,945	209,048	189,677	289,679	1,056,957
D.2 Gross closing balance	**187,301**	**1,091,680**	**244,177**	**250,180**	**363,911**	**2,137,249**

The opening balances take into account first-time adoption of IFRS 16 for a total of € 229.6 million.
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 2019, 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 € 7,832 thousand. Impairment adjustments included € 2,724 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	**92,477**	**259,428**
A.1 Total net reduction value	239	75,795
A.2 Net opening balance	**92,238**	**183,633**
B. Increases	**2,428**	**31,847**
B.1 Purchases	267	22,879
- of which: business combinations	-	15,149
B.2 Capitalised expenditure on improvements	-	1,311
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	1,660	2,015
B.7 Other adjustments	501	5,642
C. Decreases	**4,889**	**33,701**
C.1 Sales	1,271	6,645
C.2 Amortizations	-	5,511
C.3 Negative changes in fair value	-	-
C.4 Impairment losses	1,398	15,032
C.5 Negative exchange difference	-	-
C.6 Transfer to:	2,162	6,181
a) transfer to property, plant and equipment held for investment	1,728	2,563
b) non-current assets and group of assets held for sale;	434	3,618
C.7 Other adjustments	58	332
D. Net closing balance	**89,777**	**181,779**
D.1 Total net write-down	15	83,949
D.2 Closing gross balance	**89,792**	**265,728**
E. Measured at fair value	75,944	228,428

The updated valuation at fair value of the real estate holdings resulted in the recognition of an impairment adjustment totalling € 16,430 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	**-**	**-**	**-**	**-**	**-**	**18,117**	**18,117**
B. Increases	**-**	**-**	**-**	**-**	**-**	**2,363**	**2,363**
B.1 Purchases	-	-	-	-	-	765	765
B.2 Write-backs	-	-	-	-	-	-	-
B.3 Positive exchange differences	-	-	-	-	-	-	-
B.4 Other changes	-	-	-	-	-	1,598	1,598
C. Decreases	**-**	**-**	**-**	**-**	**-**	**3,632**	**3,632**
C.1 Sales	-	-	-	-	-	2,163	2,163
C.2 Impairment losses	-	-	-	-	-	1,458	1,458
C.3 Negative exchange differences	-	-	-	-	-	-	-
C.4 Other changes	-	-	-	-	-	11	11
D. Closing balance	**-**	**-**	**-**	**-**	**-**	**16,848**	**16,848**

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 31.12.2019		Total 31.12.2018	
	Defined duration	Undefined duration	Defined duration	Undefined duration
A.1 Goodwill	**X**	**434,758**	**X**	**264,740**
A.1.1 pertaining to group	X	434,758	X	264,740
A.1.2 pertaining to minority interests	X	-	X	-
A.2 Other intangible assets	**235,089**	**-**	**180,949**	**-**
A.2.1 Assets measured at cost	235,089	-	180,949	-
a) intangible assets generated internally	-	-	-	-
b) other assets	235,089	-	180,949	-
A.2.2 Assets measured at fair value	-	-	-	-
a) intangible assets generated internally	-	-	-	-
b) other assets	-	-	-	-
Total	**235,089**	**434,758**	**180,949**	**264,740**

"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.
The remaining "Other intangible assets" comprise € 9,333 thousand representing the value of the client relationship identified on the Purchase Price Allocation (PPA) of the former UNICREDIT branches acquired at the end of 2008, and € 3,769 thousand representing the value of the core deposits identified on allocation of the price paid for control of Cassa di Risparmio di Bra in 2013, as well as the additional intangible assets recognised upon finalisation of the PPA of Unipol Banca (€ 28.6 million).
Verification of the residual recoverability of those intangible assets highlighted the need to write-off in full the value of the core deposits, € 4,969 thousand, identified on finalisation of the PPA of Cassa di Risparmio di Saluzzo.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		DEF	UNDEF	DEF	UNDEF	
A. Opening balance	**471,930**	**51**	**-**	**480,552**	**-**	**952,533**
A.1 Total net value adjustments	207,190	51	-	299,603	-	506,844
A.2 Net opening balance	**264,740**	**-**	**-**	**180,949**	**-**	**445,689**
B. Increases	**170,018**	**-**	**-**	**136,197**	**-**	**306,215**
B.1 Purchases	170,018	-	-	116,148	-	286,166
- of which: business combinations	-	-	-	40,755	-	40,755
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	-	-	-	20,049	-	20,049
C. Decreases	**-**	**-**	**-**	**82,057**	**-**	**82,057**
C.1 Sales	-	-	-	-	-	-
C.2 Adjustments	-	-	-	59,552	-	59,552
- Depreciations	X	-	-	54,583	-	54,583
- Impairment losses	-	-	-	4,969	-	4,969
+ shareholders' equity	X	-	-	-	-	-
+ profit or loss	-	-	-	4,969	-	4,969
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	-	-	-	22,505	-	22,505
D. Net closing balance	**434,758**	**-**	**-**	**235,089**	**-**	**669,847**
D.1 Total net value adjustments	207,190	51	-	104,293	-	311,534
E. Gross closing balance	**641,948**	**51**	**-**	**339,382**	**-**	**981,381**

All intangible assets are stated at cost.
As better described in the following paragraph,h the impairment test activity, carried out in accordance with IAS 36, highlighted the need to recognise an impairment loss on the full value of the core deposits, € 4,969 thousand, identified on finalisation of the PPA of Cassa di Risparmio di Saluzzo.

Key:
DEF: defined useful life
UNDEF: undefined useful life

10.3 Other information

10.3.1 Goodwill

The goodwill reported in the Consolidated financial statements is summarised in the following table:

Goodwill	Total 31.12.2019	Total 31.12.2018
1. Group companies	**434,758**	**264,740**
1.1 Banks	**32,180**	**32,180**
- Banco di Sardegna s.p.a.	27,606	27,606
- Cassa di Risparmio di Bra s.p.a.	4,574	4,574
1.2 Parent Company BPER Banca	**225,792**	**225,792**
1.3 Other companies	**176,786**	**6,768**
- Emilia Romagna Factor s.p.a.	6,768	6,768
- Arca Holding s.p.a.	170,018	-
Total	**434,758**	**264,740**

The BPER Banca CGU includes goodwill arising from bank acquisitions and subsequent mergers by absorption in past years, as well as goodwill relating to purchases of bank branches from the Unicredit Group.
The impairment test, carried out on preparation of the 2019 financial statements in accordance with IAS 36, did not identify any need to recognise an impairment loss on goodwill.

Impairment tests of goodwill

With respect to business combinations, accounting standard IFRS 3 requires 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) the specific intangible assets identified and (iii) the 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 test 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.
Impairment testing 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.

Determination of Cash Generating Unit

Based on the provisions of IAS 36, there is a need to correlate the level at which goodwill is tested with the internal reporting level of company performance with respect to which management controls its dynamics. In this regard, the definition of this level is closely dependent 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 management and organisational model of the BPER Banca Group that governs the segment reporting system (based on individual legal entities), each Bank and Group product company is identified as a separate CGU. Based on the above, the goodwill recognised in the consolidated financial statements at 31 December 2019 was allocated to the following CGUs:

- BPER Banca CGU;
- CR Bra CGU;
- Banco di Sardegna CGU;
- Emilia Romagna Factor CGU;
- Arca Holding CGU.

The allocation criteria were unchanged with respect to those adopted at 31 December 2018. The only change has been the increase in goodwill at 31 December 2019 with respect to the prior year due to the business combination of Arca Holding during 2019.

Carrying amount of the CGUs

The carrying amount of the CGUs is determined in a manner consistent with the criterion used to estimate the recoverable amount thereof.

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 amount of the CGU is influenced by these flows, which means that the book value has to be determined in line with the estimated value of the recoverable amount 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; (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 BANKS

The following table indicates the carrying amounts of the CGUs represented by the subsidiary banks of the BPER Banca Group and goodwill allocated to each of them, as well as, where applicable, the residual value of other specific intangible assets (in the circumstances, those relating to core deposits) whose sustainability is checked by impairment test.

(in millions)

CGU	Book value	of which: goodwill	of which: "Core Deposits" (attributable to Group)
BPER Banca	4,949.8	*225.8*	-
Banco di Sardegna	909.6	*27.6*	-
Cassa di Risparmio di Bra	63.1	*4.6*	*2.1*

In particular, after impairment test, the residual net carrying amount at 31 December 2019 of the core deposits recognised on the business combination of Cassa di Risparmio di Saluzzo, Euro 5.0 million, was full impaired.

Criteria for estimation of value in use of CGUs

The recoverable value of the CGU is its fair value net of disposal costs or, if greater, its value in use. The standard states 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 the absence of a lasting loss in value.
For the purpose of identifying recoverable value, 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".

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 (2020-2024), consistent with the requirements of IAS 36. These forecasts, approved by the respective administrative bodies, were prepared for each legal entity considering:

- the pre-closing data at 31 December 2019;
- for the period 2020-2021, the data contained in the consolidated planning document presented to the Board on 19 December 2019 relating to the 2020 budget and initial projections for 2021. These projections took account of the most recent macroeconomic and regulatory dynamics available at that date, as well as the best forecasts available to management, again prepared using the information available at the time;
- for the period 2022-2024, the forecasts were prepared in a prudent manner, as usual, that assumes growth over the medium term will tend to reflect normal market conditions. In short, the forecasts for commercial aggregates and revenues made reference to those developed at system level (scenario: October 2019) by external info providers, with inter alia the expectation of negative growth until 2022 and without considering any other operational factors. Personnel costs were estimated with reference to information obtained from the personnel function, as amended by the data available about applications to participate in the manoeuvre contained in the business plan for the banking Group, while the other administrative costs were forecast using an inertia-based model. The impact of estimated disposals of NPE portfolios at Group level was also considered.

The following table sets out the main assumptions underlying the economic-financial projections used to estimate the value in use of the CGUs of subsidiary banks and, in particular, those regarding the compound annual growth rates (CAGR) for loans and deposits and the profitability indicators in the final year of the forecast (2024).

CGU	CAGR 2019-2024			Profitability ratios at 2024		
	Loans	Direct deposits	Indirect deposits	Net interest and other banking income/VH	Net impairment losses on loans	Operating costs/VH
BPER Banca	1.10%	0.60%	1.40%	0.97%	0.50%	0.64%
Banco di Sardegna	1.00%	0.90%	2.20%	1.61%	0.54%	1.08%
Cassa di Risparmio di Bra	1.40%	0.30%	2.40%	1.42%	0.43%	0.77%

The cash flows distributable by each CGU were estimated assuming a target minimum supervisory requirement consistent with the supervisory provisions and able to maintain a satisfactory level of capitalisation, 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 explicit projections. This estimate was made with reference to a normalised flow based on the profit for the final year of the projection (2024), net of physiological capital absorption and compounded at a rate that reflects the difference between the opportunity cost of capital (*cost of equity*) and the nominal growth rate “g” of 1.5%; this "g" rate is substantially in line with the expected long-term inflation rate assuming, as already stated, average real 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.
In the circumstances, the opportunity cost of capital was estimated to be 9.31%, 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 1.93%, 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 2018 (average of 2.61% calculated over a one-year observation period), due to the reduction in the BTP-Bund spread linked, in part, to the change in the domestic economic and political context;
- the market risk premium is 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 5.50% was used, since this is commonly adopted by operators and consistent with the premium applied at 31 December 2018;

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 1.34, which is the beta of the BPER Banca Group calculated over a three-year observation period, in line with the observation period considered in the impairment test at 31 December 2018.

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 the goodwill recognised. However, it did identify issues with the sustainability of the core deposits recognised on the business combination of Cassa di Risparmio di Saluzzo, which were therefore written off in full; on the other hand, the value of the core deposits recognised for Cassa di Risparmio di Bra was confirmed, given the wide margin between their recoverable value and their carrying amount.
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 significantly by changes in the general economic environment as a consequence of the spread of Covid-19. 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 and pursuant to IAS 26, 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.
In particular, the impact on value in use of a change in certain key variables was checked:

- +25 bps and +50 bps in base cost of capital (9.31%);
- +25 bps and +50 bps maximum in the target minimum regulatory capital requirement specified by the supervisory authorities in the final year of the forecast (2024);
- -25 bps and -50 bps in the long-term base growth rate "g" (1.5%).

CGU	Change in Value in Use of CGU					
	k_e rate		CET 1 ratio target		“g” rate	
	+25 bps	+50 bps	+25 bps	+50 bps	-25 bps	-50 bps
BPER Banca	-1.8%	-3.5%	-1.0%	-2.1%	-0.4%	-0.8%
Banco di Sardegna	-1.5%	-2.9%	-0.6%	-1.1%	-0.6%	-1.2%
Cassa di Risparmio di Bra	-2.5%	-4.8%	-0.8%	-1.6%	-1.2%	-2.3%

These analyses identified a possible issue with the sustainability of the goodwill allocated to the BPER Banca CGU following a theoretical increase in the opportunity cost of capital by +50 b.p. However, the risk-free rate used in the CAPM formula was estimated over an extended period of observations that included high yields on the 10Y BTPs in early 2019, followed by a downward more recently.

Again for stress testing purposes, separate changes were made to the opportunity cost of capital and the normalised expected cash flows 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 decrease in the normalised flow
BPER Banca	9.70%	-6.7%
Banco di Sardegna	17.78%	-68.6%
Cassa di Risparmio di Bra	15.70%	-62.5%

This analysis showed that the recoverable value of the BPER Banca CGU would be aligned with its carrying amount if the opportunity cost of capital rose by 39 b.p., or the cash flows underlying the terminal value fell by 6.7%.

GROUP PRODUCT SUBSIDIARIES

Impairment test considered the goodwill recognised in relation to "Emilia Romagna Factor s.p.a." and "Arca Holding s.p.a.", as shown in the following table.

(in millions)

CGU	Book value	of which: goodwill
Emilia Romagna Factor	128.5	*6.8*
Arca Holding	299.4	*170.0*

The procedure made reference to the value in use of these legal entities, as estimated using measurement approaches consistent with the information available and described below for each Product company CGU.

Arca Holding

The value in use of the Arca Holding CGU was estimated using a measurement approach based on the sum of the following estimated values: *(i)* value of the 100% interest held in Arca Fondi SGR and *(ii)* the estimated excess potential capital at holding level (Arca Holding, considered separately).
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" of 1.5%. 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, despite the lack of forecast data approved by the administrative bodies. Normalised profit was estimated with reference to the average performance achieved by Arca Fondi SGR, as adjusted to remove any non-recurring elements. The target supervisory requirement was estimated at 25% of operating expenses.
The excess capital at holding level was estimated with reference to the latest available separate financial statements of that company, as corrected appropriately for the investment held in Arca Fondi SGR which was measured separately.

Emilia Romagna Factor

For impairment testing purposes, value in use was estimated using the excess capital method, discounting cash flows expected over an explicit forecasting period of five years (2020-2024). The forecasts were prepared with reference to the economic and financial position of the company at the end of 2019 (pre-closing data) and assuming future growth in line with expected macroeconomic conditions.
The terminal value, being the value for the period beyond that covered by the explicit projections, has been estimated by considering a normalised cash flow generated by income in the last year of the projections, net of physiological capital absorption, and by applying a nominal long-term growth rate ("g") of 1.5%; this "g" rate is substantially in line with expected long-term inflation, thus assuming average real growth of zero.
Distributable financial flows have been calculated assuming a target CET 1 ratio in line with the supervisory provisions and able to maintain a satisfactory level of capitalisation that is consistent with the expected growth in business.
In both cases, the cost of capital used for discounting purposes considered current market rates for the time value of money and for country risk, as well as the risks specific to the activity considered. The cost of capital was estimated to be 9.31%; see the section above entitled "Estimate of the cost of capital" for more details about the estimation process and the inputs used.

Results of impairment tests

Comparison of the recoverable value determined as above with the carrying amount of the CGU (being the book value of shareholders' equity) confirmed the stability of the amounts recorded as goodwill for the Emilia Romagna Factor CGU and the Arca Holding CGU.

Sensitivity analysis

As discussed earlier and 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.
In particular, the impact on value in use of a change in certain key variables was checked:

- +25 bps and +50 bps in the base cost of capital (9.31%);
- +25 bps and +50 bps maximum in the target minimum regulatory capital requirement specified by the supervisory authorities in the final year of the forecast (2024);
- -25 bps and -50 bps in the long-term base growth rate "g" (1.5%).

CGU	Change in Value in Use of CGU					
	k_e rate		CET 1 ratio target		"g" rate	
	+25 bps	+50 bps	+25 bps	+50 bps	-25 bps	-50 bps
Emilia Romagna Factor	-1.2%	-2.3%	-1.4%	-2.8%	-0.3%	-0.5%
Arca Holding	-2.4%	-4.7%	n.s.	n.s.	-2.4%	-4.6%

Again for stress testing purposes, separate changes were made to the opportunity cost of capital and the normalised expected cash flows 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, thus identifying the threshold values of the main inputs, beyond which impairment testing of the CGU would result in a loss in value.

CGU	Maximum k_e rate	Maximum decrease in the normalised flow
Emilia Romagna Factor	9.98%	-11.3%
Arca Holding	13.61%	-35.6%

This analysis showed that the recoverable value of the Emilia Romagna Factor CGU would be aligned with its carrying amount if the opportunity cost of capital rose by 67 b.p., or the cash flows underlying the terminal value fell by 11.3%.

Second level impairment est

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.
One of the reasons for this situation is that the stockmarket tends only to consider the results expected over the short term, based on a logic typical of short-term financial investment, which coincides in many ways with the standpoint of non-controlling shareholders. In addition, market price continues to be influenced by the domestic macroeconomic situation and the general market conditions for bank shares, regardless of the operating policies and guidelines established by the administrative bodies of the Group. These conditions should disappear over the medium term, so that the market once again values individual banks in relation to their fundamentals and specific performance. Indeed, value in use is estimated with reference to longer-term results, assuming that contingent issues will be reabsorbed and "normal" conditions will be restored.
The second-level impairment test provides an overall reasonableness check, comparing the estimated value in use of the BPER Banca Group with its carrying amount at 31 December 2019.
Consistent 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.
The potentially distributable cash flows were estimated with reference to consolidated economic-financial projections prepared using the assumptions discussed above in relation to each CGU. These projections were consistent with those contained in the consolidated planning document presented to the Board on 19 December 2019, and took account of the transactions involving Unipol Banca and Finitalia, as well as the estimated contribution, using an inertia-based model, from the Arca Holding Group; in addition, a number of extra years of growth, again under an inertia-based model, were considered in order to reach a normalised situation that was used to estimate certain parameters included in the terminal value calculation.
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 maintain a satisfactory level of capitalisation consistent with the expected growth in activities.
Comparison of the total carrying amount of the BPER Banca Group with its recoverable value did not indicate any impairment.
Here too, sensitivity analyses were carried out to evaluate the effects of deteriorations in the key parameters, being the cost of capital, the target minimum regulatory requirement in the final year of the

projections and the long-term growth rate “g”; 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		CET 1 ratio target		“g” rate	
	+25 bps	+50 bps	+25 bps	+50 bps	-25 bps	-50 bps
Gruppo BPER Banca	-2.6%	-5.0%	-1.2%	-2.4%	-0.7%	-1.3%

Again as part of stress testing, separate changes were made to the opportunity cost of capital and the normalised expected cash flows in the final period of the projections (used to estimate the terminal value), in order to determine parameters that align the value in use of the BPER Banca Group with its carrying amount.

CGU	Maximum ke rate	Maximum reduction in the normalised flow
Gruppo BPER Banca	10.28%	-15.7%

Section 11 – Tax assets and liabilities
Asset caption 110 and liability caption 60

11.1 Deferred tax assets: breakdown

	IRES	IRAP	Total 31.12.2019	Total 31.12.2018
Impairment losses on loans to customers	771,058	69,554	840,612	787,180
Impairment losses on equity investments and securities	16,028	13,233	29,261	61,270
Goodwill convertible into tax credits	178,593	36,539	215,132	140,557
Non-convertible goodwill	5,866	1,306	7,172	16,617
Personnel provisions	108,698	9,420	118,118	54,663
Endorsement credits, revocatory action during bankruptcy proceedings and outstanding lawsuits	71,426	4,368	75,794	76,727
Impairment losses on loans to customers FTA IFRS 9	165,841	33,463	199,304	189,840
Non-convertible tax losses	4,581	-	4,581	39,317
Tax losses convertible into tax credits	-	-	-	-
ACE reportable	21,784	-	21,784	19,312
Other deferred tax assets	42,658	3,851	46,509	42,295
Total	**1,386,533**	**171,734**	**1,558,267**	**1,427,778**

The total includes deferred tax assets under Law 214/2011 for an amount of € 1,055.7 million.
The remaining deferred tax assets, € 476.2 million, mainly relate to temporary differences, together with € 26.4 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 position at 31 December 2019 also includes tax losses for which no deferred tax assets have been recognised. These include € 432.0 million subject to the full rate of 27.5%, that would result in DTA of € 118.8 million, and € 1,015 million to which the additional rate of 3.5% would apply, resulting in DTA of € 35.5 million. In addition, deferred tax assets have not been recognised in relation to the portions of the IFRS 9 FTA recoverable beyond the time horizon for the probability test, amounting to € 477.3 million, that would result in DTA of € 157.9 million.

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	Total 31.12.2019	Total 31.12.2018
Gains from equity instruments and securities	21,521	8,738	30,259	24,429
Equity investments	213	588	801	1,894
Staff costs	1,755	10	1,765	1,646
Gains from the sale of property, plant and equipment	487	-	487	29
Depreciation of property, plant and equipment and intangible assets	16,310	2,616	18,926	12,314
Other deferred taxes	15,935	2,159	18,094	18,366
Total	**56,221**	**14,111**	**70,332**	**58,678**

"Deferred tax assets" and "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 2019, 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)

	31.12.2019	31.12.2018
1. Initial amount	**1,358,509**	**1,223,221**
2. Increases	**280,922**	**284,987**
2.1 Defferred tax assets recognised in the year	134,302	284,930
a) related to previous years	38,543	35,894
b) due to changes in accounting criteria	-	202,390
c) value recoveries	-	-
d) others	95,759	46,646
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	146,620	57
- of which: business combinations	145,734	-
3. Decreases	**144,600**	**149,699**
3.1 Defferred tax assets derecognised in the year	139,658	78,158
a) reversals	94,177	71,118
b) write-offs	404	-
c) due to changes in accounting criteria	-	-
d) others	45,077	7,040
3.2 Decreases in tax rates	-	-
3.3 Other decreases:	4,942	71,541
a) changes into tax credits	-	71,092
b) others	4,942	449
4. Final amount	**1,494,831**	**1,358,509**

The amount reported in caption 2.1 a) "related to previous years" includes the adjustments made on the FTA of IFRS 9, recoverable in 2024 and recognised during the year after passing the probability test.
Caption 2.1 d) "others" increases includes the deferred tax assets relating to the provisions for employee benefits, € 41 million, the provisions for legal disputes and guarantees granted, € 30.7 million, the ACE surpluses, € 9.4 million, goodwill, € 6.6 million, and tax losses, € 4.6 million.
Caption 2.3 "Other increases – of which: business combinations" relates to the business combinations with Unipol Banca, €108.4 million, Finitalia, € 10.9 million, and Arca Holding, € 26.4 million.
The amount recorded in caption 3.1 a) "reversals" includes the deferred tax assets relating to uses/releases of provisions for employee benefits, € 22 million, provisions for legal disputes and guarantees granted, € 19.4 million, tax losses, € 33.2 million, and ACE surpluses, € 63.9 million.
The amount recorded in caption 3.1 d) "others" decreases principally relates to the deferred tax assets on the annual portion of the IFRS 9 FTA that has become non deductible, because the 2020 Finance Law deferred it from 2019 to 2028, which is beyond the time horizon considered for the probability test.

11.4 Changes in deferred tax assets pursuant to Law 214/2011

	Total 31.12.2019	Total 31.12.2018
1. Initial amount	**928,460**	**1,021,455**
2. Increases	**127,284**	**240**
3. Decreases	**-**	**93,235**
3.1 Reversals	-	-
3.2 Changes into tax credits	-	71,092
a) from losses for the year	-	3,534
b) from fiscal losses	-	67,558
3.3 Other decreases	-	22,143
4. Final amount	**1,055,744**	**928,460**

With regard to the changes in 2018, 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 - DTAs) are transformed into a tax credit. The transformation runs from the date of approval of the financial statements 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 DTAs transformed into tax credits are not deductible.
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 the impairment on loans and on the value of goodwill and other intangible assets, also in the case of "negative net value of production".
The increases indicated in point 2 are related to the eligibility as convertible DTAs of the DTAs on goodwill envisaged in the 2020 Finance Law, as well as to the DTAs acquired on business combinations; the law also redefined the deductibility of the convertible impairment losses on loans to customers and goodwill due to be recovered in 2019, deferring them to future tax periods: accordingly, no reclassifications or transformations into tax credits were recorded during the year.
These rules therefore ensure the recovery of the DTAs in the case of a loss in the statutory accounts, even if a tax loss is recorded, explaining the reasons that justify full recognition in assets of € 1,055.7 million of deferred tax assets.

The details of DTAs for IRES and IRAP purposes are shown below:

	Total 31.12.2019			Total 31.12.2018		
	IRES	IRAP	Total	IRES	IRAP	Total
Impairment provisions for loans to customers	771,058	69,554	840,612	723,317	63,863	787,180
Goodwill	178,593	36,539	215,132	117,485	23,796	141,281
Tax losses	-	-	-	-	-	-
Total	**949,651**	**106,093**	**1,055,744**	**840,802**	**87,659**	**928,461**

11.5 Changes in deffered tax liabilities (through profit or loss)

	Total 31.12.2019	Total 31.12.2018
1. Initial amount	**15,206**	**26,033**
2. Increases	**44,134**	**8,229**
2.1 Defferred tax liabilities recognised in the year	374	8,229
a) related to previous years	2	-
b) due to changes in accounting criteria	-	3,506
c) others	372	4,723
2.2 New taxes or tax rates increases	-	-
2.3 Other increases	43,760	-
- of which: business combinations	26,903	-
3. Decreases	**12,494**	**19,056**
3.1 Defferred tax liabilities derecognised in the year	9,900	19,046
a) reversals	9,630	18,772
b) due to changes in accounting criteria	-	-
c) others	270	274
3.2 Decreases in tax rates	-	-
3.3 Other decreases	2,594	10
4. Final amount	**46,846**	**15,206**

Caption 2.3 “Other increases – of which: business combinations" relates to the business combinations with Unipol Banca, €22.2 million, and Arca Holding, € 4.6 million.
Caption 3.1 a) "reversals" principally relates to the measurement of non-current securities amounting to € 6.4 million.

11.6 Changes in deffered tax assets (through shareholders' equity)

	Total 31.12.2019	Total 31.12.2018
1. Initial amount	**69,269**	**49,465**
2. Increases	**33,138**	**42,818**
2.1 Defferred tax assets recognised in the year	20,976	42,446
b) related to previous years	-	109
b) due to changes in accounting criteria	-	5
c) others	20,976	42,332
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	12,162	372
- of which: business combinations	10,096	-
3. Decreases	**38,971**	**23,014**
3.1 Defferred tax assets derecognised in the year	38,971	22,887
a) reversals	38,753	15,342
b) write-offs	-	-
c) due to changes in accounting criteria	-	7,536
d) others	218	9
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	127
4. Final amount	**63,436**	**69,269**

Caption 2.1 c) “others” principally relates to deferred tax assets on provisions for employee benefits, € 10.5 million, and non-current securities, € 9.4 million.
Caption 2.3 “Other increases – of which: business combinations" relates to the business combinations with Unipol Banca, €2.5 million, Finitalia, € 0.1 million, and Arca, € 7.5 million.
Caption 3.1 a) "reversals" principally relates to the measurement of non-current securities amounting to € 38.1 million.

11.7 Changes in deffered tax liabilities (through shareholders' equity)

	31.12.2019	31.12.2018
1. Initial amount	**43,472**	**77,927**
2. Increases	**13,477**	**104,733**
2.1 Defferred tax liabilities recognised in the year	9,880	104,357
a) related to previous years	-	-
b) due to changes in accounting criteria	-	48,290
c) others	9,880	56,067
2.2 New taxes or tax rates increases	-	-
2.3 Other increases	3,597	376
- of which: business combinations	670	-
3. Decreases	**33,463**	**139,188**
3.1 Defferred tax liabilities derecognised in the year	14,568	138,330
a) reversals	14,539	138,120
b) due to changes in accounting criteria	-	24
c) others	29	186
3.2 Decreases in tax rates	-	-
3.3 Other decreases	18,895	858
4. Final amount	**23,486**	**43,472**

Caption 2.1 c) “others” comprises deferred tax assets on non-current securities, € 9.9 million.
Caption 2.3 “Other increases – of which: business combinations" relates to the business combination with Unipol Banca, € 0.7 million.
Caption 3.1 a) "reversals" principally relates to the measurement of non-current securities amounting to € 12.1 million.

11.8 Other information

There are no information to be disclosed other than those already 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

	31.12.2019	31.12.2018
A. Assets held for sale		
A.1 Financial assets	92,981	-
A.2 Equity investments	-	-
A.3 Property, plant and equipment	4,155	2,800
of which: arising from the recovery of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	6	-
Total A	**97,142**	**2,800**
of which measured at cost	97,142	2,800
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 amortised 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.)

		31.12.2019	31.12.2018
C. Liabilities related to assets classified as held for sale			
C.1 Deposits		133,479	-
C.2 Securities		-	-
C.3 Other liabilities		598	-
	Total C	**134,077**	**-**
	of which measured at cost	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 amortised 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 classified as held for sale and related liabilities principally relate to the loan and deposit accounts referring to the 5 former Unipol Banca branches in Sardinia that, by decision of the Antitrust Authority (AGCM), must be sold on the market due to "competition issues". The disposal process initiated by the BPER Banca Group reached a stage in February 2020 that resolved all remaining uncertainties about the applicability of IFRS 5 to this line of business.
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 million, relating to properties used for banking activities.
Property, plant and equipment also includes buildings owned by the Group totalling € 3.1 million for which preliminary sale contracts have been signed at the reporting date.

Section 13 – Other assets Caption 130

13.1 Other assets: breakdown

	31.12.2019	31.12.2018
Taxes withheld on interest, withholdings and tax credits on dividends, advance taxation	146,997	131,793
Amounts recoverable from the tax authorities for higher taxes paid for previous years and related accrued interest	6,338	5,624
Sundry amounts to be charged to customers	163,288	72,948
Bank charges to be debited to customers or banks	60,148	40,664
Cheques being processed	115	144
Cheques drawn on other banks	112,966	124,714
Items relating to securities transactions	137,480	13,518
Leasehold improvement expenditure	11,125	6,408
Gold, silver and precious metals	1,908	891
Accrued income and prepaid expenses	12,704	22,787
Other items for sundry purposes	127,628	129,544
Total	**780,697**	**549,035**

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 31.12.2019				Total 31.12.2018			
	B V	Fair Value			B V	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to Central Banks	**9,542,136**	X	X	X	**9,185,399**	X	X	X
2. Due to banks	**2,670,997**	X	X	X	**3,940,849**	X	X	X
2.1 Other current accounts and demand deposits	158,545	X	X	X	219,775	X	X	X
2.2 Time deposits	5,799	X	X	X	1,298	X	X	X
2.3 Loans	2,502,711	X	X	X	3,718,326	X	X	X
2.3.1 Repurchase agreements	2,067,901	X	X	X	3,190,695	X	X	X
2.3.2 Others	434,810	X	X	X	527,631	X	X	X
2.4 Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease payables	1,901	X	X	X	-	X	X	X
2.6 Other payables	2,041	X	X	X	1,450	X	X	X
Total	**12,213,133**	**-**	**-**	**12,213,133**	**13,126,248**	**-**	**-**	**13,126,248**

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 31.12.2019				Total 31.12.2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	47,592,520	X	X	X	37,413,210	X	X	X
2. Time deposits	954,062	X	X	X	1,901,381	X	X	X
3. Loans	2,170,814	X	X	X	4,554,675	X	X	X
3.1 Repurchase agreements	238,736	X	X	X	2,539,391	X	X	X
3.2 Other	1,932,078	X	X	X	2,015,284	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease payables	305,008	X	X	X	-	X	X	X
6. Other payables	1,064,836	X	X	X	725,597	X	X	X
Total	**52,087,240**	**-**	**-**	**52,087,240**	**44,594,863**	**-**	**-**	**44,594,863**

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 31.12.2019				Total 31.12.2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	5,089,892	3,231,215	1,989,707	430	3,990,573	2,509,988	1,470,148	-
1.1 structured	-	-	-	-	-	-	-	-
1,2 others	5,089,892	3,231,215	1,989,707	430	3,990,573	2,509,988	1,470,148	-
2. other securities	744,997	-	36,767	708,456	1,410,983	-	53,033	1,358,311
2.1 structured	36,541	-	36,767	-	52,672	-	53,033	-
2.2 others	708,456	-	-	708,456	1,358,311	-	-	1,358,311
Total	**5,834,889**	**3,231,215**	**2,026,474**	**708,886**	**5,401,556**	**2,509,988**	**1,523,181**	**1,358,311**

"Bonds" include subordinated bonds issued totalling € 761,177 thousand, 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 31.12.2019	Nominal value 31.12.2019	Book value 31.12.2018	Nominal value 31.12.2018
B.P.E.R. Lower Tier II subordinated non-convertible bond 5.81%, 2013-2020	2,513	2,389	5,026	4,778
B.P.E.R. Tier II subordinated non-convertible bond 4.25%, 2015-2025 callable	225,271	224,855	225,279	224,855
BPER Banca Tier II subordinated non-convertible bond 4.60%, 2016-2026 callable	12,023	12,000	12,023	12,000
BPER Banca EMTN Tier II subordinated non-convertible bond 5.125%, 2017-2027 callable	513,252	500,000	513,097	500,000
Cassa di Risparmio di Bra s.p.a. Lower Tier II subordinated bond fixed-rate, 2011-2021 with amortising nom. 7,000,000	2,831	2,800	4,249	4,200
Cassa di Risparmio di Bra s.p.a. subordinated bond 5.25%, 2012-2020 with amortising	1,020	1,000	2,040	2,000
CARISPAQ Lower Tier II subordinated non-convertible bond floating rate, 2010-2020	4,267	4,250	4,268	4,250
Cassa di Risparmio di Saluzzo Tier II subordinanted non-convertible bond 2.50%, 2014-2019	-	-	9,991	9,979
Total non-convertible bonds	**761,177**	**747,294**	**775,973**	**762,062**
Total bonds	**761,177**	**747,294**	**775,973**	**762,062**

There are not convertible subordinated bonds outstanding at 31 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 31.12.2019	Present value 31.12.2018
Up to 3 months	16,144	679
Between 3 months and 1 year	47,335	2,043
Between 1 year and 5 years	184,422	9,161
Beyond 5 years	59,008	-
Total	**306,909**	**11,883**

The amounts reported at 31 December 2018 reflect the finance lease payables recognised pursuant to IAS 17, given the decision by the BPER Banca Group not to redetermine the comparative amounts on the first-time application of IFRS 16.

Section 2 – Financial liabilities held for trading Caption 20

2.1 Financial liabilities held for trading: breakdown by product

Type of transactions/Amounts	Total 31.12.2019					Total 31.12.2018				
	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	-	-	-	-	-	500	-	546	-	546
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	**-**	**-**	**-**	**-**	**-**	**500**	**-**	**546**	**-**	**546**
B. Derivative instruments										
1. Financial derivatives	X	1,137	156,674	6,476	X	X	44	134,387	8,846	X
1.1 Trading	X	1,137	134,491	6,476	X	X	44	98,986	8,356	X
1.2 Connected with the fair value option	X	-	21,017	-	X	X	-	34,188	-	X
1.3 Others	X	-	1,166	-	X	X	-	1,213	490	X
2. Credit derivatives	X	-	1,683	-	X	X	-	1	-	X
2.1 Trading	X	-	1,683	-	X	X	-	1	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Others	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**1,137**	**158,357**	**6,476**	**X**	**X**	**44**	**134,388**	**8,846**	**X**
Total (A+B)	**X**	**1,137**	**158,357**	**6,476**	**X**	**X**	**44**	**134,934**	**8,846**	**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 31.12.2019			NV	Fair value 31.12.2018			NV
	L1	L2	L3	31.12.2019	L1	L2	L3	31.12.2018
A. Financial derivatives	**-**	**294,114**	**-**	**5,101,684**	**-**	**92,374**	**-**	**4,598,490**
1) Fair value	-	288,369	-	5,051,684	-	87,865	-	4,548,490
2) Cash flows	-	5,745	-	50,000	-	4,509	-	50,000
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**294,114**	**-**	**5,101,684**	**-**	**92,374**	**-**	**4,598,490**

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	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	129,179	-	-	-	X	X	X	5,745	X	X
2. Financial assets measured at amortised cost	159,190	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other operations	-	-	-	-	-	-	X	-	X	-
Total assets	**288,369**	**-**	**-**	**-**	**-**	**-**	**-**	**5,745**	**-**	**-**
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.

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

	31.12.2019	31.12.2018
Amounts due to banks	214,677	15,165
Amounts due to customers	612,435	569,810
Net adjustments on collection of receivables for third parties	443,327	433,822
Staff emoluments and related social contributions	58,724	57,108
Amounts due to third parties for coupons, securities and dividends to be collected	42,162	13,011
Amounts due to the tax authorities on behalf of customers and personnel	161,412	130,750
Bank transfers for clearance	18,555	18,535
Advances for the purchase of securities	47	-
Due to suppliers	228,791	177,549
Third-part payments as surety for loans	126	116
Repayment to be made to INPS	474	200
Pension fund liabilities	1,935	-
Items in transit	51,049	23,486
Accrued expenses and deferred income	16,550	15,545
Other liabilities to third parties	219,247	208,849
Total	**2,069,511**	**1,663,946**

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 € 12.2 million classified under the caption "Accrued expenses 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

	31.12.2019	31.12.2018
A. Opening balance	**182,793**	**187,536**
B. Increases	**18,792**	**2,052**
B.1 Provisions for the year	1,160	1,469
B.2 Other changes	17,632	583
- of which: business combinations	10,592	-
C. Decreases	**10,465**	**6,795**
C.1 Benefits paid	10,172	6,738
C.2 Other changes	293	57
D. Closing balance	**191,120**	**182,793**
Total	191,120	182,793

The caption "Other changes" (B.2) principally includes actuarial losses (€ 6,877 thousand) and the termination indemnities acquired on the business combinations with Unipol Banca s.p.a. (€ 10,145 thousand) and Arca Holding s.p.a. (€ 447 thousand).

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	31.12.2019	31.12.2018
A. Opening balance	**182,793**	**187,536**
B. Increases	**18,792**	**2,052**
1. Pension cost relating to current work	207	68
2. Financial charges	953	1,401
3. Contribution to the plan by employees	-	-
4. Actuarial losses	6,877	583
5. Exchange differences	-	-
6. Pension cost of prior work	-	-
7. Other changes	10,755	-
C. Decreases	**10,465**	**6,795**
1. Benefits paid	10,172	6,738
2. Pension cost of prior work	-	-
3. Actuarial gains	-	-
4. Exchange differences	-	-
5. Reductions	-	-
6. Positions closed	-	-
7. Other changes	293	57
D. Closing balance	**191,120**	**182,793**

The “Other changes” caption (B.7) comprises the employee termination indemnities acquired on the business combinations with Unipol Banca s.p.a. (€ 10,145 thousand) and Arca Holding s.p.a. (€ 447 thousand).

9.2.2 Description of the main actuarial assumptions

Main actuarial assumptions/Percentages	31.12.2019	31.12.2018
Discount rates	0.32%	0.81%
Expected increase in remuneration	n/a	n/a
Turn Over	1.84%	1.83%
Inflation rate	1.20%	1.50%
Interest rate adopted for the calculation of interest cost	0.54%	0.53%

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 consider 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 1.2% 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 employee 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	31.12.2019	31.12.2018
1. Present value of provisions (+)	191,120	182,793
2. Fair value of assets servicing the plan (-)	-	-
3. Plan (surplus) deficit (+/-)	191,120	182,793
4. Adjustments to plan liabilities based on historical experience - actuarial (gains)/losses	6,877	583
5. Adjustments to plan assets based on historical experience	-	-

The "adjustments to plan liabilities 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. 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	31.12.2019	+50 bps	-50 bps
	DBO	DBO	DBO
discount rates	191,120	185,084	194,937
inflation rate	191,120	193,813	186,017

Section 10 – Provisions for risks and charges Caption 100

10.1 Provisions for risk and charges: breakdown

Descriptions/Values	31.12.2019	31.12.2018
1. Impairment provisions for credit risk related to commitments and financial guarantees granted	45,844	54,124
2. Impairment provisions related to other commitments and guarantees granted	10,151	8,935
3. Provisions for pension benefits	161,619	131,126
4. Other provisions for risk and charges	458,546	275,766
4.1 legal and fiscal disputes	167,209	175,825
4.2 personnel charges	239,609	68,392
4.3 others	51,728	31,549
Total	**676,160**	**469,951**

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	**8,935**	**131,126**	**275,766**	**415,827**
B. Increases	**4,184**	**37,214**	**300,334**	**341,732**
B.1 Provisions for the year	4,097	4	205,137	209,238
B.2 Time value changes	-	1,487	225	1,712
B.3 Changes due to discount rate modifications	-	34,186	1,178	35,364
B.4 Other changes	87	1,537	93,794	95,418
of which: business combinations	-	1,512	90,198	91,710
C. Decreases	**2,968**	**6,721**	**117,554**	**127,243**
C.1 Uses for the year	2,955	6,721	66,879	76,555
C.2 Changes due to discount rate modifications	-	-	-	-
C.3 Other changes	13	-	50,675	50,688
D. Closing balance	**10,151**	**161,619**	**458,546**	**630,316**

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 losses in relation to pension funds mainly derive from changes in the demographic assumptions (€ 17 million), changes in the financial assumptions (13.1 million) and experience (€ 4.1 million).
The "Provision for the year" relating to "Other provisions for risks and charges" includes the provisions for leaving incentives and to the solidarity fund totalling Euro 136 million, following signature of the agreement with the Trade Unions on 29 October 2019, in implementation of the 2019-2021 Business Plan.
The "Other changes" in "Increases" relating to "Other provisions for risks and charges" (€ 93.8 million) mainly relate to the liabilities acquired on the absorption of Unipol Banca (€ 73.1 million, of which about € 51.2 million relating to the provisions for employee benefits) and Arca Holding (€ 17.1 million).

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	8,410	428	-	8,838
2. Financial guarantees granted	730	2,524	33,752	37,006
Total	**9,140**	**2,952**	**33,752**	**45,844**

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 pension plans cover BPER Banca S.p.A., as referred to in the individual financial statements, Cassa di Risparmio di Bra s.p.a., Cassa di Risparmio di Saluzzo s.p.a. and Arca Fondi SGR s.p.a., as detailed below.

Cassa di Risparmio di Bra s.p.a.

This bank's staff pension fund is an in-house defined-benefit plan, it is not a separate legal entity and its assets are invested in the business without any distinction between its assets and those of the Bank.
Its purpose is to provide a supplementary pension to the state pension paid by INPS, but solely to employees that had already retired as of 1 October 1998, given that the actuarial liability payable to "active" members at that date had been paid out.
At the measurement date, the related headcount consisted of 7 persons, of whom 3 are direct beneficiaries and 4 are indirect.

Cassa di Risparmio di Saluzzo s.p.a.

This fund is not a separate legal entity, its purpose is to provide a supplementary pension to the state pension paid by INPS, for employees that had already retired as of 31 August 1998, and its assets are held together with those of the Bank.
At the measurement date, the related headcount consisted of 17 persons, of whom 6 are direct beneficiaries and 11 are indirect.

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 fund amount 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	31.12.2019	31.12.2018
Opening balance	**131,126**	**137,148**
A. Increases	37,214	1,240
1. Pension cost relating to current work	-	-
2. Financial charges	1,491	1,240
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	6,721	7,262
1. Benefits paid	6,721	6,691
2. Pension cost of prior work	-	-
3. Actuarial gains	-	571
4. Exchange differences	-	-
5. Reductions	-	-
6. Positions closed	-	-
7. Other changes	-	-
Closing balance	**161,619**	**131,126**

The "Actuarial losses" mainly derive from changes in the demographic assumptions (€ 17 million), changes in the financial assumptions (13.1 million) and experience (€ 4.1 million).

10.5.3. Information on fair value of plan assets

As already reported, 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 1.2% 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	31.12.2019	+50 bps inflation rate	-50 bps inflation rate
	DBO	DBO	DBO
Bper Banca S.p.A.	158,677	148,701	169,782
Cassa di Risparmio di Bra s.p.a.	475	452	501
Cassa di Risparmio di Saluzzo s.p.a.	931	899	964

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 2019, as shown in the following table:

Future cash-flows

Fund Section A	1st year	2nd year	3rd year	4th year	over 4th year
Bper Banca S.p.A.	7,075	7,015	6,938	6,854	6,764
Cassa di Risparmio di Bra s.p.a.	28	28	28	28	27
Cassa di Risparmio di Saluzzo s.p.a.	101	95	88	81	74

10.5.6 Multi-employer plans

At 31 December 2019 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 2019 there were no plans of this type.

10.6 Provisions for risks and charges - other provisions

10.6.1 Legal disputes

	31.12.2019	31.12.2018
A. Opening balance	**175,825**	**151,758**
B. Increases	32,522	67,324
Provisions for the year	30,806	61,129
Other increases	1,716	6,195
C. Decreases	41,138	43,257
Other decreases	15,745	27,546
Uses for the year	25,393	15,711
D. Closing balance	**167,209**	**175,825**

Provisions for legal and tax disputes amounted to Euro 162.3 million and Euro 4.9 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, bankruptcy clawbacks and tax disputes).
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 47 judgements in first instance pending before the Court of Rome, while for other 29 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 against eighteen rulings, which were in favour of the Bank, to the civil Court of Appeal of Rome. 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.

- Tax disputes and audits by the Tax Authorities

During 2019, no materially significant notices of assessment or dispute were received.
The Sardinian Regional Department of the Tax Authorities gave advance notice of a tax audit covering the 2017 tax year, which commenced in February 2020.

- BPER Banca (formerly Emro Finance Ireland Ltd) tax years 2005-2009

By the time of preparing these financial statements, the Bologna regional tax commission has 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 has operated properly.
In the meantime, the Commission accepted the request to suspend the enforceability of the second instance sentence presented by the Bank.
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	
	31.12.2019	31.12.2018
Opening balance	**68,392**	**102,480**
Change in opening balances	-	-
A. Increases	**212,750**	**22,396**
1. Pension cost relating to current work	156,224	16,825
2. Financial cherges	214	1,049
3. Contribution to the plan by employees	-	-
4. Actuarial losses	1,830	751
5. Exchange differences	-	-
6. Pension cost of prior work	-	-
7. Other changes	54,482	3,771
B. Decreases	**41,533**	**56,484**
1. Benefits paid	38,844	52,479
2. Pension cost of prior work	-	-
3. Actuarial gains	34	330
4. Exchange differences	-	-
5. Reductions	-	-
6. Positions closed	-	-
7. Other changes	2,655	3,675
Closing balance	**239,609**	**68,392**

The "Pension cost relating to current work" includes the provisions for leaving incentives and to the solidarity fund totalling Euro 136 million, following signature of the agreement with the Trade Unions on 29 October 2019, in implementation of the 2019-2021 Business Plan.
The "Actuarial losses" relate to the "Service Award", € 842 thousand, the "Special long-service payment on termination", € 671 thousand, and the "Provision for additional death cover", € 317 thousand; while the "Actuarial gains" relate to the "Special one-time long-service payment on termination", € 34 thousand.
The "Other changes" caption in "Increases" comprise the provisions for employee benefits acquired on the absorption of Unipol Banca (€ 51.2 million, mainly including the solidarity fund, € 40 million, long-service awards and other forms of incentive, € 10.8 million).

10.6.3 Other provisions

Captions	31.12.2019		31.12.2018	
	Other provisions	Provision for charitable donations	Other provisions	Provision for charitable donations
A. Opening balance	**30,990**	**559**	**48,436**	**563**
B. Provisions	38,014	-	16,872	-
C. Uses	(17,335)	(500)	(34,318)	(4)
D. Closing balance	**51,669**	**59**	**30,990**	**559**

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 62,104 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	**481,308,435**	**-**
- fully paid-in	481,308,435	-
- not fully paid-in	-	-
A.1 Treasury shares (-)	(455,458)	-
A.2 Shares outstanding: opening balance	**480,852,977**	**-**
B. Increases	**39,319,513**	**-**
B.1 New issues	39,319,513	-
- against payment:	39,319,513	-
- business combination transaction	-	-
- conversion of bonds	-	-
- esxercise of warrants	-	-
- others	39,319,513	-
- 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	**520,172,490**	**-**
D.1 Treasury shares (+)	455,458	-
D.2 Final number of shares	520,627,948	-
- fully paid-in	520,627,948	-
- not fully paid-in	-	-

Caption B.1 "New Issues", comprises the new shares issued by BPER Banca following:
- the contribution on 25 July by Fondazione di Sardegna of ordinary and preference shares in Banco di Sardegna in payment following its subscription for 33,000,000 new ordinary shares in BPER Banca carrying normal dividend rights;
- execution of the Public Offer to exchange savings shares in Banco di Sardegna for ordinary shares in BPER Banca, as approved by the Board of Directors on 7 November 2019, with the issue of 6,319,513 ordinary BPER shares carrying normal dividend rights. The POE and related capital increase were completed on 20 December 2019.
Further information about these two operations is presented in the paragraph "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 resulting from the financial statements is allocated through a specific reserve.
The Italian Civil Code obliges companies to set aside at least 5% of profit in a special reserve until it reaches one-fifth of 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 net 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.
Finally, 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

On 25 July 2019, BPER Banca issued the Additional Tier 1 convertible bond for a total nominal amount of Euro 150,000,000, which was immediately subscribed for in full by Fondazione di Sardegna for a total price of Euro 180,000,000.
There were no changes in this equity instruments during the rest of the year.

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	31.12.2019	31.12.2018
Equity investments in consolidated companies with significant minority interests	**131,655**	**506,837**
1. Banco di Sardegna (*)	11,482	424,932
2. Cassa di Risparmio di Bra s.p.a.	11,348	10,565
3. Banca di Sassari s.p.a.	5,138	32,192
4. Arca Holding (**)	97,188	-
5. Emilia Romagna Factor s.p.a.	5,379	5,167
6. Sardaleasing s.p.a.	1,120	33,981
Other equity investments	**7**	**620**
Total	**131,662**	**507,457**

(*) consolidation of the sub-holding company Banco di Sardegna and its subsidiaries.
(**) 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 31.12.2019	Total 31.12.2018
	First stage	Second stage	Third stage		
Commitments to distribute funds	**16,209,497**	**1,439,269**	**428,421**	**18,077,187**	**17,573,990**
a) Central Banks	-	-	-	-	-
b) Public Administrations	615,583	8,127	179,928	803,638	884,214
c) Banks	769,834	-	-	769,834	465,344
d) Other financial companies	993,029	69,773	4,607	1,067,409	1,139,388
e) Non-financial companies	12,685,038	1,287,400	239,108	14,211,546	13,426,560
f) Households	1,146,013	73,969	4,778	1,224,760	1,658,484
Financial guaratees granted	**581,780**	**195,999**	**38,001**	**815,780**	**662,923**
a) Central Banks	-	-	-	-	-
b) Public Administrations	2,424	-	-	2,424	267
c) Banks	22,556	-	-	22,556	23,776
d) Other financial companies	307,921	3,520	39	311,480	307,922
e) Non-financial companies	222,395	185,077	36,849	444,321	299,001
f) Households	26,484	7,402	1,113	34,999	31,957

2. Other commitments and other guarantees granted

	Nominal value	
	31.12.2019	31.12.2018
Other guarantees granted	**2,528,958**	**2,840,684**
of which: non performing exposures	78,036	84,671
a) Central Banks	-	-
b) Public Administrations	5,005	5,400
c) Banks	150,755	686,276
d) Other financial companies	77,341	31,192
e) Non-financial companies	2,188,161	2,011,810
f) Households	107,696	106,006
Other commitments	**-**	**-**
of which: non performing exposures	-	-
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-

3. Assets pledged as collateral of own liabilities and commitments

Portfolios	Amounts 31.12.2019	Amounts 31.12.2018
1. Financial assets measured at fair value through profit or loss	44,250	322,473
2. Financial assets measured to fair value through other comprehensive income	4,082,914	7,542,418
3. Financial assets measured at amortised cost	17,901,566	19,013,149
4. Property, plant and equipment	-	-
of which: inventories of property, plant and equipmet	-	-

Type of assets pledged as collateral of own liabilities and commitments

	31.12.2019	31.12.2018
1. Assets sold as part of Covered Bonds operations	3,329,951	3,170,177
2. Securities and deposits pledged as collateral for derivative transactions	624,299	355,774
3. Securities pledged as collateral for securitisations	10,057	10,057
4. Securities pledged as collateral for treasury transactions	4,235,158	6,559,494
5. Loans pledged as collateral for treasury transactions	10,579,424	10,111,241
6. Securities guaranteeing the issue of bankers’ drafts	12,087	12,566
7. Securities and deposits pledged as collateral for repurchase agreements	2,327,348	5,806,469
8. Loans pledged as collateral for the related funding	343,336	326,442
9. Securities pledged as collateral for the subsidised loans funding	567,070	525,820

The amounts indicated in point 5 "Loans pledged as collateral for treasury transactions" include, in addition to A.BA.CO operations:
- € 4,733,432 thousand relating to mortgage loans sold as part of covered bond issues,
- € 896,390 thousand relating to leases sold as part of the Multi Lease self-securitisation transaction (Sardaleasing).
Operationally, the instruments provided as a guarantee are represented by the Senior Notes originated by the transactions.
No securities pertaining to reverse repurchase agreements have been provided as collateral for guaranteed funding transactions (repurchase agreements).

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	**29,382,899**
a) individuals	3,338,820
b) collectives	26,044,079
3. Custody and administration of securities	**183,141,955**
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	80,207,583
1. Bonds issued by companies included in consolidation process	3,242,210
2. other securities	76,965,373
c) third party securities deposited with third parties	78,728,166
d) own portfolio securities deposited with third parties	24,206,206
4. Other transactions	**16,088,185**

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)	31.12.2019	31.12.2018
1. Derivatives		172,203	-	172,203	159,823	4,191	8,189	4,530
2. Repurchase agreements		591,175	-	591,175	591,175	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Others		-	-	-	-	-	-	-
Total	**31.12.2019**	763,378	-	763,378	750,998	4,191	8,189	X
Total	**31.12.2018**	287,499	-	287,499	279,205	3,764	X	4,530

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 item 20 a) "Financial assets measured at fair value through profit or loss - Financial assets held for trading" for € 90,334 thousand and under item 50 "Hedging derivatives" for € 81,869 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 in the 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" at an amount of € 591,175 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)		
1. Derivatives		455,116	-	455,116	159,823	294,078	1,215	1,703
2. Repurchase agreements		2,306,637	-	2,306,637	2,304,523	1,197	917	1
3. Securities lending		-	-	-	-	-	-	-
4. Other operations		-	-	-	-	-	-	-
Total	**31.12.2019**	2,761,753	-	2,761,753	2,464,346	295,275	2,132	X
Total	**31.12.2018**	5,956,597	-	5,956,597	5,806,511	148,382	X	1,704

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 € 161,002 thousand of derivatives recorded under caption 20 "Financial liabilities held for trading" and € 294,114 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) "Loans to banks" and under 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" at an amount of € 2,067,901 thousand and under caption 10 b) "Due to customers" at an amount of € 238,736 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) "Loans to 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.

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 31.12.2019	Total 31.12.2018
1. Financial assets measured at fair value through profit or loss:	**21,962**	**17**	**-**	**21,979**	**12,116**
1.1 Financial assets held for trading	1,105	-	-	1,105	2,804
1.2 Financial assets designated at fair value	14,159	-	-	14,159	5,200
1.3 Other financial assets mandatorily measured at fair value	6,698	17	-	6,715	4,112
2. Financial assets measured at fair value through other comprehensive income	**91,164**	**11**	**X**	**91,175**	**118,418**
3. Financial assets measured at amortised cost:	**107,940**	**1,195,736**	**X**	**1,303,676**	**1,231,120**
3.1 Loans to banks	24,553	2,983	X	27,536	14,793
3.2 Loans to customers	83,387	1,192,753	X	1,276,140	1,216,327
4. Hedging derivatives	**X**	**X**	**(44,002)**	**(44,002)**	**(36,933)**
5. Other assets	**X**	**X**	**552**	**552**	**764**
6. Financial liabilities	**X**	**X**	**X**	**46,387**	**50,440**
Total	**221,066**	**1,195,764**	**(43,450)**	**1,419,767**	**1,375,925**
of which: interest income on impaired financial assets	4	131,875	-	131,879	89,476
of which: interest income on finance lease	-	62,738	-	62,738	65,926

Caption "6. Financial liabilities" includes the benefit, equal to € 37.9 million, deriving from application of the negative rate of 0.40% applied on the funding obtained from the ECB under the TLTRO II programme.
Caption "1.3 Other financial assets mandatorily measured at fair value" includes interest of € 2.7 million recognised by the FITD Voluntary Scheme on the subordinated loan issued by Banca Carige.

1.2 Interest and similar income: other information

1.2.1 Interest income on foreign currency financial assets

Captions	31.12.2019	31.12.2018
Interest income on foreign currency financial assets	8,240	7,329

1.3 Interest and similar expense: breakdown

Captions/Technical forms	Loans	Debts securities	Other transactions	Total 31.12.2019	Total 31.12.2018
1. Financial liabilities measured at amortised cost	148,719	99,209	X	247,928	253,892
1.1 Due to central banks	-	X	X	-	-
1.2 Due to banks	48,549	X	X	48,549	41,594
1.3 Due to customers	100,170	X	X	100,170	90,931
1.4 Debt securities issued	X	99,209	X	99,209	121,367
2. Financial liabilities held for trading	14	-	12,125	12,139	4,945
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	544	544	590
5. Hedging derivatives	X	X	(13,827)	(13,827)	(16,616)
6. Financial assets	X	X	X	8,444	10,677
Total	**148,733**	**99,209**	**(1,158)**	**255,228**	**253,488**
of which: interest expense on lease payables	1,834	-	-	1,834	64

The caption "of which interest expense on lease liabilities" has a balance at 31 December 2018 that reflects the interest component of property, plant and equipment acquired through finance leases.

1.4 Interest and similar expense: other information

1.4.1 Interest expense on foreign currency liabilities

Captions	31.12.2019	31.12.2018
Interest expense on foreign currency liabilities	46,778	41,059

1.5 Differentials on hedging transactions

Captions	Total 31.12.2019	Total 31.12.2018
A. Positive differentials on hedging transactions	44,247	48,418
B. Negative differentials on hedging transactions	(74,422)	(68,735)
C. Balance (A-B)	**(30,175)**	**(20,317)**

Section 2 – Commissions Captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	Total 31.12.2019	Total 31.12.2018
a) guarantees granted	28,785	27,345
b) credit derivatives	-	-
c) management, brokerage and consulting:	489,780	307,640
1. trading on financial instruments	455	564
2. trading on foreign currencies	9,485	6,030
3. portfolio management	198,810	30,280
3.1 individuals	33,668	30,280
3.2 collectives	165,142	-
4. custody and administration of securities	20,882	5,020
5. depositary bank	-	-
6. placement of securities	133,996	157,559
7. order taking and trasmission	12,652	12,909
8. advisory services	7,101	6,151
8.1 on investments	-	-
8.2 on financial structure	7,101	6,151
9. distribution of third-party services	106,399	89,127
9.1 portfolio management	1,446	2,035
9.1.1 individuals	-	15
9.1.2 collectives	1,446	2,020
9.2 insurance products	72,686	60,641
9.3 other products	32,267	26,451
d) collection and payments services	139,684	129,479
e) services related to securitisations	28	710
f) services for factoring transactions	10,382	10,350
g) tax collection services	-	-
h) management of multilateral trading system	-	-
i) maintenance and management of current accounts	176,558	155,831
j) other services	197,783	180,792
1. commissions income on other loans to customers	131,460	122,538
2. commissions income on pos and pagobancomat services	28,217	26,139
3. other commisions income	38,106	32,115
Total	**1,043,000**	**812,147**

The commissions from the management of collective portfolios comprise the commission income contributed to the consolidation by Arca Fondi SGR.
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 31.12.2019	Total 31.12.2018
a) guarantees received	1,103	1,196
b) credit derivatives	-	-
c) management and brokerage services	71,253	2,205
1. trading on financial instruments	622	627
2. trading on foreign currencies	-	-
3. portfolio management:	63,172	7
3.1 own portfolios	63,172	7
3.2 third party portfolios	-	-
4. custody and administration of securities	2,712	1,512
5. placement of financial instruments	96	59
6. out-of-branche offer of securities, financial instruments, products and services	4,651	-
d) collection and payment services	5,751	5,007
e) other services	32,943	27,474
Total	**111,050**	**35,882**

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 31.12.2019		Total 31.12.2018	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	2,695	-	2,371	133
B. Other financial assets mandatorily measured at fair value	191	3,685	16,540	4,562
C. Financial assets measured at fair value through other comprehensive income	7,530	-	10,733	-
D. Equity investments	-	-	-	-
Total	**10,416**	**3,685**	**29,644**	**4,695**

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	**13,166**	**9,395**	**(1,117)**	**(1,986)**	**19,458**
1.1 Debt securities	4,482	2,374	(323)	(403)	6,130
1.2 Equity instruments	8,684	7,021	(794)	(1,583)	13,328
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**	**(1,615)**
4. Derivative instruments	**106,202**	**89,579**	**(77,077)**	**(147,789)**	**(17,663)**
4.1 Financial derivatives:	106,202	89,373	(76,656)	(145,548)	(15,207)
- on debt securities and interest rates	104,522	81,168	(75,495)	(137,566)	(27,371)
- on equities and stock indexes	1,680	2,988	(1,161)	(6,444)	(2,937)
- on currency and gold	X	X	X	X	11,422
- others	-	5,217	-	(1,538)	3,679
4.2 Credit derivatives	-	206	(421)	(2,241)	(2,456)
of which: natural hedges connected with the fair value	X	X	X	X	-
Total	**119,368**	**98,974**	**(78,194)**	**(149,775)**	**180**

Section 5 – Net income from hedging activities Caption 90

5.1 Net income from hedging activities: breakdown

Income items/Amounts	Total 31.12.2019	Total 31.12.2018
A. Income from:		
A.1 Fair value hedging derivatives	56,013	21,616
A.2 Hedged financial assets (fair value)	224,833	75,978
A.3 Hedged financial liabilities (fair value)	2,628	8,193
A.4 Cash-flow hedging derivatives	-	-
A.5 Foreign currency assets and liabilities	-	-
Total income from hedging activity (A)	**283,474**	**105,787**
B. Charges from:		
B.1 Fair value hedges	230,705	85,731
B.2 Hedged financial assets (fair value)	36,570	12,145
B.3 Hedged financial liabilities (fair value)	17,742	6,286
B.4 Cash-flow hedging derivatives	3	4
B.5 Foreign currency assets and liabilities	-	-
Total charges from hedging activity (B)	**285,020**	**104,166**
C. Net income from hedging activities (A-B)	**(1,546)**	**1,621**
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 31.12.2019			Total 31.12.2018		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets measured at amortised cost	101,224	(62,514)	38,710	12,662	(90,307)	(77,645)
1.1 Loans to banks	3,081	(92)	2,989	-	-	-
1.2 Loans to customers	98,143	(62,422)	35,721	12,662	(90,307)	(77,645)
2. Financial assets measured at fair value through other comprehensive income	77,980	(316)	77,664	177,517	(8,855)	168,662
2.1 Debt securities	77,980	(316)	77,664	177,517	(8,855)	168,662
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**179,204**	**(62,830)**	**116,374**	**190,179**	**(99,162)**	**91,017**
Financial liabilities measured at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	895	(669)	226	1,262	(354)	908
Total liabilities (B)	**895**	**(669)**	**226**	**1,262**	**(354)**	**908**

The net result from “Financial assets measured at amortised cost” relating to customers includes the net profit on the sale of debt securities, € 44.3 million, and the new loss on the disposal of loans, € 8.6 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	**3,173**	**-**	**(1,238)**	**(10,373)**	**(8,438)**
1.1 Debt securities	3,173	-	(1,238)	(10,373)	(8,438)
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	2
Total	**3,173**	**-**	**(1,238)**	**(10,373)**	**(8,436)**

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	**20,947**	**17,059**	**(27,355)**	**(3,621)**	**7,030**
1.1 Debt securities	2,289	11,075	(18,510)	(3,117)	(8,263)
1.2 Equity securities	367	-	(26)	-	341
1.3 UCITS units	18,291	5,984	(8,819)	(504)	14,952
1.4 Loans	-	-	-	-	-
2. Foreign currency financial assets: exchange differences	X	X	X	X	165
Total	**20,947**	**17,059**	**(27,355)**	**(3,621)**	**7,195**

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	31.12.2019	31.12.2018
		Write-off	Others				
A. Loans to banks	(2,938)	-	-	326	-	(2,612)	(424)
- Loans	(2,322)	-	-	326	-	(1,996)	131
- Debt securities	(616)	-	-	-	-	(616)	(555)
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
B. Loans to customers	(10,856)	(47,303)	(883,029)	50,208	446,045	(444,935)	(225,348)
- Loans	(10,522)	(47,303)	(883,029)	49,991	446,045	(444,818)	(222,315)
- Debt securities	(334)	-	-	217	-	(117)	(3,033)
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
Total	**(13,794)**	**(47,303)**	**(883,029)**	**50,534**	**446,045**	**(447,547)**	**(225,772)**

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	31.12.2019	31.12.2018
		Write-off	Others				
A. Debt securities	(354)	-	-	1,610	-	1,256	2,066
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
Total	**(354)**	**-**	**-**	**1,610**	**-**	**1,256**	**2,066**

Section 9 - Gains (Losses) from contractual modifications without derecognition
Caption 140

9.1 Gains (losses) from contractual modifications: compositions

The item 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 does not fall within the concept of "substantial modification" qualified by the BPER Group Bank.
The impact calculated on this perimeter is added to the impairment losses envisaged by the Group 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 846 thousand and Euro 2,133 thousand respectively.

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 31.12.2019	Total 31.12.2018
1) Employees	**1,023,585**	**795,314**
a) wages and salaries	643,606	581,397
b) social security charges	168,055	151,425
c) Termination indemnities	35,398	32,619
d) Pension expenses	209	-
e) provision for employee termination indemnities	1,160	1,469
f) provision for pension and similar commitments:	608	534
- defined contribution plan	-	-
- defined benefit plans	608	534
g) payments to external supplementary pension funds:	18,903	16,585
- defined contribution plan	18,903	16,585
- defined benefit plans	-	-
h) costs from share based payments	836	32
i) other personnel benefits	154,810	11,253
2) Other not-retired employees	**15,760**	**16,939**
3) Directors and Statutory Auditors	**9,187**	**8,469**
4) Retired employees	**1,154**	**772**
Total	**1,049,686**	**821,494**

Caption "other personnel benefits" includes the provisions for leaving incentives and to the solidarity fund totalling € 136 million, following signature of the agreement with the Trade Unions on 29 October 2019, in implementation of the 2019-2021 Business Plan.

12.2 Average number of employees by category

	31.12.2019	31.12.2018
Employees:	**12,192**	**11,090**
a) Managers	253	220
b) Middle managers	4,147	3,634
c) Other employees	7,792	7,236
Other employees	**287**	**308**

12.2.1 Number of employees by category: banking group

	31.12.2019	31.12.2018
Employees:	**13,805**	**11,615**
a) Managers	262	222
b) Total 3rd and 4th level middle managers	1,876	1,552
c) Total 1st and 2nd level middle managers	2,818	2,194
d) Other employees	8,849	7,647
Other employees	**193**	**261**

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	31.12.2019	31.12.2018
Provisions for defined-benefit pension plans	608	534

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	31.12.2019	31.12.2018
Other benefits for employees	154,810	11,253

12.5 Other administrative expenses: breakdown

Captions	31.12.2019	31.12.2018
Indirect taxes and duties	**156,395**	**143,564**
Stamp duty	128,556	118,559
Other indirect taxes with right of recourse	10,279	8,943
Municipal property tax	9,875	9,741
Others	7,685	6,321
Other costs	**493,385**	**477,206**
Maintenance and repairs	70,450	49,994
Rental expense	17,077	63,032
Post office, telephone and telegraph	18,811	16,189
Data transmission fees and use of databases	37,364	33,798
Advertising	19,294	15,064
Consulting and other professional services	92,261	95,306
Lease of IT hardware and software	29,322	25,783
Insurance	7,640	6,390
Cleaning of office premises	9,607	9,150
Printing and stationery	7,363	7,049
Energy and fuel	19,121	14,460
Transport	11,704	12,668
Staff training and expense refunds	13,915	13,436
Information and surveys	11,991	10,557
Security	9,455	9,881
Use of external data gathering and processing services	13,805	11,034
Membership fees	9,490	7,701
Condominium expenses	4,059	3,484
Contribution to SRF, DGS, IDPF-VS	60,681	52,325
Sundry other	29,975	19,905
Total	**649,780**	**620,770**

The caption SRF, DGS, IDPF-VS contributions includes the ordinary 2019 contribution to the SRF (European Single Resolution Fund) of € 23,043 thousand, the additional contribution requested of Italian banks by the SRF for 2017 of € 9,587 thousand and the ordinary 2019 contribution to the DGS (Deposit Guarantee Fund) of € 28,051 thousand.
The reduction in "rental expense" caption reflects the application from 1 January 2019 of IFRS 16; the amounts relating to the prior year have not been restated given the decision by the BPER Banca Group not to redetermine the comparative balances on the first-time application of IFRS 16.
The outcome was influenced by the non-recurring expenses incurred on extraordinary transactions during the year, totalling about € 22.2 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			31.12.2019	31.12.2018
	First stage	Second stage	Third stage	First stage	Second stage	Third stage		
Commitments to distribute funds	(197)	(10)	(10)	481	3,725	-	3,989	687
Financial guarantees granted	(173)	(61)	(12,059)	67	2,383	14,893	5,050	13,917
Total	**(370)**	**(71)**	**(12,069)**	**548**	**6,108**	**14,893**	**9,039**	**14,604**

13.2 Net provisions on other commitments and other guarantees granted: breakdown

Type of risks and charges	Impairment losses	Write-backs	31.12.2019	31.12.2018
Other guarantees granted	(22)	-	(22)	1,593
Other commitments	(4,333)	4,348	15	-
Total	**(4,355)**	**4,348**	**(7)**	**1,593**

13.3 Net provisions for other risks and charges: breakdown

Type of risks and charges	31.12.2019	31.12.2018
A. Provisions	**(46,946)**	**(61,993)**
1. for legal disputes	(31,386)	(51,401)
2. other	(15,560)	(10,592)
B. Write-backs	**25,721**	**38,002**
1. for legal disputes	19,994	12,778
2. other	5,727	25,224
Total	**(21,225)**	**(23,991)**

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	(91,569)	(10,556)	-	(102,125)
- Owned	(36,234)	(7,832)	-	(44,066)
- Rights of use acquired through leases	(55,335)	(2,724)	-	(58,059)
2. Held for investment	(5,511)	(16,430)	-	(21,941)
- Owned	(5,511)	(16,430)	-	(21,941)
- Rights of use acquired through leases	-	-	-	-
3. Inventories	X	(1,458)	-	(1,458)
Total	**(97,080)**	**(28,444)**	**-**	**(125,524)**

The amount recorded in the caption "Impairment losses" relates to the impairment test carried out in accordance with IAS 36 on certain properties and to the adjustments on 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	(54,583)	(4,969)	-	(59,552)
- Generated internally by the company	-	-	-	-
- Other	(54,583)	(4,969)	-	(59,552)
A.2 Rights of use acquired through leases	-	-	-	-
Total	**(54,583)**	**(4,969)**	**-**	**(59,552)**

The "impairment losses" reflect the full impairment of the core deposit identified on completion of the PPA following the acquisition of Cassa di Risparmio di Saluzzo.

Section 16 – Other operating expense (income) Caption 230

16.1 Other operating expense: breakdown

Description/Amounts	31.12.2019	31.12.2018
Amortisation of leasehold improvement expenditure	3,840	2,655
Out-of-period expense	727	676
Other expense	76,723	79,565
Total	**81,290**	**82,896**

The caption "Other expense" includes losses on legal disputes, losses on loss data collection and the operating costs of SPVs.

16.2 Other operating income: breakdown

Description/Amounts	31.12.2019	31.12.2018
Rental income	7,373	7,675
Recovery of taxes	137,269	126,014
Other income	124,996	102,030
Total	**269,638**	**235,719**

The caption "Other income" includes recoveries in relation to the Rapid Investigation Commission and collections made against legal claims and demands for revocation.

Section 17 –Gains (Losses) of equity investments Caption 250

17.1 Gains (Losses) of equity investments: breakdown

Income items/Amounts	Total 31.12.2019	Total 31.12.2018
1) Companies subject to joint control		
A. Gains	-	-
1. Revaluations	-	-
2. Gains on disposals	-	-
3. Writebacks	-	-
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	15,769	17,866
1. Revaluations	15,602	17,866
2. Gains on disposals	-	-
3. Writebacks	-	-
4. Other income	167	-
B. Losses	(8,556)	(4,517)
1. Write-downs	-	(1,029)
2. Impairment losses	(8,436)	(3,488)
3. Loss from disposals	(120)	-
4. Other charges	-	-
Net result	**7,213**	**13,349**
Total	**7,213**	**13,349**

The amount shown under "Impairment losses" refers to what emerged from the impairment test on equity investments; the principal adjustments related to the holdings in Cassa di Risparmio di Fossano (€ 6,283 thousand), Cassa di Risparmio di Savigliano (€ 651 thousand), Immobiliare Oasi nel Parco s.r.l. (€ 682 thousand) and Italiana Valorizzazioni Immobiliari s.r.l. (Euro 758 thousand).
The "Revaluations" and "Write-downs" reflect the results of the companies measured 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 record impairment losses on goodwill (impairment losses recorded in the previous year were Euro 62,344 thousand). 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 19 bis – Gain on a bargain purchase Caption 275

The caption "Gain on a bargain purchase" includes the badwill - being the difference between the purchase price and the fair value of the acquired assets and liabilities - generated by the acquisition, and subsequent absorption, of Unipol Banca. The amount calculated at the end of the Purchase Price Allocation (PPA) process came to Euro 343.4 million. For further details, please refer to Part G of these Explanatory notes.

Section 20 – Gains (Losses) on disposal investments Caption 280

20.1 Gains (Losses) on disposal investments

Income items/Amounts	Total 31.12.2019	Total 31.12.2018
A. Assets	(479)	369
- Gains on disposal	1,679	426
- Losses on disposal	(2,158)	(57)
B. Other assets	(123)	(75)
- Gains on disposal	36	63
- Losses on disposal	(159)	(138)
Net profit	**(602)**	**294**

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 31.12.2019	Total 31.12.2018
1. Current tax (-)	(35,769)	(14,857)
2. Change in current tax of prior years (+/-)	10,524	(185)
3. Reduction in current tax for the year (+)	499	580
3. bis Reduction in current tax for the year for tax credit pursuant to L. 214/2011 (+)	-	71,092
4. Change in deferred tax assets (+/-)	(7,227)	30,508
5.Change in deferred tax liabilities (+/-)	9,527	13,126
6. Tax for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(22,446)**	**100,264**

21.2 Reconciliation between the theoretical tax charge to total income tax expense for the year

IRES		31.12.2019
Profit (Loss) from current operations before tax		**416,897**
Negative components of the gross result definitively considered not relevant (+)		**45,605**
Non-deductible taxes (other than on income)	6,428	
Administrative expenses of limited deductibility	5,329	
Other non-deductible costs	3,562	
Net provisions for sundry disputes	3,038	
Write-down of property, plant and equipment	25,477	
Impairment of equity investments	-	
Other	1,771	
Positive components of the gross result definitively considered not relevant (-)		**(399,305)**
Non-relevant portion of gains on disposal/measurement of securities	(5,035)	
Non-relevant portion of dividends	(6,436)	
Badwill	(329,433)	
Other	(58,401)	
Definitive increases not linked to elements of the gross result (+)		**28,564**
Reversal of prepaid taxes on tax losses	27,664	
Reversal of prepaid taxes with expected recovery beyond the time horizon of the probability test	-	
Other	900	
Definitive decreases not linked to elements of the gross result (-)		**(9,615)**
FTA IFRS 9	0	
Prior year tax losses	0	
A.C.E. (aid for economic growth) deduction	(6,763)	
Other	(2,852)	
Basis of calculation of IRES shown in the income statement		**82,146**
IRES tax rate		*27.50%*
Effective IRES		**22,590**
Tax Rate IRES		*5.42%*

IRAP		31.12.2019
Profit (Loss) from current operations before tax		**416,897**
Negative components of the gross result definitively considered not relevant (+)		**223,560**
Non-deductible interest expense	366	
Non-deductible portion of depreciation/amortisation on assets used in business	27,817	
Other non-deductible administrative expenses	89,583	
Staff costs net of permitted deductions	85,294	
Net provisions for risks and charges	9,873	
IMU	9,402	
Losses of equity investments	0	
Other	1,225	
Positive components of the gross result definitively considered not relevant (-)		**(447,973)**
Non-relevant portion of dividends	(6,636)	
Gains of equity investments	(5,211)	
Other net impairment losses (caption 130 of the income statement)	(1,263)	
Other operating income	(49,570)	
Badwill	(329,433)	
Other	(55,860)	
Definitive increases not linked to elements of the gross result (+)		**20,309**
Negative value of production	19,525	
Reversal of prepaid taxes with expected recovery beyond the time horizon of the probability test	0	
Other	784	
Definitive decreases not linked to elements of the gross result (-)		**(104,271)**
FTA IFRS 9 tax rate	0	
Recovery of non-relevant charges of prior periods	(102,723)	
Other	(1,548)	
Basis of calculation of IRAP shown in the income statement		**108,522**
Weighted average nominal rate of IRAP		*5.57%*
Effective IRAP		**6,045**
Tax rate IRAP		1.45%

Out-of-period IRES and IRAP	31.12.2019
Total impact	**(6,189)**
Changes in current taxes not for the year	(4,422)
Other	(1,767)
Effective out-of-period IRES and IRAP and other taxes	*-1.49%*

Total tax on gross result	31.12.2019
IRES + IRAP	**22,446**
Overall effective tax rate	*5.38%*

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) for the year pertaining to minority interests”

Company name	31.12.2019	31.12.2018
Consolidated equity investments with significant minority interests	**14,869**	**43,843**
1. Banco di Sardegna (*)	4,987	39,786
2. Banca di Sassari s.p.a.	1,236	1,511
3. Cassa di Risparmio di Bra s.p.a.	74	1,241
4. Arca Holding (**)	9,217	-
5. Emilia Romagna Factor s.p.a.	211	215
4. Sardaleasing s.p.a.	(856)	1,090
Equity investments	-	**(6)**
Total	**14,869**	**43,837**

(*) consolidation of the sub-holding company Banco di Sardegna and its subsidiaries.
(**) 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 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 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.

	31.12.2019			31.12.2018		
	Attributable earnings	Weighted average ordinary shares	Earnings per share (Euro)	Attributable earnings	Weighted average ordinary shares	Earnings per share (Euro)
Basic EPS	379,583	495,526,495	0.766	401,953	480,852,977	0.836
Diluted EPS	379,583	511,182,073	0.743	401,953	480,852,977	0.836

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.

25.1 Average number of ordinary shares (fully diluted)

	31.12.2019	31.12.2018
Weighted average number of outstanding ordinary shares for Base EPS calculation	495,526,495	480,852,977
Weighted dilutive effect the potential conversion of convertible bonds	15,655,577	-
Weighted average number of outstanding ordinary shares for diluted EPS calculation	511,182,072	480,852,977

25.2 Other informations

	31.12.2019	31.12.2018
Profit (Loss) for the year	379,583	401,953
Allocations not attributable to the shareholders	-	-
Net profit for Basic EPS calculation	379,583	401,953
Change in income and charges deriving form conversion	-	-
Net profit for diluted EPS calculation	379,583	401,953

Part D – Consolidated other comprehensive income

Consolidated detailed statement of other comprehensive income

	Captions	31.12.2019	31.12.2018
10.	**Profit (Loss) for the year**	**394,452**	**445,790**
	Other comprehensive income that will not be reclassified to profit or loss	(82,548)	16,235
20.	Equity instruments measured at fair value through other comprehensive income	(58,230)	23,864
	a) changes in fair value	(58,511)	23,867
	b) transfer to other components of shareholders' equity	281	(3)
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:	-	-
	a) change in fair value (hedged instrument)	-	-
	b) change in fair value (hedging instrument)	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(41,691)	(277)
80.	Non-current assets and disposal group classified as held for sale		-
90.	Share of valuation reserves connected with equity investments carried at equity	1,632	(3,741)
100.	Income taxes relating to other comprehensive income that will not be reclassified to profit or loss	15,741	(3,611)
	Other comprehensive income that may be reclassified to profit or loss	**68,167**	**(236,091)**
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:	(214)	176
	a) changes in fair value	(214)	176
	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:	101,080	(351,934)
	a) changes in fair value	90,282	(174,589)
	b) transfer to the income statement	10,798	(177,345)
	- impairment for credit risk	(1,086)	(2,066)
	- gains/losses from realization	11,884	(175,279)
	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	(32,699)	115,667
190.	**Total other comprehensive income**	**(14,381)**	**(220,032)**
200.	**Other comprehensive income (Items 10+190)**	**380,071**	**225,758**
210.	Consolidated other comprehensive income pertaining to minority interests	19,042	33,415
220.	**Consolidated other comprehensive income pertaining to the Parent Company**	**361,029**	**192,519**

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[54] has established internal control guidelines for the entire BPER Banca Group by issuing and implementing "Guidelines for the Group internal control system"[55], 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 of 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.

[54] *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.*
[55] *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.

Specifically, the RAF macro-process involved the following phases:

- identification of risks to be assessed: process to identify risks that might significantly affect the economic and financial equilibrium of the Group;
- set up of the RAF structure: definition of the elements that express the Group's level of risk appetite for measurable and non-measurable risks;
- calibration of measurements for RAF metrics: definition of the calibration rules for RAF metrics and quantification of the levels of risk appetite, risk capacity and risk tolerance, consistent with management's decision in terms of strategic planning and economic/financial forecasting;
- formalisation and approval of the decisions taken within the ambit of the RAF in the Risk Appetite Statement (RAS), which is subject to periodic update;
- declension of the RAF metrics by type of risk or other relevant analysis axes to transfer the levels of risk appetite and risk tolerance to the corporate structures involved in taking on the risk so as to direct operations in a consistent manner;
- monitoring and managing threshold overruns by verifying the trend in the risk profile compared with the risk tolerance, operational limits and risk capacity and consequent activation of measures to reduce any overruns;
- periodic reporting on the evolution of the risk profile compared with the risk appetite, risk tolerance and risk capacity thresholds and on implementation of diversified action plans according to the purpose of the communication and the recipients in terms of the corporate bodies/functions of the Company and the Group.

The process 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 27 February 2019, 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.
At the board meeting on 19 December 2019, the Parent Company's Board of Directors also approved a first update of the RAF thresholds which were an integral part of the BPER Group's 2019 Recovery Plan.
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.

The steps involved in the development process and the related responsibilities of the Corporate Bodies are explained below[56].

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, ensuring that it is consistent with the strategic guidelines and risk appetite established in the RAF and that it is able to reflect the various types of risk as they evolve and interact;
- the risk objectives, the threshold of tolerance (where identified) and the process of risk governance, to ensure that risks are properly governed and effective control maintained over all strategic decisions of the Group as a whole, along with balanced management of the individual components;
- 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, being aware of the risks to which this model exposes the Company and understanding the ways in which risks are identified and assessed; in this context it approves the adoption of internal risk measurement for the determination of capital requirements;
- the corporate control functions, specifying their duties and responsibilities within the Group, the procedures for coordination and collaboration and the information flows between these functions and between them and the Corporate Bodies;
- further internal information flow mechanisms to ensure that the corporate bodies and control functions are fully aware of the various risk factors and have the ability to govern them;
- formalised coordination and liaison procedures between Companies and the Parent Company for all areas of operation;
- the ICAAP process, identifying the roles and responsibilities assigned to functions and business structures, ensuring consistency with the RAF and rapid adjustment in relation to significant changes in strategic lines, organisational structure and operational context of reference;
- the Recovery Plan of BPER Banca Group;
- the process for managing anomalies identified by corporate control functions and by control functions, the activation criteria therefore and those to be adopted for the identification of the priority to be assigned to the analysis, consolidation and implementation of corrective action

[56] 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").

and the means of doing so, as well as the acceptance – in compliance with the RAF – of the residual risk identified by the control functions;
- policies and processes for the measurement of assets, financial instruments in particular, verifying that they always remain appropriate; it also establishes the Bank's maximum exposure to financial instruments or products that are uncertain or difficult to measure;
- 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.

Finally, 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[57].

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 the principles and requirements laid down in regulatory provisions, monitoring compliance on an ongoing basis.

For this purpose, the CEO, for the Group as a whole and for its components:
- ensures that the responsibilities and duties of the various corporate structures and functions involved in risk assumption and management processes are clearly assigned and potential conflicts of interest are avoided;
- ensures that the activities carried out by the functions and structures involved in the internal control system are carried out by qualified personnel with an adequate degree of independence of judgement and with adequate experience and knowledge for the tasks to be performed;

[57] *The Chief Executive Officer only intervenes for the appointment of the heads of Internal Audit, Compliance and Risk Control*

- carries out any initiatives and interventions needed to ensure the overall reliability of the internal control system on an ongoing basis;
- takes corrective action or makes adjustments as necessary in the event of weaknesses or anomalies being found, or following the introduction of significant new products, activities, services or processes;
- defines and oversees implementation of the risk management process. In this context, the CEO establishes operating limits for the assumption of various types of risk, in line with the risk appetite, explicitly taking account of the results of stress tests and developments in the economic situation;
- examines the more significant transactions subject to an unfavourable opinion by the risk control function and, if appropriate, authorises them; informs the Board of Directors and the Board of Statutory Auditors about these transactions;
- implements the ICAAP and ILAAP processes, ensuring they are developed in accordance with the strategic guidelines and the risk profile identified in the RAF; designs and implements the Group's training programmes to raise awareness among employees about the responsibility for risks so as not to limit the process of risk management to specialists or to the control functions;
- defines internal information flow mechanisms to ensure that the Corporate Bodies and control functions are fully aware of the various risk factors and have the ability to govern them and the assessment of compliance with RAF;
- as part of the RAF, where a tolerance threshold is defined, authorises overruns of the risk appetite within the limit represented by the tolerance threshold and gives prompt notice to the Board of Directors, identifying the management actions needed to bring the risk back down to below the set objective;
- ensures that risks deriving from new operations are fully assessed and that these risks are consistent with the risk appetite, and that the Bank is able to manage them;
- ensures that the risk management process is consistent with the risk appetite and risk governance policies, also taking into account the evolution of the internal and external conditions in which the Bank operates;
- issues instructions to ensure that internal risk measurement systems are developed according to the chosen strategies and are integrated into decision-making processes and operational management.

More specifically, for the Group, the CEO issues instructions to define and render operational:

- mechanisms for the integration of information systems and processes of data management, in order to ensure the reliability of consolidated figures;
- regular information flows to permit effective implementation of the various forms of control over all members of the Group;
- procedures to ensure, at a centralised level, an effective standard process of Group risk management, involving a single register, or several registers providing they can be easily linked, for the various companies in the Group;
- systems for monitoring financial flows, credit reports and other relations between members of the Group;
- controls over the achievement of objectives in terms of information security and business continuity as defined for the entire Group and for the individual members of the Group.

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[58], identifying possible improvements and defining the steps needed to correct any weaknesses.

In addition, with regard to internal risk measurement systems for the determination of capital requirements, the Board of Directors:

- periodically verifies the choices of model made to ensure that they remain valid over time, approving significant changes to the system and carrying out overall supervision to ensure that it functions properly;
- monitors, with the assistance of the relevant functions, effective use of internal systems for management purposes and their compliance with regulatory requirements;
- reviews at least once a year the results of the validation process and passes a formal resolution, with the approval of the Board of Statutory Auditors, by which it certifies compliance with the requirements for the use of internal measurement systems.

The Board of Directors of each Group company, including the Parent Company, periodically assesses the internal control system[59].

The function responsible for providing support in assessing the effectiveness of the overall internal control system, company-wide, is the Internal Audit Department.

The Boards of Statutory Auditors of the Parent Company and of Group companies, each to the extent of their 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 Public Disclosures required by the "Third Pillar". 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 in the handling of such information.

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[58] *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".*

[59] *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 Department;
- 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 prevention of money laundering and financing of terrorism and to prevent and combat money laundering and financing of terrorism through the reporting of suspicious transactions and the execution of continuing control activities. This activity is entrusted to the Anti-Money Laundering Unit;
  - 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 Unit;
  - 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 Department

The primary objective of the Internal Audit Department is to provide independent and objective assurance and consulting services aimed at improving 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.
The 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 Internal Audit Department, through the Organisational Units that comprise it, has the following main responsibilities, which are differentiated according to:

- outsourcing of Control Functions to the Parent Company;
- exercise of control within the Parent Company's management and coordination activity;
- liaison with Control Functions in Group companies and not centralised at the Internal Audit Department.

Specifically, the principal responsibilities associated with the individual internal audit processes are described below.

- Planning of internal audit activities
    - Preparation and proposal to the competent Body of planning guidelines and the consequent annual and long-term planning of audit activities, based on the methodological models approved by the Board of Directors. The identification of the activities to be audited is in line with the operations of the members of the Group and their propensity to risk and is compatible with the resources available. In this context, the audit universe - being all the areas of risk that could subjected to audit - is updated and its components allocated to the relevant Organisational Units. Checks that are not preannounced or not expressly indicated in the Audit Plan are also carried out.
- QAIP – Quality Assurance and Improvement Programme
    - Development and maintenance of an Internal Audit quality assurance and improvement programme, not least to monitor to its broad convergence with the international standards and best practices applicable to the internal audit function.
- Conduct of assurance assignments
    - With a view to third-level controls, it also verifies with on-site checks 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. It makes recommendations to the Corporate Bodies on the basis of its audit results.

 - Periodically, at banking group level, it carries out on-site checks on Group members, taking into account the importance of the various types of risk taken on by the various entities; this in order to verify whether their conduct complies with the Parent Company's guidelines, as well as the effectiveness of the internal control system as defined by the Parent Company for the individual legal entities.
 - It checks the Risk Control, Compliance and Anti-Money Laundering Functions.
 - It checks the regularity of the various company activities, including outsourced activities, and the evolution of risks both at the Central Functions and at the distribution network. The frequency of checks is consistent with the activity performed and the propensity to risk; random and unannounced inspections are also performed;
 - It monitors compliance with the rules of the activity at all company levels.
 - It verifies the adequacy and proper functioning of the processes and methods adopted to assess corporate activities and checks compliance with the limits established by the mechanism of mandates.
 - It carries out Fraud Audits (Detection and Investigation) through the recording, assessment and, where appropriate, reporting of anomalous behaviours detected during the audit, also in order to allow the competent functions to start the "internal disciplinary procedure" or, in any case, to take appropriate action to protect the Company.
- Conduct of advisory assignments
 - It can provide consultancy services, not having auditing and/or validation/approval nature of the choices made by management, within the limits of the sustainability of the plan. These advisory services consist in the provision of support and recommendations, generally upon specific request from the Organisational Unit or Body, known as the "Principal". Advisory assignments, when accepted, are agreed with the Principals concerned. The main assignments accepted must be reported in the Audit Plan.
- Periodic reporting
 - It illustrates and summarises with appropriate information to the Corporate Bodies of the Parent Company and of Group companies the results of the audit work performed.
 - It prepares the reports required by the Supervisory Authorities and assigned to the Internal Audit Function.
 - Based on the Audit Plan approved by the Board of Directors at the time the Plan was adopted, it makes an assessment, at least once a year, of the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the overall Internal Control System for the Banking Group as a whole.

In general terms, the Group's internal control system provides for the delegation of second and third level Control Functions of the Italian Group companies to the Parent Company, as provided by the "Group Guidelines - Internal Control System".
As regards Group companies based abroad, this centralised model is partially waived in consideration of the complexity and delicacy of operations run in a different regulatory environment. In this case, it is possible to activate organisational models that enhance the specific nature of the context in which these companies operate, for each control function required by local regulations, as requested by the Supervisory Authority or by the Parent Company.

Specifically, the Internal Audit Department:

- for companies that have an Internal Audit function that has been outsourced to the Parent Company, it performs the control activities foreseen for BPER Banca, according to the audit plan approved by the Board of Directors, while retaining the right to perform internal audit work in fulfillment of the responsibilities assigned to the Parent Company as part of its Group management and coordination role.
- for companies that do not have an Internal Audit function, the analyses and assessments performed by the Parent Company's control function are carried out to fulfil the responsibilities allocated to the Parent Company as part of its Group guidance and coordination role and not to fulfil the responsibility of individual Group companies;
- for companies that have an Internal Audit function that has not (yet) been outsourced to BPER Banca, internal audit work is performed in fulfillment of the responsibilities assigned to the Parent Company as part of its Group management and coordination role.

At the date of this document, the Italian Banks have all delegated the Internal Audit function to the Parent Company.

Acting on a recommendation from the Internal Audit Department, in December 2018 the Board of Directors decided to commence the Quality Certification of the Internal Audit Function of the Parent Bank with reference to the International Professional Practices Framework of the Institute of Internal Auditors (IPPF IIA) and the internal audit mandate granted by the Bank to that function.
All this in order to:

- provide assurance to the Board of Directors and the Control Body about the proper and effective functioning of the audit function, in compliance with relevant professional standards and code of ethics;
- seek to improve the audit work performed by ever closer application of the professional standards generally accepted at an international level;
- provide assurance to the Group companies that outsource their audit functions to the Parent Company about the proper provision of the service.

The External Quality Assessment Review (EQAR) was carried out by a leading firm of consultants, which presented the results of the assessment to the Board of Directors of the Parent Company on 17 October 2019.
The summary outcome of the EQAR assigned the maximum possible rating to the function, namely: "Generally compliant".

Risk Management Department

The Risk Management Department now reports directly to the Parent Company's Chief Executive Officer and is broken down into the following Organisational Units:

- Rating Office and Risk Governance Office, as staff functions for the Chief Risk Officer;
- Financial Risk Department;
- Credit and Operational Risk Department;
- Credit Control and Internal Ratification Department.

The Risk Management Department, 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[60].
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.

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. The principal 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;
- proposal of 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 oversight of their implementation, ensuring that the various stages of the risk management process are consistent with the Risk Appetite Framework;
- development of 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. In particular:
    - definition of common metrics of operational risk assessment (including IT risks) that are consistent with the RAF, in coordination with the Compliance Function, the ICT function and the Business Continuity function;
    - definition of methods to evaluate and control reputational risk, in coordination with the Compliance function and the corporate functions that are most exposed to this type of risk;

[60] 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."

    - provision of assistance to the Corporate Bodies in the assessment of strategic risk by monitoring significant variables.
- 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;
- provision of support to the Chief Executive Officer in the implementation of the ICAAP and ILAAP, preparation of reports to be submitted to the Supervisory Authority and coordination of the various phases of the process and performance of those assigned to it;
- coordination of the process for the preparation and update of the BPER Banca Group recovery plan to be submitted to the Supervisory Authority and performance of the phases assigned to it;
- coordination of activities associated with the internal stress testing programme with the help of the various organisational structures involved, in the various execution areas (operational and regulatory stress test);
- checking the adequacy and effectiveness of the measures taken to correct weaknesses in the risk management process;
- development, ratification[61] and upkeep of 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;
- provision of preventive advice on the consistency of more significant transactions with the RAF, acquiring if necessary, depending on the nature of the transaction, the opinion of other functions involved in the risk management process;
- analysis of risks deriving from new products/services and from entry into new business segments;
- control of the rating and override processes;
- 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; the effectiveness of the recovery process;
- involvement in defining, updating and monitoring the Non-Performing Loans strategy (providing estimates of the impact on the risk parameters used in the internal rating system and on the Group's capital profile in terms of RWA and Shortfall), as well as in policies and processes for their management before submission to the Corporate Bodies of the Parent Company and Group companies;
- it handles execution of the activities included in the second-level control framework on non-performing loans;
- it coordinates the preliminary activities for the preparation and updating of the Resolution Plan, prepared by the Resolution Authority, directly carrying out the steps that are within its sphere of competence.

In addition, the Risk Management Department:
- takes part in the definition of the Group's strategy, assessing the relative impact on risk;
- takes part in deciding on strategic changes to the Group's internal control system.

[61] *Through the Model Ratification Office*

Anti-Money Laundering Unit

The task of the Anti-Money Laundering Unit 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.

As regards the Parent Company's guidance and coordination activities, performed for all Group companies subject to anti-money laundering regulations - for the Luxembourg subsidiary, only with regard to matters of identification and knowledge of customers and monitoring of reports on suspicious transaction - the Anti-Money Laundering Unit 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, 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. The report also includes the results of the self-assessment carried out. For the Luxembourg subsidiary, it reports any critical issues arising from the opinions expressed and data provided by the relevant Corporate Functions;
- it proposes changes to the Group policy for governing the risks of money laundering and the financing of terrorism;
- it defines methods, processes and tools for performing the activities of the Anti-Money Laundering function and uses the reports defined in coordination with other control functions (corporate or otherwise);
- for companies that have not outsourced the function to the Parent Company (being BPER Bank Luxembourg SA), it defines general standards for the adequate verification of customers, the retention of data and the reporting of suspicious transactions, checking their implementation;
- it ensures adequate reporting on the outcome of its activities to the Corporate Bodies, 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 aimed at preventing and combating money laundering, in order to ensure adequate control over the non-compliance risks that have been identified and to monitor that it is carried out;
- it supports the head of the Anti-Money Laundering Unit, 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 Office by the consolidated banks and companies that have outsourced AML control to the Parent Company. 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.

- it helps the General Manager of the Parent Company, or his appointee, or other person holding management or administrative powers, to evaluate the opening of correspondent accounts with entities in foreign countries by Group companies (Italian and foreign), as well as with the authorisation or maintenance processes for continuous relations or occasional transactions with "politically-exposed persons".

Among other activities, the Unit also:

- 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.

Compliance Department

The Compliance Department'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 the Group's 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 Department 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 Department, as part of the management of compliance risk, works - directly or through Special Units - on regulations that concern the entire banking activity, with the exception of those for which there are dedicated corporate functions and other 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 is only subject to management and coordination activities.

As part of the guidance and coordination activity exercised by the Parent Company on behalf of the Group companies, the Compliance Department 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 231/01.

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, who is Marco Bonfatti, manager of the Administration and Reporting Department, 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).

The "Group Policy for managing the risk of unintentional errors and fraud in financial reports" approved by the Parent Company's Board of Directors, based on the "Group Guidelines for the Internal Control System", established the roles and responsibilities of the bodies and organisational units involved in the governance (assumption and management) of financial reporting risks at Group level. At methodological level, this process is governed by the methodological note addressing macro process management of unintentional errors and fraud in financial disclosures. In this regard, the basis for the acceptance and control of the risks covered by the Policy and the related methodologies are described in the "Process for managing the risk of unintentional errors and fraud in financial disclosures".
With reference to the financial reporting control model, it should be noted that the high-level sources were updated during the second half of 2018 and approved by the Parent Company's Board of Directors on 10 January 2019, substantially for the purpose of revising the model as regards adequacy and effective application of the administrative and accounting procedures, as well as an overall assessment of the risk of unintentional errors and fraud in financial reporting, particularly by reducing the grading levels from six to four.

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.

The staff of the Financial Reporting Monitoring and Control Office, in performing the duties assigned to it, is vested with the powers deriving from the Manager Responsible for preparing the company's financial reports, regardless of the position held in the corporate hierarchy.

In the process for managing the risk of unintentional errors and fraud in financial reports of BPER Banca Group, the Manager responsible for preparing the company's financial reports of the Parent Company is also supported by the Manager responsible for the Sub-Holding Company Banco di Sardegna (this role exists as this is a listed company); the latter reports to the General Manager and is under the Parent Company's Manager responsible for preparing the company's financial reports as regards methods, instruments, reporting and work processes used in carrying out his duties.

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 Chief Executive Officer, when there are changes in the regulations governing the administrative responsibility of legal entities pursuant to Decree 231/01, or in internal organisation and/or business activities, or if significant weaknesses in/infringements of the Model are identified.

For the above purposes, the Board has established a system of internal communications in order to:

- facilitate reports to the Supervisory Board about non-compliance with the Model and the Code of Ethics, as well as all relevant information pursuant to Legislative Decree 231/01;
- obtain timely data and documents needed for its supervisory activities from the Corporate bodies, Organisational units and personnel of the Bank (so-called information flows).

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 on 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 Decree 231/01 (Italian Group banks, BPER Credit Management S.C.p.A., Optima s.p.a. SIM, Nadia s.p.a., Sifà s.p.a.) and monitors the adoption of those instructions by them, albeit with the necessary adjustments to consider 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 Disclosures – Pillar 3" has been 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 at 31 December 2019 is published together with the financial statements on the website of the Parent Company – www.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		1,170,537	1,659,414	165,933	886,788	61,658,574	65,541,246
2. Financial assets measured at fair value through other comprehensive income		18	-	-	-	6,331,226	6,331,244
3. Financial assets designated at fair value		-	-	-	-	130,955	130,955
4. Other financial assets mandatorily at fair value		-	1,039	-	-	187,097	188,136
5. Financial assets classified as held for sale		744	1,132	665	849	89,591	92,981
Total	**31.12.2019**	**1,171,299**	**1,661,585**	**166,598**	**887,637**	**68,397,443**	**72,284,562**
Total	**31.12.2018**	**1,448,275**	**1,696,752**	**60,509**	**701,038**	**60,888,654**	**64,795,228**

We provide below details on forborne exposure classified in the portfolio "Financial assets measured at amortised cost".

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 cost					
- Loans to customers	207,041	877,560	21,546	54,881	629,446

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	6,118,985	3,123,101	2,995,884	443,912	62,716,703	171,341	62,545,362	65,541,246
2. Financial assets measured at fair value through other comprehensive income	26	8	18	-	6,335,743	4,517	6,331,226	6,331,244
3. Financial assets designated at fair value	-	-	-	-	X	X	130,955	130,955
4. Other financial assets mandatorily measured at fair value	1,039	-	1,039	-	X	X	187,097	188,136
5. Financial assets classified as held for sale	3,556	1,015	2,541	128	90,674	234	90,440	92,981
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**
Total 31.12.2018	**7,046,536**	**3,841,000**	**3,205,536**	**727,371**	**61,313,118**	**176,216**	**61,589,692**	**64,795,228**

Portfolios/quality	Low credit quality assets		Other activities
	Cumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	358	557	204,685
2. Hedging derivatives	-	-	82,185
Total 31.12.2019	**358**	**557**	**286,870**
Total 31.12.2018	**341**	**439**	**212,942**

Details of counterparties	Total write-offs	
	31.12.2019	31.12.2018
Financial companies	26,686	13,960
- of which: financial and non-resident companies	-	-
Non financial companies	394,844	667,348
- of which: non-financial and non-resident companies	10	136
Households	22,510	46,063
- of which: non-resident households	-	-
Total	**444,040**	**727,371**
- of which: non-resident	**10**	**136**

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	
	31.12.2019	31.12.2018
Financial companies	17,904	9,655
- of which: financial and non-resident companies	-	-
Non financial companies	122,644	162,661
- of which: non-financial and non-resident companies	622	128
Households	30,309	32,669
- of which: non-resident households	213	-
Total	**170,857**	**204,985**
- of which: non-resident	**835**	**128**

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 2019, 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 2019, 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 2019, 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 2019 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	34,197	-	-	34,197	34,197	-
3. Other companies							
	FVOCI	67	-		67	(24)	(91)
		-	Debt to customers	141	(141)		141

Section 2 – Risk of prudential consolidation

1.1 Credit risk

Qualitative information

The Group's organisation centralises the credit risk control function at the Parent Company.

1. General aspects

Considering the situation in December 2019, the world economy seems to be evolving towards moderate growth after the stagnation that, with fluctuations, affected the first three quarters of the year. International trade has started to expand again, with signs of attenuation of the tariff disputes between the United States and China, while the Brexit process seems clearer. By contrast, the outlook remains uncertain and geopolitical tensions have heightened.
In the Euro area, economic activity is held in check by the weakness of the manufacturing sector, with the risk that this might stunt the growth in services, which has been more solid until now.
The same weakness is visible in Italy, where economic activity is almost stationary, despite slight growth in the third quarter.
In particular, industrial production rose slightly towards the end of the year, due to the significant contribution made by the operating assets sector.
With regard to foreign trade, exports were higher while imports declined, but the foreign sales performance was mainly attributable to shipbuilding for the United States.
Again in December 2019, the projections indicate modest growth in world trade, accommodative monetary conditions and low borrowing costs for businesses; Bank of Italy Economic Bulletin 1 – 2020 expects Italian GDP to rise by 0.5% in 2020, largely due to the gradual recovery in international trade and the modest expansion of domestic demand. These forecasts are likely to need revision due to the COVID-19 pandemic that, starting from China, is steadily spreading around the world.
In view of the expected macroeconomic scenario and the assessment of lending risk, not yet revised for events in early 2020 linked to the global spread of COVID-19, the BPER Group has defined new lending policy guidelines for operations that are designed to optimise asset allocation, in quali-quantitative terms, with reference to the following drivers:

- maintenance of broad equilibrium between Retail and Corporate growth;
- growth of green and technological innovation loans across the various economic sectors, which should enable the beneficiary businesses to become more competitive;
- continuity in the various technical forms of lending to private customers

On the other hand, specific guidelines have been prepared for the Group's Product Companies, in consideration of the intrinsic characteristics of the products being distributed (lease, factoring, personal loans and salary-backed loans) and the lower risk profile with respect to similar banking transactions.
Lastly, in confirmation of the connection with and support for the territory, the BPER Banca Group has continued to promote participation in the ABI initiatives in favour of individuals ("Mortgage loans Solidarity Fund" and "First Home Guarantee Fund") and companies (2019 Lending Agreement – Recovering Companies 2.0), as well as the various measures required by law that suspend loan repayments in areas hit by natural calamities.

2. Credit risk management policies

The lending 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 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;
- the diversification of the portfolio, limiting the concentration of exposures towards individual counterparties and sectors of economic activity.

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 Bank of the Group 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 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 banks in the Group);
- 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 allocation process for these segments also allows the account manager to activate an override process i.e. to request an exception to the quantitative rating based on true and documented information not processed by the model. The requested exception is evaluated by a central function that operates at Group level;
- to support risk analysis in the Large Corporate, Holding and Financial Companies segment, another component was added to the model to take into account whether counterparties belong to a 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 analysed and 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 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.

Determination of the final rating depends on the type of counterparty. In particular, the rating allocation process involves a level of investigation that is proportional to the complexity/scale of the counterparty under review: a more complex and sophisticated structure is foreseen for medium-large businesses (Corporate SMEs, Long-term Property SMEs, Holding, Financial Companies and Large Corporates), which are fewer but with larger average exposures, while there is a simpler structure for Retail customers (Retail SMEs, Individuals and Small Businesses), which are more numerous, but with lower exposures.

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 2019 included:

- completion of the activities related to the "Targeted Review of Internal Models" (TRIM) with communication of the final assessment report by the Supervisory Authority in March 2019;
- extension of the AIRB advanced methodologies to the exposures of Cassa di Risparmio di Bra, commencing from the March 2019 Regulatory Reports;
- update of the IFRS 9 risk models;
- continuation of the activities to adapt internal models to the new definition of default, implemented for the purpose of classifying credit exposures from 8 October 2019 without having any particular impact in terms of increased impairment losses.

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:

- a Credit Risk Book is prepared on a quarterly basis and is an essential tool for the Risk Committee. This is the basic information support for the Risk Committee and contains detailed reports on credit risk at consolidated and individual level (distribution of the portfolio by type and rating classes, dynamics of risk parameters and expected loss, transition matrices, dynamics of general and analytical provisions and decay rates), with differentiated analyses for risk and management segments and geographical area;
- 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 Banca di Sassari). This perimeter has now been extended to Cassa di Risparmio di Bra, commencing from the March 2019 Regulatory Report, following the authorisation granted by the ECB on 28 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 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, "Exposures to UCITS" and "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.

2.3 Methods for measuring expected losses

The model for calculating Expected Credit Losses (ECL) 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 IFRS 9 impairment models and related risk parameters is presented in Part A of the Explanatory notes, to which reference should be made.

Update of IFRS 9 impairment models

The 2019 updates to the various risk parameters used to estimate the IFRS 9 ECL are summarised below, indicating their effects.
These updates were part of the routine maintenance of the models, which is carried out annually in the context of credit risk management.
Back-testing was carried out on all risk parameters and on the framework adopted to estimate the Significant Increase in Credit Risk (PD difference).
The outcomes were essentially satisfactory overall, with very satisfactory results regarding those segments/portfolios for which the BPER Group has developed specific models.
The back-testing evidence identified certain room for improvement and the following refinements were made:

- o The PD and LGD parameters were calibrated by extending the time series to include the most recent data in the models (consistent with the regulatory models used for prudential purposes).
- o The correlation of the CCF parameter with the economic cycle was checked, here too including the most recent data: as on the first-time application of IFRS 9, it was confirmed that the CCF parameter is not sensitive to changes in macroeconomic conditions.

- o Particular attention was paid to those segments/portfolios for which the BPER Group applies simplified methodologies. Here too, all parameters were calibrated with reference to the most recent data. The product companies (leasing and factoring) were included in the work, with the BPER Group developing a specific LGD model for the leasing component.

Application of the various updates increased the ECL overall by about Euro 20.6 million, +6.06% (Euro 19.6 million, +6.77% solely in relation to on-balance sheet exposures).
With regard to the qualitative results of the checks carried out, as on the FTA of IFRS 9, the model for identifying Significant Increases in Credit Risk – SICR adopted by the BPER Banca Group was not found to be sensitive to changes in macroeconomic conditions.

Update of macroeconomic scenarios and ECL sensitivity
As stated in Part A – Accounting policies, 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:
- Baseline scenario;
- Adverse scenario;
- Favourable scenario.

Development of the scenarios is outsourced to a leading company that carries out economic research, which provides the BPER 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.

The scenarios are updated every six months for the purpose of calculating the ECL at 30 June and 31 December each year.

A probability of occurrence is assigned to each of the scenarios considered, in order to obtain a multiscenario ECL as the weighted average of the individual ECLs.
The ECL is not particularly sensitive to changes in the probability of occurrence assigned to each scenario, falling within the range -1.95% / +2.24% around the ECL for the baseline scenario.

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 new 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 granted by various guarantee consortiums in favour of their members firms are becoming more significant, as well as guarantees granted by third party institutions, such as SACE; MCC (Guarantee Fund for SMEs); EIF (European Investment Fund); Guarantee Fund for the First Home, B.E.I (Life for Energy) also subject to periodic monitoring.

3. Non-performing exposures

3.1. Strategies and management policies

With respect to the initial 2018-2020 version, the NPE Strategy of BPER Banca Group was updated at the end of March 2019 to consider the results for 2018 and the inclusion of Unipol Banca in the banking group. In particular, during 2018, the BPER Group reduced the NPE stock from Euro 10.5 billion to Euro 7.0 billion, thus lowering the NPE ratio from 19.8% to 13.8%; these results were achieved, in part, by bulk sales of bad loans (the "4Mori" and "Aqui" transactions).
The NPE Strategy sets a quantitative objective for the NPE ratio of less than 9% in 2021 (down from 13.8% in 2018), which means reducing the stock by Euro 2.7 billion between 2018 and 2021 (from Euro 7.0 billion to Euro 4.4 billion) via active and efficient management of the NPEs, as well as by additional major sales.
The priority initiatives identified in the Group's operating plan, and intended to create solid foundations for steadily improving the management of NPEs over time, include:

- the creation of a «Proactive Management» unit to manage both forborne exposures and performing loans at risk;
- greater use of outsourcing for the recovery of "small ticket" exposures, allowing internal resources to focus on the larger positions;
- development of the organisational models for Anomalous Credit and BPER Credit Management, with further work on capacity planning and on-going initiatives for the training and specialisation of personnel;
- bulk sales of bad loans and UTPs.

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 anomaly 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.
In October 2019, following authorisation from the Supervisory Authority, the BPER Banca Group adopted the New Definition of Default for the classification of credit exposures, aligning processes and procedures with the new rules for identifying and managing defaults at Banking Group level.

Some of the work to improve the processing of anomalous and non-performing loans carried out by the Banking Group (partly introduced in 2018 and completed in 2019) is described below:

- Organisation and governance: Proactive 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:
  a) the Anomalous Loans team has been focused on the management of counterparts already classified as in default (non-performing past due exposures and unlikely to pay loans), which have been grouped into three (Retail, Corporate and Real Estate);
  b) 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;
  c) BCM has been divided into specialist operational and recovery teams focused on specific asset types (Corporate, Retail, centralised or outsourced recovery).

  Following the acquisition of Unipol Banca, the territorial 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, such as:
  a) a new Early Warning model, with the development over time of 6 dedicated anomaly detection engines for each customer segment (Corporate, Private, Small Business, Construction, Real Estate and Finance & PA). Optimisation of the identification of anomalies, in particular via the inclusion of trigger anomalies specified in the NPL Guidance;
  b) Electronic Dossier Management, optimised over time with the inclusion of new management measures and new information available to the manager to better understand the potential evolution of the position, with targeted links to other procedures;
  c) external collection system that seeks to recover smaller loans via "phone collection" and "home collection" activities;
  d) a much more precise and targeted system for monitoring the performance of individual teams and not just the overall quality of the portfolio;
  e) more extensive use of the forbearance tool and introduction of sustainability tools and monitoring of the effectiveness of the agreed measures;
  f) 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 concerning the Granting of loans, so as to strengthen the decision-making system and prevent potential deterioration already at the time of granting:
  a) 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;
  b) 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;
  c) 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 disseminate the content of the NPL Guidance and strengthen the supervision of lending in accordance with current regulations, training cycles have been delivered to the central teams, segmented by function, and more general content has been provided to the network with guidance on the strategies to be implemented.

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 within 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 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.
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.

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:

- cancellation of a financial asset in its entirety or in part constitutes an accounting elimination (or "derecognition") and the cancelled amount cannot be subject to write-backs. Cancellations 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;
- cancellation can take place before legal action against the debtor for the recovery of the loan has been definitively concluded;
- cancellation, 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 cancellations 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).

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		468,851	-	-	177,352	186,443	54,142	91,168	117,762	2,213,367
2. Financial assets measured at fair value through other comprehensive income		-	-	-	-	-	-	-	-	18
3. Financial assets held for sale		255	-	-	204	376	14	-	191	2,001
Total	**31.12.2019**	**469,106**	**-**	**-**	**177,556**	**186,819**	**54,156**	**91,168**	**117,953**	**2,215,386**
Total	**31.12.2018**	**181,728**	**77,132**	**868**	**179,597**	**161,365**	**100,348**	**57,287**	**72,280**	**2,391,825**

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 amortised 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 amortised 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	**101,780**	**4,420**	**-**	**-**	**106,200**	**69,562**	**473**	**-**	**-**	**70,035**
Increases in purchased or originated financial assets	3,398	-	-	-	3,398	705	-	-	-	705
Derecognitions other than write-offs	-	-	-	-	-	-	-	-	-	-
Net impairment losses for credit risk (+/-)	(10,407)	(969)	-	-	(11,376)	(26,333)	586	-	-	(25,747)
Contractual modifications without derecognitions	-	-	-	-	-	-	-	-	-	-
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs non recorded directly in the income statement	-	-	-	-	-	-	-	-	-	-
Other variations	(24,320)	7	143	-	(24,313)	56,956	-	92	-	56,956
Total closing adjustments	**70,451**	**3,458**	**143**	**-**	**73,909**	**100,890**	**1,059**	**92**	**-**	**101,949**
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

(cont.)

Causal / risk stages	Total impairment provisions						Total provisions on commitments to disburse funds and financial guarantees issued			Total
	Activities included in the third stage					Of which: impaired financial assets acquired or originated				
	Financial assets measured at amortised 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		First stage	Second stage	Third stage	
Total opening adjustments	**3,841,000**	**-**	**-**	**3,841,000**	**-**	**-**	**9,229**	**8,989**	**35,906**	**4,071,359**
Increases in purchased or originated financial assets	11,188	-	-	11,188	-	-	-	-	-	15,291
Derecognitions other than write-offs	(1,097,172)	-	-	(1,097,172)	-	-	-	-	-	(1,097,172)
Net impairment losses for credit risk (+/-)	400,303	8	-	400,311	-	-	(178)	(6,037)	(2,824)	354,149
Contractual modifications without derecognitions	-	-	-	-	-	-	-	-	-	-
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs non recorded directly in the income statement	(146,466)	-	-	(146,466)	-	-	-	-	-	(146,466)
Other variations	114,248	-	1,016	114,248	-	-	89	-	670	148,901
Total closing adjustments	**3,123,101**	**8**	**1,016**	**3,123,109**	**-**	**-**	**9,140**	**2,952**	**33,752**	**3,346,062**
Recoveries from financial assets subject to write-off	6,961	-	-	6,961	-	-	-	-	-	6,961
Write-offs recorded directly through profit or loss	47,303	-	-	47,303	-	-	-	-	-	47,303

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 amortised cost		1,168,391	2,108,627	369,791	124,149	275,900	40,231
2. Financial assets measured at fair value through other comprehensive income		44,922	19,641	-	-	-	-
3. Financial assets held for sale		-	-	-	-	-	-
4. Commitments to distribute funds and financial guarantees granted		436,427	1,640,535	191,916	5,938	33,916	12,596
Total	**31.12.2019**	**1,649,740**	**3,768,803**	**561,707**	**130,087**	**309,816**	**52,827**
Total	**31.12.2018**	**2,644,813**	**4,418,242**	**518,134**	**145,774**	**320,714**	**33,167**

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	42	-	42	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	9,204,395	8,087	9,196,308	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**-**	**9,204,437**	**8,087**	**9,196,350**	**-**
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	936,652	173	936,479	-
Total (B)	**-**	**936,652**	**173**	**936,479**	**-**
Total (A+B)	**-**	**10,141,089**	**8,260**	**10,132,829**	**-**

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	3,448,787	X	2,277,488	1,171,299	444,039
- of which: forborne exposures	532,532	X	325,491	207,041	8,101
b) Unlikely to pay loans	2,479,816	X	818,231	1,661,585	-
- of which: forborne exposures	1,263,352	X	385,792	877,560	-
c) Non-performing past due exposures	195,003	X	28,405	166,598	-
- of which: forborne exposures	24,096	X	2,550	21,546	-
d) Performing past due exposures	X	896,744	9,149	887,595	-
- of which: forborne exposures	X	56,277	1,396	54,881	-
e) Other performing exposures	X	59,422,571	158,856	59,263,715	-
- of which: forborne exposures	X	641,377	11,931	629,446	-
Total (A)	**6,123,606**	**60,319,315**	**3,292,129**	**63,150,792**	**444,039**
B. Off-balance sheet credits exposures					
a) Non performing	539,532	X	34,808	504,724	-
b) Performing	X	21,947,448	12,257	21,935,191	-
Total (B)	**539,532**	**21,947,448**	**47,065**	**22,439,915**	**-**
Total (A+B)	**6,663,138**	**82,266,763**	**3,339,194**	**85,590,707**	**444,039**

At 31 December 2019, the impaired financial assets purchased on the absorption of Unipol Banca total € 416,096 thousand (bad loans, € 86,049 thousand; unlikely-to-pay loans, € 285,761 thousand, and past due exposures € 44,286 thousand), while the net exposure is € 333,643 thousand (bad loans, € 50,283 thousand; unlikely-to-pay loans, € 245,652 thousand, and past due exposures, € 37,708 thousand).

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)	**6,118,986**	**2,925,428**	**197,673**	**2,995,885**	**57,644,822**	**165,839**	**57,478,982**
Governments and other public entities	25,659	5,526	613	19,520	9,744,329	11,401	9,732,928
- of which: foreign	3,786	2,358	-	1,428	1,460,710	63	1,460,647
Financial companies	249,605	132,055	1,385	116,165	4,577,676	8,700	4,568,975
- of which: foreign	36,531	31,360	1	5,171	657,518	410	657,107
Non-financial companies	4,698,152	2,383,248	103,419	2,211,485	22,808,096	98,252	22,709,844
- of which: foreign	34,163	18,662	107	15,395	384,112	655	383,457
Privates and households	1,145,570	404,599	92,256	648,715	20,514,721	47,486	20,467,235
- of which: foreign	19,716	4,143	381	15,192	62,902	107	62,795

The figures in the table above refer to caption 40 b) at 31 December 2019.

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-perfomring past due exposures
A. Opening balance (gross amount)	**4,338,178**	**2,639,337**	**69,021**
- Sold but not derecognised	-	-	-
B. Increases	**661,018**	**1,208,821**	**241,786**
B.1 entry from performing exposures	77,858	475,712	174,044
B.2 entry from purchased or originated impaired financial assets	22,981	275,921	33,219
B.3 transfers from other non-performing exposures	358,833	28,882	2,472
B.4 contractual modifications without derecognitions	-	-	-
B.5 other increases	201,346	428,306	32,051
C. Decreases	**1,550,409**	**1,368,342**	**115,804**
C.1 transfers to performing exposures	1,503	202,982	26,363
C.2 write-offs	170,857	22,609	304
C.3 recoveries	224,491	548,292	35,800
C.4 sales proceeds	194,343	90,934	1,155
C.5 losses on disposals	53,603	5,197	-
C.6 transfers to other non-performing exposures	292	338,200	51,695
C.7 contractual modifications without derecognitions	-	-	-
C.8 other decreases	905,320	160,128	487
D. Closing balance (gross amounts)	**3,448,787**	**2,479,816**	**195,003**
- Sold but not derecognised	-	-	-

The caption B.2 "entry from purchased or originated impaired financial assets" relates solely to the absorption of Unipol Banca.

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)	**2,062,909**	**690,538**
- Sold but not derecognised	-	-
B. Increases	**714,961**	**618,735**
B.1 transfers from performing not forborne exposures	181,219	298,661
B.2 transfers from performing forborne exposures	88,531	X
B.3 transfers from impaired forborne exposures	X	112,722
B.4 transfers from impaired not forborne exposure	13,992	-
B.5 other increases	431,219	207,352
C. Decreases	**957,890**	**611,619**
C.1 transfers to not forborne performing exposures	X	195,976
C.2 transfers to forborne performing exposures	112,722	X
C.3 transfers to non performing forbone exposures	X	88,531
C.4 write-offs	20,134	-
C.5 recoveries	471,346	327,112
C.6 sales proceeds	30,404	-
C.7 losses on disposals	7,744	-
C.8 other decreases	315,540	-
D. Closing balance (gross amounts)	**1,819,980**	**697,654**
- Sold but not derecognised	-	-

A. 1.8 Prudential Consolidated – Non performing cash credit exposures to banks: change in total impairment provisions

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/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	**2,889,903**	**368,055**	**942,585**	**483,285**	**8,512**	**68**
- Sold but not derecognised	-	-	-	-	-	-
B. Increases	**746,276**	**130,532**	**500,733**	**213,164**	**35,078**	**2,625**
B.1 impairment losses on purchased or originated assets	8,639	X	1,307	X	1,243	X
B. 2 other value adjustments	505,469	95,810	409,102	146,593	28,735	889
B.3 losses on disposal	53,603	7,744	5,197	-	-	-
B.4 transfer from other non performing exposure	131,589	26,058	4,231	69	870	36
B. 5 contractual modifications without derecognitions	-	-	-	-	-	-
B.6 other increases	46,976	920	80,896	66,502	4,230	1,700
C. Decreases	**1,358,691**	**173,096**	**625,087**	**310,657**	**15,185**	**143**
C.1 write-backs from assessments	134,206	21,098	216,789	51,379	6,467	25
C.2 write-backs from recoveries	75,571	10,968	63,600	4,437	365	1
C.3 gains on disposal	7,266	-	4,530	-	-	-
C.4 write-offs	170,857	13,994	22,609	6,127	304	13
C.5 transfers to other non performing exposures	199	-	129,071	26,063	7,420	92
C. 6 contractual modifications without derecognitions	-	-	-	-	-	-
C.7 other decreases	970,592	127,036	188,488	222,651	629	12
D. Closing balance in total impairment provisions	**2,277,488**	**325,491**	**818,231**	**385,792**	**28,405**	**2,550**
- Sold but not derecognised	-	-	-	-	-	-

A.2 Classification of financial assets, commitments to distribute funds and financial guarantees granted 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	1,702,371	3,056,774	7,350,224	1,866,892	122,492	34,587	54,003,100	68,136,440
- First stage	1,698,832	2,985,293	7,199,230	1,433,893	70,048	11,600	43,986,250	57,385,146
- Second stage	3,539	71,481	150,390	394,324	36,555	4,587	3,989,637	4,650,513
- Third stage	-	-	604	38,675	15,889	18,400	6,027,213	6,100,781
B. Financial assets measured at fair value through other comprehensive income	2,358,124	1,122,475	1,352,346	49,575	7,738	-	1,445,511	6,335,769
- First stage	2,291,964	969,849	1,306,460	25,612	7,738	-	1,429,693	6,031,316
- Second stage	66,160	152,626	45,886	23,963	-	-	15,792	304,427
- Third stage	-	-	-	-	-	-	26	26
C. Financial assets held for sale	-	-	-	3,200	-	-	91,031	94,231
- First stage	-	-	-	2,392	-	-	82,782	85,174
- Second stage	-	-	-	808	-	-	4,693	5,501
- Third stage	-	-	-	-	-	-	3,556	3,556
Total (A + B)	**4,060,495**	**4,179,249**	**8,702,570**	**1,919,667**	**130,230**	**34,587**	**55,539,642**	**74,566,440**
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-	-
C. Commitments to distribute funds and financial guarantees granted	101,394	1,991,352	598,553	816,400	15,958	8,714	19,821,694	23,354,065
- First stage	93,992	1,856,307	491,991	548,501	7,778	875	17,747,902	20,747,346
- Second stage	7,402	135,045	106,562	266,030	4,528	855	1,541,000	2,061,422
- Third stage	-	-	-	1,869	3,652	6,984	532,792	545,297
Total (C)	**101,394**	**1,991,352**	**598,553**	**816,400**	**15,958**	**8,714**	**19,821,694**	**23,354,065**
Total (A + B + C)	**4,161,889**	**6,170,601**	**9,301,123**	**2,736,067**	**146,188**	**43,301**	**75,361,336**	**97,920,505**

The following rating agencies are used: Cerved Group for exposure to companies, Scope Ratings for exposures to central administrations, Fitch Rating 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%	below 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%	below 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	5,330,495	4,948,335	7,468,611	7,739,177	6,890,800	3,547,570	4,320,659
- First stage	5,137,026	4,754,767	7,086,838	7,226,615	6,056,606	3,078,115	3,836,800
- Second stage	193,469	193,568	381,773	512,562	834,194	469,455	483,859
- Third stage	-	-	-	-	-	-	-
B. Financial assets measured at fair value through other comprehensive income	841,094	98,444	386,706	537,667	455,774	516,684	1,279,786
- First stage	825,909	93,208	386,706	527,493	412,551	503,637	1,216,824
- Second stage	15,185	5,236	-	10,174	43,223	13,047	62,962
- Third stage	-	-	-	-	-	-	-
C. Financial assets held for sale	592	437	1,786	1,213	2,798	4,244	1,289
- First stage	592	437	1,786	1,207	2,628	4,086	1,275
- Second stage	-	-	-	6	170	158	14
- Third stage	-	-	-	-	-	-	-
Total (A + B)	**6,172,181**	**5,047,216**	**7,857,103**	**8,278,057**	**7,349,372**	**4,068,498**	**5,601,734**
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-
C. Commitments to distribute funds and financial guarantees granted	3,315,876	3,807,538	3,841,925	2,616,459	2,023,189	1,255,152	545,373
- First stage	3,151,510	3,604,704	3,508,590	2,293,416	1,698,253	1,006,223	421,014
- Second stage	164,366	202,834	333,335	323,043	324,936	248,929	124,359
- Third stage	-	-	-	-	-	-	-
Total (C)	**3,315,876**	**3,807,538**	**3,841,925**	**2,616,459**	**2,023,189**	**1,255,152**	**545,373**
Total (A + B + C)	**9,488,057**	**8,854,754**	**11,699,028**	**10,894,516**	**9,372,561**	**5,323,650**	**6,147,107**

(cont.)

Exposures	Internal rating classes						Total
	8	9	10	11	12	13	
A. Financial assets measured at amortised cost	1,569,564	7,362,663	606,662	187,279	135,814	176,250	50,283,879
- First stage	1,106,491	7,127,899	321,923	81,193	43,847	25,601	45,883,721
- Second stage	463,073	234,764	284,739	106,086	91,967	150,649	4,400,158
- Third stage	-	-	-	-	-	-	-
B. Financial assets measured at fair value through other comprehensive income	639,522	810,836	131,608	75,696	189,169	-	5,962,986
- First stage	607,540	802,168	131,608	20,967	163,341	-	5,691,952
- Second stage	31,982	8,668	-	54,729	25,828	-	271,034
- Third stage	-	-	-	-	-	-	-
C. Financial assets held for sale	1,899	1,383	882	232	181	208	17,144
- First stage	1,086	1,021	219	6	-	-	14,343
- Second stage	813	362	663	226	181	208	2,801
- Third stage	-	-	-	-	-	-	-
Total (A + B)	**2,210,985**	**8,174,882**	**739,152**	**263,207**	**325,164**	**176,458**	**56,264,009**
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-
C. Commitments to distribute funds and financial guarantees granted	346,248	95,536	90,665	18,245	13,080	23,581	17,992,867
- First stage	185,793	42,652	31,559	12,152	1,293	316	15,957,475
- Second stage	160,455	52,884	59,106	6,093	11,787	23,265	2,035,392
- Third stage	-	-	-	-	-	-	-
Total (C)	**346,248**	**95,536**	**90,665**	**18,245**	**13,080**	**23,581**	**17,992,867**
Total (A + B + C)	**2,557,233**	**8,270,418**	**829,817**	**281,452**	**338,244**	**200,039**	**74,256,876**

	With internal rating	Unrated	Total
Cash exposures	56,264,009	18,302,431	74,566,440
Off-balance sheet exposures	17,992,867	5,361,198	23,354,065
Total	**74,256,876**	**23,663,629**	**97,920,505**

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 equities 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:	**21,752**	**21,742**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 totally guaranteed	21,740	21,730	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partially guaranteed	12	12	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**43,723**	**43,692**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 totally guaranteed	31,926	31,895	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partially guaranteed	11,797	11,797	-	-	-	-	-	-
- 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:	**-**	**-**	**-**	**21,597**	**-**	**-**	**144**	**21,741**
1.1 totally guaranteed	-	-	-	21,597	-	-	133	21,730
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partially guaranteed	-	-	-	-	-	-	11	11
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**20,524**	**3,880**	**-**	**17,361**	**41,765**
2.1 totally guaranteed	-	-	-	20,524	1,940	-	8,501	30,965
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partially guaranteed	-	-	-	-	1,940	-	8,860	10,800
- 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	
								Other derivatives
			Property - mortgages	Property - Financial leasing	Securities	Other collaterals	CLN	Central counterparties
1. Guaranteed cash credit exposures:	**38,106,766**	**35,772,888**	**22,405,410**	**2,085,962**	**1,454,646**	**1,198,794**	**-**	**-**
1.1 totally secured	34,967,254	33,066,605	22,118,700	2,085,962	1,218,285	1,111,556	-	-
- of which non-performing	4,107,143	2,324,683	1,585,786	289,141	10,229	57,720	-	-
1.2 partially secured	3,139,512	2,706,283	286,710	-	236,361	87,238	-	-
- of which non-performing	718,585	297,453	144,303	-	9,470	5,115	-	-
2. Guaranteed off-balance sheet credit exposures:	**3,396,096**	**3,377,746**	**26,666**	**-**	**203,076**	**204,809**	**-**	**-**
2.1 totally secured	2,941,373	2,925,888	23,862	-	152,624	180,098	-	-
- of which non-performing	35,624	35,123	250	-	424	1,409	-	-
2.2. partially guaranteed	454,723	451,858	2,804	-	50,452	24,711	-	-
- of which non-performing	30,954	28,249	1,938	-	373	276	-	-

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:	**-**	**-**	**-**	**703,535**	**220,784**	**245,604**	**5,613,735**	**33,928,470**
1.1 totally secured	-	-	-	407,035	124,812	204,939	5,189,054	32,460,343
- of which non-performing	-	-	-	17,427	25,782	17,716	303,374	2,307,175
1.2 partially secured	-	-	-	296,500	95,972	40,665	424,681	1,468,127
- of which non-performing	-	-	-	7,433	-	6,973	47,013	220,307
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**17,601**	**17,461**	**98,393**	**2,605,247**	**3,173,253**
2.1 totally secured	-	-	-	13,488	16,655	87,012	2,450,599	2,924,338
- of which non-performing	-	-	-	723	-	318	31,999	35,123
2.2. partially guaranteed	-	-	-	4,113	806	11,381	154,648	248,915
- of which non-performing	-	-	-	49	-	7,050	4,573	14,259

A.4 Prudential Consolidation - Financial and non-financial assets obtained through the enforcement of guarantees received

There are no amounts to be disclosed in this section.

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		9	27	19,909	54,383	-	-
- of which: forborne exposures		-	-	1,367	5,309	-	-
A.2 Unlikely to pay loans		12,649	4,145	95,997	78,993	-	-
- of which: forborne exposures		408	-	79,677	55,720	-	-
A.3 Non-performing past due exposures		6,862	1,966	258	64	-	-
- of which: forborne exposures		-	-	67	10	-	-
A.4 Performing exposures		10,639,702	11,600	5,739,102	9,810	129,309	29
- of which: forborne exposures		-	-	19,817	621	-	-
Total (A)		**10,659,222**	**17,738**	**5,855,266**	**143,250**	**129,309**	**29**
B. Off-balance sheet credit exposures							
B.1 Non-performing exposures		179,928	-	4,621	33	-	-
B.2 Performing exposures		631,578	90	1,434,214	357	90,130	4
Total (B)		**811,506**	**90**	**1,438,835**	**390**	**90,130**	**4**
Total (A+B)	**31.12.2019**	**11,470,728**	**17,828**	**7,294,101**	**143,640**	**219,439**	**33**
Total (A+B)	**31.12.2018**	**9,830,179**	**15,427**	**7,250,698**	**156,674**	**136,458**	**52**

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		916,559	1,832,815	234,822	390,263
- of which: forborne exposures		162,375	262,757	43,299	57,425
A.2 Unlikely to pay loans		1,226,122	643,955	326,817	91,138
- of which: forborne exposures		667,047	296,533	130,428	33,539
A.3 Non-performing past due exposures		70,538	10,484	88,940	15,891
- of which: forborne exposures		13,741	1,463	7,738	1,077
A.4 Performing exposures		23,231,926	98,999	20,540,580	47,596
- of which: forborne exposures		444,195	10,360	220,315	2,346
Total (A)		**25,445,145**	**2,586,253**	**21,191,159**	**544,888**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures		313,479	33,905	6,696	870
B.2 Performing exposures		16,649,644	3,724	3,219,667	8,086
Total (B)		**16,963,123**	**37,629**	**3,226,363**	**8,956**
Total (A+B)	**31.12.2019**	**42,408,268**	**2,623,882**	**24,417,522**	**553,844**
Total (A+B)	**31.12.2018**	**41,038,011**	**3,180,832**	**18,459,158**	**710,284**

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		United States
	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure
A. Cash credit exposures					
A.1 Bad loans	1,162,916	2,236,209	8,337	40,865	46
A.2 Unlikely to pay loans	1,633,005	802,535	25,503	12,773	1,518
A.3 Non-performing past due exposures	166,376	28,369	217	32	2
A.4 Performing exposures	55,850,961	165,572	3,295,293	1,770	760,033
Total (A)	58,813,258	3,232,685	3,329,350	55,440	761,599
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	504,451	34,808	268	-	-
B.2 Performing exposures	21,597,419	11,991	332,040	264	5,246
Total (B)	22,101,870	46,799	332,308	264	5,246
Total (A+B) 31.12.2019	80,915,128	3,279,484	3,661,658	55,704	766,845
Total (A+B) 31.12.2018	72,730,576	3,999,310	2,874,186	60,544	804,501

B.2 Prudential consolidation - Breakdown by geographical area of cash and off-balance sheet credit exposures to customers

(cont.)

Exposures/Geographical areas	United States	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	398	-	9	-	7
A.2 Unlikely to pay loans	522	1	2	1,558	2,399
A.3 Non-performing past due exposures	2	2	1	1	1
A.4 Performing exposures	581	217,994	65	27,029	17
Total (A)	1,503	217,997	77	28,588	2,424
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	-	-	-	5	-
B.2 Performing exposures	1	135	1	263	-
Total (B)	1	135	1	268	-
Total (A+B) 31.12.2019	1,504	218,132	78	28,856	2,424
Total (A+B) 31.12.2018	1,526	141,603	351	27,180	1,486

The territorial distribution of performing exposures to customers is presented below, considering just the component of loans and distinguishing between the Stage 1 and Stage 2 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
Performing loans	**48,613,208**	**(160,884)**	**48,452,324**	**416,082**	**(606)**	**415,476**	**124,979**	**(348)**	**124,631**
- First stage	43,944,326	(59,987)	43,884,339	409,433	(540)	408,893	124,100	(341)	123,758
- Second stage	4,668,882	(100,897)	4,567,985	6,649	(66)	6,583	880	(7)	873

(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
Performing loans	**11,420**	**(18)**	**11,402**	**3,792**	**(12)**	**3,780**	**49,169,482**	**(161,868)**	**49,007,613**
- First stage	11,103	(11)	11,092	3,498	(7)	3,492	44,492,460	(60,887)	44,431,574
- Second stage	317	(7)	310	294	(5)	289	4,677,021	(100,981)	4,576,040

B. 2 Prudential Consolidated – 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		139,808	277,233	327,451	719,086	122,744	250,991	572,913	988,899
A.2 Unlikely to pay loans		198,974	93,339	586,251	329,222	273,951	161,703	573,829	218,271
A.3 Non-performing past due exposures		33,306	5,217	38,927	5,924	23,276	4,079	70,867	13,149
A.4 Performing exposures		8,031,766	22,269	18,907,487	42,016	14,747,527	22,944	14,164,181	78,343
Total (A)		**8,403,854**	**398,058**	**19,860,116**	**1,096,248**	**15,167,498**	**439,717**	**15,381,790**	**1,298,662**
B. Off-balance sheet credit exposures									
B. 1 Non-performing		18,268	981	206,975	21,746	54,853	7,122	224,355	4,959
B. 2 Performing exposures		4,310,051	649	9,928,742	8,991	2,844,641	654	4,513,985	1,697
Total (B)		4,328,319	1,630	10,135,717	30,737	2,899,494	7,776	4,738,340	6,656
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**
Total (A+B)	**31.12.2018**	**10,931,165**	**475,498**	**28,429,904**	**1,480,711**	**14,944,355**	**527,550**	**18,425,152**	**1,515,551**

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		United States
		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		3,064,706	4,610	5,032,783	3,187	158,682
Total (A)		**3,064,706**	**4,610**	**5,032,783**	**3,187**	**158,682**
B. Off-balance sheet credit exposures						
B.1 Non-performing exposures		-	-	-	-	-
B.2 Performing exposures		82,811	11	329,814	35	69,915
Total (B)		**82,811**	**11**	**329,814**	**35**	**69,915**
Total (A+B)	**31.12.2019**	**3,147,517**	**4,621**	**5,362,597**	**3,222**	**228,597**
Total (A+B)	**31.12.2018**	**2,273,692**	**2,940**	**5,120,578**	**3,055**	**264,662**

B.3 Prudential consolidation – Breakdown by geographical area of cash and off-balance sheet credit exposures to banks

(cont.)

Exposures/Geographical areas	United States	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	85	132,718	143	807,461	62
Total (A)	**85**	**132,718**	**143**	**807,461**	**62**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	39	398,823	82	55,063	6
Total (B)	**39**	**398,823**	**82**	**55,063**	**6**
Total (A+B) 31.12.2019	**124**	**531,541**	**225**	**862,524**	**68**
Total (A+B) 31.12.2018	**82**	**317,106**	**138**	**880,330**	**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	1,683,547	4,165	126,381	200	1,250,842	245	3,936	-
Total (A)	**1,683,547**	**4,165**	**126,381**	**200**	**1,250,842**	**245**	**3,936**	**-**
B. Off-balance sheet credit exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	41,853	4	33,914	7	3,247	-	3,797	-
Total (B)	41,853	4	33,914	7	3,247	-	3,797	-
Total (A+B) 31.12.2019	**1,725,400**	**4,169**	**160,295**	**207**	**1,254,089**	**245**	**7,733**	**-**
Total (A+B) 31.12.2018	**1,016,862**	**2,061**	**168,557**	**103**	**1,084,807**	**776**	**3,466**	**-**

B.4 Large exposures

	31.12.2019	31.12.2018
a) Book value	14,559,073	16,563,885
b) Weighted value	3,051,775	2,919,124
c) Number	7	10

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 2019, there are seven "large exposures" for an overall amount of € 14,559 million, corresponding to € 3,052 million after CRM and exemptions under art. 400 CRR. Of these, repurchase agreements account for € 822 million and € 44 million respectively.
For an amount in excess of 70% of the total, the positions shown include the Treasury Ministry and the Ministry of Economy and Finance for a total exposure of € 10,219 million, € 1,431 million after CRM and exemptions.
The remainder comprises leading European and global companies/banks and an associated/related company (€ 4,340 million - € 1,621 million post CRM and exemptions).

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	13,163,586	2,454,597
First 10 exposures	15,973,049	3,819,689
First 20 exposures	19,076,614	6,256,111

Reference date: 31.12.2018	Amount of the exposure	Amount of the exposure after CRM and exemptions under art. 400 CRR
First 5 exposures	13,663,450	2,062,751
First 10 exposures	16,563,885	2,919,124
First 20 exposures	20,435,975	5,801,555

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 2019:

- Sardegna no. 1
- Italian Credit Recycle
- Restart
- 4 Mori Sardegna
- AQUI SPV
- Pillarstone
- Sestante no. 2
- Sestante no. 3
- Grecale 2009
- Grecale 2011
- Grecale 2015
- SME Grecale 2017

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 31.12.2019	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 31.12.2019
IT0005274565	Senior	Dec-37	22,400	-
IT0005274573	Junior	Dec-37	18,600	10
Total			**41,000**	**10**

The senior tranche was repaid in full on 20 March 2019.

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:

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2019
IT0005274532	Senior	Dec-37	18,200	12,228
IT0005274540	Junior	Dec-37	14,800	12,570
Total			**33,000**	**24,798**

The securities were placed with institutional investors 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.
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 31.12.2019	Rating DBRS	Rating Scope
IT0005337446	Senior	Jan-37	232,000	212,480	BBB	A-
IT0005337479	Mezzanine	Jan-37	13,000	13,000	B	BB-
IT0005337487	Junior	Jan-37	8,000	8,000	n.r.	n.r.
Total			**253,000**	**233,480**		

The Senior notes were fully subscribed by Banco di Sardegna S.p.a. The Mezzanine and Junior notes were placed with institutional investors and, for a residual portion of 5%, they were subscribed by Banco di Sardegna S.p.a.

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 31.12.2019	Rating Scope	Rating Moody's
IT0005351330	Senior	Oct-38	544,700	461,167	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**	**534,919**		

The Senior notes were fully subscribed by Bper Banca S.p.A. The Mezzanine and Junior notes were placed with an institutional investor and, for a residual portion of 5%, were subscribed by BPER Banca S.p.A.

Pillarstone

During 2017, BPER Banca securitised a loan of 21 million US dollars granted to Premuda Spa, through the vehicle Pillarstone Italy SPV Srl (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 Spa, 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 Srl) to a company (Pillarstone Italy Holding Spa) 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 regulatory 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 Spa 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 31.12.2019
IT0003760136	Senior	Jul-42	575,300	63,904
IT0003760193	Mezzanine	Jul-42	34,400	34,400
IT0003760227	Mezzanine	Jul-42	15,600	15,600
IT0003760243	Mezzanine	Jul-42	21,900	1,159
IT0003760284	Junior	Jul-42	6,253	6,253
Totale			**653,453**	**121,316**

The Senior and Mezzanine securities were placed with institutional investors, while the junior securities were taken up by Meliorbanca and subsequently sold in 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 31.12.2019
IT0003937452	Senior	Jul-45	791,900	138,851
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**	**236,963**

The Senior and Mezzanine securities were placed with institutional investors, while the junior securities were taken up by Meliorbanca and subsequently sold in the secondary market.

Grecale 2009

Disposal date:	9 April 2009
Seller:	Unipol Banca S.p.a.
Special purpose vehicle:	Grecale ABS s.r.l., based on Piazza della Costituzione, 2 Bologna (BO)
Servicer:	Unipol Banca s.p.a., in the role of Servicer and Corporate Servicer, The Bank of New York Mellon – London Branch in the role of Calculation Agent.
Issue date of securities	30 June 2009
Type of transaction	Standard
Organisation	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 Servicer. 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 612 millions.
Disposal price of securitised assets	The disposal price was 612 millions.
Guarantees and credit lines granted by the bank	None.
Guarantees and credit lines granted by third parties	Solvency guarantee issued by UBS AG.
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 31.12.2019	Rating Moody's
IT0004500598	Senior	Apr-56	531,700	18,620	Aaa
IT0004500606	Junior	Apr-56	95,360	95,360	n.r.
Totale			**627,060**	**113,980**	

Grecale 2011

Disposal date:	4 May 2011
Seller:	Unipol Banca S.p.a.
Special purpose vehicle:	Grecale RMBS 2011 s.r.l., based on Piazza della Costituzione, 2 Bologna (BO)
Servicer:	Unipol Banca s.p.a., in the role of Servicer and Corporate Servicer, Bank of New York Mellon – London Branch in the role of Calculation Agent, Principal Paying Agent and Cash Manager - Centotrenta Servicing in the role of Administrative Servicer.
Issue date of securities	14 October 2011
Type of transaction	Standard
Organisation	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 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 723 millions.
Disposal price of securitised assets	The disposal price was 723 millions.
Guarantees and credit lines granted by the bank	Subordinated loan for Euro 18.1 millions.
Guarantees and credit lines granted by third parties	Solvency guarantee issued by JPMorgan Chase Bank NA
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 31.12.2019	Rating Fitch	Rating S&P
IT0004764228	Senior	Jan-61	175,000	-	AAA	Aaa
IT0004764251	Mezzanine	Jan-61	390,200	21,508	AAA	Aaa
IT0004764269	Junior	Jan-61	158,980	158,980	n.r.	n.r.
Totale			**724,180**	**180,488**		

Grecale 2015

Disposal date:	25 September 2015
Seller:	Unipol Banca S.p.a.
Special purpose vehicle:	Grecale RMBS 2015 s.r.l., based on Piazza della Costituzione, 2 Bologna (BO)
Servicer:	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	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 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 31.12.2019	Rating Fitch	Rating DBRS
IT0005143836	Senior	Dec-67	573,500	160,797	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**	**313,275**		

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:	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	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 31.12.2019	Rating Moody's	Rating DBRS
IT0005285207	Senior	Mar-56	508,220	96,269	Aa2	AA
IT0005285215	Mezzanine	Mar-56	77,000	77,000	A3	BBB
IT0005285223	Junior	Mar-56	184,816	184,816	n.r.	n.r.
Totale			**770,036**	**358,085**		

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 derecognised	**675,461**	**1,347**	**10,321**	**2**	**443**	**-**
- performing residential mortgages	1,870	3	919	2	42	-
- non-performing residential mortgages	124,171	248	340	-	154	-
- performing no residential mortgages						
- non-performing no residential mortgages	316,410	632	687	-	119	-
- leasing performing						
- leasing non performing	669	-	680	-	-	-
- other performing loans						
- other non-performing loans	232,341	464	7,695	-	128	-
- performing securities	-	-	-	-	-	-
- non-performing securities	-	-	-	-	-	-
B. Partially derecognised	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	**-**	**-**	**-**	**-**	**-**	**-**

(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 derecognised		**-**	**-**	**-**	**-**	**-**
- performing residential mortgages	3,048	-	-	-	-	-
- 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 derecognised	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	**-**	**-**	**-**	**-**	**-**	**-**

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 and Sardegna no.1.
"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	15,521	10	1,769	-		
- non-performing residential mortgages	9,092	6	-	-		
- performing no residential mortgages						
- non-performing no residential mortgages						
- leasing performing						
- leasing non-performing						
- other performing loans	49,212	1				
- other non-performing loans	11,796	23				
- 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%	1,713,030	-	35,561	1,267,972	-	465,364

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	8,558	-	794		-	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		**1,294,739**	**-**	**1,294,739**	**-**	**1,267,753**	**-**	**1,267,753**
1. Debt securities		1,294,739	-	1,294,739	-	1,267,753	-	1,267,753
2. Equity instruments		-	-	-	X	-	-	-
3. Loans		-	-	-	-	-	-	-
E. Financial assets measured at amortised cost		**2,256,416**	**1,223,807**	**1,032,608**	**-**	**1,333,386**	**294,503**	**1,038,884**
1. Debt securities		706,477	-	706,477	-	712,340	-	712,340
2. Loans		1,549,939	1,223,807	326,131	-	621,046	294,503	326,544
Total	**31.12.2019**	**3,551,155**	**1,223,807**	**2,327,347**	**-**	**2,601,139**	**294,503**	**2,306,637**
Total	**31.12.2018**	**5,806,469**	**-**	**5,806,469**	**-**	**5,656,769**	**-**	**5,656,769**

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

During 2019, the BPER Banca Group arranged just one disposal of non-performing loans, classified in the Unlikely-To-Pay (UTP) category, to a multi-originator mutual fund with simultaneous subscription for units issued by the fund; this transaction took place with Clessidra SGR, as manager, and the new Clessidra Restructuring Fund (CRF or the Fund), as purchaser of the non-performing loans.
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.

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.
With regard to the initial loan portfolio, each participating bank assigned corporate loans to the Fund without recourse. The counterparties assigned by one bank might have been the same as or different to those of the other participants.
In exchange for the assignment, each bank received Fund units in proportion to the value of the loans assigned, with respect to the overall valuation of the loans assigned to the Fund by all banks. This valuation, which determined the disposal values recognised by CRF, resulted in the allocation to BPER Banca of 9.4% of the A units in the Fund.
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 following significant information is provided about the UTP portfolio assigned by BPER Banca, 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		**16,061.21**	**8,466.33**
	Diversified Industrial Products	3,815.70	-
	Secured	*3,815.70*	-
	Marine Applications	12,245.50	8,466.33
	Unsecured	*12,245.50*	*8,466.33*
Lombardy		**6,395.70**	**4,167.57**
	Consumer Retail	4,205.67	2,835.38
	Secured	*2,810.67*	*1,895.44*
	Unsecured	*1,395.00*	*939.94*
	Iron & Steel	2,190.03	1,332.18
	Unsecured	*2,190.03*	*1,332.18*
Veneto		**5,212.30**	**3,579.71**
	Food & Beverage	5,212.30	3,579.71
	Unsecured	*5,212.30*	*3,579.71*
Total		27,669.21	16,213.61

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, fair value on initial recognition was determined using a mark-to-model approach, resulting in a Level 3 fair value. The model applied was compatible with Discounted Cash Flow (DCF) models and resulted in an initial fair value of Euro 12 million.

D.4 Prudential Consolidation - Covered bond transactions

Introduction

GBB issues are foreseen by BPER Banca Group's strategic plan as a means of diversification of funding sources, of reduction of related costs and of lengthening of maturities of liabilities. In particular, guaranteed bank bond issues are extremely appealing at a time when market yields are very low, also considering the relevant volatility of the reference market.

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 of Directors 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 bonds 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").

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 is, in accordance with the Regulations, 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 Bonds 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 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, fifth, 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. Lastly, the third issue was also physiologically repaid on 22 October 2018.

For the fourth, fifth, eighth and ninth issue, which bear a fixed interest rate, it was necessary to execute liability swap agreements. Lastly, the sixth and seventh issues bear a floating interest rate and, thus, have no associated liability swap.

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 par 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 physiologically repaid 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 January 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.
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. Repayments totalled Euro 850 million in 2018 and, lastly, a further Euro 727 million was repaid in 2019 against the principal generated by the loan portfolio sold.
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 may not, however, in view of the inadequate level of rating, be entrusted to BPER Banca. 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.;
- Banca di Sassari s.p.a.;
- Cassa di Risparmio di Bra s.p.a.;
- Cassa di Risparmio di Saluzzo 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.
Guarantor: Estense Covered Bond s.r.l.
Representative of the Bondholders (RoB): Securitisation Services s.p.a.
Italian Paying Agent, Cash Manager and Account Bank: BNP Paribas Securities Services (both Italian and London branches).
Corporate Servicer: Securitisation Services s.p.a.
Guarantor Calculation Agent: Securitisation Services 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 RCCD.
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 5 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 February 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.
The eighth issue of self-subscribed Guaranteed Bank Bonds totalling Euro 200 million, at a fixed interest rate with a tenor of 4 years, is scheduled for January 2020.
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 3 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. Lastly, in 2019, an additional Euro 645 million was repaid, again on the basis of the available capital provided by the transferred loan portfolio.

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 sold Eligible Assets - for which BPER Banca will remain as Servicer - are transferred to current accounts with Citibank N.A., either in Italy or the UK, since this is a third party with an appropriate 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.;
- Banca di Sassari s.p.a.;
- Cassa di Risparmio di Bra s.p.a.;
- Cassa di Risparmio di Saluzzo s.p.a.

Arranger: Finanziaria Internazionale Securitisation Group s.p.a.
Initial Dealer of the first series of bonds issued: Banca Finanziaria Internazionale 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): Securitisation Services s.p.a.
Subsequent Paying Agent, Cash Manager and Account Bank: Citibank N.A. (both Italian and London branches).
Corporate Servicer: Securitisation Services s.p.a.
Guarantor Calculation Agent: Securitisation Services s.p.a.
Legal advisor to BPER Banca: Jones Day 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 2019, the Own Funds of the BPER Banca Group amount to Euro 5,840 million and the Total capital ratio is equal to 16.82%.

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 2019, the Tier 1 Ratio was 14.35% and the Common Equity Tier 1 Ratio 13.91%.

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, therefore, do not 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 Counterbalancy 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 and 2018 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

As a primary activity, the Group trades on own account.
The 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 derivatives 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 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 (depending on the degree of liquidity of the portfolio) at a pre-determined level of probability (consistent with the investor's degree of risk aversion).
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 order to meet both regulatory and operational requirements. In fact, an analysis is proposed with a time horizon of one month and with a confidence interval of 99% consistent 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 proprietary 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 interest rate and price risk control process is centralised at BPER Banca and is carried out by the Risk Management Unit. Periodic information is assured by the distribution of specific reports prepared at different time intervals ranging from daily upwards.
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 (sensitivity, stop loss and position) for the portfolios managed by the appropriate Group structures, addressing the various risks to which they are exposed. Limits are checked on a daily basis by the Financial Risk Department.
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.

Quantitative information

3. Interest rate risk - Trading portfolio for regulatory purposes: internal models and other methodologies for the sensitivity analysis

Descriptive data		VaR		VaR	
		Time horizon: 10 days		Time horizon: 1 day	
		Confidence interval: 99%		Confidence interval: 99%	
Type of transaction	Present value	VaR	Var/Present Value	VaR	Var/Present Value
BOT	30	-	0.00%	-	0.00%
BTP	1,342	59	4.40%	19	1.42%
CCT	-	-	0.00%	-	0.00%
Other government securities	14,920	47	0.32%	15	0.10%
Bonds	19,423	180	0.93%	58	0.30%
Equities	33	2	0.00%	1	0.00%
Mutual funds and SICAV	-	-	0.00%	-	0.00%
Derivatives/Transactions to be settled	(156,342)	13,179	-8.43%	3,845	-2.46%
Effect of diversification		(4,144)		(1,176)	
Total portfolio 2019	**(120,594)**	**9,323**	**-7.73%**	**2,762**	**-2.29%**
Total portfolio 2018	**24,621**	**12,853**	**52.20%**	**3,769**	**15.31%**

The value of the trading portfolio at 31 December 2019 given a parallel shift of +/- 100 basis points (sensitivity analysis) is set out below.

	+100 bps	-100 bps
31 dec 2019	20,639	(34,518)
31 dec 2018	(34,735)	37,140

3. Price risk - Trading portfolio for regulatory purposes: internal models and other methodologies for the sensitivity analysis

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	92,767	6,443	6.95%	2,038	2.20%
Mutual funds and SICAV	-	-		-	
Derivatives/Transactions to be settled	1,131	4,520	399.65%	1,324	117.07%
Effect of diversification		(7,834)		(2,373)	
Total portfolio 2019	**93,898**	**3,129**	**3.33%**	**989**	**1.05%**
Total portfolio 2018	**71,580**	**4,869**	**6.80%**	**1,569**	**2.19%**

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, considering both current profits (sensitivity of net interest income) and the economic value of shareholders' equity:

- 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 management 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 consider 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 following shocks are considered:

- parallel shock of + 100 bps;
- parallel shock of +/- 50 bps;
- parallel shock of - 25 bps.

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, including market interest rates, the original duration of the loan, the type of loan and personal characteristics of the borrower.
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 equities, 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 for regulatory purposes".
The Risk Management Department determines the exposure to price risk each day in a specific VaR report.

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 2019 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 basis points.

	+100 bps	-50 bps
31 December 2019	**73,616**	**(39,483)**
maximum change	95,077	(52,329)
minimum change	73,168	(39,302)
average change	82,518	(44,908)
31 December 2018	**78,267**	**3,547**

Below are the year-end figures at 31 December 2019 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 basis points (sensitivity analysis).

	+100 bps	-100 bps
31 December 2019	**116,631**	**244,022**
maximum change	193,363	349,002
minimum change	112,971	43,834
average change	164,516	235,651
31 December 2018	**(51,042)**	**(215,698)**

In relation to the measurement of interest-rate risk, the VaR[62] of the overall securities portfolio (banking and trading) amounts to Euro 275 million (Euro 409 million at 31 December 2018) and is substantially attributable to the Italian government securities held in the portfolio, which account for just under 80% of the indicator, Euro 211 million (Euro 357 million at 31 December 2018).

[62] *VaR measured over a time horizon of one month.*

3. Price risk - Banking book: internal models and other methodologies for the sensitivity analysis

Descriptive data		VaR		VaR	
		Time horizon: 10 days		Time horizon: 1 day	
		Confidence interval: 99%		Confidence interval: 99%	
Type of transaction	Present value	VaR	Var/Present Value	VaR	Var/Present Value
Equities Instruments	295,237	18,335	6.21%	5,798	1.96%
Mutual funds and SICAV	463,529	17,009	3.67%	5,379	1.16%
Derivatives/Transactions to be settled	-	-		-	
Effect of diversification		(5,119)		(1,619)	
Total portfolio 2019	**758,766**	**30,225**	**3.98%**	**9,558**	**1.26%**
Total portfolio 2018	**710,853**	**38,583**	**5.43%**	**12,202**	**1.72%**

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 as a consequence of routine funding and lending activities and, to a marginal extent, in relation to speculative activities.
The Parent Company's Financial Risk Department determines the exposure to exchange rate risk each day and summarises it monthly 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	JPY	ZAR	OTHER CURRENCIES
A. Financial assets	**2,076,574**	**161,661**	**18,561**	**4,339**	**854**	**16,591**
A.1 Debt securities	1,887,392	143,947	-	-	-	-
A.2 Equity securities	34,149	-	85	211	-	738
A.3 Loans to banks	54,259	5,577	10,275	2,092	854	13,848
A.4 Loans to customers	100,774	12,137	8,201	2,036	-	2,005
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**3,726**	**2,024**	**1,087**	**203**	**-**	**1,844**
C. Financial liabilities	**1,865,407**	**167,418**	**11,824**	**6,110**	**439**	**16,984**
C.1 Deposits from banks	1,574,852	142,039	321	22	5	711
C.2 Deposits from customers	290,555	25,379	11,503	6,088	434	16,273
C.3 Debt securities in issue	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**6,356**	**189**	**134**	**-**	**-**	**35**
E. Financial derivatives	**633,834**	**22,221**	**57,517**	**28,082**	**38,724**	**20,183**
- Options	-	-	-	-	-	-
+ Long positions	21,992	4,565	-	5,730	-	-
+ Short positions	62,779	3,943	-	5,687	-	1,823
- Other derivative instruments	-	-	-	-	-	-
+ Long positions	280,194	5,535	48,221	6,231	19,162	9,978
+ Short positions	268,869	8,178	9,296	10,434	19,562	8,382
Total Assets	**2,382,486**	**173,785**	**67,869**	**16,503**	**20,016**	**28,413**
Total liabilities	**2,203,411**	**179,728**	**21,254**	**22,231**	**20,001**	**27,224**
Net balance (+/-)	**179,075**	**(5,943)**	**46,615**	**(5,728)**	**15**	**1,189**

2. Internal models and other methodologies for the sensitivity analysis

The VaR readings determined over time horizons of ten days and one day is set out below, in relation to the exchange risk faced by the BPER Banca Group at 31 December 2019.

	VaR	VaR
	Time horizon: 10 days	Time horizon: 1 day
	Confidence interval: 99%	Confidence interval: 99%
2019 figures	(39,545)	(12,584)
2018 figures	2,593	823

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 31.12.2019				Total 31.12.2018			
	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	**-**	**10,559,564**	**422,916**	**-**	**-**	**8,049,930**	**575,725**	**-**
a) Options	-	720,001	-	-	-	557,462	29,214	-
b) Swap	-	9,587,047	-	-	-	7,311,005	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	422,916	-	-	-	546,511	-
e) Others	-	252,516	-	-	-	181,463	-	-
2. Equities and stock indexes	**-**	**107,452**	**90,928**	**-**	**-**	**130,660**	**54,936**	**-**
a) Options	-	107,452	60,769	-	-	130,660	54,936	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	30,159	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**619,762**	**8,181**	**-**	**-**	**584,507**	**49,968**	**-**
a) Options	-	112,700	-	-	-	132,831	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	507,062	8,181	-	-	451,676	49,968	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**25,757**	**-**	**-**	**9,983**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	-	11,286,778	547,782	-	-	8,775,080	680,629	-

A.2 Trading financial derivatives: gross positive and negative fair value - breakdown by product

Types of derivatives	Total 31.12.2019				Total 31.12.2018			
	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	-	5,453	65	-	-	7,125	36	-
b) Interest rate swap	-	121,497	-	-	-	70,004	-	-
c) Cross currency	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	4,548	993	-	-	3,243	4,018	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	10,107	-	-	-	6,234	-	-
Total	**-**	**141,605**	**1,058**	**-**	**-**	**86,606**	**4,054**	**-**
2. Negative fair value								
a) Options	-	10,350	2,304	-	-	24,386	1,747	-
b) Interest rate swap	-	141,414	-	-	-	109,019	-	-
c) Cross currency	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	3,142	254	-	-	3,508	1,008	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	6,808	-	-	-	3,608	-	-
Total	**-**	**161,714**	**2,558**	**-**	**-**	**140,521**	**2,755**	**-**

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	422,916	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equities and stock indexes				
- notional value	X	53,879	2	37,047
- positive fair value	X	-	1	64
- negative fair value	X	372	-	1,166
3) Currencies and gold				
- notional value	X	4,927	711	2,542
- positive fair value	X	890	103	-
- negative fair value	X	-	-	254
4)Goods				
- notional value	X	13,228	12,529	-
- positive fair value	X	-	-	-
- negative fair value	X	-	765	-
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	-	9,210,848	247,700	1,101,016
- positive fair value	-	83,821	2,235	47,122
- negative fair value	-	156,096	540	178
2) Equities and stock indexes				
- notional value	-	75,388	64	32,000
- positive fair value	-	2,407	12	-
- negative fair value	-	1,051	1	-
3) Currencies and gold				
- notional value	-	227,537	148,579	243,645
- positive fair value	-	2,589	609	2,809
- negative fair value	-	1,161	742	1,946
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 year	Over 5 year	Total
A.1 Financial derivative contracts on debt securities and interest rates	3,301,930	4,582,621	3,097,929	10,982,480
A.2 Financial derivative contracts on equity securities and stock indexes	155,387	10,929	32,064	198,380
A.3 Financial derivatives on currencies and gold	603,933	24,010	-	627,943
A.4 Financial derivatives on goods	25,757	-	-	25,757
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2019	**4,087,007**	**4,617,560**	**3,129,993**	**11,834,560**
Total 31.12.2018	**2,050,411**	**5,245,359**	**2,179,964**	**9,475,734**

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	-	70,000
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31.12.2019	**-**	**70,000**
Total 31.12.2018	**-**	**20,000**
2. Protection sales		
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31.12.2019	**-**	**-**
Total 31.12.2018	**-**	**-**

B.2 Trading credit derivatives: positive and negative gross fair value - breakdown for products

Types of derivatives	Total 31.12.2019	Total 31.12.2018
1. Positive fair value		
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
2. Negative fair value		
a) Credit default products	1,683	1
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-

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	-	70,000	-	-
- positive fair value	-	-	-	-
- negative fair value	-	1,683	-	-
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	-	70,000	-	70,000
Totale 31.12.2019	**-**	**70,000**	**-**	**70,000**
Totale 31.12.2018	**-**	**20,000**	**-**	**20,000**

B.5 Credit derivatives connected with the fair value option: annual changes

There are no amounts to be disclosed in this section

1.3.2 Accounting hedges

Qualitative information

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 rise in risk-free rates.

The derivatives used for this purpose are:

- Interest Rate Swaps - IRS, traded over the counter, specific for each instrument of the asset or liability 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.

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, 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 undesired fluctuations in market rates. An IRS derivative contract 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

Hedged risk – Exchange rate risk

As part of the Group's operations in foreign currency instruments, the management of foreign exchange risk also occurs through derivatives, used to neutralise the sensitivity of the securities portfolio held in foreign currency, or in the event of exchange rate devaluation.

The derivatives used for this purpose are:

- Cross Currency Swaps, 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.
- Repos in foreign currency

Compared with what is shown, the exchange rate risk is only hedged for management purposes, as none of them qualify for hedge accounting.

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 derivatives.

E. Hedged items

The BPER Banca Group currently has accounting hedges on bonds in the banking book, on loans (mortgages) granted and on its own bond issues. For these instruments, either the interest-rate risk component or the exchange-rate risk component is hedged.

IBOR Reform

As already discussed in the Directors' report on operations (Principal risks and uncertainties – IBOR Reform), following the decision of the Financial Stability Board to gradually replace the IBOR with "alternative interest rates" consistent with the EU Benchmark Regulation – BMR, the Bank has commenced work to manage the transition in relation to existing contracts that might be affected by the reform.

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	EURIBOR	138,586	0.28
		Fixed rate	5,100,269	8.24
Interest Rate Swap	GBP LIBOR	Fixed rate	29,384	6.43
Interest Rate Swap	USD LIBOR	Fixed rate	607,353	4.03
Interest Rate Swap	Fixed rate	EURIBOR	1,851,422	3.83
		Fixed rate	104,446	5.93
Total			**7,831,460**	**6.69**

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 stated in Part A of the Explanatory notes, the BPER Banca Group has therefore considered it necessary to apply early and, therefore, in the consolidated financial statements at 31 December 2019, the amendments made to IFRS 9, IFRS 7 and IAS 39[63]; these amendments made it possible, on an exceptional and temporary basis, to carry out the forward-looking tests using the current benchmark rates, even for maturities subsequent to 31 December 2021.

[63] *EU Regulation 2020/34.*

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 31.12.2019				Total 31.12.2018			
	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	**-**	**7,777,014**	**-**	**-**	**-**	**6,731,706**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	7,777,014	-	-	-	6,731,706	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
2. Equities and stock indexes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
3. Currencies	**-**	**54,446**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	54,446	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**7,831,460**	**-**	**-**	**-**	**6,731,706**	**-**	**-**

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 31.12.2019				Total 31.12.2018				Total 31.12.2019	Total 31.12.2018
	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	-	80,964	-	-	-	35,564	-	-	-	-
c) Cross currency swap	-	1,221	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**82,185**	**-**	**-**	**-**	**35,564**	**-**	**-**	**-**	**-**
2. Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swap	-	294,114	-	-	-	92,374	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**294,114**	**-**	**-**	**-**	**92,374**	**-**	**-**	**-**	**-**

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) Other values				
- 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	-	7,687,999	89,015	-
- positive fair value	-	80,743	221	-
- negative fair value	-	294,114	-	-
2) Equities and stock indexes				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	54,446	-
- positive fair value	-	-	1,221	-
- negative fair value	-	-	-	-
4) Other values				
- 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 year	Over 5 year	Total
A.1 Financial derivative contracts on debt securities and	256,522	3,427,279	4,093,213	7,777,014
A.2 Financial derivative contracts on equity securities and	-	-	-	-
A.3 Financial derivative contracts on currency and gold	-	-	54,446	54,446
A.3 Financial derivative on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2019	256,522	3,427,279	4,147,659	7,831,460
Total 31.12.2018	183,755	2,941,798	3,622,292	6,747,845

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

There are no amounts to be disclosed in this section as the BPER Banca Group has decided to use the opt-out, which means that hedging transactions will continue to be managed in accordance with IAS 39.

E. Effects of hedging transactions on shareholders' equity

There are no amounts to be disclosed in this section as the BPER Banca Group has decided to use the opt-out, which means that hedging transactions will continue to be managed in accordance with IAS 39.

1.3.3 Other information on derivative instruments (trading and hedging)

At 31 December 2019, the BPER Banca Group does not have any derivatives that satisfy the criteria envisaged in IAS 32.42 for the offset of 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 management 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:
- o 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;
- o calculation of the funding gap, being the difference between lending and commercial funding as a percentage of total lending;
- o 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 Policy to be followed 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 analyses, the scenarios are constructed with reference to both systemic events (Market Stress Scenario) and events specific to the Bank (Name Crisis Stress Scenario), as well as a combination of the two (Composite Scenario). In view of the macroeconomic context, commercial policies and possible changes in customer behaviour;
- 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 or "market driven" liquidity crises generated by market, political or macroeconomic crises;
- specific liquidity crises or "name 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 currently updated, 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 2019 it was 158.9% calculated as a ratio of 12,676 million of highly liquid assets and 7,979 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 2019, the indicator stood at 114.0%.

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".

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	**9,195,530**	**1,160,033**	**866,627**	**2,090,027**	**2,983,094**
A.1 Government securities	-	-	1,949	-	24,655
A.2 Other debt securities	5,232	897	57,967	40,875	65,671
A.3 UCITS units	448,330	-	-	-	-
A.4 Loans	8,741,968	1,159,136	806,711	2,049,152	2,892,768
- Banks	1,033,371	19,516	1,462	61,198	18,302
- Customers	7,708,597	1,139,620	805,249	1,987,954	2,874,466
Cash liabilities	**48,943,288**	**463,237**	**250,918**	**295,381**	**578,668**
B.1 Deposits and current accounts	48,187,230	79,255	71,181	116,005	347,271
- Banks	693,279	15,558	4,306	12,453	29,724
- Customers	47,493,951	63,697	66,875	103,552	317,547
B.2 Debt securities	37,782	13,717	115,389	69,843	231,396
B.3 Other liabilities	718,276	370,265	64,348	109,533	1
Off-balance sheet transactions					
C.1 Physically settled financial derivatives					
- Long positions	-	38,852	12,543	26,520	125,199
- Short positions	49,250	15,937	11,712	36,036	54,598
C.2 Cash settled financial derivatives					
- Long positions	95,487	-	-	-	-
- Short positions	105,356	-	-	-	-
C.3 Deposit to be received					
- Long positions	-	1,291,022	-	-	-
- Short positions	-	243,633	-	723,710	323,678
C.4 Irrevocable commitments to disburse funds					
- Long positions	11,431	-	-	-	17
- Short positions	1,168,270	-	-	-	-
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	1,683	-	-	-	-

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	**2,933,397**	**5,090,635**	**22,844,279**	**26,769,533**	**1,069,955**
A.1 Government securities	11,561	56,763	2,296,640	4,765,045	-
A.2 Other debt securities	105,207	150,889	3,297,106	4,614,561	608
A.3 UCITS units	-	-	-	-	-
A.4 Loans	2,816,629	4,882,983	17,250,533	17,389,927	1,069,347
- Banks	8,263	18,316	2,032	1,963	1,069,347
- Customers	2,808,366	4,864,667	17,248,501	17,387,964	-
Cash liabilities	**5,464,343**	**2,587,687**	**8,244,048**	**3,146,891**	**5**
B.1 Deposits and current accounts	348,762	280,398	690,103	318,196	5
- Banks	106,444	126,501	679,864	316,049	-
- Customers	242,318	153,897	10,239	2,147	5
B.2 Debt securities	493,654	1,206,952	2,438,126	1,406,671	-
B.3 Other liabilities	4,621,927	1,100,337	5,115,819	1,422,024	-
Off-balance sheet transactions					
C.1 Physically settled financial derivatives					
- Long positions	45,569	55,192	14,676	103,697	-
- Short positions	32,011	89,697	3,146	-	-
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	3,818	21,368	474,446	168,060	-
- 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	**98,151**	**2,545**	**6,908**	**16,388**	**90,078**
A.1 Government securities	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	19,558
A.3 UCITS units	15,866	-	-	-	-
A.4 Loans	82,285	2,545	6,908	16,388	70,520
- Banks	62,747	-	-	212	1,757
- Customers	19,538	2,545	6,908	16,176	68,763
Cash liabilities	**339,489**	**27,660**	**270,255**	**322,743**	**1,099,497**
B.1 Deposits and current accounts	338,462	-	1,272	691	6,447
- Banks	1,240	-	32	-	-
- Customers	337,222	-	1,240	691	6,447
B.2 Debt securities	-	-	-	-	-
B.3 Other liabilities	1,027	27,660	268,983	322,052	1,093,050
Off-balance sheet transactions					
C.1 Physically settled financial derivatives					
- Long positions	-	12,698	11,756	35,471	54,300
- Short positions	-	41,818	12,518	26,371	120,934
C.2 Cash settled financial derivatives					
- Long positions	-	-	-	-	-
- Short positions	1,716	-	-	-	-
C.3 Deposit to be received					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds					
- Long positions	-	-	65	-	-
- Short positions	40	25	-	-	-
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	**179,792**	**125,712**	**1,329,574**	**546,272**	**-**
A.1 Government securities	-	-	129,202	111,646	-
A.2 Other debt securities	149,980	118,932	1,199,678	434,626	-
A.3 UCITS units	-	-	-	-	-
A.4 Loans	29,812	6,780	694	-	-
- Banks	21,853	-	694	-	-
- Customers	7,959	6,780	-	-	-
Cash liabilities	**3,740**	**819**	**-**	**-**	**-**
B.1 Deposits and current accounts	3,740	819	-	-	-
- Banks	-	-	-	-	-
- Customers	3,740	819	-	-	-
B.2 Debt securities	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-
Off-balance sheet transactions					
C.1 Physically settled financial derivatives					
- Long positions	32,536	88,412	2,285	-	-
- Short positions	58,631	54,743	14,211	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	-	-	-	-	-
- 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 at 31 December 2019, as shown below.

Sardegna Re-Finance self-securitisation

During 2017, Banco di Sardegna completed a securitisation of performing residential mortgages pursuant to Law 130 dated 30 April 1999 to strengthen the funding available - through BPER Banca - to control liquidity risk.

This operation involved the without-recourse sale of a block of 19,494 performing loans, comprising residential mortgages granted to developers and residential mortgages 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. Accordingly, pursuant to the provisions of IAS 39 on the subject of derecognition, the securitised loans remain classified as an asset in Banco di Sardegna's balance sheet and are explained in the 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: no further sales of loans will follow and their ordinary amortisation will continue, generating the normal progressive repayment of the notes issued.

Classes	A	J
Issue amount	1,668,800,000	531,200,000
Current Pool Factor	0,75981066	0,87606089
Currency	Euro	Euro
Maturity	22.12.2060	22.12.2060
Listing	Dublin Stock Exchange	Unlisted
ISIN Code	IT0005317034	IT0005317042
Amortisation	Pass Through	Pass Through
Indexation	Euribor 3m	Not indexed
Spread	0.80%	Residual
Moody's issue rating	Aa2	Unrated
DBRS issue rating	AA (low)	Unrated
Current Moody's rating	Aa3	Unrated
Current DBRS rating	AA	Unrated

Grecale 2008 (former Unipol Banca) self-securitisation

Following the acquisition of Unipol Banca S.p.A. and its absorption in November 2019, BPER Banca acquired exposure to a self-securitisation operation originated by Unipol Banca.
This operation did not generate derecognition and BPER Banca still holds all the senior and junior notes issued.
More specifically, this is an RMBS whose portfolio comprises residential mortgages.
The residual exposure at 31 December 2019 is analysed below.

Grecale ABS - series 2008:

- € 150,117,261 in senior notes, later reduced to € 121,807,347 after the January 2020 payment date;
- € 96,510,000 in junior notes.

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 50 million. The sale of the pool of performing lease contracts to Multilease AS was formalised on 3 August 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.

After the repayment on the payment date (21 January 2020), these notes are analysed as follows:

- Class A Senior Notes – € 455,743,443;
- Class B Junior Notes – € 340,471,000.

The residual balance of the portfolio amounts to € 834,706,656 at 31 December 2019 with a total of 1,308 contracts.
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, before it was acquired by BPER Banca, Cassa di Risparmio di Bra s.p.a. 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 2019 the securities have a residual nominal value of Euro 15,099,319).
- 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 2019 the securities have a residual nominal value of Euro 15,625 thousand).

1.5 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[64]".
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[65].

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 Department, 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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[64] *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.*
[65] *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.

The Parent Company prepares a quarterly report for top 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 and reputational risk management framework.

Membership by the BPER Banca Group of the DIPO consortium[66] 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.

Quantitative information

The following is the distribution of the number of events and operating losses recorded in 2019, 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;

[66] *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.*

- 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

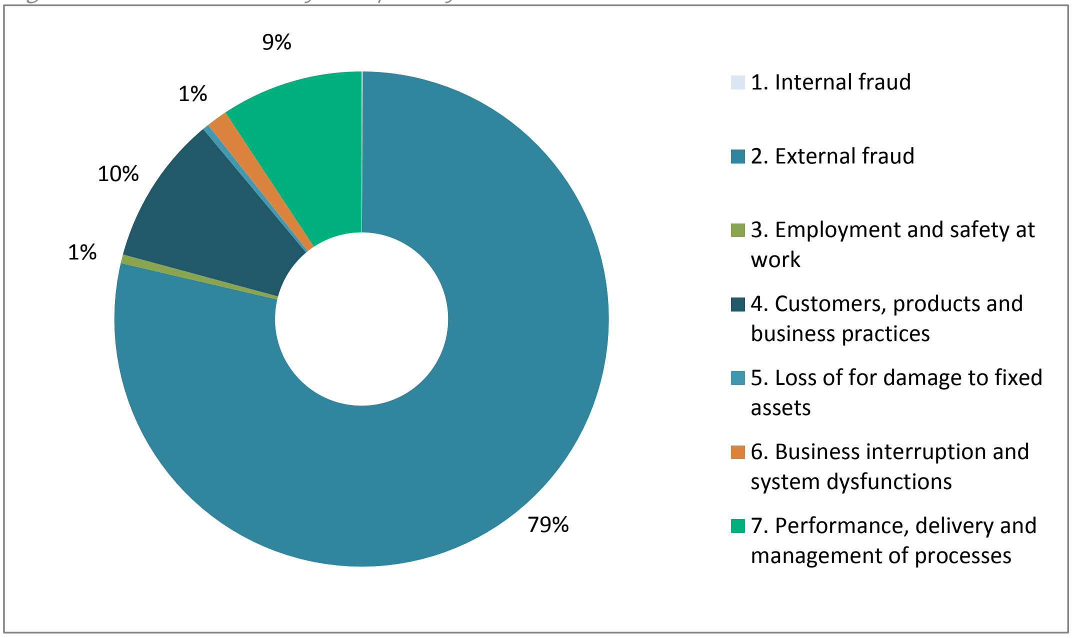
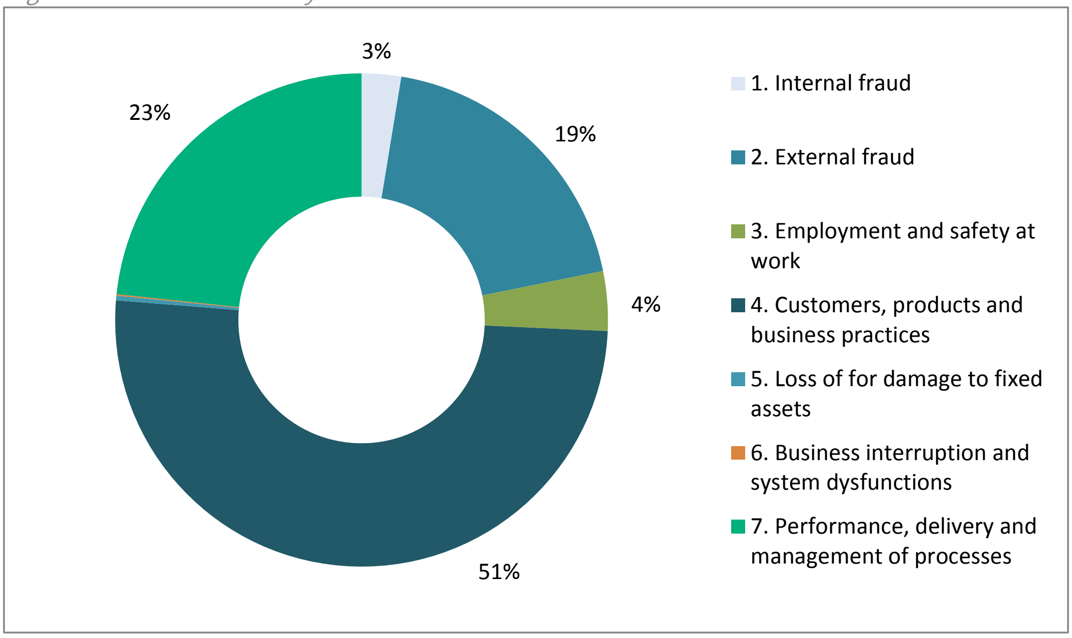


Figure 2 – Breakdown by Gross Actual Loss



An analysis of the graphs shows that the most relevant type of event in terms of frequency is:

- "External fraud" with 79% of the total frequency;
- "Customers, products and business practices", with 10% of the total frequency.

In terms of economic impact the most significant events related to:

- "Customers, products and business practices", with 51% of the total gross loss;
- "Performance, delivery and management of processes", with 23% 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 framework envisages the following activities:

- identification of the reputational risk;
- risk assessment;
- constant monitoring/supervision of the exposure of the BPER Group to the risk, by analysing trends in the risk indicators and managing any reputational events that may be particularly critical;
- reporting to the 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.

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.
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). From a regulatory standpoint, BPER Banca s.p.a., Banco di Sardegna s.p.a. and Banca di Sassari s.p.a. were authorised from 30 June 2016 to use AIRB methodologies for the measurement of credit risk in the Corporate and Retail segments, while Cassa di Risparmio di Bra s.p.a. has been authorised with effect from 31 March 2019. All other BPER Banca Group companies continue to 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.
By means of an active style of capital management, the Parent Company has succeeded in combining development projects and the best possible use of its capital; 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, by the Risk Committees, in periodic reports relating to the financial statements and in the impact simulations relating to extraordinary transactions and regulatory changes. As Parent Company, BPER Banca performs the role of coordination and guidance of Group companies, coordinating the management of capital in each company and providing appropriate guidelines.
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. These activities allowed to mitigate capital impacts of several major non-recurring transactions, such as the acquisitions of Unipol Banca and Arca Holding completed during the third quarter of 2019.
A suitable combination of different capitalisation instruments and continuous monitoring have enabled the Group to mantain one of the best capital profiles among Italian banking groups.
Finally, 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 2019 an 85% correction factor has been applied, 95% for 2018), when the provisions recorded will be included in full in the calculation of own funds during the transition to 1 January 2018. 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	2,363,404	-	-	(764,125)	1,599,279
2. Share premium reserve	1,321,728	-	-	(312,673)	1,009,055
3. Reserves	3,128,677	-	-	(1,026,054)	2,102,623
4. Equity instruments	150,000	-	-	-	150,000
5. (Treasury shares)	(7,259)	-	-	-	(7,259)
6. Valuation reserves:	37,292	-	-	6,105	43,397
- Equity instruments designated at fair value through other comprehensive income	(14,840)	-	-	(58)	(14,898)
- Hedging of equity instruments designated at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (no equity instruments) measured at fair value through other comprehensive income	24,150	-	-	3,008	27,158
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Foreign investments hedges	-	-	-	-	-
- Cash flow hedges	(1,213)	-	-	-	(1,213)
- 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	(159,948)	-	-	-	(159,948)
- Share of the valuation reserves of equity investments carried at equity	-	-	-	3,155	3,155
- Special revaluation laws	189,143	-	-	-	189,143
7. Profit (Loss) for the year (+/-) of group and minority interests	369,289	-	-	25,163	394,452
Total	**7,363,131**	**-**	**-**	**(2,071,584)**	**5,291,547**

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

Assets/values	Prudential consolidation		Insurance companies		Other companies		Consalidation 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	34,401	10,251	-	-	-	-	3,998	990	38,399	11,241
2. Equity instruments	62,279	77,119	-	-	-	-	(58)	-	62,221	77,119
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31.12.2019	**96,680**	**87,370**	**-**	**-**	**-**	**-**	**3,940**	**990**	**100,620**	**88,360**
Total 31.12.2018	**93,547**	**95,631**	**-**	**-**	**-**	**-**	**3,952**	**975**	**97,499**	**96,606**

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	**(37,610)**	**38,503**	**-**
2. Positive changes	**166,826**	**13,772**	**-**
2.1 Fair value increases	97,643	5,067	-
2.2 Impairment losses for credit risk	1,599	X	-
2.3 Reclassification to profit or loss of negative reserves to be realized	42,366	X	-
2.4 Transfer to other components of shareholders' equity (equity instruments)	-	289	-
2.5 Other changes	25,218	8,416	-
- of which: business combinations	786	-	-
3. Negative changes	**102,058**	**67,173**	**-**
3.1 Fair value decreases	7,361	63,577	-
3.2 Write-backs for credit risk	2,685	-	-
3.3 Reclassification to profit or loss of positive reserves to be realized	30,482	X	-
3.4 Transfer to other components of shareholders' equity (equity instruments)	-	8	-
3.5 Other changes	61,530	3,588	-
- of which: business combinations	4,327	219	-
4. Closing balance	**27,158**	**(14,898)**	**-**

B.4 Valuation reserves about actuarial gains (losses) on defined-benefit plans: annual changes

	31.12.2019	31.12.2018
1. Opening balance	**(124,221)**	**(124,011)**
2. Positive changes	**10,806**	**4,578**
2.1 Actuarial gains	48	4,323
2.2 Other changes	10,758	255
3. Negative changes	**46,534**	**4,788**
3.2 Other changes	41,739	4,599
3.1 Actuarial losses	4,795	189
4. Closing balance	**(159,949)**	**(124,221)**

Section 2 – Own funds and capital adequacy ratios

Information about own funds and capital adequacy is provided in the "Public Disclosures at 31 December 2019 – Pillar 3" document, to which reference should be made.
The document is published together with the Consolidated financial statements at 31 December 2019 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: acquisition of Arca Holding s.p.a. (and, indirectly, Arca Fondi SGR s.p.a.)

Description of the transaction

After obtaining the relevant permissions from the competent Authorities, on 22 July 2019 BPER Banca completed the acquisition of a further 24.31% interest in the share capital of Arca Holding s.p.a. (also "Arca Holding"), which was previously a 32.75%-held associated company.

In particular, on 13 February 2019, BPER Banca S.p.A. and Banca Popolare di Sondrio S.c.p.a. were formally recognised by the government–appointed commissioners of Banca Popolare di Vicenza s.p.a. in LCA and Veneto Banca s.p.a. in LCA as the purchasers of a total of 19,999,000 ordinary shares in Arca Holding, representing 39.99% of the share capital of that company.

More specifically, BPER Banca acquired 12,154,752 ordinary shares in Arca Holding for Euro 83,867,788.80 and now owns 57.06% of the share capital of Arca Holding (which wholly owns Arca Fondi SGR).

The remainder of the shares was purchased by Banca Popolare di Sondrio, with which BPER Banca has signed a shareholders' agreement covering the reciprocal relations of the two banks in such areas as corporate governance and the transfer of shares. In addition to Banca Popolare di Sondrio, the other minority interests (amounting in total to 42.94% of share capital) are held by other banks.

The reasons for the transaction are described in the Directors' report on Group Operations, in the section entitled "Significant events and strategic operations".

The disclosures required by IFRS 3 B64 q (i), being the revenues and the profits/losses of the acquired entity between the acquisition date and the reporting date, are provided below.

(in thousands)

Name	Total revenues (*)	Net profit/loss (**)
Arca Holding	102,274	68,006

**The data refers to Net interest and other banking income.*

*** The data includes the minority interest.*

Accounting treatment of the transaction

The acquisition of Arca Holding and, indirectly, of Arca Fondi SGR has been recognised in the consolidated financial statements of the BPER Banca Group in accordance with IFRS 3 "Business Combinations", which requires recognition from the date on which the purchaser obtains effective control over the business or the activities acquired. In the circumstances, that took place on 22 July 2019, when the conditions precedent were satisfied for completion of the contract signed on 13 February 2019.

Specifically, since the purchaser held a non-controlling interest immediately prior to obtaining full control, the business combination was recognised as a step acquisition (governed by IFRS 3.41 and 42). In addition to the information provided in Part A.2 of these Explanatory notes about business combinations recognised using the acquisition method, it is also noted that the purchaser in a step acquisition must remeasure at fair value the equity interest already held at the business combination date and recognise any adjustments in the income statement. In this regard, the consolidated carrying amount of the equity interest already held at the combination date was essentially the same as its fair value[67]. As described in Part A.4, this fair value was determined using an internal measurement model.

	(in thousands)
Arca Holding	
Accounting difference between assets and liabilities* at 1st July 2019 (A)	**116,912**
Value of the consideration (B)	83,868
Value of previously-held equity interest (C)	203,062
Positive difference to allocate ((B+C)-A)	**170,018**

** Shareholders' equity net of goodwill and referring to the interest held.*

The consolidated financial statements at 31 December 2019 were prepared using the final Purchase Price Allocation, following determination by the BPER Banca Group of the fair values of the assets and liabilities acquired at the above acquisition date.

Following allocation of the purchase price paid, the entire residual positive difference was allocated to goodwill (Euro 170 million), which is classified among the "Intangible assets". The fair value, at the acquisition date, of the assets acquired and liabilities assumed is presented below; for accounting purposes, the business combination was recognised using the carrying amounts of the acquired entity at 1 July 2019, being the effective date of the absorption for tax and accounting purposes.

(in thousands)

Purchased assets		Book Value 01.07.2019	Purchase Price Allocation	Fair value 01.07.2019
10.	Cash and cash equivalents	3	-	3
20.	Financial assets measured at fair value through profit or loss	92,198	-	92,198
	c) other financial assets mandatorily measured at fair value	92,198	-	92,198
40.	Financial assets measured at amortised cost	145,988	-	145,988
80.	Property, plant and equipment	16,409	-	16,409
90.	Intangible assets	9,885	-	9,885
100.	Tax assets	39,507	-	39,507
	a) current	7,367	-	7,367
	b) deferred	32,140	-	32,140
120.	Other assets	2,980	-	2,980
	Total	**306,970**	**-**	**306,970**

[67] *Net of Euro 224 thousand credited to income statement caption "250. Gains (Losses) on equity investments".*

(in thousands)

Purchased liabilities		Book Value 01.07.2019	Purchase Price Allocation	Fair value 01.07.2019
10.	Financial liabilities measured at amortised cost	57,611	-	57,611
	a) debts	57,611	-	57,611
60.	Tax liabilities	10,796	-	10,796
	a) current	8,226	-	8,226
	b) deferred	2,570	-	2,570
80.	Other liabilities	15,677	-	15,677
90.	Employee termination indemnities	447	-	447
100.	Provisions for risks and charges	17,549	-	17,549
	b) pension and similar obligations	469	-	469
	c) other provisions for risks and charges	17,080	-	17,080
	Accounting difference between assets and liabilities	204,890	-	204,890
	Total	**306,970**	**-**	**306,970**

The considerations made when determining, with support from an external advisor, the fair value of the principal assets and liabilities for PPA purposes are summarised below:

- Financial assets measured at fair value through profit or loss: the portfolio includes the units in UCITS held for investment purposes by Arca Holding, classified in class L1 of the fair value hierarchy. As these instruments were already carried at fair value among the assets of the acquired company, no PPA was made to this caption;
- Financial assets measured at amortised cost: this caption comprises the commissions charged to the mutual funds and pension funds promoted, which were collected a few working days after the end of the quarter. Given the short-term exposure and the limited credit risk, no difference between the carrying amount and fair value was identified;
- Property, plant and equipment: this caption principally comprises the land and buildings used as the corporate headquarters. The market value of that property, considered to be its fair value at the date of the business combination, was essentially in line with its net carrying amount, without any effect on the PPA;
- Intangible assets other than goodwill: the intangible assets with a finite useful life, deriving from prior business combinations and already recognised in the consolidated financial statements of Arca Holding, had already been amortised by 50% since their initial recognition. Fair value was found to be substantially in line with the related net carrying amounts;
- Financial liabilities measured at amortised cost: this caption principally includes amounts due to sales networks for their share of commission income; the remainder comprises amounts payable for the administration of the above retrocessions and for the provision of outsourced services closely linked to the core business. Since these were short-term positions settled within a few days of the reference date, no differences between their carrying amounts and the related fair value were identified;
- Tax assets and liabilities: the analyses carried out did not identify any need to revise the deferred taxes recorded the financial statements. No additional deferred tax assets or liabilities were recognised, as no differences were found in the other reported balance sheet amounts;
- Contingent liabilities: analysis of the risks faced by Arca Holding and Arca Fondi SGR did not identify any need to revise or supplement the provisions for risks and charges already recorded in the financial statements. No situations attributable to loss contracts were identified.

The following information is provided about the intangible assets not recognised in the financial statements of the acquired company:

- Intangible assets – client relationships: considering that the distribution networks for the products promoted by Arca Fondi SGR belong to third parties (the banks that place the products), that the client relationships are managed directly by the distribution networks and that the placement agreements do not include exclusivity clauses, the conditions for identifying the client relationships as an intangible asset were not satisfied.
- Intangible assets – trademarks: clients in the financial sector display increasingly less trademark loyalty, placing more emphasis on their relations with the product manager or on their search for the best deal, which is facilitated by the ease with which relationships can be transferred. Considering this analysis of the client relationship, given the close ties between the two assets, the conditions for measuring trademarks at their fair value were not satisfied.
- Intangible assets – operating agreements: the conditions for recognising the value of operating agreements were not satisfied, given that:
    i. operating agreements are a fundamental asset for Arca Fondi SGR, without which operations would be compromised in the absence of its own distribution network. In the current configuration, assignment of the operating agreements cannot be contemplated without including the entire operating structure of Arca Fondi SGR, and vice versa. Accordingly, the condition for the identification of an intangible asset, being its separate transferability, is not satisfied;
    ii. the profit-sharing agreements between Arca Fondi SGR and the placement banks do not contain strict termination clauses, merely requiring 3 months' notice without any need for justification;
    iii. the change in the ownership structure, with a controlling shareholder, might result in changes in the relationships currently existing between Arca Fondi SGR and the distribution networks not operated by BPER Banca. This situation makes the residual lives of these operating agreements somewhat uncertain.

Finally, the business combination does not envisage any potential consideration.
The goodwill recorded totalling Euro 170 million is justified by the recognised managerial ability of the company as a business entity capable of generating future profits; accordingly, for the above reasons, it was not possible to allocate that amount to any assets, liabilities or specific off-balance sheet intangible assets. See the information provided in Part B, Section 10 of the Explanatory notes about the outcome of the impairment test carried out on this amount at 31 December 2019. Goodwill is ignored for tax purposes.

1.2 Business combinations: acquisition of Unipol Banca s.p.a. (and, indirectly, of Finitalia s.p.a.)

The strategic transactions agreed between BPER Banca and the Unipol Group on 7 February 2019 were finalized on 31 July 2019.
Accordingly, BPER Banca acquired from Unipol Gruppo s.p.a. and UnipolSai Assicurazioni s.p.a. respectively 85.24% and 14.76% of the share capital of Unipol Banca s.p.a., obtaining in total 100% of the share capital, as well as 100% of the share capital of Finitalia S.p.A., which was a wholly-owned subsidiary of Unipol Banca.
More specifically, Unipol Gruppo sold 764,955,603 ordinary shares to BPER Banca for Euro 187,534,209, while UnipolSai sold 132,428,578 ordinary shares to BPER Banca for Euro 32,465,791. As a result, BPER Banca acquired 100% of the share capital for a total price of Euro 220,000,000.
In the months that followed, BPER Banca completed the formalities that resulted in the absorption of Unipol Banca by BPER Banca on 25 November 2019; the tax and accounting effects were backdated to 1 July 2019.
The reasons for the transaction are described in the Directors' report on Group Operations, in the section entitled "Significant events and strategic operations".

The disclosure required by IFRS 3 § B64 (q) (i), i.e. the revenues and profits/losses of the entity acquired between the acquisition date and the reporting date, is only provided below with regard to Finitalia because, following the absorption of Unipol Banca by BPER Banca without distinguishing a separate operating segment, the related information is not available for the former Unipol Banca business.

(in thousands)

Name	Total revenues (*)	Net profit/loss
Finitalia	31,821	20,122

**The data refers to Net interest and other banking income.*

Accounting treatment of the transaction

IFRS 3 "Business combinations" is the reference accounting standard for the recognition of the acquisition of Unipol Banca and, indirectly, of Finitalia in the consolidated financial statements of the BPER Banca Group.
For a more detailed description of the standard, see Part A.2 of the Explanatory notes on business combinations recognised using the acquisition method.

In accordance with the above standard, an acquisition must be recognised on the date that control over the business or operations is acquired: in this case, 31 July 2019, being the date on which the conditions precedent agreed in the contract signed on 7 February 2019 were satisfied.

The consolidated financial statements were prepared using the final Purchase Price Allocation (PPA), following measurement by BPER Banca Group of the fair value of the assets acquired and liabilities assumed.
Recognition of the fair values led to the identification of badwill totalling Euro 343.4 million, as detailed below. The bargain purchase represented by the transaction was essentially due to the favourable market

conditions for purchasers at the time; in particular, one of the reference parameters for determining price in similar circumstances, together with others of lesser significance, is the ratio of market price to the book value of listed banks.

The table below summarises the adjustments made and the economic benefit (so-called “badwill” or gain on a bargain purchase) following definitive allocation of the cost, identifying the fair value of identifiable assets and liabilities (including contingent liabilities) at the acquisition date; the business combination was recognised in the consolidated financial statements using the carrying amounts of the acquired entity at 1 July 2019, on the reasonable assumption that the time difference with respect to the actual combination date – 31 July 2019 – would not given rise to any significant effects.

(in thousands)

PPA Unipol Banca	
Accounting difference between assets and liabilities* at 1st July 2019 (A)	**573,805**
Value of the consideration (B)	220,000
Negative difference to allocate (B-A)	**353,805**
Greater fv of Financial assets measured at fair value	12,008
Greater fv of debt securities classified as Financial assets measured at amortised cost	29,879
Greater fv of performing Loans to customers	30,804
Smaller fv of non-performing Loans to customers	(69,683)
Greater fv of Property, plant and equipment	1,163
Greater fv of IFRS 16 rights of use	41,332
Greater fv of Intangible assets	30,500
Smaller fv of Tax assets (*)	(6,433)
Greater fv of Exposures classified as Other Assets	1,382
Greater fv di Tax Liabilities (*)	(20,189)
Greater fv of IFRS 16 lease liabilities	(41,950)
Greater fv of Debt securities issued	(10,988)
Greater fv of contingent liabilities	(8,269)
Badwill	**343,361**

(*) The effects of deferred taxes caused by misalignments between book values and fair values are included.

On completion of the allocation process, the total benefit of the acquisition, Euro 343.4 million, was recognised as income in caption of the income statement "Gain on a bargain purchase".

The aggregate book value at the acquisition date of the Unipol Banca and Finitalia assets and liabilities acquired is shown below together with their fair value (gross of tax effect):

(in thousands)

Purchased assets		Book Value 01.07.2019	Purchase Price Allocation	Fair value 01.07.2019
10.	Cash and cash equivalents	76,958		76,958
20.	Financial assets measured at fair value through profit or loss	56,766	10,243	67,009
	a) financial assets held for trading	350		350
	c) other financial assets mandatorily measured at fair value (*)	56,416	10,243	66,659
30.	Financial assets measured at fair value through other comprehensive income (*)	539,334	1,765	541,099
40.	Financial assets measured at amortised cost	10,795,362	(9,000)	10,786,362
	a) loans to banks	1,728,609		1,728,609
	b) loans to customers	9,066,753	(9,000)	9,057,753
70.	Equity investments	6,706		6,706
80.	Property, plant and equipment	94,183	42,495	136,678
90.	Intangible assets	370	30,500	30,870
	of which:			-
	- goodwill	-	-	-
100.	Tax assets	129,809	(6,433)	123,376
	a) current	1,504		1,504
	b) deferred	128,305	(6,433)	121,872
120.	Other assets	353,298	1,382	354,680
	Total	**12,052,786**	**70,952**	**12,123,738**

(*) Euro 1,836 thousand was reclassified between the FVOCI and the FVTPL portfolios.

(in thousands)

Purchased liabilities		Book Value 01.07.2019	Purchase Price Allocation	Fair value 01.07.2019
10.	Financial liabilities measured at amortised cost	10,904,055	52,938	10,956,993
	a) due to banks	1,001,750	2	1,001,752
	b) due to customers	8,649,933	41,948	8,691,881
	c) debt securities issued	1,252,372	10,988	1,263,360
20.	Financial liabilities held for trading	39		39
60.	Tax liabilities	7,047	20,189	27,236
	a) current	4,296		4,296
	b) deferred	2,751	20,189	22,940
80.	Other liabilities	489,822		489,822
90.	Employee termination indemnities	10,145		10,145
100.	Provisions for risks and charges	67,873	8,269	76,142
	a) commitments and guarantees granted	1,981		1,981
	b) pension and similar obligations	1,043		1,043
	c) other provisions for risks and charges	64,849	8,269	73,118
	Accounting difference between assets and liabilities	573,805	(10,444)	563,361
	Total	**12,052,786**	**70,952**	**12,123,738**

The considerations made in the process of determining fair value for the purposes of the PPA are summarised below and were carried out with the support of an external advisor:

- Performing loans: the measurement of performing loans at fair value identified a surplus with respect to their carrying amount of Euro 30.8 million, gross of the related deferred tax effect. Further information is provided later about the measurement methodology used and its effects.
- Non-performing loans: the measurement of non-performing loans at fair value identified a deficit with respect to their carrying amount of Euro 69.7 million, gross of the related deferred tax effect. Further information is provided below about the measurement methodology used and the relevant effects.
- Intangible assets: analyses indicated that the fair value of the “Client Relationship”, not recorded in the financial statements of Unipol Banca, was Euro 30.5 million. It was not appropriate to measure the value of the Client Relationship represented by so-called Core Deposits, as the benefit from the lower cost of that funding with respect to alternative sources (so called mark-down) was zero.

  Conversely, the fair value of the client relationships linked to the management and administration of indirect deposits was determined by discounting the net cash flows (margin for the Bank) expected from existing relationships, over a time horizon estimated with reference to the average duration of those relationships (so called churn rate), as adjusted to consider of estimated attrition. The above cash flows were discounted using the cost of own capital (Ke), consistent with the equivalent parameter used to determine the fair value of loans and advances.
- Property, plant and equipment: the measurement was based on on-site appraisals of the properties owned by Unipol Banca provided by the independent expert appointed by the BPER Banca Group. The measurement at fair value identified a surplus with respect to their carrying amount of Euro 1.2 million, gross of the related deferred tax effect. This additional value mainly relates to a property in Rome used for operational purposes.
- Asset securities: the measurement at fair value identified a surplus with respect to their carrying amount of Euro 41.9 million, gross of the related deferred tax effect. In particular: the additional value of (i) securities measured at FVTPL was Euro 10.2 million, (ii) securities measured at FVOCI was Euro 1.8 million and (iii) securities measured at amortised cost was Euro 29.9 million. The measurement differences in relation to instruments already measured at fair value (FVTPL and FVOCI) arose from the different internal models used to measure financial instruments not listed in active markets; the BPER Banca Group applied the methodologies described in Part A.4 of the Explanatory notes. The financial instruments measured at amortised cost (Italian government securities) were measured at their market price on the business combination date.
- Other assets: the measurement at fair value identified a surplus with respect to their carrying amount of Euro 1.4 million. In particular: (i) higher value of indemnities recognised in relation to the provisions for risks covered by contractual special indemnities (described briefly below), resulting in a surplus of Euro 2.4 million, already net of the related deferred tax effect (ii) write-downs of two items not recoverable by Unipol Banca totalling Euro 1 million, gross of the related deferred tax effect.

  In the context of the contract to purchase the entire equity interest in Unipol Banca, the sellers gave a guarantee regarding certain disputes to which the acquired bank was party, ensuring indemnities to BPER Banca for any liabilities and legal charges deriving from adverse court rulings for amounts in excess of the provisions for risks already recorded at 31 March 2019. In accordance with IFRS 3.27-28, this guarantee has resulted in recognition of the above indemnities following increases in the provisions recorded by Unipol Banca at 30 June 2019 and the PPA measurements made by BPER Banca.

- Tax assets: the analyses identified a reduction in the value of tax assets by Euro 10.1 million due to reversal of part of the DTAs recognised in the financial statements of Unipol Banca, deemed unrecoverable against the taxable income of the Parent company, as well as additional tax assets of Euro 3.7 million related to differences between carrying amounts and fair values.
- Securities issued: measurement at fair value identified an additional amount with respect to their book value of Euro 11 million, gross of the related deferred tax effect, principally comprising the higher amounts for all types of security issued, especially senior securities at fixed rates, totalling Euro 10.1 million.
  The fair value of the bonds issued, which are not instruments listed in regulated markets, was measured by discounting their future cash flows (DCF method) using a rate that includes the issuer risk associated with the BPER Banca Group.
- Right of Use: analyses resulted in the recognition of right-of-use assets totalling Euro 41.3 million and lease liabilities of Euro 41.9 million, deriving from the application of paras. 28A and 28B of IFRS 3.
- Contingent liabilities: the analysis of contingent liabilities resulted in the recognition of a higher amount with respect to their book value of Euro 8.3 million, gross of the related deferred tax effect, in relation to (i) civil disputes covered by the special indemnity of Euro 2.5 million, (ii) contingent liabilities in relation to other risks linked with the operations of the acquired bank and other civil disputes of Euro 5.8 million.
- Deferred tax liabilities: the analyses identified deferred tax liabilities of Euro 20.2 million, related to differences between carrying amounts and fair value.

The composition of Loans to customers (classified as "Financial assets measured at amortised cost") is analysed below by risk category at the PPA date:

(in thousands)

Purchased assets	Gross book value 01.07.2019	Impairment provisions 01.07.2019	Net book value 01.07.2019	Purchase Price Allocation	Fair value 01.07.2019
Performing loans	7,994,990	(46,741)	7,948,249	30,804	7,979,053
Non-Performing Loans	725,920	(346,616)	379,304	(69,683)	309,621
Bad loans	96,691	(67,858)	28,833	(7,032)	21,801
Unlikely to pay loans	591,067	(272,572)	318,495	(61,085)	257,410
Past due exposueres	38,162	(6,186)	31,976	(1,566)	30,410
Total	**8,720,910**	**(393,357)**	**8,327,553**	**(38,879)**	**8,288,674**

The fair value of performing and non-performing loans was determined by discounting the expected gross cash flows, as suitably adjusted to consider the expected losses and the related operating costs (recovery costs incurred in relation to non-performing positions), using a rate linked to the Weighted Average Cost of Capital (WACC). This model reflects the remuneration that would be required by investors for the purchase, on normal contractual and market conditions, of a portfolio of loans similar to that being measured. Separate rates were determined for performing and non-performing loans. For the latter, the discounting process also considered the time needed to recover the expected cash flows. The parameters used in the model were determined with maximum recourse to the available market information.

Following the identification of badwill during the PPA process, pursuant to IFRS 3.36, the BPER Banca Group deemed it appropriate to check the entire process required by IFRS 3 by obtaining a fairness opinion from a firm of independent external expert, different to that appointed to perform the audit of the Group. That opinion, which confirmed badwill of Euro 343.4 million, was obtained on 21 January 2020.

Other information

A second transactions between the parties involved in the business combination was carried out on 31 July 2019, being the sale by the BPER Banca Group to UnipolReC (wholly owned by the Unipol Group) of a portfolio of bad loans granted by BPER Banca and Banco di Sardegna, of which the gross carrying amount as at 30 September (reference date for the sale) was about Euro 1 billion (gross recoverable value of about Euro 1.3 billion). The consideration received (Euro 102 million) was in line with the net carrying amount of the loans sold and, therefore, had no significant economic effect on the consolidated financial statements of the BPER Banca Group. This transaction was recognised and reported in the financial statements separately from the business combination that resulted in the acquisition of control of Unipol Banca.

As required by IFRS 3, B64 q ii.), the following pro forma information is presented about the full-year revenues, profits and losses of the combined entity had the above business combinations been effective at the start of the reporting period.

(in thousands)

Name	Total revenues (*)	Net profit/loss
Gruppo BPER Banca	2,482,030	400,892

** The data refers to Net interest and other banking income.*

1.3 Operations between entities under common control

On 6 May 2019 BPER Banca purchased up to 100% of the shares of BPER Services s.c.p.a. held by other Group companies, as a preliminary step towards the merger which took place on 10 June 2019 (with accounting and tax effects backdated to 1 January 2019).
The transaction was consistent with the action plan that has reduced the number of legal entities belonging to the BPER Group with a view to improving operating efficiency and creating cost/income synergies. As a business combination between entities under common control, the transaction is not addressed by IFRS 3 and has been recognised using the carrying amounts reported in the consolidated financial statements of the Parent Company. As this transaction involved the absorption of a wholly-owned subsidiary, there was no effect on the consolidated financial statements.
Ten branches in the Unipol Banca network located in Sardinia were transferred to Banco di Sardegna on 25 November 2019, consistent with the distribution model adopted by the BPER Banca Group, which limits presence on the island to branches operated by Banco di Sardegna; this transaction had already been approved by the Board of Directors of BPER Banca on 7 August 2019.
As the transfer took place between Unipol Banca and Banco di Sardegna, it was reported at the related carrying amounts in the financial statements of the subsidiary companies and banks, as appropriate for entities under common control, and was not relevant for consolidation purposes.

Section 2 – Transactions subsequent to the year end

2.1 Business combinations

No business combinations have been carried out subsequent to the end of 2019.
Although obviously not a completed business combination, it is relevant in this context to refer to the information on subsequent events provided in Part A and in the Directors' Report on Group Operations about the possible acquisition of a line business under an agreement with conditions precedent between BPER Banca and Intesa Sanpaolo.

Part H – Related-party transactions

1. Information on the remuneration of Managers with strategic responsibilities

Description		31.12.2019	31.12.2018
Directors			
-	short-term benefits (as shown in the Parent Company's annual report)	3,059	2,854
-	other long-term benefits (as shown in the Parent Company's annual report)	302	248
-	directors' emoluments received from other banks and companies within the scope of consolidation on a line-by-line basis	14	82
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 the executive subcommittees):			
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.	3,150	3,084
	- other short-term benefits - contributions for social contributions (as shown in the Parent Company's annual report)	1,002	943
	- directors' emoluments received from other Banks and Companies within the scope of consolidation on a line-by-line basis	218	331
2	post-employment benefits includes payments to supplementary pension funds and provisions for termination indemnities	297	292
3	other long-term benefits	584	442
4	indemnities for termination of employment	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 paid. These amounts are classified in the income statement caption 190-a "Staff costs".
As regards the Directors, note that the amount shown (€ 3,059 thousand) consists of their emoluments for the period in accordance with art. 11 of the Articles of Association. More specifically:
- € 1,742 thousand (€ 1,536 thousand at 31 December 2018), comprising the fees payable to the Directors (€ 1,081 thousand), the additional emoluments due to members of the Executive Committee (€ 163 thousand) and all other Board committees (€ 364 thousand), as well as the attendance fees payable for participating in meetings of the Board of Directors (€ 134 thousand);
- € 365 thousand (€ 402 thousand at 31 December 2018) 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 sought the opinion of the Board of Statutory Auditors;
- € 850 thousand (unchanged compared with the same period of the previous year) of additional emoluments payable to the Chief Executive Officer, again in compliance with the Articles of Association, plus € 98 thousand of variable remuneration and € 4 thousand of further non-monetary benefits.
Other long-term benefits worth € 302 thousand for the Directors (specifically, the Chief Executive Officer), relating, as indicated in the Report on Remuneration, to deferred variable remuneration inclusive of € 208 thousand for a phantom stock-based remuneration plan.
The amounts shown for other Managers with strategic responsibilities (the General Manager, 5 Deputy General Managers, the Manager responsible for preparing the company's financial reports and 3 other Managers belonging to the Group top management 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 requirements.
Other long-term benefits for the Managers with strategic responsibilities relate entirely to deferred variable remuneration inclusive of Euro 441 thousand for the valuation of the Phantom Stocks assigned.

2. Related-party disclosures

The following shows the transactions with related parties, identified in application of IAS 24.

	Assets	Liabilities	Guarantees and commitments	Revenues	Costs
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**
Subsidiaries	262,757	18,651	-	3,186	2,655
Associates	655,060	6,988	42,637	4,795	2,106
Directors, Statutory Auditors and Managers	639	1,397	-	69	8
Other related parties	2,919	104,033	619	103,417	2,083
Total 31.12.2018	**921,375**	**131,069**	**43,256**	**111,467**	**6,852**

There are no critical outstanding balances or transactions with related parties. 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.
"Other related parties" are presented by situations other than those set out in the table, such as entities controlled by associated companies of BPER Banca and entities subject to the control of directors, statutory auditors or managers, or by subjects that may have significant influence over them, as defined by IAS 24.
The total amount of cash and endorsement loans to Directors, Statutory Auditors, Managers and other related parties comes to € 346.4 million (€ 4.2 million at 31 December 2018). The above amount represents 0.34% of total cash and endorsement loans.
With reference to the entry into force, in 2012, of the regulation on "Risk Activities and Conflicts of Interest with Related Parties" contained in the 9th update to Bank of Italy Circular 263/2006, the BPER Banca Group has adopted a series of regulations that include the Group policy governing non-compliance risk in relation to conflicts of interest with related parties and risk activities involving related parties, which describes the prudential limits placed on risk activities involving related parties; continuous monitoring of the limits; managing situations where the limits have been 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.
The provisions for doubtful loans to associates total € 3.4 million; no losses were recognised during the year.

	Assets	Liabilities	Guarantees and commitments	Revenues	Costs
Total reference amounts - 31.12.2019	79,033,498	73,779,701	21,421,925	2,732,405	2,147,034
Total reference amounts - 31.12.2018	70,634,767	65,738,199	21,077,597	2,423,791	1,814,530

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	0.45%	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%**
Subsidiaries	0.37%	0.03%	0.00%	0.13%	0.15%
Associates	0.93%	0.01%	0.20%	0.20%	0.12%
Directors, Statutory Auditors and Managers	0.00%	0.00%	0.00%	0.00%	0.00%
Other related parties	0.00%	0.16%	0.00%	4.27%	0.11%
Total 31.12.2018	**1.30%**	**0.20%**	**0.20%**	**4.60%**	**0.38%**

Part I – Equity-based payments

Qualitative information

1. Description of equity-based payments

On 27 February 2019, the Board of Directors of BPER Banca approved the "2019-2021 Long-Term Incentive Plan for key personnel", pursuant to art. 114-bis of Legislative Decree 58 of 24 February 1998, in implementation of the Remuneration policies for 2019 of the BPER Banca Group.
Subsequently, on 5 March 2019, the Board of Directors approved:

- the Remuneration Report pursuant to art. 123-*ter* of Legislative Decree 58 dated 24 February 1998, relating to the Remuneration policies for 2019 of the BPER Banca Group;
- the remuneration plan pursuant to art. 114-bis of Legislative Decree 58 dated 24 February 1998, implementing the Remuneration policies for 2019 of the BPER Group. The Plan covers those employees of the BPER Banca Group identified as "key personnel" in accordance with the 25th update of 23 November 2018 of Circular 285 "Supervisory Provisions for banks", Title IV, Chapter 2 "Remuneration and incentive policies and practices" and in Delegated EU Regulation 604 of 4 March 2014.

The documents above were approved by BPER Banca's Shareholders' Meeting held on 17 April 2019 at single calling.

The remuneration of key personnel is composed of a fixed element and a short-term variable element that for some may also be long-term.
With regard to the maximum ratio between the variable and fixed elements, the above Meeting authorised the raising of this ratio to a maximum of 2:1 for key personnel, excluding those responsible for control and similar functions, in order to have the room to make payments ahead or at the time of early terminations of working relationships or appointments, and to establish all the operational levers needed to attract external resources that can contribute to achievement of the established business objectives.
In general, the above limit is maintained below the regulatory limit of 100% of the fixed element, being set at a maximum of 60%, except for specific situations in which it can be raised to 100% or to the limit authorised in a specific shareholders' resolution[68], subject to particularly strict rules (Bank of Italy Circular 285, 25th updated issued on 23 October 2018, Section III paras. 1.2, 2.1 points 3 and 4, 2.2.1 and 2.2.2).
With particular regard to risk alignment before the event, this is based on actual and lasting results, it also takes qualitative objectives into account, it is parameterised to performance indicators, it is measured net of risks and takes into account the level of capital resources.
The sustainability of the overall maximum amount of variable remuneration allocated to key personnel (those most responsible for running the company), is assessed in relation to the economic and financial stability of the Group as a whole.

[68] *for example, the granting of entry bonuses or incentive packages designed to facilitate the acquisition of resources that the company deems necessary for the achievement of important objectives.*

Short-term variable component

The payment of bonuses is dependent on achieving basic economic and financial objectives (the so-called "entry gates") that have to be achieved at the same time.
The entry gates that have been identified are based on the following parameters:

- Common Equity Tier 1 (CET 1) – Pillar 1 consolidated ratio;
- Consolidated Return On Risk-Weighted Assets (RORWA);
- Consolidated Liquidity Coverage Ratio (LCR).

If all the above entry gates are achieved, the company's results are subjected to an assessment that results in the application of a multiplier/demultiplier mechanism which acts directly on the individual target bonuses.
In particular, the target bonus for key personnel belonging to the Parent Company, with the exception of those within the branch network, is determined entirely with reference to the *"Profit from current operations before tax"* caption of the consolidated financial statements.
For key personnel belonging to Group companies and those of the Parent Company within the branch network, the target bonus is determined with reference to both the *"Profit from current operations before tax"* caption of the consolidated financial statements and the same caption of the company to which they belong.
After verifying that the entry gates have been exceeded and the target bonus has been calculated (and the size of the available bonus pool checked), the actual allocation of the bonus and the related amount, relating to the maximum level[69] of the variable remuneration, are defined via an assessment of individual performance that includes an analysis of various quantitative and qualitative 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"[70].
In particular, this Plan provides for (apart from as provided by the stricter regulations foreseen for the CEO of the Parent Company):

Material Risk Takers (MRTs) belonging to top management

- Bonus > Euro 434 thousand (particularly high amount)[71]
  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% (25% cash and 35% through phantom stock) is deferred in equal annual instalments over the five 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 100 thousand ≤ Euro 434 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;

[69] *The theoretical maximum amount of the bonus payable is the sum of the maximum bonuses obtainable at an individual level.*
[70] *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 2019, at the payment date.*
[71] *As defined by Bank of Italy's Circular 285, 25th update.*

b) 55% (25% cash and 30% phantom stock) is deferred in equal annual instalments over the five 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 30 thousand ≤ Euro 100 thousand – simplified procedure
  a) 55% of the bonus is granted through phantom stock, allotted in equal annual instalments over 5 years from that of the grant, subject to a retention period (during which the shares cannot be sold) of 1 year starting from the vesting date of each deferred tranche;
  b) 45% is awarded in cash up-front. A deductible threshold[72] is reserved, by which the first Euro 30 thousand (or 30% of the GAS, if lower) gets paid up-front in the form of cash.

Material Risk Takers (MRTs) not belonging to top management

- Bonus > Euro 434 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 five 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 100 thousand ≤ Euro 434 thousand
  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 30 thousand ≤ Euro 100 thousand
  a) 50% of the bonus is granted through phantom stock, allotted in equal annual instalments over 3 years from that of the grant and subject to verification of the maintenance of adequate income and capital standards, subject to a retention period (during which the shares cannot be sold) of 1 year starting from the vesting date of each deferred tranche.
  b) 50% is awarded in cash up-front. A deductible threshold is reserved, by which the first Euro 30 thousand (or 30% of the GAS, if lower) gets paid up-front in the form of cash.

The deferred instalments are subject to malus rules that can reduce the instalment to zero in the event of failure to achieve the access thresholds ("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 on activation of the clawback clauses. Note that there are compensation plans still outstanding for the years 2015, 2017 and 2018.

[72] *For example, a bonus of Euro 40 thousand is divided into Euro 30 thousand cash up-front and Euro 10 thousand deferred over five years and paid through phantom stock; a bonus of Euro 90 thousand is divided into 40,500 (45%) cash up-front and 49,500 deferred over five years and paid through phantom stock.*

Long-term variable component – LTI Plan

The Group has defined 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 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 ordinary Shareholders' Meeting held on 17 April 2019 authorised the acquisition and disposal of treasury shares pursuant to arts. 2357 and 2357-ter of the Italian Civil Code and art. 132 of Legislative Decree 58/1998 and subsequent amendments and additions, in order to service the "Long-Term Incentive Plan (LTI) 2019-2021 for strategic personnel" of the Parent Company and Group Companies (approximately 40 top managers within the Group considered key to the success of the Business Plan).

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 key personnel is set at a 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).

After checking that the entry gates have been achieved and calculating the target bonus, 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 Group's 2019 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) 575/2019, the Group provides information on Remuneration Policies also in the "Public Disclosures at 31 December 2019 – Pillar 3" document which is available, as provided by law, on the website of the Parent Company http://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.
Purchase of the shares was subject to issue of the required authorisation from the ECB, which was received on 24 April 2019.
At 31 December 2019, the BPER Banca Group has not yet purchased any treasury shares in order to service the Plan.

2. Other information

Determination of fair value and accounting treatment

Short-term variable component
Note that the variable remuneration for 2019 is currently being determined. With reference to the compensation plan for 2019, in the light of the economic and financial results achieved at Group level, it is estimated that 255,570 phantom shares will be allocated for a total consideration of Euro 1,147 thousand.
Please also note that the same results affect the 2017 Plan allowing the vesting of 9,629 phantom shares, for a consideration of Euro 43 thousand and the 2018 Plan allowing the vesting of 90,149 phantom shares for a consideration of Euro 405 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.
In order to estimate the potential number of shares that may be granted to each beneficiary on achievement of the target objectives, the meeting of the Parent Company's Board of Directors held on 27 February 2019 considered a total bonus linked to the GAS of each beneficiary (percentage varying from a minimum of 90% to a maximum of 120%, depending on the professional role), totalling about Euro 7.8 million. On the grant date, 4 December 2019, membership of the group of employees and managers identified at 27 February 2019 was revised in accordance with the "LTI Plan Regulation" prepared by the Group (changes in the key personnel identified). As a result, the total potential number of shares that may be granted was also revised.

At 31 December 2019, the total plan bonus therefore amounts to Euro 8.4 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, being 3.74 euro, resulted in estimating the total number of shares to be granted to beneficiaries to be 1,916,380. 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 remaining 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 consider 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 charge for 2019 of Euro 225 thousand (of which Euro 202 thousand attributable to BPER Banca).

Part L – Segment reporting

According to IAS/IFRS, the disclosures in the financial statements must include descriptive information or more detailed analysis of the values shown in the financial statements (balance sheet, income statement, statement of other comprehensive income, statement of changes in shareholders' equity and 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[73], 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 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.

[73] *Information on the individual legal entities can be found in the schedules attached to these consolidated financial statements*

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	545,983	6,235	323,905	23,746	201,085	59,453	4,132	1,164,539
Net commission income	679,085	75,387	156,861	17,114	-	-	3,503	931,950
Net interest and other banking income	1,223,407	81,592	470,259	40,605	337,194	59,459	12,067	2,224,583
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**
Net income from financial activities 31.12.2018	**861,271**	**80,396**	**338,808**	**9,748**	**353,290**	**158,955**	**7,933**	**1,810,401**
Operating costs	(967,623)	(40,906)	(250,850)	(32,098)	(18,616)	(368,374)	(29,920)	(1,708,387)
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**
Profit (Loss) from current operations before tax 31.12.2018	**182,007**	**50,008**	**147,654**	**(12,317)**	**344,097**	**(216,860)**	**(149,063)**	**345,526**

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 2018.

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	5,515	95	19,623	3,504	48	28,785
Management, brokerage and consulting:	411,119	72,131	988	4,182	1,360	489,780
- placement of securities	97,406	32,877	3,422	291	-	133,996
- distribution of third-party services	106,109	15,921	(16,492)	862	-	106,400
Collection and payment services	102,098	1,327	31,705	4,316	238	139,684
Management of current accounts	147,340	1,540	26,020	1,658	-	176,558
Other commission income	109,450	1,826	89,840	5,067	2,010	208,193
- commission income on other loans to customers	65,270	533	62,046	3,611	-	131,460
Total Assets 31.12.2019	**775,522**	**76,919**	**168,176**	**18,727**	**3,656**	**1,043,000**

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 the 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 means they have 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	148,743	-	86,771	-	7,298,522	-	142,277	7,676,313
Loans to banks	103,939	-	1,139	-	4,833,553	-	127,748	5,066,379
- debt securities at amortised cost					2,744,570	-		2,744,570
- loans	103,939		1,139		2,088,983	-	127,748	2,321,809
Loans to customers	24,807,499	300,081	24,178,732	2,386,706	8,552,074	-	249,775	60,474,867
- debt securities at amortised cost					8,552,074		9,736	8,561,810
- loans	24,807,499	300,081	24,178,732	2,386,706	-		240,039	51,913,057
Other assets	1,311,442	34,596	329,107	30,857	110,807	3,705,608	293,522	5,815,939
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**
Total Assets 31.12.2018	**20,406,476**	**368,112**	**24,159,578**	**2,847,640**	**18,379,834**	**3,544,365**	**928,762**	**70,634,767**
Due to banks	-	-	335,375	-	11,876,873	-	885	12,213,133
Due to customers	34,097,881	3,500,494	11,774,032	1,760,436	150,201	-	804,196	52,087,240
Debt securities issued	2,241,314	176,287	3,392,780	24,508	-	-	-	5,834,889
Other liabilities and shareholders' equity	663,712	4,426	228,686	1,974	459,818	7,401,319	138,301	8,898,236
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**
Total liabilities 31.12.2018	**31,865,037**	**1,714,473**	**12,645,370**	**1,050,964**	**15,456,559**	**6,834,121**	**1,068,243**	**70,634,767**

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.

Part M – Information on leases

As discussed in Part A – Accounting policies, IFRS 16 Leases, in force from 1 January 2019, has replaced the previous international accounting standards and interpretations including, in particular, IAS 17.
IFRS 16 introduced a new definition of leasing, albeit confirming the distinction between operating and finance leases with reference to their accounting treatment by the lessor.
With reference to the accounting model to be applied by the lessee, the new standard requires the recognition, for all types of lease, of both a Right-of-Use (RoU) asset and the related Lease Liability, being the outstanding lease principal.
At the time of initial recognition this asset must be measured with the reference to the cash flows associated with the lease contract. Subsequent to initial recognition, this asset must be measured in the same way as for intangible assets and property, plant and equipment, pursuant to IAS 16, IAS 38 or IAS 40, and therefore at cost net of accumulated amortisation/depreciation and any impairment, at the "redetermined value" or at fair value, as applicable.
See Part A - Accounting policies of these Explanatory notes for further information about the contents of the standard and the principal accounting elections made by the BPER Banca Group.

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 01.01.2019	Depreciations of the year	Other changes of the year	Impairment losses of the year	Book value 31.12.2019
a) lands	-	-	-	-	-
b) buildings	203,260	(44,910)	109,587	(2,724)	265,213
c) furniture	-	-	-	-	-
d) electronic system	35,711	(8,250)	3,989	-	31,450
e) others	4,029	(2,175)	3,028	-	4,882
Total	**243,000**	**(55,335)**	**116,604**	**(2,724)**	**301,545**

Rights of use acquired through leases at 01.01.2019 include finance leases of € 13 million already recognised in that caption at 31.12.2018 in accordance with IAS 17.
With regard to the other changes during the year:
- arrangement of new contracts totalling € 133 million, of which € 106 million on the absorption of Unipol Banca s.p.a.;
- close-out of contracts with a value on initial recognition of € 11 million;
- positive effect of remeasuring the RoU assets due to ISTAT changes and increases in the lease term;
- negative effect of remeasuring the RoU assets due to renegotiation of the lease instalments and reduction of the lease term on early termination/withdrawal.
- decrease on the reclassification of € 1 million to non-current assets and disposal groups held for sale, in relation to the 5 Sardinian branches of Banco di Sardegna due to be sold.

1.2 Costs and Gains relating to lease transactions other than right of use

	Total 31.12.2019
Costs relating to short-term leases	1,732
Costs relating to lease of assets with a low unit value (*)	13,126
Gains relating to finance sub-leases	1

(*) including VAT

1.3 Lease payables: changes

	Lease payables 01.01.2019	Interest expense	Lease instalments paid	Other changes	Book value 31.12.2019
Total lease payables	241,400	1,834	(55,130)	118,805	306,909

With regard to the other changes during the year, the effect was principally attributable to the absorption of Unipol Banca s.p.a., remeasurement of the lease payable due to ISTAT changes and increases in the lease term; arrangement and close-out of contracts. This caption includes decrease on the reclassification to non-current assets and disposal groups held for sale of the 5 Sardinian branches of Banco di Sardegna due to be sold.

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

C. 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”.

D. Finance leases

2.1 Breakdown by time bands of payments to be received and reconciliation with finance leases recorded as assets

Time bands	31.12.2019 Payments to be received	31.12.2018 Payments to be received
Up to 1 year	634,971	-
Between 1 and 2 years	424,561	-
Between 2 and 3 years	374,226	-
Between 3 and 4 years	317,497	-
Between 4 and 5 years	274,643	-
Over 5 years	1,254,510	-
Total lease payments to be received	**3,280,408**	**-**
Reconciliation with loans		
Not accrued gains (+)	388,858	-
Unguaranteed residual value (-)	-	-
Loans for leases	**2,891,550**	**-**

The table does not show figures as at 31 December 2018 as, given the choice made by the BPER Banca Group for the transition to IFRS 16 without restating the comparative balances, the breakdown required by the 6th update of Bank of Italy Circular 262/2005 is not applicable at that date.
The 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

	31.12.2019	
	Performing exposures	Non-performing exposures
A - Real estate assets	**1,646,627**	**317,242**
Lands	-	-
Buildings	1,646,627	317,242
B - Operating assets	**356,584**	**30,076**
C - Movable assets	**243,291**	**6,001**
Motor vehicles	107,760	2,687
Aircraft and rolling stock	135,505	3,309
Others	26	5
D - Intangible assets	**158,345**	**60**
Trademarks	-	-
Software	-	-
Others	158,345	60
Total	**2,404,847**	**353,379**

2.2.2 Other information about finance leases: unexercised assets, assets withdrawn following termination, other assets

	31.12.2019		
	Unexercised assets	Assets withdrawn following termination	Other assets
A - Real estate assets	**447**	**65,828**	**1,894,488**
Lands	-	-	-
Buildings	447	65,828	1,894,488
B - Operating assets	**-**	**1,032**	**385,634**
C - Movable assets	**50**	**983**	**248,257**
Motor vehicles	-	54	110,376
Aircraft and rolling stock	50	929	137,881
Others	-	-	-
D - Intangible assets	**-**	**-**	**158,404**
Trademarks	-	-	-
Software	-	-	-
Others	-	-	158,404
Total	**497**	**67,843**	**2,686,783**

E. Operating leases

3.1 Breakdown of payments to be received by time bands

Time bands	31.12.2019 Payments to be received for leases	31.12.2018 Payments to be received for leases
Up to one year	7,217	-
Over one year up to 2 years	6,862	-
Over 2 years up to 3 years	6,520	-
Over 3 years up to 4 years	5,360	-
Over 4 years up to 5 years	4,825	-
For over 5 years	23,282	-
Total	**54,066**	**-**

The table does not show figures as at 31 December 2018 as, given the choice made by the BPER Banca Group for the transition to IFRS 16 without restating the comparative balances, the breakdown required by the 6th update of Bank of Italy Circular 262/2005 is not applicable at that date.

3.2 Other information

See the section of the Directors' report on group operations on “Summary of activities”, detailing the activities of the BPER Banca Group in the real estate sector, for the information required by paragraph 92 of IFRS 16.

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 2019 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		664
	Deloitte & Touche s.p.a	Subsidiaries in Italy		432
	Deloitte Audit S.à r.l.	Subsidiaries in Luxembourg		90
Attest services	Deloitte & Touche s.p.a	Parent Company BPER Banca	(1a)	670
	Deloitte & Touche s.p.a	Subsidiaries	(1b)	11
Other services	Deloitte & Touche s.p.a	Parent Company BPER Banca	(2a)	35
	Deloitte & Touche s.p.a	Subsidiaries	(2b)	33
	Deloitte Consulting s.r.l.	Parent Company BPER Banca	(2c)	612
	Deloitte Consulting s.r.l.	Subsidiaries	(2d)	83
Total				**2,630**

Attest services:
(1a) Attest 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 2019 and on the separate and consolidated financial statements at 31 December 2019;
- activities performed in relation to the covered bond issue programmes and EMTN programme;
- 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 (Sustainability Report).
(1b) Attest 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.
Other services:
(2a) Other services provided for by Deloitte & Touche s.p.a.:
- activities carried out in order to confirm the conformity of the 2019 tax returns and the supplementary 2018 tax returns.
(2b) Other services rendered to Group companies by Deloitte & Touche s.p.a.:
- activities carried out in order to confirm the conformity of the 2019 tax returns.
(2c) Other services rendered to the Parent Company by Deloitte Consulting s.r.l.:
- methodological support for identifying the current Pillar III process and preparing the related documentation, in order to assist the Bank in identifying possible gaps with respect to the regulatory requirements;
- methodological support for benchmarking on best practices as part of the assessment carried out prior to defining the new CRM – Client Relationship Management ecosystem;
- methodological support for benchmarking on best practices and recognizing user requirements as part of the ongoing evolution of the Contact Center – Everyday Bank;

- methodological support for recognizing the input flows to the accounting normaliser;
- methodological support for recognizing user requirements and benchmarking in the context of the Data Governance project.
(2d) Other services rendered to Group companies by Deloitte Consulting s.r.l.:
- methodological support for benchmarking on best practices as part of the assessment carried out prior to defining the new CRM – Client Relationship Management ecosystem;
- methodological support for benchmarking on best practices and identifying user requirements as part of the ongoing evolution of the Contact Center – Everyday Bank.

Public Disclosure - Country by country as at 31 December 2019

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	1,509,770	7,872	396,023	(4,802)	3
Banco di Sardegna s.p.a.	Italy	Banking	349,855	2,145	(29,761)	(1,819)	-
Banca di Sassari s.p.a.	Italy	Banking	82,649	124	23,378	(5,296)	-
Cassa di Risparmio di Bra s.p.a.	Italy	Banking	37,268	148	244	415	-
Cassa di Risparmio di Saluzzo s.p.a.	Italy	Banking	22,399	155	(5,293)	570	-
Sardaleasing s.p.a.	Italy	Leasing	56,104	65	(37,250)	5,709	-
Emilia Romagna Factor s.p.a.	Italy	Factoring	19,781	49	7,500	(2,290)	-
Optima s.p.a. S.I.M.	Italy	Asset management	593	23	6,454	(1,839)	-
Arca Holding s.p.a.	Italy	Holding company	16	-	6,196	479	-
Arca Fondi SGR s.p.a.	Italy	Asset management	102,258	1	30,687	(8,961)	-
Finitalia s.p.a.	Italy	Consumer credit	31,821	77	19,229	(1,720)	-
Bper Credit Management s.cons.p.a.	Italy	Debt collection consortium	1	4	(12)	(7)	-
Numera s.p.a.	Italy	IT services	-	47	1,043	(243)	-
Nadia s.p.a.	Italy	Real estate	(4)	-	(10,712)	(228)	-
Tholos s.p.a.	Italy	Real estate	-	-	1,358	(364)	-
Modena Terminal s.r.l	Italy	Storage and safekeeping warehouse	-	28	995	(331)	-
Total Italy			**2,212,511**	**10,738**	**410,079**	**(20,727)**	**3**

The income statement for the second half of the year was used for Arca Holding s.p.a., Arca Fondi SGR s.p.a. and Finitalia s.p.a.

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 Luxemburg s.a.	Luxembourg	Banking	12,072	19	6,819	(1,719)	-
Total Luxembourg			**12,072**	**19**	**6,819**	**(1,719)**	**-**
Total			**2,224,583**	**10,757**	**416,898**	**(22,446)**	**3**

Key:
(a) net interest and other banking income, in thousands of euro, net of eliminations where necessary.
(b) profit (loss) from current operations added to profit (loss) before tax on non-current assets and disposal groups classified as held for sale, in thousands of euro, net of eliminations where necessary.
(c) income taxes for the year on current operations and on assets held for sale, in thousands of euro, net of eliminations where necessary.

Information on loans to third-party funds

Jessica Sardinian Urban Development Fund

In 2011, the Autonomous Region of Sardinia (RAS) activated JESSICA (Joint European Support for Sustainable Investment in City Areas), an EU investment instrument. This instrument was devised in 2006 as a joint initiative between the European Commission and the EIB, in collaboration with the Council of Europe Development Bank (CEB), in order to promote sustainable investment, growth and employment in city areas.

RAS and the EIB signed a loan agreement for the creation of a JESSICA Sardinia Investment Fund (FPJS) that would manage the resources available under Axes III and V of the 2007-2013 ERDF Regional Operational Programme. In order to transfer resources from the EIB to the managers, two urban development funds (UDF) endowed with Euro 33.1 million each were established: the Energy Fund and the Urban Renewal Fund. The managers of these two UDF were chosen by means of a competitive selection process, with Banco di Sardegna being selected for Lot 1 with the technical consultancy of Sinloc: Urban Renewal (Axis V).
In July 2012, the EIB and Banco di Sardegna signed an operational agreement at the Regional Planning Centre of the Sardinia Region for the granting of a loan amounting to Euro 33.1 million (subject to possible increases), to be accompanied by co-financing of about Euro 99 million from Banco di Sardegna and other lenders identified by the latter, and invested on a rotating basis. In order to implement the JESSICA Project, Banco di Sardegna decided to create a separate fund within the UDF by making a loan for a specific purpose, pursuant to art. 2447 *decies* of the Italian Civil Code.

The JESSICA instrument allows investment in eligible projects within an integrated Plan that are presented, implemented and managed by public entities or, alternatively, presented by public entities and implemented and managed by private parties.
The resources may be made available in the following ways:

- direct loans to authorities and public entities;
- loans to private companies, selected by a public call for tenders, for the design, construction and management of publicly-owned facilities created under a direct concession or on a project-financing basis;
- investment in the risk capital of selected private companies.

The amendment to the Operating Agreement of 19 July 2012 between the EIB and Banco di Sardegna, for the allocation of Euro 6.3 million of additional resources, was signed on 29 December 2015. This is a concrete demonstration of approval of the way that Banco di Sardegna has managed the Fund, confirming recognition of the excellent work celebrated at the public event held in July 2015 in the presence of representatives of the EIB and the Sardinia Region. The additional resources were paid in full to the UDF on 20 January 2016.

As of 31 December 2019, 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	Contract date	Disbursements	
					Loan	Risk capital
					Disbursed as at 31.12.2019	Paid as at 31.12.2019
Purchase of 12 modern trolleybuses. Two loans	7,126,000	6,769,700	-	18/12/2013	5,748,094	-
Construction and management of a natural gas distribution network (*)	45,120,239	7,000,000	-	15/04/2014	6,948,121	-
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	452,281	-
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	7,951,100	4,000,000
Renovation and expansion of the Municipal Market of Oristano with adjacent parking	4,133,055	1,140,000	-	12/06/2015	798,000	-
Redevelopment of a building owned by the Municipality of Borutta destined to bar diner	265,000	251,750	-	22/06/2015	176,225	-
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	1,185,168	-

(cont.)

	Investment	JESSICA loan	Investment in the capital of JESSICA	Contract date	Disbursements	
					Loan	Risk capital
					Disbursed as at 31.12.2019	Paid as at 31.12.2019
Redevelopment of Alghero Town Hall	600,000	570,000	-	30/10/2015	418,000	-
Construction of the municipal indoor swimming pool in Alghero	2,100,000	1,915,026	-	30/05/2016	1,468,186	-
Redevelopment of the multi-purpose sports area in the Latte Dolce district of Sassari	560,000	532,000	-	24/06/2016	425,600	-
Redevelopment of the multi-purpose sports area in the Monte Rosello district of Sassari	750,000	712,500	-	24/06/2016	570,000	-
Redevelopment of the multi-purpose sports area in the Carbonazzi district of Sassari	600,000	570,000	-	24/06/2016	456,000	-
Redevelopment of the "Roberta Serradimigni" sports hall in Sassari	4,300,000	4,085,000	-	24/06/2016	3,268,000	-
Total	**107,332,863**	**33,512,844**	**4,000,000**		**29,864,775**	**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 2019.

Balance sheet

(in Euro)

Assets		31.12.2019	31.12.2018
40.	Financial assets measured at amortised cost	3,458,175	2,200,907
	a) loans to banks	3,458,175	2,200,907
	Total assets	**3,458,175**	**2,200,907**

(in Euro)

Liabilities and shareholders' equity		31.12.2019	31.12.2018
10.	Financial liabilities measured at amortised cost	3,030,946	2,173,780
	a) due to banks	3,030,946	2,173,780
80.	Other liabilities	98,027	104,229
180.	Profit (Loss) for the year	329,202	(77,102)
	Total liabilities and shareholders' equity	**3,458,175**	**2,200,907**

Income statement

(in Euro)

Captions		31.12.2019	31.12.2018
10.	Interest and similar income	892,548	491,160
30.	**Net interest income**	**892,548**	**491,160**
50.	Commission expense	(563,346)	(568,262)
60.	**Net commission income**	**(563,346)**	**(568,262)**
300.	**Profit (Loss) for the year**	**329,202**	**(77,102)**

Sustainable Growth Fund

Banco di Sardegna, in association with Medio Credito Centrale (MCC) and other national banks, won an Agreement with the Ministry of Economic Development (MISE) for management of the activities of the "Sustainable Growth Fund" (new name for the Technological Innovation Fund (FIT) following the reform of business incentives introduced by the 2012 Growth Decree).
The Parent Company BPER Banca considered it appropriate to involve Banco di Sardegna when preparing for the tender, given its specialist team within the BPER Group as a whole.

The endowment of the Fund, which will include all national resources allocated for sustainable growth until 2020, 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 2019 twelve calls for applications have already been made and the total value of the projects examined was Euro 4.5 billion.

National Operational Programme (NOP) of Research and Innovation-MIUR-EIB Fund of Funds

As part of the "NOP of Research and Innovation 2014-2020", the Ministry of Education, University and Research ("MIUR"), as the Managing Authority, stipulated a financing agreement in December 2016 with the European Investment Bank for the management of a Fund of Funds financed by resources from the NOP.

Following the signing of the financing agreement, in June 2017 the EIB announced a first tender for the selection of two financial intermediaries to manage a total of Euro 186 million transferred to the Fund; the tender was awarded in September 2017. Subsequently, following the decision of the Managing Authority to contribute to the Fund an additional allocation of Euro 62 million, in March 2018 the EIB issued a new tender procedure.

This second tender was won by Banco di Sardegna. For the purpose of management of the Financial Instrument, a separate asset was created through a loan for a specific purpose, pursuant to article 2447 decies of the Italian Civil Code, consolidating the experience of the Jessica Fund, which is also awaiting refinancing. The Operating Agreement between Banco di Sardegna and the EIB was finalised on 7 August 2018. After signing the Agreement, the Bank started the selection and evaluation of research and innovation projects in the areas eligible for the granting of resources in the form of loans and investments in equity, to which about Euro 26.5 million may be associated under co-financing from Banco di Sardegna or other lenders introduced by that bank. On 22 October 2018, the EIB disbursed the first tranche of resources. Promotion and development activities of the Fund are in progress throughout Southern Italy with the collaboration of the Group structures involved. The Investment Committee has approved four loan applications at 31 December 2019 and, at this time, all the related loan contracts have been signed. A further 6 applications are under review.

The following is a simplified accounting report of the NOP Research and Innovation Fund of Funds at 31 December 2019:

Balance sheet

(in Euro)

Assets		31.12.2019	31.12.2018
40.	Financial assets measured at amortised cost	8,382,944	15,500,000
	a) loans to banks	8,382,944	15,500,000
	Total assets	**8,382,944**	**15,500,000**

(in Euro)

Liabilities and shareholders' equity		31.12.2019	31.12.2018
10.	Financial liabilities measured at amortised cost	8,452,800	15,500,000
	a) due to banks	8,452,800	15,500,000
80.	Other liabilities	14,157	15,075
180.	Profit (Loss) for the year	(84,013)	(15,075)
	Total liabilities and shareholders' equity	**8,382,944**	**15,500,000**

Income statement

(in Euro)

Captions		31.12.2019	31.12.2018
50.	Commission expense	(84,013)	(15,075)
60.	**Net commission income**	**(84,013)**	**(15,075)**
300.	**Profit (Loss) for the year**	**(84,013)**	**(15,075)**

Certifications and other reports

Certification of the consolidated financial statements at 31 December 2019 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 2019, 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 2019 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 2019:
    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 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.

10 March 2020

Chief Executive Officer
Alessandro Vandelli

Manager responsible for preparing the Company's financial report
Marco Bonfatti

Deloitte & Touche S.p.A.
Piazza Malpighi, 4/2
40123 Bologna
Italia

Tel: +39 051 65811
Fax: +39 051 230874
www.deloitte.it

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, 2019, 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 consolidated explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated 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, 2019, performing loans to customers measured at amortized cost of BPER Banca Group show a gross amount of Euro 49,169 million, reduced by portfolio adjustments of Euro 162 million, to come to a net amount of Euro 49,008 million, resulting in a coverage ratio of 0.33%. 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, 2019, 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. Given the complexity of the process of classifying loans to customers in homogeneous risk categories followed by the Group, we considered the classification of high-risk performing loans to customers measured at amortized cost a key audit matter of the consolidated financial statements of BPER Banca Group as at December 31, 2019.
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 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; • checking, on a sample basis, the classification of high-risk performing loans to customers measured at amortized cost in accordance with the regulatory framework; • checking the completeness and the compliance of the disclosures provided in the financial statements in accordance with the regulatory framework and applicable accounting standards.

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, 2019, non-performing loans to customers measured at amortized cost of BPER Banca Group show a

gross amount of Euro 6,123 million, reduced by specific adjustments of Euro 3,124 million, resulting in a net amount of Euro 2,998 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, 2019 is equal to 51.03%. 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 1,171 million and a coverage ratio of 66.04% and unlikely to pay loans for a net value of Euro 1,661 million and a coverage ratio of 33.01%.

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 Group'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.

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, 2019.

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 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;

- 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;

- 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 and applicable accounting standards, also by obtaining and examining written confirmations by the lawyers appointed for their collection;

- 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, 2019, intangible assets include goodwill in the amount of Euro 434.8 million allocated to cash generating units ("CGUs") identified in the individual legal entities (BPER Banca S.p.A., Banco di Sardegna S.p.A., Cassa di Risparmio di Bra 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. 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, 2019.
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 of the main assumptions adopted to estimate cash flows, carried out also by obtaining information from the Bank;

- 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 applicable accounting standard.

Accounting recognition of the business combination of Unipol Banca S.p.A.

Description of the key audit matter	As reported in paragraph "3.2 Growth and development of the business - Extraordinary corporate transactions" of the Directors' report on Group operations and in "Part G – Business combinations" of the explanatory notes, on July 31, 2019 BPER Banca acquired from Unipol Gruppo S.p.A. and UnipolSai Assicurazioni S.p.A. 100% of the share capital of Unipol Banca S.p.A. (Unipol Banca), obtaining the control of the entity, together with the control on 100% of the share capital of Finitalia S.p.A., controlled by Unipol Banca, by paying a total consideration of Euro 220.0 million. The transaction was recognized in the consolidated financial statements, as required by IFRS 3 "Business combinations", applying the purchase method, which provides that the purchase price allocation ("PPA") is based on the fair value of the assets and liabilities involved in the acquisition. For the purpose of applying the purchase method, the Bank, with the support of an external advisor, implemented valuation processes and methods that, by their very nature, feature elements of high subjectivity.

The income statement caption "Gain on a bargain purchase" includes the positive income component, in the amount of Euro 343.4 million, resulting from the process of allocating the difference between the purchase price and the net value of the assets acquired and liabilities assumed, measured at their fair value, in compliance with the applicable accounting standard, and on which the Bank obtained a fairness opinion by an independent external expert.

Given the subjectivity that characterizes the process of determining the fair value of the assets and liabilities involved in the acquisition, as well as the significance of the effects recorded in the income statement, we considered the accounting recognition of the business combination of Unipol Banca a key audit matter of the consolidated financial statements of BPER Banca Group as at December 31, 2019.

Audit procedures performed

The main procedures carried out as part of our audit work were, among others, as follows:

- discussing the application of the purchase method for accounting recognition of the business combination with the Bank's management and gaining an understanding of the process and of the key controls implemented by the Bank in connection with the accounting recognition of the transaction;
- checking the implementation and operating effectiveness of the key controls identified in relation to that process;
- performing an analysis of compliance with the applicable accounting standards of the accounting recognition of the business combination in the consolidated financial statements;
- performing an analysis, also supported by specialists of the Deloitte network, of the reasonableness of the main assumptions adopted by the Bank in determining the fair value of the assets acquired and liabilities assumed, also by obtaining information from the Bank and in-depth analysis with the external advisor;
- obtaining and reviewing the fairness opinion issued by the independent external expert, also through discussions with the Bank and the external expert himself;
- checking the completeness and the compliance of the disclosures provided in the financial statements in accordance with the applicable accounting standard.

Accounting recognition of the business combination of Arca Holding S.p.A.

Description of the key audit matter

As reported in paragraph "3.2 Growth and development of the business - Extraordinary corporate transactions" of the Directors’ report on Group operations and in "Part G – Business combinations" of the explanatory notes, on July 22, 2019 BPER Banca completed the acquisition of a 24.31% interest in the share capital of Arca Holding S.p.A. (Arca Holding) sold by Banca Popolare di Vicenza S.p.A. in Compulsory Administrative Liquidation and Veneto Banca S.p.A. in Compulsory Administrative Liquidation. Following the transaction, BPER Banca’s interest in Arca Holding’s share capital (that owns the total share capital of Arca Fondi SGR) reaches 57.06%, determining the acquisition of the control on Arca Holding by BPER Banca.

The transaction was recognized in the consolidated financial statements, as required by IFRS 3 "Business combinations", applying the purchase method, which provides that the purchase price allocation ("PPA") is based on the fair value of the assets and liabilities involved in the acquisition; in particular, the transaction represents a business combination achieved in stages – "step acquisition", since BPER Banca already owned a non-controlling equity interest before obtaining the control on the entity. For the purposes of applying the purchase method, the Bank, with the support of an external advisor, implemented valuation processes and methods that, by their very nature, feature elements of high subjectivity.

The balance sheet caption "Intangible assets" includes the goodwill, in the amount of Euro 170.0 million, resulting from the process of allocating the difference between the purchase price and the net value of the assets acquired and liabilities assumed, measured at their fair value, in compliance with the applicable accounting standard.

Given the subjectivity that characterizes the process of determining the fair value of the assets and liabilities involved in the acquisition, as well as the significance of the goodwill accounted for in the consolidated financial statements, we considered the accounting recognition of the business combination of Arca Holding a key audit matter of the consolidated financial statements of BPER Banca Group as at December 31, 2019.

Audit procedures performed

The main procedures carried out as part of our audit work were, among others, as follows:

- discussing the application of the purchase method for accounting recognition of the business combination with the Bank's management and gaining an understanding of the process and of the key controls implemented by the Bank in relation to the accounting recognition of the transaction;
- checking the implementation of the key controls identified in relation to that process;
- performing an analysis of compliance with the applicable accounting standards of the accounting recognition of the business combination in the consolidated financial statements;
- performing an analysis, also supported by specialists of the Deloitte network, of the reasonableness of the main assumptions adopted by the Bank in determining the fair value of the assets acquired and liabilities assumed, also by obtaining information from the Bank and in-depth analysis with the external advisor;
- checking the completeness and the compliance of the disclosures provided in the consolidated financial statements in accordance with the applicable accounting standard.

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 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, 2019, 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 Group 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, 2019 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 Group 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, 2019 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 27, 2020

This report has been translated into the English language solely for the convenience of international reader

2019 FINANCIAL STATEMENTS

Directors' report on operations

Contents

1. The Bank in 2019

1.1. The macroeconomic context

A brief analysis of the economic context, the dynamics of financial markets, the state of the public finances and the evolution of the banking market in which BPER Banca operated during the course of 2019 is contained in the Directors' Report on Group Operations, to which reference should be made.

1.2 Competitive positioning

Market positioning: deposits and loans

The changes in the market shares of direct deposits and performing loans enjoyed by BPER Banca at national level is illustrated in the following tables.
The data from July 2019 includes the effects of absorbing Unipol Banca.

Market shares - Direct borrowing

Period	Total Customers	Households	Companies	Family businesses
31.10.2019	2.43%	1.88%	3.68%	4.25%
30.09.2019	2.39%	1.88%	3.76%	4.23%
31.08.2019	2.48%	1.88%	3.78%	4.24%
31.07.2019	2.41%	1.89%	3.77%	4.25%
30.06.2019	1.96%	1.61%	3.30%	4.02%
31.05.2019	1.92%	1.58%	3.26%	4.05%
30.04.2019	1.94%	1.59%	3.23%	4.06%
31.03.2019	1.98%	1.60%	3.29%	4.05%
28.02.2019	1.95%	1.60%	3.24%	4.04%
31.01.2019	1.96%	1.61%	3.25%	4.04%
31.12.2018	1.99%	1.60%	3.25%	4.02%
30.11.2018	1.95%	1.58%	3.28%	3.96%
31.10.2018	1.96%	1.59%	3.30%	3.96%

Market shares - Lending

Period	Total Customers	Households	Companies	Family businesses
31.10.2019	2.45%	2.33%	3.17%	3.47%
30.09.2019	2.49%	2.34%	3.18%	3.47%
31.08.2019	2.51%	2.34%	3.21%	3.57%
31.07.2019	2.52%	2.34%	3.23%	3.56%
30.06.2019	2.11%	1.77%	2.74%	3.20%
31.05.2019	2.10%	1.77%	2.75%	3.19%
30.04.2019	2.09%	1.77%	2.76%	3.17%
31.03.2019	2.13%	1.76%	2.84%	3.15%
28.02.2019	2.10%	1.75%	2.80%	3.13%
31.01.2019	2.10%	1.76%	2.83%	3.13%
31.12.2018	2.16%	1.76%	2.91%	3.13%
30.11.2018	2.11%	1.75%	2.83%	3.10%
31.10.2018	2.07%	1.75%	2.75%	3.07%

Source: Market shares - Planus Corp. analysis of Regulatory Reports.

Branch network

The total number of branches has changed with respect to 2018; 46 were closed in March 2019 (including 4 limited service branches) and 177 new branches were added (1 business branch in Parma during September and 176 as a result of the Unipol Banca transactions, including 10 limited service branches).

There are 958[1] branches and limited service branches at 31 December 2019 (including 15 limited service branches).

The Bank has a widespread presence of branches in 18 of Italy's 20 regions (Emilia-Romagna (333), Abruzzo (97), Campania (96), Lazio (84), Calabria (38), Lombardy (60), Apulia (40), Veneto (49), Basilicata (30), Sicily (36), Molise (10), Marche (17), Tuscany (32), Trentino-Alto Adige (4) Umbria (9), Liguria (8), Friuli Venezia Giulia (2) and Piedmont (13)).

1.3 Relations with customers

Commercial and service policies

Processes

BPER Banca 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.

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;

[1] *excluding "virtual branches".*

- 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 Banca 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 across all customer segments and the various points of the bank-customer relationship.

In 2018, BPER Banca implemented a structured manner of listening to Individual and SEO (Small Economic Operators) customers, with the objective of continuously monitoring the level of satisfaction and emerging needs, obtaining precious indications to feed into a process of continuous improvement in the quality of service and the relationship.

From 2019, the new system monitors constantly 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 for customers without an e-mail address.

A total of about 80,000 interviews were conducted during 2019, confirming the evidence obtained during the pilot phase in 2018: the levels of customer satisfaction in the Family and Personal segments are aligned, while that of POE customers is lower albeit still positive. Analysis of the collected data 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 the customer experience "at the time", when specific activities are carried out: currently, these comprise the advice received when opening a current account, arranging insurance policies and the obtaining mortgages and other loans.

The contact channels

The BPER Banca Group Contact Centre only responds from Italy as this is meant to favour national employment and provide customers with a better service. It is able to provide assistance to customers in 6 languages in addition to Italian: English, French, Spanish, Romanian, Portuguese and Arabic.

In 2019 the Contact Centre obtained the renewal of the ISO 9001 and ISO 18295 (formerly ISO 15838) certifications.

Implementation of the WhatsApp contact channel has been completed and, by integrating it with the Live Person platform, BPER is the first finance company in the world to provide a service of excellence in its relationship with remote customers through a certified Business profile.

The Self and On-line Offer components of the Digital Loans services became fully available during 2019; this service 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.
Working together with the management of Everyday Bank and that of Wealth and Investment Management, it has been agreed that the process of offering digital loans will be included in the next iterations of their business plans.
Since September 2019, the Smart Web and Smart Mobile Banking services offer customers a new safer and quicker 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.
From October 2019, internet banking customers are now able to make instant credit transfers, for amounts up to 15,000 euro, to current accounts activated throughout the SEPA area; instant credit transfers are also available from all BPER Group branches and, for companies, via the Interbank Corporate Banking system.

Commercial agreements

With reference to commercial partnerships, 2019 represented the consolidation and further enhancement of the Group's strategic agreements.
We refer to the Bancassurance Agreement with UnipolSai s.p.a. for the distribution of "Arca Vita", "Arca Assicurazioni" and "Arca Vita International" life and non-life insurance policies. 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. In addition, the duration and scope of the Agreement strengthen the strategic partnership with the Unipol Insurance Group, accelerating growth in a segment that will contribute significantly to the dual objectives of raising commission income and further developing the service component.
In addition, further consolidation of the partnership with Arca Fondi SGR, the asset management company that manages funds and investment solutions for retail customers, continues with products that feature high quality and low costs.
As a result of absorbing Unipol Banca, BPER Banca has acquired all the shares in Finitalia s.p.a., which were previously held by Unipol Banca. Finitalia renewed its commercial agreements with the Unipol Insurance Group in June 2019, thus remaining the exclusive partner for the instalment payment of premiums on policies written by insurance group.
Again as a result of absorbing Unipol Banca, the distribution agreements with AcomeA Sgr were also taken over.
In December 2018, BPER Banca and NEXI S.p.A. signed a framework partnership agreement for the management of acquiring, POS, digital corporate banking, e-invoicing and ATM services. This agreement has been extended to 2023.
BPER Banca also signed an intermediation agreement in relation to the acquiring services of SIX Payment Services (Europe).

The project to develop the Smart BPER Card application was completed during 2019, enabling end consumers to manage the use of their cards.

Following the commercial agreements reached with Samsung Pay, Google Pay and Apple Pay, customers can now use this application (iOS and Android) to make "contactless" payments using the smartphone with which their card is associated (no physical card necessary).

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 the combination of offers and the rationalisation of current account options.

During 2019, a number of innovative initiatives were developed in the direction of greater product digitalisation, flexible usage consistent with customer needs and simplification of the selling process, with a consequent reduction in operating costs.
In particular, the offer of loans secured against one-fifth of salary was revised, both in terms of their pricing and the process to be followed, with a view to greater alignment with market benchmarks. Processing and approval times have been reduced, paying attention to the customer journey and the best practices of leading competitors. The operational impact on branches has been minimised, reducing information asymmetries about the status of the application prior to payout by maintaining control at central level. This ensures the nationwide standardisation of commercial activities, with the ability to promote specific action for the achievement of objectives.

Private Banking – BPER Private

During 2019, the BPER Group focused strongly on action to strengthen the asset management and wealth management platform, consistent with the objectives established in the 2019-2021 Business Plan, which envisage specialisation of the distribution model and evolution of the service models for the various customer segments.
This work developed in two main directions: on the one hand, a single Investment Centre was created for the Group within Optima SIM and, on the other, a project to activate the Full Potential distribution model for private customers was launched.
The creation of a single Investment Centre for the Group within Optima SIM involved consolidation of the existing organisation and team of professionals, which was strengthened by the arrival of additional asset management experts.
In order to help managers to devise strategies and monitor portfolio risks, BPER Banca signed a partnership agreement with BlackRock, a leading market operator, for the use of its Aladdin for Wealth platform.
The priority objective of the Full Potential project was to allocate customers to the most appropriate service model, thus enabling customised offers to be made that reflect their needs and potential. The project was organised into 3 phases, involving over 70,000 customers in total and funding of about Euro 7 billion.

This project also involved activating a specific service for Private customers, monitored directly by the Wealth and Investment Management department.
The 35 Private Centres were created in order to:

- improve the value proposition and positioning of BPER Banca in the market, by offering 360° asset management;
- create a distinctive service in terms of the customer journey provided;

- contribute to the generation of value.

On the financial advisory side, a project was launched to revise the product range with the aim of adapting the services on offer to the changed economic context. The catalogue and supporting materials were revised and training was provided to the network.
Lastly, the quality of the Private Service was further strengthened by expanding the Private Global Advisory service. Based on an integrated view of overall customer wealth, the development of this service makes it possible to provide sophisticated economic planning advice for the immediate family concerned. The service uses an IT platform to offer specialist advice on financial, property, inheritance, insurance and pension matters.

Corporate

Business customers were supported during 2019 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 a high credit standing were obtained and the loyalty of existing business customers was augmented by presentation of the following main corporate products:

- INNOVFIN: loans on favourable terms to SMEs that are heavily focused on R&D and/or technological innovation, drawing on guarantees provided by the European Investment Fund (EIF);
- LIFE 4 ENERGY: loans to cover investment in energy development projects, supported by a type of guarantee from the European Investment Bank (EIB - specifically, a mechanism for sharing risk with the EIB, which can cover initial losses on a portfolio of these loans);
- FIN PMI: loans guaranteed by the Guarantee Fund for small and medium-sized enterprises, managed by Banca del Mezzogiorno - Mediocredito Centrale, that meet the various needs of companies, such as the purchase of land and buildings and liquidity needs, but also the purchase of licences and patents to help them grow. The Fund also envisages priority support for underdeveloped areas and those hit by earthquakes, as well as for innovative start-up businesses;
- loans to exporters linked to specific export contracts;
- expansion of the Fin PMI range with loans for low-value transactions;
- inclusion of a new fixed-rate business loan in the catalogue for small economic operators;
- rationalisation of the product catalogue following the absorption of Unipol Banca.

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 2019.
This activity, backed by an important network of relations with numerous correspondent banks and companies around the world - representing a key intangible asset for BPER Banca - was supported by the dedicated BPEREstero Portal, which enables the Bank to provide analyses and reports that help businesses define their operational growth strategies.
As part of policies to support the internationalisation of businesses, BPER Banca makes available suitably trained specialists who can provide support and advice on trade & export finance transactions (from documentary transactions to post-financing and forfaiting), as well as cash management services designed to enhance the efficiency of payments and collections and, in general, the management of business liquidity.

Innovative insurance products covering the principal risks faced by productive and business activities have also received particular attention from the specialist product-companies associated with the Bank.
Action to promote the Group's Product Factories continued during 2019, with particular reference to BPER Leasing, BPER Factor and SIFA' (long-term vehicle rentals).

In addition, the Bank dedicated increased volumes and activity in 2019 to the provision of more complex financial transactions: hedging of interest rates for the benefit of business customers, structured finance in favour of SMEs and financial support for Large Corporate groups.

Business Global Advisory

The Business Global Advisory initiative continued throughout 2019. This involved the organisation of a series of meetings at the Territorial Offices, the Headquarters of the Bank and the professional offices of accountants and business advisors.
These meetings were attended by colleagues specialised in such areas as Investment Banking, Wealth Advisory, Global Transaction Banking, Mediocredito and Corporate Finance, with a view to offering entrepreneurs the innovative and tailor-made solutions and advice needed to facilitate the growth and development of their businesses.

1.4 Human resources

Key data

During 2019, 92 new employees were hired, including 20 apprentices.
Agreements for contract staff (to meet temporary needs) were in place for 167 persons at the end of 2019 (with an average of 258 during the year).
In 2019, internships involved 11 undergraduates and graduates from three-year degree courses and longer specialist courses.
During the course of 2019, 173 people terminated their employment with the Bank[2]. There are 10,416 employees at the end of 2019 (excluding 25 on leave of absence), including 2,024 who joined on the absorption of Unipol Banca.
Overall, 176 Bank employees have been seconded to other companies within the Group; conversely, 412 people from other Group banks are on secondment with BPER Banca.

Industrial relations

As in previous years, in 2019, the appropriateness of the labour relations system was confirmed by the manner in which discussions were held and negotiations took place with the trade unions, based on constructive dialogue between the parties, despite increasing difficulties caused by different factors, including a difficult environment due to various elements of instability in the political, economic and social scene and issues regarding the banking sector.
In the complex scenario outlined above, also of note was the commencement of various projects, which had repercussions on the staff of both the Parent Company and the rest of the Group, and the subsequent discussions mainly with the Group's trade union representatives.
Important understandings reached at Group level included those on the procedure pursuant to arts. 20 and 21 of the National Collective Employment Contract (CCNL) for the Banking Sector, which were marked by the signature of a union agreement on 29 October 2019. Further details about this

[2] *Including those effective from 1 January 2019, i.e. those for whom 31 December 2018 was their last working day.*

agreement are provided in the "Directors' Report on Group Operations" attached to the consolidated financial statements.

A transitional agreement was also signed on 29 October 2019 in relation to the absorption of Unipol Banca. Certain of the old systems were retained in 2020, leaving time to find agreement on harmonisation of the employment conditions of former Unipol Banca staff with those applicable to BPER Banca and Banco di Sardegna personnel.

Agreement was also reached during 2019 with regard to the absorption of BPER Services.

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.

At national level, ABI and the Trade Unions reached preliminary agreement on 19 December 2019 for renewal of the CCNL dated 31 March 2015 covering professional and managerial grades. Implementation was dependent on formal approval at the various workers' meetings. On 5 March 2020, the General Secretaries of the trade unions that signed the preliminary renewal agreement informed ABI that it had been accepted, following its approval by large majorities at the workers' meetings held by that date.

Protected categories pursuant to Law 68/1999

With regard to the Bank's obligations under Law 68/1999, a certificate of nationwide compliance with the regulations was obtained during 2019 by BPER Banca. The Bank has 729 differently-able or other protected categories employees at 31 December 2019.

Welfare project

Various welfare services and initiatives comprising the Welfare Plan of the BPER Group were developed during 2019.

The BPER Group Welfare Plan comprises:

- benefits provided and paid for by the Company. The principal benefits include the supplementary pension fund, a defined contributions scheme to which employees also make a contribution, a healthcare and dental policy, long-term care, accident insurance, meal vouchers, gift vouchers and various employment conditions;
- benefits made available by the Company, that employees can purchase for themselves or their family members using their Welfare Credits (bonus recognised to employees for access to and the purchase of welfare services); these include the reimbursement of education and family support expenses, first-aid kits, supplementary pension payments for employees or their family members, reimbursement of the cost of public transport passes, purchase of shopping and fuel vouchers, vouchers for recreational, sporting, cultural and other activities related to free time and holidays.

The My Total Welfare page, added to the welfare portal last year, helps employees to understand the value of the benefits made available by the Company.

The Welfare Plan also addresses sustainable mobility matters, linking the wellbeing of our personnel with a focus on the environment in the towns where they live and work.

Consistent with the Home-Work Travel Plan presented to the Municipality of Modena, the initial phase comprises mobility projects that mainly involve persons who live and work in the municipality of Modena:

- a new “Sustainable mobility” area has been created on the corporate welfare portal, pulling together all the information about ongoing and potential projects;
- an intercompany car pooling platform has been activated, so that several persons can share the

same car on the home-work-home journey;

- on an experimental basis, 250 “Flexible working – Hub working” workstations have been activated, so that employees can work at an alternative company office, closer to their home;
- a daily shuttle has been activated between Bologna and Modena, in addition to that between Ferrara and Modena, in order to facilitate those colleagues transferred to Modena following the mergers with other banks, as well as to limit the volume of urban traffic entering into and leaving the city;
- recharging columns for electric cars have been installed in the Service Centre car park, as well as recharging points for electric bicycles at the Via San Carlo and Corso Vittorio locations, in addition to those at the Service Centre.

In order to spread a cycling culture and encourage the use of bicycles on the home-work-home journey, support and repair kits were distributed in the receptions of buildings with the largest number of employees and a cycle park was opened in via San Carlo.

With regard to social initiatives, during the year BPER Banca took part in the following initiatives:

- "Bike to Work", a national initiative, which BPER Banca participates in, promoted by the non-profit association "Federazione Italiana Amici della Bicicletta – FIAB" and by "Rete Città Sane OMS" to promote sustainable mobility and a healthy lifestyle. Numerous employees took part in this initiative by going to work by bike;
- “Raccogliamo”, food collection for the Solidarity Outlets open in areas served by the Bank;
- “M’illumino di meno” (I use less light), a national initiative supported strongly by the Bank in 2019, with the collection of clothes, shoes and blankets for voluntary associations active in the territory.

BPER Infant Centre

In 2019 the BPER Infant Centre continued its activities, consisting of a nursery, which opened in 2008 and 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.

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 Real estate sector

The real estate assets of BPER Banca are organised by the Real Estate Department, which is made up of the Real Estate Management Unit, the Property Administration Office and the Enhancement and Commercialisation Office.

In 2019, the Real Estate Management Unit was involved in planning maintenance and capital investment as envisaged in the budget allocated to the department.

The principal income statement captions involved:

- Ordinary maintenance (expenses);
- work that adds value to properties (capital expenditure).

Ordinary maintenance work is principally dedicated to:

- implementing safety measures for properties whose defects or deterioration could cause injury to persons and/or possessions;
- to render currently non-income generating properties capable of being leased or sold.

Significant work to increase the value of property in Italy (capital expenditure) has included:

- adaptation of new premises prior to their occupation by the following branches: Naples 1, L'Aquila 1, Pesaro and Reggio Emilia 10. Renovations were carried out during the year at the following branches: Barcellona Pozzo di Gotto, Ferrara 11, Torvaianica, Spilamberto and Vignola, while the branch at San Giovanni Teatino was expanded;
- L'Aquila head office: the building was hit by an earthquake in 2009; following the receipt of government grants for reconstruction (obtained on 26 October 2015), reconstruction work started on the property on 30 March 2016 and was completed at the end of 2018. plans were finalised during the first half of 2019 for the transfer of the L'Aquila head and territorial offices from the via Strinella Management Centre to the new building; this work is expected to begin during the first half of 2020.
- Cavezzo (Modena): the building was hit by an earthquake in 2012 and, based on the receipt of government grants for reconstruction (obtained in January 2017), reconstruction work started on the property in December 2016 and was completed on 30 December 2019. The transfer of the branch is scheduled for early 2020;
- self-service areas have been created, with the installation of advanced ATMs at the Amantea, Siderno, Messina and Siracusa branches;
- significant work to modernise and improve the efficiency of the working environment was also carried out at other branches, not least following the absorption of Unipol Banca s.p.a.

In the context of the business plan, 46 branches were closed on 22 March 2019 and another 72 were closed on 25 November 2019 following the absorption of Unipol Banca. Major efforts were dedicated to returning the premises to their owners, involving significant restoration work in some cases.

The Real Estate Department within the Parent Company arranged new lease contracts on behalf of BPER Banca, generating annual income of Euro 516,889, of which from third parties Euro 290,889.
It also completed 18 sales on behalf of the Parent Company for a total of Euro 7.4 million, giving rise to a capital gain of Euro 1.1 million.

1.6 Environment

Towards the end of 2019, with the arrival of colleagues from the former Unipol Banca s.p.a., efforts were intensified to enhance employee awareness about how to differentiate properly the waste generated by the Bank, thus respecting the environment and complying with the latest regulations in full.
Efforts and resources will continue to be applied to environmental issues with a view to achieving energy savings, making more and more plant and structural adjustments to improve the energy class of Company buildings.
For additional information, see the 2019 consolidated non-financial statement ("NFS") of the BPER Banca Group, prepared pursuant to Decree 254/16, as well as the section on Climate Change in the Directors' Report on Group Operations.

1.7 Strategic transactions

Please refer to the "Directors' Report on Group Operations" contained in the consolidated financial statements.

2. Results of banking activities

2.1 Introduction

The Bank closed 2019 with a profit of Euro 385.4 million (Euro 306.7 million at 31 December 2018).

More specifically, the income statement results compared with the figures at 31 December 2018 are summarised below:

- net interest income, which amounts to Euro 786.7 million, shows an increase of 1.66% compared with December 2018, while net commission income, which amounts to Euro 689.6 million increases by 16.81% compared with the previous year;
- the income from financial activities including dividends (Euro 117.0 million) is down on the prior year figure (Euro 159.6 million, -26.73%);
- net impairment losses for credit risk (Euro 290.0 million) have increased considerably, consistent with the planned acceleration of the de-risking process. The cost of lending has risen to 70 b.p. from 40 b.p. at 31 December 2018;
- operating costs (Euro 1,249.9 million) have increased with respect to 31 December 2018 (+25.35%);
- the impairment of property, plant and equipment and equity investments totalled Euro 31.1 million.
- the profit from current operations before tax for the year is Euro 390.2 million; taxes are negative for Euro 4.8 million, resulting in a net profit for the year of Euro 385.4 million (Euro 306.7 million at 31 December 2018).

In terms of the balance sheet, the results at 31 December 2019 can be summarised as follows:

- direct deposits of Euro 45,859.4 million (+26.36%);
- indirect deposits of Euro 88,416.8 million (+176.49%);
- net loans to customers of Euro 40,829.5 million (+11.33%), with an impact on non-performing loans of 4.78% (5.53% at 31 December 2018);
- shareholders' equity, including the net profit for the year, amounts to Euro 4,996.8 million (+13.87%).

2.2 Performance ratios[3]

Financial ratios	31.12.2019	2018 (*)
Structural ratios		
Net loans to customers/total assets	58.88%	62.04%
Net loans to customers/direct deposits from customers	89.03%	101.05%
Financial assets/total assets	24.27%	25.52%
Fixed assets[4]/total assets	4.24%	3.71%
Goodwill/total assets	0.33%	0.38%
Direct deposits/total assets	88.84%	89.21%
Indirect deposits under management/indirect deposits	23.54%	50.01%
Financial assets/tangible equity[5]	3.69	3.64
Total tangible assets[6]/tangible equity	15.12	14.19
Net interbank position (in thousands of Euro)	(10,158,126)	(13,807,589)
Number of employees[7]	10,416	8,292
Number of national bank branches	958	827
Profitability ratios		
ROE[8]	8.87%	7.00%
ROTE[9]	9.62%	7.46%
ROA[10]	0.56%	0.52%
Cost to income ratio[11]	74.27%	63.69%
Net impairment losses on loans to customers/net loans to customers	0.70%	0.40%
Basic EPS[12]	0.778	0.638
Diluted EPS[13]	0.754	0.638

(*) The comparative ratios have been calculated on figures at 31 December 2018 as per the Financial Statements as at 31 December 2018, without considering the effects of applying IFRS 16.

[3] 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 the 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 statement aggregates" of this Report.

[4] Fixed assets include both equity investments and property, plant and equipment. The ratio would be at 3.77% without considering the application of IFRS 16. The other ratios represented in this section are not influenced by the application of IFRS 16.

[5] Tangible equity: total shareholders' equity net of intangible assets.

[6] Total tangible assets = total assets net of intangible assets.

[7] The number of employees (point figure) does not include expectations.

[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 76.42%. If we do not consider non-recurring expenses relating to the personnel retirement plan the cost to income ratio would be at 72.02% (66.78% at 31 December 2018 as per the Financial Statements 31 December 2018).

[12] EPS has been calculated net of treasury shares in portfolio.

[13] See previous note.

(cont.)

Financial ratios	31.12.2019	2018 (*)
Risk ratios		
Net non-performing loans/net loans to customers	4.78%	5.53%
Net bad loans/net loans to customers	1.77%	2.44%
Net unlikely to pay loans/net loans to customers	2.78%	3.03%
Net past due loans/net loans to customers	0.22%	0.06%
Impairment provisions for non-performing loans/gross non-performing loans	52.67%	58.65%
Impairment provisions for bad loans/gross bad loans	68.29%	70.87%
Impairment provisions for unlikely to pay loans/gross unlikely to pay loans	34.50%	38.52%
Impairment provisions for past due loans/gross past due loans	12.50%	15.65%
Impairment provisions for performing loans/gross performing loans	0.30%	0.36%
Texas ratio[14]	61.27%	69.82%
Own Funds (Phased in) (in thousands of Euro)[15]		
Common Equity Tier 1 (CET1)	4,549,409	4,220,398
Own Funds	5,495,458	5,019,023
Risk-weighted assets (RWA)	27,346,785	23,391,661
Capital and liquidity ratios		
Common Equity Tier 1 Ratio (CET1 Ratio) - Phased in	16.64%	18.04%
Tier 1 Ratio (T1 Ratio) - Phased in	17.18%	18.04%
Total Capital Ratio (TC Ratio) - Phased in	20.10%	21.46%
Common Equity Tier 1 Ratio (CET1 Ratio) - Fully Phased	14.51%	15.39%
Leverage Ratio - Phased in[16]	7.2%	7.3%
Leverage Ratio - Fully Phased[17]	6.3%	6.3%

Non-financial ratios	31.12.2019	2018 (*)
Productivity ratios (in thousands of Euro)		
Direct deposits per employee	4,402.78	4,376.78
Loans to customers per employee	3,919.88	4,422.75
Assets managed per employee	1,998.46	1,928.83
Assets administered per employee	6,490.09	1,927.69
Core revenues[18] per employee	141.73	164.52
Net interest and other banking income per employee	152.96	183.77
Operating costs per employee	116.89	122.73

(*) The comparative ratios have been calculated on figures at 31 December 2018 as per the Financial Statements as at 31 December 2018, without considering the effects of applying IFRS 16.

[14] *The texas ratio is calculated as total gross non-performing loans on net tangible equity increased by impairment provisions for non-performing loans.*
[15] *Items have been calculated according to the provisions of Regulation (EU) 575/2013 (CRR), as amended by the Commission Delegated Regulation (EU) 2395/2017.*
[16] *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.*
[17] *See previous note.*
[18] *Core revenues = net interest income + net commission income.*

2.3 Balance sheet aggregates

The most important balance sheet aggregates and captions at 31 December 2019 are presented below on a comparative basis with 31 December 2018, in thousands of Euro, indicating the changes between periods in absolute and percentage terms.

The highlights of 2019 included the absorption of Unipol Banca s.p.a., with tax and accounting effect from 1 July 2019, and BPER Services s.cons.p.a., with tax and accounting effect from 1 January 2019. Information about the principal changes deriving from these transactions is provided at the foot of the tables concerned.

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, in particular:

- debt securities measured at amortised cost (caption 40 *"Financial assets measured at amortised cost"*) have been reclassified under caption *"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"*.

Assets

(in thousands)

Assets	31.12.2019	31.12.2018	Change	% Change
Cash and cash equivalents	429,141	330,609	98,532	29.80
Financial assets	16,829,319	15,084,005	1,745,314	11.57
a) Financial assets held for trading	311,681	287,085	24,596	8.57
b) Financial assets designated at fair value	126,947	202,989	(76,042)	-37.46
c) Other financial assets mandatorily measured at fair value	475,384	513,982	(38,598)	-7.51
d) Financial assets measured at fair value through other comprehensive income	6,202,401	7,530,477	(1,328,076)	-17.64
e) Debt securities measured at amortised cost	9,712,906	6,549,472	3,163,434	48.30
- banks	2,777,687	1,799,288	978,399	54.38
- customers	6,935,219	4,750,184	2,185,035	46.00
Loans	46,446,686	39,301,929	7,144,757	18.18
a) Loans to banks	5,591,416	2,628,450	2,962,966	112.73
b) Loans to customers	40,829,483	36,673,479	4,156,004	11.33
c) Financial assets measured at fair value	25,787	-	25,787	n.s.
Hedging derivatives	81,869	34,916	46,953	134.47
Equity investments	2,138,421	1,747,684	390,737	22.36
Property, plant and equipment	802,101	448,124	353,977	78.99
Intangible assets	438,239	239,139	199,100	83.26
- of which: goodwill	225,792	225,792	-	-
Other assets	2,181,972	1,922,021	259,951	13.52
Total assets	**69,347,748**	**59,108,427**	**10,239,321**	**17.32**

Loans to customers

Net customer loans comprise solely the loan component allocated to caption 40 b) "Financial assets measured at amortised cost – loans to customers".

(in thousands)

Captions	31.12.2019	31.12.2018	Change	% Change
Current accounts	5,779,751	4,630,142	1,149,609	24.83
Mortgage loans	26,924,161	23,201,560	3,722,601	16.04
Leases and factoring	17,215	24,546	(7,331)	-29.87
Other transactions	8,108,356	8,817,231	(708,875)	-8.04
Net loans to customers	**40,829,483**	**36,673,479**	**4,156,004**	**11.33**

Loans to customers, net of impairment provisions, total Euro 40,829.5 million (Euro 36,673.5 million at 31 December 2018) up by Euro 4,156 million mainly due to the acquisition of Unipol Banca (Euro 7,712.7 million of net loans acquired at 1st of July 2019, after completion of the Purchase Price Allocation).

(in thousands)

Captions	31.12.2019	31.12.2018	Change	% Change
Gross non-performing exposures	**4,123,336**	**4,905,782**	**(782,446)**	**-15.95**
Bad loans	2,285,012	3,071,119	(786,107)	-25.60
Unlikely to pay loans	1,734,539	1,807,840	(73,301)	-4.05
Past due loans	103,785	26,823	76,962	286.93
Gross performing exposures	**38,996,496**	**34,771,504**	**4,224,992**	**12.15**
Total gross exposure	**43,119,832**	**39,677,286**	**3,442,546**	**8.68**
Impairment provisions for non-performing exposures	**2,171,771**	**2,877,229**	**(705,458)**	**-24.52**
Bad loans	1,560,387	2,176,600	(616,213)	-28.31
Unlikely to pay loans	598,412	696,432	(98,020)	-14.07
Past due loans	12,972	4,197	8,775	209.08
Impairment provisions for performing exposures	**118,578**	**126,578**	**(8,000)**	**-6.32**
Total impairment provisions	**2,290,349**	**3,003,807**	**(713,458)**	**-23.75**
Net non-performing exposures	**1,951,565**	**2,028,553**	**(76,988)**	**-3.80**
Bad loans	724,625	894,519	(169,894)	-18.99
Unlikely to pay loans	1,136,127	1,111,408	24,719	2.22
Past due loans	90,813	22,626	68,187	301.37
Net performing exposures	**38,877,918**	**34,644,926**	**4,232,992**	**12.22**
Total net exposure	**40,829,483**	**36,673,479**	**4,156,004**	**11.33**

In detail, the impairment provisions for non-performing loans amount to Euro 2,171.8 million (Euro 2,877.2 million at 31 December 2018; -24.52%), for a coverage ratio of 52.67% (58.65% at 31 December 2018), while provisions relating to performing loans amount to Euro 118.6 million (Euro 126.6 million at 31 December 2018; -6.32%), leading to a coverage ratio of 0.30% (0.36% at 31 December 2018).
Considering the direct write-offs of bad loans still outstanding, Euro 272.4 million (Euro 476.3 million at 31 December 2018), the coverage ratio of non-performing loans increases to 55.60% (62.31% at 31 December 2018).

The total coverage ratio is therefore 5.31%, versus 7.57% at 31 December 2018. Based on the same considerations set out above concerning direct write-offs, the total effective coverage of loans comes to 5.91% (8.67% at 31 December 2018).

Net non-performing loans total Euro 1,951.6 million, being 4.78% of total net loans to customers (5.53% at 31 December 2018), while gross non-performing loans represent 9.56% of loans to customers (12.36% at 31 December 2018).
More specifically, net bad loans amount to Euro 724.6 million (-18.99%), net unlikely to pay loans total Euro 1,136.1 million (+2.22%) and net past due loans total Euro 90.8 million (+301.37%).
The net non-performing loans acquired on the absorption of Unipol Banca amount to Euro 302.7 million following completion of the Purchase Price Allocation; more specifically, bad loans amount to Euro 17.7 million, unlikely to pay loans total Euro 256.3 million and past due loans total Euro 28.7 million.
The coverage of non-performing loans has declined to 52.67% from 58.65% at the end of 2018, mainly due to the sale to UnipolRec s.p.a. of a portfolio of bad loans with a gross value of about Euro 826 million at the disposal date, as well as to the recognition of former Unipol Banca non-performing loans directly at their fair value, without any provisions.

Net bad loans amount to Euro 724.6 million (-18.99%), representing 1.77% of total net loans to customers (2.44% at 31 December 2018), whereas, on a gross basis, the ratio of bad loans to total loans to customers comes to 5.30% (7.74% at 31 December 2018).
The coverage of bad loans is 68.29% (70.87% at 31 December 2018).

Net unlikely to pay loans total Euro 1,136.1 million (+2.22%), representing 2.78% of total net loans to customers (3.03% at 31 December 2018), while on a gross basis the ratio is 4.02% (4.56% at 31 December 2018).
The coverage of unlikely to pay loans is 34.50%, compared with 38.52% at 31 December 2018.

The net amount of past due loans is Euro 90.8 million (+301.37%), consequent to application of the "New Definition of Default – NDoD", and represents 0.22% of total net loans to customers (0.06% at 31 December 2018), while, on a gross basis, the ratio of past due loans to total loans to customers is 0.24% (0.07% at 31 December 2018). The coverage of past due loans is 12.50% (15.65% at 31 December 2018).

The allowance for performing loans, Euro 118.6 million, represents 0.30% of the gross amount of performing loans (0.36% 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 companies (14.10%), followed by the wholesale and retail trade in motor vehicles and motorcycles (8.30%), real estate (4.87%) and construction companies (4.30%).

(in thousands)

Distribution of loans to resident non-financial corporates	31.12.2019	%
A. Agriculture, forestry and fishing	642,913	1.57
B. Mining and quarrying	27,624	0.07
C. Manufacturing	5,758,912	14.10
D. Provision of electricity, gas, steam and air-conditioning	465,720	1.14
E. Provision of water, sewerage, waste management and rehabilitation	254,886	0.62
F. Construction	1,757,318	4.30
G. Wholesaling and retailing, car and motorcycle repairs	3,388,734	8.30
H. Transport and storage	648,270	1.59
I. Hotel and restaurants	799,299	1.96
J. Information and communication	235,441	0.58
K. Finance and insurance	-	-
L. Real estate	1,989,958	4.87
M. Professional, scientific and technical activities	656,013	1.61
N. Rentals, travel agencies, business support services	828,191	2.03
O. Public administration and defence, compulsory social security	6,601	0.02
P. Education	19,464	0.05
Q. Health and welfare	247,915	0.61
R. Arts, sport and entertainment	82,929	0.20
S. Other services	110,175	0.27
Total loans to resident non-financial corporates	**17,920,363**	**43.89**
Individuals and other not included above	14,894,909	36.48
Financial corporates	5,894,266	14.44
Governments and other public entities	2,079,387	5.09
Insurance companies	40,558	0.10
Total loans	**40,829,483**	**100.00**

Financial assets and equity investments

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

(in thousands)

Captions	31.12.2019	31.12.2018	Change	% Change
Financial assets measured at fair value through profit or loss	914,012	1,004,056	(90,044)	-8.97
- of which derivatives	*154,076*	*99,896*	*54,180*	*54.24*
Financial assets measured at fair value through other comprehensive income	6,202,401	7,530,477	(1,328,076)	-17.64
Debt securities measured at amortised cost	9,712,906	6,549,472	3,163,434	48.30
a) banks	2,777,687	1,799,288	978,399	54.38
b) customers	6,935,219	4,750,184	2,185,035	46.00
Total financial assets	**16,829,319**	**15,084,005**	**1,745,314**	**11.57**

Financial assets total Euro 16,829.3 million (+11.57% compared with 31 December 2018), inclusive of the former Unipol Banca financial assets of Euro 1,366.9 million acquired at 1st of July 2019 on completion of the Purchase Price Allocation. Debt securities amount to Euro 16,083.6 million (95.57% of the total): of these, Euro 6,637.8 million relates to Public Sector and Euro 6,898.9 million to Banks.

Equities come to Euro 333.8 million (1.98% of the total), inclusive of Euro 208.9 million of stable equity investments classified in the FVOCI portfolio.
"Financial assets held for trading" include financial derivatives of Euro 154.1 million (+54.24% compared with 31 December 2018) made up of derivatives linked to debt securities classified in "Financial assets measured at fair value through profit or loss" and forward transactions in foreign currencies (traded with customers and/or used in managing the foreign exchange position), interest rate and foreign exchange derivatives intermediated with customers, derivatives related to securitisations and other operational hedging derivatives. At 31 December 2019 the Bank has not entered into any of the "long-term structured repo transactions" mentioned in the document issued jointly by the Bank of Italy, CONSOB and IVASS on 8 March 2013.

(in thousands)

Captions	31.12.2019	31.12.2018	Change	% Change
Equity investments	2,138,421	1,747,684	390,737	22.36

"Equity investments", which comprise holdings in banks, subsidiaries and companies over which the Bank has significant influence, amount to Euro 2,138.4 million, up on 31 December 2018 (+22.36%).
The increases mainly refer to:

- purchase of 10,189,150 ordinary shares and 430,850 preference shares in Banco di Sardegna s.p.a. for Euro 180 million;
- acquisition of 10,731,789 ordinary shares in Banco di Sardegna from Fondazione di Sardegna, in exchange for 33,000,0000 shares in BPER Banca, with a recognised value of Euro 119.3 million;
- acquisition of 2,708,363 savings shares in Banco di Sardegna, following a public offer of exchange, with a recognised value of Euro 28.5 million;
- acquisition of the investment in Finitalia s.p.a. previously held by Unipol Banca (15,376,285 shares with a carrying amount of Euro 45.2 million);
- acquisition of control over Arca Holding s.p.a. (previously 32.752% held), on subscription for 12,154,752 shares at a total price of Euro 83.9 million.

The decreases include reclassification of the interest held in Banca Farnese s.p.a. in liquidation (Euro 21.8 million) to *"Financial assets mandatorily measured at fair value"*, given the advance stage of the liquidation procedure, as well as the write-downs required by the impairment tests carried out pursuant to IAS 36. The write-downs involved the equity investments held in:

- Cassa di Risparmio di Saluzzo s.p.a. (Euro 5.3 million);
- Sardaleasing s.p.a. (Euro 19.2 million);
- Italiana Valorizzazioni Immobiliari s.r.l. (Euro 0.8 million);
- Immobiliare Oasi nel Parco s.r.l. (Euro 0.7 million).

Fixed assets

(in thousands)

Captions	31.12.2019	31.12.2018	Change	% Change
Property, plant and equipment	802,101	448,124	353,977	78.99
of which owned land and buildings	*389,216*	*391,500*	*(2,284)*	*-0.58*
of which rights of use acquired with leasing	*324,823*	*2,192*	*322,631*	*--*

The increase reflects the application of IFRS 16, given the decision of the BPER Banca Group to transition to IFRS 16 without restating the comparative amounts; the amounts reported at 31 December 2018 relate to assets acquired under finance leases and recognised in accordance with IAS 17.

(in thousands)

Captions	31.12.2019	31.12.2018	Change	% Change
Intangible assets	438,239	239,139	199,100	83.26
of which goodwill	*225,792*	*225,792*	-	-

The significant increase in intangible assets derives from the absorption of BPER Services s.cons.p.a.
Among intangible assets, the component referring to goodwill amounts to a total of Euro 225.8 million and includes both the goodwill deriving from bank acquisitions and subsequent absorption carried out in previous years, and the goodwill related to purchases of bank branches from the Unicredit Group.
The impairment tests carried out in accordance with IAS 36 when preparing the 2019 financial statements did not evidence any need to write-down the goodwill recognised.

Interbank and liquidity position

(in thousands)

Net interbank position	31.12.2019	31.12.2018	Change	% Change
A. Loans to banks	**5,591,416**	**2,628,450**	**2,962,966**	**112.73**
1. Current accounts and deposits	1,607,369	1,040,951	566,418	54.41
2. Reverse repurchase agreements	2,148,132	228,088	1,920,044	841.80
3. Other	1,835,915	1,359,411	476,504	35.05
B. Due to banks	**15,749,542**	**16,436,039**	**(686,497)**	**-4.18**
Total (A-B)	**(10,158,126)**	**(13,807,589)**	**3,649,463**	**-26.43**

Due to banks, Euro 10,158.1 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. In addition, the important refinancing operations arranged with the European Central Bank total Euro 9,536 million (of which Euro 400 million deriving from the absorption of Unipol Banca) as part of TLTRO II, of which Euro 4,400 million matures in June 2020, Euro 1,000 million in December 2020 and Euro 4,136 million in March 2021.

Liabilities

(in thousands)

Liabilities and shareholders' equity	31.12.2019	31.12.2018	Change	% Change
Due to banks	15,749,542	16,436,039	(686,497)	-4.18
Direct deposits	45,859,374	36,292,280	9,567,094	26.36
a) due to customers	40,300,602	31,509,116	8,791,486	27.90
b) debt securities issued	5,558,772	4,783,164	775,608	16.22
Financial liabilities held for trading	176,219	150,807	25,412	16.85
Hedging derivatives	283,792	85,717	198,075	231.08
Other liabilities	2,282,040	1,755,534	526,506	29.99
Shareholders' equity	4,996,781	4,388,050	608,731	13.87
a) Valuation reserves	(135,730)	(82,514)	(53,216)	64.49
b) Reserves	2,039,723	1,797,104	242,619	13.50
c) Equity instruments	150,000	-	150,000	n.s.
d) Share premium reserve	1,002,722	930,073	72,649	7.81
e) Share capital	1,561,884	1,443,925	117,959	8.17
f) Treasury shares	(7,253)	(7,253)	-	-
g) Profit (Loss) for the year	385,435	306,715	78,720	25.67
Total liabilities and shareholders' equity	**69,347,748**	**59,108,427**	**10,239,321**	**17.32**

Deposits

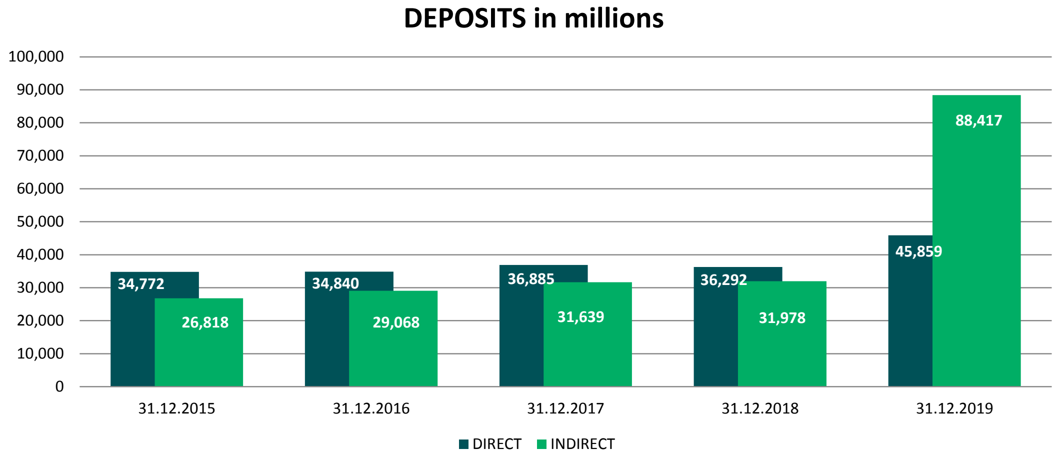
(in thousands)

Captions	31.12.2019	31.12.2018	Change	% Change
Current accounts and demand deposits	36,366,341	27,216,395	9,149,946	33.62
Time deposits	875,135	1,788,114	(912,979)	-51.06
Repurchase agreements	88,537	91,235	(2,698)	-2.96
Lease liabilities	316,441	543	315,898	--
Other short-term loans	2,654,148	2,412,829	241,319	10.00
Bonds	4,949,480	3,584,489	1,364,991	38.08
- subscribed by institutional customers	3,278,364	2,531,595	746,769	29.50
- subscribed by ordinary customers	1,671,116	1,052,894	618,222	58.72
Certificates	36,541	52,672	(16,131)	-30.63
Certificates of deposit	572,751	1,146,003	(573,252)	-50.02
Direct deposits from customers	**45,859,374**	**36,292,280**	**9,567,094**	**26.36**
Indirect deposits (off-balance sheet figure)	88,416,773	31,978,280	56,438,493	176.49
- of which managed	20,815,966	15,993,885	4,822,081	30.15
- of which administered	67,600,807	15,984,395	51,616,412	322.92
Customer funds under administration	**134,276,147**	**68,270,560**	**66,005,587**	**96.68**
Bank borrowing	15,749,542	16,436,039	(686,497)	-4.18
Funds under administration or management	**150,025,689**	**84,706,599**	**65,319,090**	**77.11**

Direct deposits from customers, Euro 45,859.4 million, is up on the previous year (+26.36%). The increase was mainly influenced by the contribution of Unipol Banca (Euro 9,955.2 million acquired on 1st of July 2019 following completion of the Purchase Price Allocation), as well as by the recognition of lease liabilities, as a technicality involved in the application of IFRS 16.
Among the various technical forms, the increase mainly related to current accounts, Euro 9,149.9 million (+33.62%), influenced by the contribution from Unipol Banca, and bonds, Euro 1,365 million (+38.08%),

following the new issues of covered bonds and acquisition of the bonds issued by Unipol Banca (Euro 1,263.4 million acquired on 1st of July 2019 following completion of the Purchase Price Allocation).
In terms of average liquid stock in 2019, customer deposits amount to Euro 41,767.4 million, showing an increase (+14.78%) compared with the stock last year (Euro 36,389.3 million).
Indirect deposits from customers, marked to market, come to Euro 88,416.8 million, up (+176.49%) on 31 December 2018 (Euro 31,978.3 million) due to the significant contribution made by Unipol Banca (Euro 51,898 million at 30 June 2019), mainly in relation to assets under administration.

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



Direct deposits include subordinated liabilities:

(in thousands)

Captions	31.12.2019	31.12.2018	Change	% Change
Non-convertible subordinated liabilities	757,326	759,693	(2,367)	-0.31
Total subordinated liabilities	**757,326**	**759,693**	**(2,367)**	**-0.31**

The subordinated loans in circulation, with a book value of Euro 757.3 million, are essentially unchanged with respect to the situation at 31 December 2018.
There are no convertible subordinated liabilities at 31 December 2019 (as in December 2018).
Indirect deposits do not include the placement of insurance policies, which has increased by 42.04% since 31 December 2018, mainly due to the contribution of Unipol Banca, as well as the good performance net inflows into life insurance products during the year. In detail, the life insurance segment grew by 42.63%, while the non-life segment increased by 11.44% compared with the previous year.

(in thousands)

Bancassurance	31.12.2019	31.12.2018	Change	% Change
Insurance premiums portfolio	**5,621,290**	**3,957,574**	**1,663,716**	**42.04**
- of which life sector	*5,537,299*	*3,882,204*	*1,655,095*	*42.63*
- of which non-life sector	*83,991*	*75,370*	*8,621*	*11.44*

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 2019, with comparative figures for the period ended 31 December 2018, together with an indication of the changes between periods in absolute and percentage terms.
The 2019 amounts were influenced by the absorptions of BPER Services s.cons.p.a., with tax and accounting effect from 1 January 2019, and Unipol Banca s.p.a., which was acquired by BPER Banca on 31 July 2019 and absorbed on 25 November 2019, with retroactive tax and accounting effect from 1 July 2019.
Information about the principal changes deriving from these transactions is provided at the foot of the tables concerned.

The results presented have been reclassified to the formats envisaged in the 6th update to Bank of Italy Circular 262/2005. 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 200 *"Other operating expense/income"*, have been reclassified as a reduction in the related costs under *"Other administrative expenses"* (Euro 105,404 thousand at 31 December 2019 and Euro 95,118 thousand at 31 December 2018);
- *"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 investments and impairment losses on goodwill"* include captions 220, 240 and 250 in the reporting format;
- "Contributions to the DGS, SRF and IDGF-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 costs"* as a better reflection of the trend in the Group's operating costs. In particular, at 31 December 2019, this caption represents the component allocated for accounting purposes to administrative costs in relation to:
    - the 2019 ordinary contribution to the SRF (European Single Resolution Fund) of Euro 19,628 thousand;
    - additional contribution requested by the SRF (European Single Resolution Fund) for 2017 from Italian banks for Euro 8,456 thousand;
    - 2019 ordinary contribution to the DGS (Deposit Guarantee Scheme) for Euro 21,025 thousand.

(in thousands)

Captions		31.12.2019	31.12.2018	Change	Change %
10+20	Net interest income	786,682	773,860	12,822	1.66
40+50	Net commission income	689,601	590,347	99,254	16.81
70	Dividends	34,363	45,184	(10,821)	-23.95
80+90+100+110	Net income from financial activities	82,597	114,455	(31,858)	-27.83
200	Other operating expense/income	89,564	41,610	47,954	115.25
	Operating income	**1,682,807**	**1,565,456**	**117,351**	**7.50**
160 a)	Staff costs	(763,894)	(533,703)	(230,191)	43.13
160 b)	Other administrative expenses	(350,994)	(436,885)	85,891	-19.66
180+190	Net adjustments to property, plant and equipment and intangible assets	(134,999)	(26,494)	(108,505)	409.55
	Operating costs	**(1,249,887)**	**(997,082)**	**(252,805)**	**25.35**
	Net operating income	**432,920**	**568,374**	**(135,454)**	**-23.83**
130 a)	Net impairment losses to financial assets at amortised cost	(288,945)	(149,905)	(139,040)	92.75
130 b)	Net impairment losses to financial assets at fair value	941	1,893	(952)	-50.29
140	Gains (Losses) from contractual modifications without derecognition	(1,981)	(2,140)	159	-7.43
	Net impairment losses for credit risk	**(289,985)**	**(150,152)**	**(139,833)**	**93.13**
170	Net provisions for risks and charges	(8,071)	(21,130)	13,059	-61.80
###	Contributions to SRF, DGS, IDPF – VS	(49,109)	(41,087)	(8,022)	19.52
220+240+250	Gains (Losses) on equity investments, disposal investments and impairment losses on goodwill	(24,951)	(103,075)	78,124	-75.79
245	Gain on a bargain purchase	329,433	-	329,433	n.s.
260	**Profit (Loss) from current operations before tax**	**390,237**	**252,930**	**137,307**	**54.29**
270	Income taxes on current operations for the year	(4,802)	53,785	(58,587)	-108.93
300	**Profit (Loss) for the year**	**385,435**	**306,715**	**78,720**	**25.67**

Net interest income

Net interest income comes to Euro 786.7 million, up by 1.66% (Euro 773.9 million at 31 December 2018) as an effect of the absorption of Unipol Banca s.p.a.

The result includes the benefit accruing on participating in emissions of TLTRO II for Euro 37.9 million (Euro 37.1 million at 31 December 2018).

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 2.07% (both performing and non-performing elements), a decrease of around 0.07% compared with the average rate in the previous year;
- the average cost of direct funding from customers was 0.42%, which is down by about 6 basis points on 2018 (0.48%).
- total interest-bearing liabilities involved a cost of 0.32%, a decrease of 2 bps compared with 0.34% of the previous year;
- the spread between lending and deposit rates of the Bank's relationships with customers came to 1.65% (1.66% at 31 December 2018);
- 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 1.29%, down on last year (when it was 1.37%).

Net commission income

Net commission income, Euro 689.6 million, increased compared to 31 December 2018 (Euro 590.3 million +16.81%). The positive performance was mainly attributable to the absorption of Unipol Banca, which contributed in particular net commission income from “Bancassurance” indirect deposits and the management of current accounts.

Net income from financial activities

Net income from financial activities (including dividends of Euro 34.4 million) amounted to Euro 117.0 million. The reduction compared with the prior year (Euro 159.6 million) reflected lower market sales of securities, as partially offset by greater net unrealised gains on the financial assets held at year end.
This net result was determined in particular by:

- gains on the disposal of financial assets for Euro 36.5 million;
- losses on the disposal of loans for Euro 4.4 million;
- net unrealised gains on financial assets for Euro 42.8 million. This result includes the write-down of the instruments recorded following the contributions paid to the IDPF Voluntary Scheme, needed to assist Carige, for a total of Euro 9.7 million, more than offset by capital gains on other instruments in the portfolio;
- other positive elements for Euro 7.7 million.

Operating income

Considering Other operating expense/income of Euro 89.6 million (41.6 million at 31 December 2018), Operating income totalled Euro 1,682.8 million (+7.50% higher than last year).

Operating costs

Operating costs totalled Euro 1,249.9 million, up by 25.35% on 31 December 2018. The main components of operating costs are as follows.

Staff costs, Euro 763.9 million, were higher than last year (+43.13%). In addition to the increase in employment deriving from the absorption of Unipol Banca s.p.a., the change reflects the provisions for leaving incentives and to the Solidarity Fund totalling Euro 70.1 million, which were recorded after signature of the agreement with the Trade Unions on 29 October 2019 (the reduction in the workforce, already envisaged in the 2019-2021 Business Plan, seeks to optimise employment levels and facilitate generational change).

Other administrative expenses, stated net of indirect taxes recovered (Euro 105.4 million) and the contributions paid to the Resolution Fund (Euro 49.1 million), amounted to Euro 351 million, down by 19.66% compared with the previous year.
This trend was positively influenced by the application of IFRS 16 from the current year, which led to the reversal of lease instalments previously allocated to "Other administrative expenses".
The outcome was also influenced by the non-recurring expenses incurred on extraordinary transactions during the year, totalling about Euro 22.2 million.

Net adjustments to property, plant and equipment and intangible assets amounted to Euro 135 million (Euro 26.5 million in 2018). The result was influenced by the adoption of IFRS 16, symmetrically to what was explained above, for "Other administrative expenses". The impairment on leased right-of-use assets totalled Euro 57.1 million, of which Euro 2.6 million for impairment linked to contracts terminated early, while the difference represents depreciation.

The net operating income was therefore Euro 432.9 million (Euro 568.4 million at 31 December 2018).

Net impairment losses for credit risk

Net impairment losses for credit risk amounted to Euro 290 million (Euro 150.2 million at 31 December 2018). More specifically, the net impairment losses of financial assets measured at amortised cost totalled Euro 288.9 million (+92.75% compared with the prior year). This increase reflects, in particular, acceleration of the de-risking process that the Bank seeks to pursue via a significant new securitisation of bad loans to be completed in early 2020. The measurement of debt securities at fair value through other comprehensive income resulted in a net write-back of Euro 0.9 million (-50.29% compared with the prior year).
The overall cost of credit at 31 December 2019, calculated solely on loans to customers, is 70 bps (40 bps at 31 December 2018).

Net provisions for risks and charges

Net provisions for risks and charges come to Euro 8.1 million; the caption includes net write-backs on commitments and guarantees granted of Euro 5.7 million (Euro 11.9 million in the prior year), and other net provisions for risks and charges, mainly related to legal action taken against the Bank, totalling Euro 13.8 million (Euro 15.6 million at 31 December 2018).

Contributions to the SRF, DGS and IDPF-VS Funds

The total amount of contributions paid during the year was Euro 49.1 million (Euro 41.1 million at 31 December 2018). This amount comprises the ordinary contribution for 2019 paid to the SRF (European Single Resolution Fund), Euro 19.6 million, the additional contributions for 2017 requested from Italian banks by the SRF (Euro 8.5 million) and the amount paid to the DGS (Deposit Guarantee Fund), Euro 21 million.

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

The net losses totalled Euro 25 million (Euro 103.1 million at 31 December 2018), mainly due to the results of the impairment tests carried out pursuant to IAS 36, which required the write-down of certain equity investments by Euro 26 million. The most significant write-downs concerned the equity investments in Sardaleasing s.p.a. (Euro 19.2 million), Cassa di Risparmio di Saluzzo s.p.a. (Euro 5.3 million), Italiana Valorizzazioni Immobiliari s.r.l. (Euro 0.8 million) and Immobiliare Oasi nel Parco s.r.l. (Euro 0.7 million).
The above write-downs were partially offset by net income from the disposal of investments of Euro 1 million.

Gain on a bargain purchase (or “Badwill”)

This caption includes the badwill - being the difference between the purchase price and the fair value of the acquired assets and liabilities - generated by the acquisition, and subsequent absorption, of Unipol Banca. The amount calculated at the end of the Purchase Price Allocation (PPA) process came to Euro 329.4 million.

Profit(Loss) for the year

The profit from current operations before tax amounts to Euro 390.2 million (Euro 252.9 million at 31 December 2018).

The income tax charge of Euro 4.8 million was determined by applying the regulations in force at 31 December 2019, having regard to the changes introduced by the 2020 Finance Law, including:

- re-introduction of the ACE benefit from the 2019 tax year, with related rate adjustment of 1.3%;
- deferral to 2028 of the deductibility in the 2019 tax year of the impairment adjustments made to customer loans on the FTA of IFRS 9;
- redefinition of the deductibility of the impairment adjustments made to customer loans due to be recoverable in 2019, now deferred in equal tranches to the 2022 tax year and the three subsequent years (2023, 2024, 2025);
- redefinition of the deductibility of convertible goodwill due to be recoverable in 2019, now deferred in equal tranches to the 2025 tax year and the four subsequent years (2026, 2027, 2028, 2029).

No deferred tax assets have been recognised on temporary differences due to reverse after the five-year time horizon considered for the probability test (2020-2024).

No deferred tax assets have been recognised on carried-forward tax losses, considering the adverse outcome of the probability test required by IAS 12.

The overall result, net of taxes, was a profit of Euro 385.4 million (Euro 306.7 million at 31 December 2018).

Services provided and work statistics

Considering the difficult economic situation that has persisted since the previous year, the Bank continues to make an extraordinary effort to manage customer relations in the most effective and appropriate manner possible.

Recognising that the data for 2019 is influenced by the effects of absorbing Unipol Banca S.p.A., the work statistics for 2019 are shown below, together with comparative figures for the previous year:

- current accounts at 31 December 2019, 1,644,332 (+27.58%); 111,349 new accounts were opened in 2019, while 112,399 were closed;
- a total of 242.7 million current account transactions were carried out (+10.21% compared with last year);
- 18 million bills and notes were presented for collection, totalling Euro 24.9 billion (+1.05% compared with last year);
- self-liquidating advances against Italian invoices amounted to Euro 31.6 billion (+1.05%);
- 6.5 million receipts and notes were paid at branches, totalling Euro 18.1 billion (respectively +1.06% and +0.85% compared with the prior year);
- endorsement credits and financial and commercial guarantees amounted to Euro 3.3 billion;
- 25,608 mortgages were granted (+1.87%), for a total of Euro 4.7 billion (-14.07%);
- loans granted (personal, business and assignments of one-fifth of salary) numbered 43,835, for a total of Euro 1.04 billion (-3.88% and -15.04% respectively);
- over 17.3 million standing order instructions were carried out on behalf of customers, for a total of Euro 4.2 billion (+11.93% and +6.27% respectively);
- bank transfers made totalled Euro 139.3 billion (+0.35%), while those received from third parties amounted to Euro 135.8 billion (+10.69%);

- 1,175 Bancomat ATMs were operational at the end of 2019 (1000 in 2018) and they were used to make 26.9 million withdrawals (+3.33%) for a total of Euro 4.6 billion (+16.98%);
- commercial foreign exchange transactions outside the SEPA totalled Euro 13.3 billion (+9.1%);
- there are now 89,651 POS units installed in shops or public service locations (30,681 more than in 2018, a growth of 52.03%) and they were used for 90.4 million transactions (+21.23%) for a total of Euro 5.57 billion (+16.08%);
- the number of remote banking connections has risen to 120,784 (18,585 more than in 2018, up by 18.19%);
- a total of 789,762 Internet banking contracts (+27.57%) 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 421,004 (+1.92%).

2.5. Shareholders' equity and capital ratios

2.5.1 Shareholders' equity

At the end of the previous year the Bank's equity, excluding the net profit (loss) for the year, amounted to Euro 4,081.3 million. Due to the first-time adoption of IFRS 16, the Bank's equity decreased by 0.4 million. At 1 January 2019, equity amounted to Euro 4,080.9 million, excluding the net profit (loss) for the year. It increased by Euro 530.5 million during the year, due to the following changes:

- Euro +244.1 million on the allocation of 2018 net profit;
- Euro +119.3 million on the full capital increase for payment that was reserved for subscription solely to Fondazione di Sardegna, which contributed ordinary shares owned in Banco di Sardegna s.p.a.;
- Euro +180 million on the issue of an “Additional Tier 1” convertible bond, nominal value Euro 150 million, that was simultaneously and fully subscribed by Fondazione di Sardegna;
- Euro +28.5 million on the capital increase for payment that was reserved for subscription to parties accepting the Public Offer of Exchange on savings shares in Banco di Sardegna s.p.a.;
- Euro +3.2 million, for the recognition of other changes;
- Euro -29.3 million to adjust the reserve for actuarial gains/losses, net of the tax effect;
- Euro -15.3 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.

Therefore, shareholders' equity comes to Euro 4,611.4 million, up by 13% on 1 January 2019. Taking into account the net result for the year (Euro 385.4 million), shareholders' equity comes to Euro 4,996.8 million (+13.88% on the shareholders' equity at 1 January 2019).
At 31 December 2019, the share capital was Euro 1,561,883,844, consisting of 520,627,948 shares; of these, 455,458 are treasury shares, the same as in December 2018.

As regards the profits from unrealized capital gains (net of tax) in 2018, as per art. 6 of Legislative Decree 38/2005, which amounted to Euro 26,842 thousand, they have to be 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 2019 comes to Euro 14,214.1 thousand.

2.5.2 Own funds and capital ratios

On 31 December 2019, BPER Banca adopted internal models for measuring the capital requirements relating to credit risk (IRB Advanced approach), following the authorisation received by the ECB on 24 June 2016.

At 31 December 2019 the Common Equity Tier 1 Ratio requirement to be complied with was equal to 7.02%, as it was also influenced by the additional requirement constituted by the specific countercyclical capital reserve of BPER Banca of 0.02% in the fourth quarter of 2019
Compared with that limit, the amount of available equity at 31 December 2019 can be quantified at Euro 2,630 million (about 962 bps of CET1) under the phased in transitional arrangements, while on a Fully Phased basis it can be valued at Euro 2,030 million, about 749 bps.

The following table shows BPER Banca capital ratios and the minimum capital adequacy requirements for regulatory purposes at 31 December 2019.

(in thousands)

	31.12.2019	31.12.2018	Change	% Change
Common Equity Tier 1 capital - CET1	**4,549,409**	**4,220,398**	**329,011**	**7.80**
Additional Tier 1 capital - AT1	150,000	-	150,000	n.s.
Tier 1 capital - Tier 1	**4,699,409**	**4,220,398**	**479,011**	**11.35**
Tier 2 capital - Tier 2 - T2	796,049	798,625	(2,576)	-0.32
Total Own Funds	**5,495,458**	**5,019,023**	**476,435**	**9.49**
Total Risk-weighted assets (RWA)	**27,346,785**	**23,391,661**	**3,955,124**	**16.91**
CET1 Ratio (CET1/RWA)	**16.64%**	**18.04%**	**- 140 b.p.**	
Tier 1 Ratio (Tier 1/RWA)	**17.18%**	**18.04%**	**- 86 b.p.**	
Total Capital Ratio (Total Own Funds/RWA)	**20.10%**	**21.46%**	**- 136 b.p.**	
RWA/Total assets	**39.43%**	**39.57%**	**- 14 b.p.**	

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.

Debt securities

(in thousands)

Issuer	Rating	Cat	Nominal value	Book value	Fair Value	OCI Reserves	%
Governments:			**5,981,145**	**6,390,888**	**6,528,457**	**4,468**	**96.28%**
Italy	BBB		**4,325,774**	**4,684,620**	**4,800,981**	**3,879**	**70.57%**
		FVTPLT	14,449	14,755	14,755	#	
		FVO	100,000	123,901	123,901	#	
		FVTPLM	50,000	51,859	51,859	#	
		FVOCI	91,325	105,076	105,076	3,879	
		AC	4,070,000	4,389,029	4,505,390	#	
Spain	A-		**1,007,500**	**1,040,583**	**1,050,083**	**-**	**15.68%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	-	-	-	-	
		AC	1,007,500	1,040,583	1,050,083	#	
European Stability Fund	AA		**212,500**	**237,022**	**244,549**	**1,070**	**3.57%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	95,000	106,349	106,349	1,070	
		AC	117,500	130,673	138,200	#	
U.S.A.	AAA		**120,000**	**107,580**	**107,580**	**(537)**	**1.62%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	120,000	107,580	107,580	(537)	
		AC	-			#	

(cont.)

Issuer	Rating	Cat	Nominal value	Book value	Fair Value	OCI Reserves	%
France	AA		**100,000**	**113,323**	**116,167**	**-**	**1.71%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI			-	-	
		AC	100,000	113,323	116,167	#	
Others	_		**215,371**	**207,760**	**209,097**	**56**	**3.13%**
		FVTPLT	1,371	1,411	1,411	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	19,000	17,921	17,921	56	
		AC	195,000	188,428	189,765	#	
Other public entities :			**401,162**	**246,908**	**246,703**	**102**	**3.72%**
Italy	-		**195,162**	**22,373**	**22,991**	**130**	**0.34%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	6,473	6,619	6,619	130	
		AC	188,689	15,754	16,372	#	
Germany	-		**102,000**	**118,313**	**117,490**	**-**	**1.78%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	-	-	-	-	
		AC	102,000	118,313	117,490	#	
Others	-		**104,000**	**106,222**	**106,222**	**(28)**	**1.60%**
		FVTPLT	-	-	-	#	
		FVO	-	-	-	#	
		FVTPLM	-	-	-	#	
		FVOCI	104,000	106,222	106,222	(28)	
		AC	-	-	-	#	
Total debt securities as at 31.12.2019			**6,382,307**	**6,637,796**	**6,775,160**	**4,570**	**100.00%**

The ratings indicated are those of Fitch Rating at 31 December 2019.

Loans

(in thousands)

Issuer	Rating	Cat	Nominal value	Book value	Fair value	OCI Reserves	%
Governments:			**1,935,873**	**1,935,873**	**1,935,873**	**-**	**93.10%**
Italy	BBB		**1,935,873**	**1,935,873**	**1,935,873**	**-**	**93.10%**
		FVTPLT				#	
		FVO				#	
		FVTPLM				-	
		FVOCI				#	
		AC	1,935,873	1,935,873	1,935,873	#	
Other public entities:			**143,513**	**143,513**	**149,531**	**-**	**6.90%**
Italy	-		**143,513**	**143,513**	**149,531**	**-**	**6.90%**
		FVTPLT				#	
		FVO				#	
		FVTPLM				-	
		FVOCI				#	
		AC	143,513	143,513	**149,531**	#	
Total loans as at 31.12.2019			**2,079,386**	**2,079,386**	**2,085,404**	**-**	**100.00%**

The ratings indicated are those of Scope Rating at 31 December 2019.

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	-	37,650	2,434,605	4,165,541	6,637,796
Loans	137,030	40,112	5,060	1,897,184	2,079,386
Total	**137,030**	**77,762**	**2,439,665**	**6,062,725**	**8,717,182**

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

4. Other information

4.1 Management of the Bank

Shareholders' Meeting of the Parent Company:

- *Corporate bodies: new appointments*

The Shareholders' Meeting, held on 17 April 2019, integrated the Board of Statutory Auditors for the rest of the three-year period 2018-2020 by appointing the Chairman and another Acting Auditor, as well as two Alternate Auditors.
Pursuant to art. 34 of the Articles of Association, the following were elected for the rest of the three-year period 2018-2020:

- Paolo De Mitri as Chairman of the Board of Statutory Auditors;
- Cristina Calandra Buonaura as Acting Auditor;
- Patrizia Tettamanzi as Alternate Auditor, to replace the Alternate Auditor taken from the list that came second in terms of number of votes at the Shareholders' Meeting of 14 April 2018;
- Veronica Tibiletti as Alternate Auditor, to replace the Alternate Auditor taken from the list that came first in terms of number of votes at the Shareholders' Meeting of 14 April 2018.

- *Allocation of the net profit for 2018*

- On 17 April 2019, the Shareholders' Meeting approved the allocation of the net profit of Euro 306.7 million earned in 2018 by the Bank, with the declaration of a dividend of Euro 0.13 per share (Euro 62.6 million in total) and an allocation to the extraordinary reserve of Euro 203.3 million, after the allocations to reserves required by law (Euro 40.8 million).

Changes in Top Management

On 28 November 2019, the Board of Directors of BPER Banca resolved to revise the organisational model at top management level, with a view to enhancing the efficiency with which the Bank and the Group are governed and managed.
More specifically, given the desire to shorten decision-making processes, the administrative body of the Bank considered it appropriate, moving forward, to appoint just one top manager to supervise all governance, business and operating activities.
In view of this, after involving and obtaining the favourable opinion of the Remuneration Committee, an agreement was reached with the General Manager, Fabrizio Togni, for the early termination of his employment relationship at 31 December 2019.
Accordingly, as from 1 January 2020, Alessandro Vandelli is both the Chief Executive Officer and the General Manager of the Bank. Lastly, after involving and obtaining the favourable opinion of the Nominations Committee, the Board of Directors resolved to strengthen the General Management team by appointing Stefano Rossetti (formerly the General Manager of Unipol Banca s.p.a.) as the Vice Deputy General Manager of the Bank.

4.2 Information on intercompany and related-party transactions

Relations between the various companies included within 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.

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 9th update on 12 December 2011 of Circular 263 dated 27 December 2006.
The document is published on BPER Banca's website (www.bper.it, in the "Information-& Regulation" / "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 17221/10.

a) More 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.	Gruppo Unipol (*)	Significant shareholder	Acquisition of Unipol Banca S.p.A.	220,000	Information document of 14 February 2019
2	BPER Banca S.p.A.	Unipol Rec S.p.A	Subsidiary controlled by the significant shareholder	Sale of a non-performing loans portfolio to Unipol Rec S.p.A.	88,365	Information document of 14 February 2019
3	BPER Banca S.p.A.	Fondazione di Sardegna	Significant shareholder	Acquisition of the minority interest in Banco di Sardegna and issue of AT1 convertible bond	(**)	Information document of 14 February 2019
4	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
5	BPER Banca S.p.A.	Banco di Sardegna S.p.A.	Directly controlled subsidiary	Repo transaction	268,974	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
6	BPER Banca S.p.A.	Banca di Sassari S.p.A.	Directly controlled subsidiary	Credit line	970,000	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	900,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
8	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

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
9	BPER Banca S.p.A.	Sardaleasing S.p.A.	Directly controlled subsidiary	Credit line	425,000	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	402,000	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.	Cassa di Risparmio di Bra S.p.A.	Directly controlled subsidiary	Credit line	300,000	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
13	BPER Banca S.p.A.	Alba Leasing S.p.A.	Directly associated company	Credit line	570,000	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	2,900,000	Information document of 13 December 2019
15	Banco di Sardegna S.p.A.	BPER Banca S.p.A.	Direct parent company	Credit line	950,000	Information document of 13 December 2019
16	Banco di Sardegna S.p.A.	BPER Banca S.p.A.	Direct parent company	Credit line	300,000	Information document of 13 December 2019

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
17	BPER Banca S.p.A.	Unipol Banca S.p.A	Directly controlled subsidiary	Merger by absorption	-	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
18	BPER Banca S.p.A.	Banco di Sardegna S.p.A.	Directly controlled subsidiary	Repo transaction	288,929	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
19	BPER Banca S.p.A.	Banco di Sardegna S.p.A.	Directly controlled subsidiary	Repo transaction	338,388	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
20	BPER Banca S.p.A.	Banco di Sardegna S.p.A.	Directly controlled subsidiary	Repo transaction	348,602	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221
21	BPER Banca S.p.A.	Banco di Sardegna S.p.A.	Directly controlled subsidiary	Repo transaction	315,540	Transaction exempt from market disclosure pursuant to art. 14 paragraph 2 of Regulation 17221

(*) The operation was completed with the acquisition of the shares in Unipol Banca s.p.a. from Unipol Gruppo s.p.a. for Euro 187.5 million and from Unipol SAI Assicurazioni s.p.a. for Euro 32.5 million.
(**) The total consideration for the operation comprises two components:
- subscription by Fondazione di Sardegna of the subordinated convertible bond (AT1) for Euro 180 million issued by BPER Banca;
- subscription for 33,000,000 new ordinary shares in BPER Banca s.p.a. (private issue) at a unit price of Euro 5.1 each, settled by the contribution in kind of 10,731,789 shares in Banco di Sardegna s.p.a.

b) other individual transactions with related parties as defined under article 2427[19], 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 BPER Services s.cons.p.a. by BPER Banca s.p.a. was signed on 3 June 2019. This internal operation, which took legal effect from 10 June 2019, was considered to be of lesser importance.

[19] 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.

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 were 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, except as described above.

4.3 Information on atypical, unusual or non-recurring transactions

During 2019 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 TUF 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 Borsa Italiana s.p.a. (www.borsaitaliana.it) and of the authorised storage system managed by Computershare s.p.a. (www.1info.it).

4.5 Treasury shares in portfolio

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 31.12.2019	455,458	7,253,180
Total as at 31.12.2018	455,458	7,253,180

4.6 Application of the MiFID

Work on alignment with Directive 2014/65/EU (the MiFID II Directive) continued during 2019; in particular, the first summary report on costs and charges incurred in relation to financial products and investment services was prepared and sent to customers with security deposit accounts or that hold financial products. This new statement is intended to provide ever greater transparency to customers.
In addition, there were multiple contacts with Consob, which sent specific letters to various leading banks, including BPER Banca, requesting data and information pursuant to art. 6 *bis*, para. 4.a), of Decree 58/1998. This interaction included requests for information about how Group banks are implementing the MiFID II Directive (especially with regard to the information for customers about the costs and charges associated with financial products and investment services), as well as specific questions about the decisions made concerning the provision of investment services and, accordingly, the design of the customer protection model. As a result of these requests for clarification and points of emphasis, revisions were made to certain logic underlying the adequacy and target market checks, to ensure that financial products and investment services are consistent with the financial characteristics and requirements of customers.
Lastly, with regard to transaction reporting, the Supervisory Authority sent a specific request for clarification about certain anomalies involving the delayed sending of reports, which included semantic errors. Appropriate analyses were carried out and IT procedures were revised as necessary in order to correct the above anomalies.

4.7 Transition to IFRS 16

Organisation of the project for implementation within BPER Banca Group

IFRS 16, in force from 1 January 2019, provides for new rules to identify whether a contract contains a lease and has changed the methods of accounting for lease transactions in the lessee's and user's financial statements, introducing a single model of accounting for lease contracts by the lessee, regardless of whether they are classified as operating or finance leases.

During 2018, the BPER Banca Group launched a specific project to analyse the qualitative-quantitative accounting impacts of applying IFRS 16 and to determine the repercussions thereof on the corporate, organisational, process and IT environments. In short, the project has been split into the following stages:

- a first phase of scoping, assessment and definition of the various transition choices to be made;
- a second phase involving the design of target operating models;
- a third phase of implementation of the impacted processes and adaptation of internal regulations.

This project was managed centrally by the Parent Company, taking into consideration the specific aspects of each Group company; the various implementation steps are defined centrally for all subsidiaries, involving each of them appropriately according to the extent of the impact and ensuring constant alignment.

The assessment made on the existing lease contracts at Group level identified three categories of assets on which to carry out the impact analysis:

- Property,
- Cars,

- Other contracts (mainly represented by ATM machines and multifunction printers).

It should also be noted that based on the indications of IFRS 16 and the clarifications provided by IFRIC (document "Cloud Computing Arrangements" of September 2018), software is excluded from the scope of application of IFRS 16; it will therefore be accounted for according to IAS 38 and its requirements.
In addition, the scope of contracts identified as significant already discounts the application of the simplifications allowed by this standard; the following contracts were in fact excluded:

- "Short-term", i.e. with a residual life of less than 12 months on first-time adoption (FTA);
- "Low-value", i.e. with an estimated value of the asset of less than Euro 5,000.

With respect to the methods adopted for the transition to IFRS 16, the other application choices defined by the BPER Banca Group and the related impacts of first-time adoption, please refer to the Explanatory notes to these financial statements.

4.8 Establishment of the VAT Group

The BPER VAT Group is operational from 1 January 2019 as a VAT payer regulated by the EU legislation recently 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.
The VAT Group operates externally with a single VAT number, it fulfils the obligations and exercises the rights deriving from application of the VAT rules through the group representative (BPER Banca), who is responsible for performance of the obligations, as well as for payment of the sums due for tax, interest and penalties, jointly with the participants.

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 17 April 2019 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 additional Directors' attendance fees for participation at meetings of the Board of Directors and emoluments payable to Directors appointed to particular positions in compliance with the Articles of Association (specifically Chairman, Vice Chairmen and Chief Executive Officer): in accordance with art. 11 of the Articles of Association, this remuneration had to be set, in fact, by the Board of Directors, after having sought 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 1,608 thousand (Euro 1,536.4 thousand at 31 December 2018), 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 1,081 thousand (Euro 932.3 thousand at 31 December 2018), the fees due to members of the Executive Committee of Euro 162.7 thousand (Euro 155 thousand at 31 December 2018), the fees for participation in various Board Sub-Committees set up to meet the obligations of Corporate Governance of Euro 364.3 thousand (Euro 345.4 thousand at 31 December 2018).
In addition to these amounts, there were also attendance fees for Directors taking part in meetings of the Board of Directors of Euro 134.2 thousand (Euro 103.8 thousand at 31 December 2018), emoluments payable to the Chairman and Deputy Chairmen of Euro 365 thousand (Euro 402 thousand in the year ended 31 December 2018) and to the Chief Executive Officer of Euro 850 thousand (unchanged compared with the year ended 31 December 2018).
The total amount is therefore Euro 2,957.2 thousand, compared with Euro 2,788.5 thousand for 2018.
Having disclosed the Directors' fees for 2019, we now submit a proposal for their remuneration for 2020, confirming the amount of Euro 1,700 thousand, unchanged compared with the prior year.
We hereby propose the following resolution for your consideration: "the total amount of fees payable to Directors for 2020, pursuant to art. 11 of the Articles of Association, is set at Euro 1,700,000 (Euro one million seven hundred thousand)".

6. Proposal for the allocation of net profit

Having completed our presentation of the results of operations and the various events that took place in the year just ended, we herewith submit to you the proposed allocation of profit, Euro 385,435,201.37, which adheres to the criteria of prudence and attention to the strengthening of capital, in line with 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 14,546,628.14, to the restricted 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 370,888,573.23 to be allocated, comprising an allocation of Euro 18,544,428.66 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 concerning capital requirements (2019 SREP) and in line with the communications issued thereby concerning dividend distribution policy, we submit to you the proposed payment of a dividend of Euro 0.14 for each of the 520,172,490 shares representing the share capital, excluding those held in portfolio at the ex-dividend date (455,458 at 31 December: a number that is confirmed as of today's date). The total amount allocated for dividends therefore comes to Euro 72,887,912.72, i.e. 18.91% of the net profit for the year.

The capitalisable portion of net profit for the year therefore amounts to Euro 312,47,288.65.

Trusting that you will grant your consent, we therefore present in accordance with the Articles of Association the following proposed allocation of net profit:

Profit for the year	**Euro**	**385,435,201.37**
Preliminary allocation (Art. 42, paragraph 2, of the Articles of Association):		
- to non-distributable reserve - art. 6, c. 1, letter A of Decree 38/05	Euro	14,546,628.14
Residual profit to be distributed	**Euro**	**370,888,573.23**
- to the legal reserve (5%)	Euro	18,544,428.66
- use of the extraordinary reserve	Euro	279,456,231.85
- to the Shareholders as a dividend of Euro 0.14 for the 520,627,948 shares making up the share capital	Euro	72,887,912.72

According to Borsa Italiana s.p.a.'s calendar, payment of the proposed dividend will take place as from 20 May 2020. As regards its market price, BPER's stock will go ex-coupon on Monday, 18 May 2020, while the record date is scheduled for Tuesday, 19 May 2020.

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, according to the Ministerial Decree of 26 May 2017, for tax purposes, the entire dividend is considered earnings produced up to the year in progress at 31 December 2007.

7. Outlook for operations

Globally, the macroeconomic situation observed in the early days of 2020 seems to reflect a certain stabilisation, as confirmed by recent data on the performance of both the American and European economies. The Chinese economy continues to expand, though growth is slowing. In this scenario, thanks to the support of economic policies and a decrease in US-China tensions on commercial tariffs on the one hand and the good level of consumption and corporate profits on the other, the risks of entering into a potential international recessionary spiral appear limited, even if the global growth rate seems to be stuck at the lowest levels in recent years, at around +2.6%. The Italian economy is expected to grow by about half a percentage point in 2020, bolstered by this stabilisation in the international context, by a drop in the spread and a slight recovery in consumption, although the growth rate is put at over half a percentage point lower than the European average, at around 1%. These forecasts of global economic growth will be affected by the “coronavirus” pandemic that spread throughout China and then, subsequently, to other countries including Italy. This has caused local slowdowns or interruptions in economic and commercial activity in multiple sectors. The Bank takes this subsequent event seriously although, given the rapidly changing circumstances and the multiple key factors that remain unknown and undefined, it is not currently possible to quantify the impact on the economic and financial position of the Bank and the Group, in future profitability or, more generally, on the economic and financial forecasts made to date. Especially considering these "coronavirus" uncertainties, the monetary policy adopted by the European Central Bank under the guidance of its new President, Christine Lagarde, seems to be based on continuity with that introduced by her predecessor: still weak growth in Europe and the absence of inflationary pressures should keep monetary policy rates stable at current levels in the medium term.
In this context, revenues of the BPER Banca Group will be supported by growth in commission income, especially from the asset management and bancassurance segments, while expectations for growth in net interest income remain modest, mainly due to the persistence of market rates at all-time lows, the increase in competition for less risky customers and the prospects of still weak economic growth; margin support should come from the positive dynamics expected from the consumer credit sector, where important commercial initiatives are planned. A significant contribution to Group profitability is expected from a substantial reduction in operating costs and the cost of credit (in a scenario in which it remains difficult to estimate the adverse effects of the "coronavirus" on the Expected Credit Loss), as well as from the contribution offered by the potential acquisition of a line of business related to the POE promoted by Intesa Sanpaolo on UBI Banca, which is discussed below. Asset quality is again expected to improve significantly, helped by the new bad loan securitisation, which is already at an advanced stage of execution and should be completed by the end of the first half of 2020, with the aim of reaching the target NPE ratio of less than 9% laid down the Business Plan for 2021 a year ahead of schedule. All of these factors should help to bolster the Group's profitability prospects for the current year, together with maintenance of a high capital solidity.

Strategic project – potential acquisition of a line of business from the Intesa Sanpaolo Group

On 17 February 2020, the Board of Directors of BPER Banca approved the potential acquisition of a line of business from the Intesa Sanpaolo Group, comprising 400/500 branches concentrated in Northern Italy, conditional on completion of the voluntary Public Offer of Exchange promoted by Intesa Sanpaolo for the entire share capital of UBI Banca.

Strategically, the project is consistent with the objectives of the BPER Banca Group, which seek increasing size, increasing profitability and improved asset quality, while maintaining a strong financial position.

Further information is contained in the market communications dated 17 February 2020.

8. Acknowledgements

In terms of change, which is a necessary part of all growth processes, 2019 was packed with important events. However those experienced in this first part of 2020 are no less significant, with the healthcare emergency - rapid spread of the COVID-19 - already having serious repercussions on economic systems throughout the world.

This event, unprecedented in recent history, is placing under great duress not only many of the consolidated certainties that underpin our economic and social order, but also the prospects for an entire growth model.

In such a delicate situation, the banking system is in the front line, playing its essential role as the drive chain of the real economy. Our Group too must face up to this emergency. Timely and efficient action is being taken, due to the commitment of all those who, with different roles and responsibilities, work within the Bank. We express our warmest thanks to all of them.

Based on this choral response, which displays great skill, self denial and courage, it has been possible to safeguard the health of employees and customers alike, while guaranteeing the continuity of services at a difficult time.

Now we must face the additional challenges presented by a reality full of unknowns, certain nevertheless that we will succeed in this task. While progress continues with renewed commitment, it is also important to recall the achievements made during 2019.

In February, the Banking Group announced several major extraordinary transactions to the market, which were implemented on time and in line with the commitments made.

The 2019-2021 Business Plan was presented at the same time of the year. Implementation is ongoing, with a series of actions designed to develop the business, increase operational efficiency and accelerate the de-risking process.

The two shareholders' meetings held in April and July confirmed the new legal form as a limited liability company (S.p.A.), while the core shareholder group was further defined and strengthened.

In short, the business took another step forward, combining the growth strategy and the improvement of asset quality with the maintenance of considerable financial strength.

In addressing the numerous commitments described, BPER Banca was able to count on the contribution of a wide range of players. Above all, the 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 Group banks and companies.

Special recognition goes to the Chief Executive Officer and the General Management team as a whole. We express, in particular, deep gratitude and regard for all those persons who retired from service during the year.

Sad thoughts remember Guido Leoni, who served the Bank for many years as General Manager, then Chief Executive Officer and Chairman, who finally left us at the end of 2019. He was a key protagonist in the assuring the growth of the Group, leveraging his considerable human and professional qualities and farsighted strategic vision.

Greetings go to the Governor and the Director of the Bank of Italy, to the managers of the Central Administration, as well as to the managers and staff of the relevant structures of the Supervisory Authority and, in particular, to the representatives of the ECB with whom we have had a useful and constructive debate. Also a thought for CONSOB and the Borsa Italiana which runs the Italian Stock Exchange.

Lastly, we would like to thank the firm of independent auditors and all its personnel, with whom we have had positive and effective dialogue that was respectful of the different roles and functions.
Now we must 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.

9. Resolutions

Shareholders,
on completion of our discussion and trusting that you concur with us, we present for your approval the 2019 financial statements, accompanied by the report on operations and the other attached documentation.
We also ask you to approve the proposed allocation of net profit, as previously set out, and seek your approval for the remuneration of the Board of Directors in the terms expressed previously.
We confirm that the financial statements of the Bank and the consolidated financial statements of the Group are accompanied by the certification (required by para. 5 of art. 154-bis of the Consolidated Finance Law) given by the Chief Executive Officer and the Manager responsible for preparing the company's financial reports.
The reports of the independent auditors on the financial statements of the Bank and the consolidated financial statements of the Group, included in the printed volume, are issued by Deloitte & Touche s.p.a. under the terms of their mandate for the period 2017-2025.

Modena, 10 March 2020

The Board of Directors
The Chairman
Pietro Ferrari

Financial statements

Balance sheet as at 31 December 2019

(in Euro)

Assets		31.12.2019	31.12.2018
10.	Cash and cash equivalents	429,140,529	330,608,560
20.	Financial assets measured at fair value through profit or loss	939,798,981	1,004,056,293
	a) financial assets held for trading	311,680,510	287,085,422
	b) financial assets designated at fair value	126,947,304	202,988,484
	c) other financial assets mandatorily measured at fair value	501,171,167	513,982,387
30.	Financial assets measured at fair value through other comprehensive income	6,202,400,784	7,530,476,534
40.	Financial assets measured at amortised cost	56,133,804,676	45,851,400,863
	a) loans to banks	8,369,102,973	4,427,737,741
	b) loans to customers	47,764,701,703	41,423,663,122
50.	Hedging derivatives	81,869,065	34,916,113
70.	Equity investments	2,138,421,477	1,747,684,180
80.	Property, plant and equipment	802,101,137	448,123,654
90.	Intangible assets	438,238,711	239,139,464
	of which:		
	- goodwill	225,791,895	225,791,895
100.	Tax assets	1,644,102,744	1,546,559,446
	a) current	456,289,901	446,934,997
	b) deferred	1,187,812,843	1,099,624,449
110.	Non current assets and disposal groups classified as held for sale	3,127,653	2,799,862
120.	Other assets	534,741,143	372,661,715
	Total assets	**69,347,746,900**	**59,108,426,684**

(in Euro)

Liabilities and shareholders' equity		31.12.2019	31.12.2018
10.	Financial liabilities measured at amortised cost	61,608,915,532	52,728,319,366
	a) due to banks	15,749,541,579	16,436,039,426
	b) due to customers	40,300,601,766	31,509,115,821
	c) debt securities issued	5,558,772,187	4,783,164,119
20.	Financial liabilities held for trading	176,218,890	150,806,834
40.	Hedging derivatives	283,792,394	85,716,749
60.	Tax liabilities	43,633,070	31,416,926
	a) current	81	-
	b) deferred	43,632,989	31,416,926
80.	Other liabilities	1,594,540,569	1,230,381,473
90.	Employee termination indemnities	123,302,176	114,023,720
100.	Provisions for risks and charges	520,563,838	379,711,188
	a) commitments and guarantees granted	46,067,687	49,871,632
	b) pension and similar obligations	159,719,757	129,930,886
	c) other provisions for risks and charges	314,776,394	199,908,670
110.	Valuation reserves	(135,730,150)	(82,514,139)
130.	Equity instruments	150,000,000	-
140.	Reserves	2,039,722,751	1,797,104,431
150.	Share premium reserve	1,002,721,965	930,072,623
160.	Share capital	1,561,883,844	1,443,925,305
170.	Treasury shares (-)	(7,253,180)	(7,253,180)
180.	Profit (Loss) for the year (+/-)	385,435,201	306,715,388
	Total liabilities and shareholders' equity	**69,347,746,900**	**59,108,426,684**

Income statement as at 31 December 2019

(in Euro)

	Captions	31.12.2019	31.12.2018
10.	Interest and similar income	1,040,034,432	1,012,068,479
	of which: interest income calculated using the effective interest method	1,017,060,173	995,610,470
20.	Interest and similar expense	(253,352,136)	(238,208,476)
30.	**Net interest income**	**786,682,296**	**773,860,003**
40.	Commission income	741,170,526	629,526,872
50.	Commission expense	(51,570,400)	(39,179,605)
60.	**Net commission income**	**689,600,126**	**590,347,267**
70.	Dividends and similar income	34,362,715	45,183,570
80.	Net income from trading activities	(2,899,349)	527,636
90.	Net income from hedging activities	(1,392,484)	1,467,195
100.	Gains (Losses) on disposal or repurchase of:	82,775,082	102,751,481
	a) financial assets measured at amortised cost	18,697,809	(57,679,122)
	b) financial assets measured at fair value through other comprehensive income	63,840,232	159,417,450
	c) financial liabilities	237,041	1,013,153
110.	Net income on financial assets and liabilities measured at fair value through profit or loss	4,112,792	9,709,189
	a) financial assets and liabilities designated at fair value	(8,435,818)	(4,378,041)
	b) other financial assets mandatorily measured at fair value	12,548,610	14,087,230
120.	**Net interest and other banking income**	**1,593,241,178**	**1,523,846,341**
130.	Net impairment losses for credit risk relating to:	(288,004,444)	(148,012,627)
	a) financial assets measured at amortised cost	(288,945,258)	(149,905,242)
	b) financial assets measured at fair value through other comprehensive income	940,814	1,892,615
140.	Gains (Losses) from contractual modifications without derecognition	(1,980,666)	(2,140,344)
150.	**Net income from financial activities**	**1,303,256,068**	**1,373,693,370**
160.	Administrative expenses:	(1,269,401,462)	(1,106,792,821)
	a) staff costs	(763,894,458)	(533,702,530)
	b) other administrative expenses	(505,507,004)	(573,090,291)
170.	Net provisions for risks and charges	(8,070,469)	(3,730,035)
	a) commitments and guarantees granted	5,766,470	11,909,360
	b) other net provisions	(13,836,939)	(15,639,395)
180.	Net adjustments to property, plant and equipment	(85,467,251)	(24,291,284)
190.	Net adjustments to intangible assets	(49,531,856)	(2,202,731)
200.	Other operating expense/income	194,970,013	119,328,670
210.	**Operating costs**	**(1,217,501,025)**	**(1,017,688,201)**
220.	Gains (Losses) of equity investments	(25,978,775)	(48,680,803)
240.	Impairment losses on goodwill	-	(54,444,000)
245.	Gain on a bargain purchase	329,432,742	-
250.	Gains (Losses) on disposal investments	1,028,449	49,720
260.	**Profit (Loss) from current operations before tax**	**390,237,459**	**252,930,086**
270.	Income taxes on current operations for the year	(4,802,258)	53,785,302
280	**Profit (Loss) from current operations after tax**	**385,435,201**	**306,715,388**
300.	**Profit (Loss) for the year**	**385,435,201**	**306,715,388**

	Earning per share (Euro) 31.12.2019	Earning per share (Euro) 31.12.2018
Basic EPS	0.778	0.638
Diluted EPS	0.754	0.638

Statement of other comprehensive income

(in Euro)

Captions	31.12.2019	31.12.2018
10. Profit (Loss) for the year	**385,435,201**	**306,715,388**
Other comprehensive income, after tax, that will not be reclassified to profit or loss	**(85,332,171)**	**19,019,759**
20. Equity instruments measured at fair value through other comprehensive income	(55,957,988)	18,904,754
70. Defined benefit plans	(29,374,183)	115,005
Other comprehensive income, after tax, that may be reclassified to profit or loss	**40,554,922**	**(200,021,435)**
120. Cash-flow hedges	(143,416)	747,792
140. Financial assets (no equity instruments) measured at fair value through other comprehensive income	40,698,339	(200,769,227)
170. Total other comprehensive income after tax	**(44,777,249)**	**(181,001,676)**
180. Comprehensive income (Captions 10+170)	**340,657,952**	**125,713,712**

Statement of changes in shareholders' equity

(in thousands)

	Balance as at 31.12.18	Changes in opening balances (*)	Balance as at 1.1.19	Allocation of prior year results		Changes during the year								Shareholders' equity as at 31.12.19
				Reserves	Dividends and other allocations	Changes in reserves	Transactions on shareholders' equity						Other comprehensive income as at 31.12.19	
							Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options		
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**

	Balance as at 31.12.17 (**)	Changes in opening balances (***)	Balance as at 1.1.18	Allocation of prior year results		Changes during the year								Shareholders' equity as at 31.12.18
				Reserves	Dividends and other allocations	Changes in reserves	Transactions on shareholders' equity						Other comprehensive income as at 31.12.18	
							Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options		
Share capital:	**1,443,925**	**-**	**1,443,925**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,443,925**
a) ordinary shares	1,443,925	-	1,443,925	-	-	-	-	-	-	-	-	-	-	1,443,925
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**930,073**	**-**	**930,073**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**930,073**
Reserves:	**2,332,249**	**(780,329)**	**1,551,920**	**155,950**	**-**	**89,234**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,797,104**
a) from profits	1,830,743	(780,329)	1,050,414	155,950	-	89,770	-	-	-	-	-	-	-	1,296,134
b) other	501,506	-	501,506	-	-	(536)	-	-	-	-	-	-	-	500,970
Valuation reserves	**(21,007)**	**119,495**	**98,488**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(181,002)**	**(82,514)**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**(7,253)**	**-**	**(7,253)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,253)**
Profit (Loss) for the year	**208,844**	**-**	**208,844**	**(155,950)**	**(52,894)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**306,715**	**306,715**
Shareholders' equity	**4,886,831**	**(660,834)**	**4,225,997**	**-**	**(52,894)**	**89,234**	**-**	**-**	**-**	**-**	**-**	**-**	**125,713**	**4,388,050**

(*) 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.

(**) with the entry into force of IFRS 9, the figure as at 31 December 2017 has been reclassified in order to understand the effects of the new measurement rules for financial instruments.

(***) the change in opening balances relating to reserves from profits and valuation reserves is due to the first time adoption of IFRS9 international standard entered into force on 1 January 2018 as detailed in Part A of Explanatory Notes in Financial statements as at 31 december 2018.

Statement of cash flows as at 31 December 2019

Indirect method

(in thousands)

A. Operating activities	31.12.2019	31.12.2018
1.Operations	**796,583**	**692,367**
- profit (loss) for the year (+/-)	385,435	306,715
- gains/losses from financial assets held for trading and financial assets/liabilities measured at fair value through profit and loss (-/+)	(40,601)	9,477
- gains (losses) from hedging activities (-/+)	1,392	(1,467)
- impairment losses/write-backs for credit risk (+/-)	388,919	294,939
- impairment losses/write-backs to property, plant and equipment and intangible assets (+/-)	134,999	26,494
- net provisions for risks and charges and other expense/income (+/-)	144,300	61,362
- unsettled taxes (+/-)	4,797	(53,785)
- other adjustments (+/-)	(222,658)	48,632
2. Cash generated/absorbed by financial assets	**2,027,562**	**37,559**
- financial assets held for trading	12,677	142,359
- financial assets designated at fair value	77,979	(245)
- other financial assets mandatorily measured at fair value	93,279	(15,393)
- financial assets measured at fair value through other comprehensive income	1,850,083	4,623,661
- financial assets measured at amortised cost	(108,858)	(4,834,538)
- other assets	102,402	121,715
3. Cash generated/absorbed by financial liabilities	**(2,014,560)**	**(534,713)**
- financial liabilities measured at amortised cost	(2,087,290)	(699,359)
- financial liabilities held for trading	25,373	(23,214)
- financial liabilities designated at fair value	-	-
- other liabilities	47,357	187,860
Net cash generated/absorbed by operating activities	**809,585**	**195,213**

B. Investment activities	31.12.2019	31.12.2018
1. Cash generated by	**36,880**	**13,249**
- disposal of equity investments	6,706	-
- dividends collected on equity investments	20,469	11,220
- disposal of property, plant and equipment	11,371	2,029
- disposal of intangible assets	-	-
- disposal of business lines	(1,666)	-
2. Cash absorbed by	**(865,379)**	**(125,941)**
- purchase of equity investments	(463,629)	(107,800)
- purchase of property, plant and equipment	(79,034)	(17,391)
- purchase of intangible assets	(102,716)	(750)
- purchase of business lines	(220,000)	-
Net cash generated/absorbed by investment activities	**(828,499)**	**(112,692)**

C. Funding activities	31.12.2019	31.12.2018
- issues/purchases of treasury shares	-	-
- issues/purchases of equity investments	180,000	-
- distribution of dividends and other scopes	(62,511)	(52.894)
Net cash generated/absorbed by funding activities	**117,489**	**(52.894)**
Net cash generated/absorbed in the year	**98,575**	**29,627**

Key:
(+) generated
(-) absorbed

Reconciliation

Captions	31.12.2019	31.12.2018
Cash and cash equivalents at the beginning of the year	330,609	301,076
Total net cash generated/absorbed in the year	98,575	29,627
Cash and cash equivalents: effect of change in exchange rate	(43)	(94)
Cash and cash equivalents at the end of the year	**429,141**	**330,609**

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 separate financial statements for the year ended 31 December 2019 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 Bank, reflecting the economic substance of the transaction and its key aspects.
In formulating these accounting rules, reference has been 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, whose application is mandatory from 2019.

EC Approval Regulation	Title	In force from years beginning
1986/2017	The Commission Regulation (EU) 2017/1986 of 31 October 2017, published in the Official Journal L 291 of 9 November 2017, adopts IFRS 16 Leases, which aims to improve the accounting treatment of leasing contracts.	1 January 2019
498/2018	The Commission Regulation (EU) 2018/498 of 22 March 2018, published in the Official Journal of 26 March 2018, adopts amendments concerning IFRS 9. The date of entry into force and the transitional provisions of the prepayment elements with negative compensation have been changed.	1 January 2019
1595/2018	The Commission Regulation (EU) 2018/1595 of 23 October 2018, published in the Official Journal L 265 of 24 October 2018, adopts IFRIC 23 - Uncertainty over Income Tax Treatments. This interpretation specifies how to reflect the uncertainty when accounting for income taxes.	1 January 2019

EC Approval Regulation	Title	In force from years beginning
237/2019	The Commission Regulation (EU) 2019/237 of 8 February 2019, published in the Official Journal of the European Union L. 39 of 11 February 2019, which amends Regulation (EC) 1126/2008 which adopts certain international accounting standards in accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IAS 28.	1 January 2019
402/2019	The Commission Regulation (EU) 2019/402 of 13 March 2019, published in the Official Journal of the European Union L. 72 of 14 March 2019, adopts "Plan Amendment, Curtailment or Settlement" (Amendments to IAS 19). The objective of the amendments is to clarify that, after a defined-benefit plan amendment, curtailment or settlement occurs, an entity should apply the updated assumptions from the remeasurement of its net defined benefit liability (asset) for the remainder of the reporting period.	1 January 2019
412/2019	The Commission Regulation (EU) No 2019/412 of 14 March 2019, published in the Official Journal of the European Union L 73 on 15 March 2019, adopts “Annual Improvements to International Financial Reporting Standards 2015-2017 Cycle” that amends IAS 12 Income Taxes, IAS 23 Borrowing Costs, IFRS 3 Business Combinations and IFRS 11 Joint Arrangements.	1 January 2019

With respect to the new standards and the amendments to them that came into effect on 1 January 2019, the Bank has not identified significant impacts on the Financial statements at 31 December 2019, except as set forth below in relation to the first-time adoption of IFRS 16.

Concerning the application of IFRIC 23, disclosures about the tax risks deriving from the interpretation of regulations and any related provisions, the most significant tax aspects of new regulations and extraordinary transactions are discussed with the Tax Authority in the context of the cooperative compliance regime, which essentially enables BPER Bank to eliminate the related tax risk.

IFRS 16

From 1 January 2019, IFRS 16 replaced IAS 17 "Leases", IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC 15 "Operating Leases - Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease", regulating the requirements for the accounting of lease contracts.

Besides providing new rules to identify whether a contract contains a lease, the standard has changed the methods of accounting for lease transactions in the lessee's and user's financial statements, introducing a single model of accounting for lease contracts by the lessee, regardless of whether they are classified as operating or financial leases.

Specifically, this new accounting method includes the recognition on the assets side of the balance sheet of a right to use the asset covered by the contract (“Right of Use”) and the recognition on the liabilities side of a lease payable, quantified as the discounted sum of instalments still to be paid to the lessor. The new model also changes the method of recording items in the income statement, which include depreciation of the right of use and interest expense on the lease liability.

However there are no substantial changes in the lease accounting model for the lessor, which continues to distinguish between operating leases and finance leases, in line with the previous standard.

IFRS 16 also establishes that if the lessee chooses to apply the standard in accordance with paragraph C5, letter b) to leases that have been classified as finance leases by applying IAS 17, the carrying amount of the asset consisting of the right of use and the liability of the lease at the initial application date is the carrying amount of the asset subject to the lease and of the lease liability assessed immediately before that date by applying IAS 17 (i.e. the carrying amount at 31 December 2018). For these leases, the lessee must account for the "right of use asset" and the lease liability by applying IFRS 16 from the date of first-time adoption (IFRS 16.C11).

Disclosure requirements for the financial statements have been changed for both lessee and lessor[20]; the former will have to disclose, among other things:

- the subdivision between the different "classes" of leased assets, the balance at the end of the period and depreciation;
- the amount of interest relating to lease payables;
- the breakdown of lease payables by maturity.

With respect to the transition methods allowed by IFRS 16, the BPER Banca Group has chosen to adopt the practical expedient of not restating the FTA scope, instead applying the new standard to all of the lease contracts already identified according to the definition contained in IAS 17. In addition, the Group has adopted the modified retrospective approach for the impact assessments and the reference approach for the transition, noting the cumulative impact of FTA of the standard to existing contracts as an adjustment of the opening balances at 1 January 2019, without recalculating and restating comparative figures (31 December 2018). For the determination of the Right of Use during the transition, reference is made to the option that allows quantification of the asset at the same amount as the lease liability, calculated by discounting future contractual lease instalments to the FTA date at an appropriate discount rate.

With respect to the other decisions made by the Bank both during the transition and for the on-going management of the transactions (as described in more detail below), it should be noted that:

- with reference to the duration of the property leases, the Bank considered as reasonably certain only the first renewal period, subject to contractual clauses and specific circumstances that involved considering different contractual durations;
- at the transition date and at the start date of each contract stipulated after 1 January 2019, the Bank has defined the duration of the lease, based on the facts and circumstances that exist at that particular date and have an impact on the reasonable certainty to exercise the options included in the lease agreements;
- with reference to the discount rate of flows for the quantification of the lease liability, as the internal rate of return is not available for most of the contracts, the Bank used a marginal rate of financing as an alternative indicated by the standard itself;
- finally, the Bank decided not to separate the service components from the lease components and consequently account for the entire contract as a lease following a cost-benefit analysis.

On the transition to IFRS 16, the adverse impact of first-time application on the shareholders' equity of the Bank was Euro 382 thousand, due to the effect of the financial sub-lease contracts arranged with subsidiaries.

[20] *This update was also adopted in Bank of Italy Circular 262/2005, the 6th update of which requires the addition of an explanatory note dedicated to leasing – Part M.*

For all other contracts, adoption of the modified retrospective approach (option B) means that the assets and liabilities recognised coincide, after reclassifying certain accruals/deferrals and the leases previously presented as finance leases in accordance with IAS 17, without any further impact on shareholders' equity.

The following table shows the individual balance sheet captions affected by the change in opening balances.

(in thousands)

	Assets	31.12.2018 (a)	IFRS 16 impact (b)	01.01.2019 C = (a) + (b)
40.	Financial assets measured at amortised cost	45,851,401	4,170	45,855,571
90.	Property, plant and equipment	448,124	227,587	675,711
130.	Other assets	372,662	(605)	372,057
	Total assets	**59,108,427**	**231,152**	**59,339,579**

(in thousands)

	Liabilities and shareholders' equity	31.12.2018 (a)	IFRS 16 impact (b)	01.01.2019 C = (a) + (b)
10.	Financial liabilities measured at amortised cost	52,728,319	231,534	52,959,853
140	Reserves	1,797,104	(382)	1,796,722
	Total liabilities and shareholders' equity	**59,108,427**	**231,152**	**59,339,579**

With respect to the commitments involving operating leases, already represented in the financial statements at 31 December 2018 in accordance with IAS 17, the liabilities recorded at the FTA date in accordance with IFRS 16 mainly exclude future payments relating to contracts involving low-value assets or those classified as short-term, as well as other payments not falling within the scope of application of the new standard, as shown in the following reconciliation.

(in thousands)

Lease Liabilities reconciliation	Total
Undiscounted IAS 17 operating lease commitments at 31.12.2018	**262,341**
Exceptions for IFRS 16 recognition	(4,538)
Short-term leasing	(775)
Low value leasing	(3,763)
Other changes	(23,785)
Undiscounted Lease Liabilities to recognise in balance sheet at 1.1.2019	**234,018**
Discounting effect at FTA RATE (*)	(2,484)
IFRS 16 Lease Liabilities at 1.1.2019	**231,534**
Finance Leases at 1.1.2019 under ex IAS 17	543
Total IFRS 16 Lease Liabilities at 1.1.2019	**232,077**

(*) The marginal weighted average financing rate used in calculating the lease liability at the FTA date is approximately 1%.

The following table shows the new international accounting standards or amendments to standards already in force, whose application is mandatory from 1 January 2020 or later date (if the financial statements do not coincide with the calendar year).

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

BPER Banca has elected to apply early, from the financial statements at 31 December 2019, the amendments made to IAS 39, IFRS 9 and IFRS 7, as introduced by Regulation (EU) 34/2020. The reasons for this election and the additional disclosures required by the amendments are presented in Part E, Market risk, of the Explanatory notes.
The amendments introduced in other Regulations do not require early disclosure of the potential impact of their application from the 2020 financial year.

Finally, the Explanatory notes have been supplemented, when deemed necessary, with reference to the communication from the Bank of Italy dated 23 December 2019, which reminds banking and financial intermediaries to make disclosures, from their financial statements for periods ending on or after 31 December 2019, about the following topics:

- multi-originator sales of non-performing loans to mutual funds, with the provisions of related quantitative and qualitative Explanatory notes as if they were securitisation transactions[21];
- the scope of application of IFRS 16, IFRS 9, IFRS 15 and IAS 12, with respect to the disclosures required in the ESMA communication dated 22 October 2019[22].

[21] *This information has been included in Part E – Credit risk, Sub-section E. Disposal transactions, Point C Financial assets sold and derecognised in full.*
[22] *This information has been integrated with the information contained in Part M, dedicated to IFRS 16 Leases, in Part B - Assets and in Part E – Credit risk, regarding the ECL disclosures required by IFRS 9.*

Section 2 - Basis of preparation

With regard to formats and technical forms, the Financial statements were prepared on the basis of Circular no. 262/2005 and subsequent amendments (most recently the 6th update on 30 November 2018, applicable from 1 January 2019) - issued in implementation of art. 9 of Legislative Decree no. 38/2005. The financial statements also reflect the requirements of the Italian Civil Code.
The Financial statements consist of the balance sheet, the income statement, the statement of other comprehensive income, presented in euro, together with the statement of changes in shareholders' equity, the 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[23].

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.
- *Accrual Basis of Accounting:* costs and revenues are recognised in accordance with the matching principle, regardless of when they are settled.
- *Materiality and Aggregation:* each material class of similar captions 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 captions 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 notes and attachments to the 2019 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.

[23] 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 charges/income" in the income statement.

Uncertainties in the use of estimates[24]

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;
- measurements at fair value, not included in the above points, as part of the Purchase Price Allocations carried out in relation to the business combinations completed during the year.

The impairment losses on loans and advances and, in general, on other financial assets, the fair value of financial instruments and the recoverability of deferred tax assets, as well as the related estimates and assumptions used to prepare the financial statements at 31 December 2019, might all be subject to change due to the effects of the COVID-19 emergency over the next few months of 2020.

The description of the accounting policies adopted in relation to the principal financial statement aggregates is presented in sufficient detail to identify the principal assumptions and assessments made for the preparation of these financial statements.

Going Concern[25]

In preparing the Financial statements for the year ended 31 December 2019, 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 business continuity.

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

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

Inspections and audits

The directors are of the opinion that the observations that emerged in the various inspection areas do not entail significant impacts in terms of income, assets and cash flows of the Bank. In any case, BPER Banca always prepares suitable action plans to implement the Supervisory Authority's recommendations as quickly as possible.

Section 3 – Subsequent events

These Financial Statements have been approved on 10 March 2020 by BPER Banca's Board of Directors, which authorised their publication.

The events subsequent to the end of 2019 described in the Directors' Report on Group Operations and relating, in particular, to the potential acquisition of a line of business from the Intesa Sanpaolo Group, took place prior to approval of the consolidated financial statements by the Board of Directors and had no effect on these financial statements.

It's worthy to mention the coronavirus epidemic spread in China from early January 2020, later reaching other countries including Italy, which has caused locally the slowdown or suspension of economic and commercial activity in many sectors. The Bank considers this to be a non-adjusting subsequent event pursuant to IAS 10. Since the current situation is evolving rapidly, it is not possible at this time to make a quantitative estimate of the potential impact of COVID-19 on the economic and financial position of the Bank and the Group, given the multiple determining factors that still remain unknown and undefined. The impact will therefore be considered in the accounting estimates to be made during 2020. In particular, the Expected Credit Loss (ECL) at 31 December 2019 was estimated with reference to the changes in the principal economic variables expected at that date, as properly weighted by the probability of occurrence assigned to the various scenarios identified. Part E - Credit risk, Section 2, sub-section 2.3, of the Explanatory notes analyses the sensitivity of the ECL to changes in the macroeconomic scenarios used for the estimate. Similarly, the economic-financial projections used to carry out the impairment test on goodwill and the probability test performed to support the recognition of deferred tax assets were developed with reference to the macroeconomic scenario envisaged at 31 December 2019 and, therefore, do not take into account the possible effects of the spread of COVID-19. Part B - Information on the consolidated balance sheet, Section 10 Intangible assets, of the Explanatory notes provides a sensitivity analysis of the effects on the estimated value in use of goodwill as a result of changes in the principal parameters underlying the measurement model used.

Section 4 – Other aspects

Domestic tax group election

Starting from 2007, 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 optional arrangement, which is binding for three years, the subordinate members transfer their results to the parent, for fiscal purposes only, which then calculates the consolidated taxable income or tax loss.
The effects of the tax consolidation are reported in the "Other assets – loans to Group companies for tax consolidation" caption, as the offset account for IRES provisions classified as "Current tax liabilities" by the consolidated companies, before withholdings and the advances paid.
The "Other liabilities - due to Group companies for tax consolidation" caption represents the offset account for IRES provisions withheld from and paid by the above group companies, which are classified as "Current tax assets" following their transfer to the consolidating company.
The tax group elections made by Banco di Sardegna s.p.a., BPER Trust Company s.p.a. and Optima s.p.a. SIM expired on 31 December 2018 and Nadia s.p.a. was included in the scope of consolidation as of 1 January 2019.
The election for the three-year period 2019-2021 was made regularly by the companies on 29 November 2019, on presentation of the income tax return of the consolidating company.

Consolidated companies	2017	2018	2019	2020	2021
Banca di Sassari s.p.a.		X	X	X	
Banco di Sardegna s.p.a.			X	X	X
Cassa di Risparmio di Bra s.p.a.	X	X	X		
Cassa di Risparmio di Saluzzo 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

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 from 125[26] to 129). In particular, this law states that the companies must provide in the 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[27].
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 2019 by BPER Banca by way of "grants, contributions, remunerated offices and economic advantages of any type" are listed below.

(in thousands)

BPER Banca Group companies	Type of grants	Amounts received in 2019
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 regime pursuant to EC regulation 1407/2013	1,074
BPER Banca s.p.a.	Contributions for the earthquake	74

Audit

The Financial statements 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.

[26] *Paragraph expanded by art. 35 of Decree 34/2019. Paragraphs 126 to 129 not amended.*
[27] *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 and 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 of 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 liquidity risk, 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 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.
- *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.
  In application of IFRS 9, this portfolio has been included in the "Other" Business Model.

IFRS 9 envisages the possibility of change in 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.

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 "increase in 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 Bank has defined an SPPI test based on 12 decision-making trees, so as to consider all the contractual characteristics relevant to the test.

The Bank has also adopted some assumptions regarding both the portfolio of loans and the debt securities portfolio. The main choices are shown below.

- in relation to the debt securities portfolio, the mutual fund units, both opened 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 main balance sheet captions are shown below.

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 instruments held for trading, for which it is not possible to exercise the irrevocable election option to present subsequent changes in fair value through 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 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 modifications 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 income on financial assets and liabilities measured at fair value through profit or loss – financial assets and liabilities designated at fair value", while financial assets mandatorily measured at fair value are recognised in caption "Net income on financial assets and liabilities measured at fair value through profit or loss – other financial assets mandatorily 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 for trading purpose, for which an irrevocable election option was exercised on initial recognition to record subsequent changes in fair through 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 are classified in a specific equity reserve, net of the expected credit losses (ECL) and related tax effect.
Changes in the fair value of investments in equity instruments for which the above irrevocable election option was exercised 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 modifications 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 option has been exercised, 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 caption "Net impairment losses for credit risks 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 income statement caption "Gains/losses on disposal or 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 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 sale date 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 ceases 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 that aim to define 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 impairment loss 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 losses by recognising any Expected Credit Losses - ECLs. Any impairment losses 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[28]. 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 for "unlikely to pay" loans with

[28] *The scope of non-performing loans (or those in default) defined in art. 178 of Reg. (Eu) 575/2013 (CRR) has been updated with reference to the EBA Guidelines for applying the definition of default and the subsequent Reg. (EU) 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 amendments 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.*

exposures above the thresholds set by internal procedures. The expected losses on unlikely to pays (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 BPER Banca Group to estimate the Expected Credit Losses (ECL) on non-performing loans, please refer to the below paragraph 20 "Method for determining the extent of impairment". Impairment losses are recorded in the income statement.
The original value of loans is reinstated in subsequent periods, to the extent that the reasons for the impairment loss made cease to apply, on condition that this assessment is objectively linked with events that took place subsequent 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.

- 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 the below paragraph 20 "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.

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 modifications 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 (amounts due from 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, 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.
Impairment losses or write-backs deriving from the model of adopted Expected Credit Losses are recognised in the income statement under caption 130 "Net impairment losses for credit risk".
Amounts deriving from alignment of the carrying amounts of financial assets to reflect modifications 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

As allowed on the first-time application of IFRS 9, the Bank has elected to manage its hedge accounting according to IAS 39, which was mostly recently amended by Regulation (EU) 34/2020.

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.
Specific tests are performed to verify the effectiveness of hedging transactions. The effectiveness of a hedge depends on the extent to which changes in the fair value of the hedged instrument, caused by changes in the risk factor addressed by the hedge, are offset by changes in the value of the hedging instrument. In order to be effective, the hedge must be made with a counterparty outside the Group.
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.

The Bank established the hedge effectiveness 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 in the range from 80% to 125%).
The evaluation of effectiveness 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;
- retrospective tests that show the effectiveness of the hedge during the period under review. In other words, they measure by how the actual results differ from the "perfect" hedge..

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 transaction is revoked prior to the expiry date;
- 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 special *equity reserve "cash flow hedges"*, net of the related deferred tax effect. Gains and losses relating to the ineffective part of such hedges are recorded in the *"Net income from hedging activities"* caption of the income statement.

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 interests in subsidiaries, associated companies and jointly controlled companies and other minor holdings.

Measurement

Under IAS 27 and 28 and IFRS 11, equity investments in subsidiaries, jointly controlled companies and associates companies can be carried in the financial statements at cost, at fair value pursuant to IAS 9 or using the equity method. The Bank has elected to measure them at cost.

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 related difference is charged to the income statement under caption "Gains (Losses) of equity investments", as described in the below paragraph 20 "Method for determining the extent of impairment".

If the reasons for making the impairment loss cease to apply as a result of an event subsequent to the recognition of 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. Dividends received are recognised in the financial statements by deducting them from the carrying amount of the relevant investment.
Any impairment loss/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;
- the 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 in 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 has assessed the non-lease component as not significant.

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 real estate portfolio, 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 at the 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 the below paragraph 20 "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 value between 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 "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 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 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 20 "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 the below paragraph 20 "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 caption "Gains (losses) on disposal of investments".

Any impairment losses to the value of goodwill are recorded in 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 asset caption "Non current assets and disposal groups classified as held for sale" and liability caption "Liabilities included in disposal groups 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 2018, also taking into account the changes introduced by the 2020 Finance Act, such as:

- the re-introduction of the ACE benefit starting from 2019, updating the rate to 1.3%;
- deferral to 2028 of the deductibility of the 10% portion of the IFRS 9 FTA impairment adjustments that was originally scheduled for 2019;
- deferral in equal tranches to 2022 and to the following 3 tax years of the planned 2019 deductibility of impairment adjustments on loans for which so-called convertible DTAs were recognised;
- deferral in equal tranches to 2025 and to the following 4 tax years of the planned 2019 deductibility of the amortisation of goodwill for which so-called convertible DTAs were recognised.

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. BPER Banca has adopted a time horizon of 5 years (2020-2024) 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 probable. 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-years horizon, adjusting the before 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 potential 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 the below paragraph "Employee benefits", 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 the below paragraph 20. “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 "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 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 the balance sheet date. 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.

In relation to lease payables, on the effective date the lessee has to assess the lease payable at the present value of the payments due for the lease 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.

Amendments 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 a change in the rental amount).

Debt securities in issue are recorded net of the repurchased amount.

Derecognition

Financial liabilities are derecognised when they expire or are settled. The derecognition occurs also in case of repurchase of debt securities issued in prior periods.

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 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 liabilities 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 shareholders'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 issued 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 using the closing rate for the 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 in "Treasury shares" caption with a negative sign. 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 expense (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
- overtime, 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 caption "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, sub-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 is deemed to be a defined contributions plan for which no actuarial calculations are required;
- the employee termination indemnities already earned at the dates indicated above, on the other hand, continues to be treated as a defined benefits plan, although 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".

The employee termination indemnities is 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.
The BPER Banca Group has approved its first share-based payment plan, which envisages the grant without charge of a certain number of shares in the Bank to beneficiaries, without envisaging capital increases 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 payment 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 key personnel 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:

- aligning the interests of Management with long-term value creation for shareholders;
- 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) for a period of 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. Method for determining the extent of impairment[29]

A. Financial assets

Impairment models

The calculation of adjustments of financial assets according to the expected credit losses 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 sales scenarios where the Bank's strategy envisages recovery of the loans through their assignment.

In accordance with the instructions contained in the standard, the impairment model adopted by 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 Bank 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:

$$LtEL_t = \sum_{t=1}^{T} PDF_t \text{ x } LGD_t \text{ x } EaD_t \text{ x } D_t$$

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

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,
- 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 prepayment 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 Life Time 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.

Finally, 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 impairment loss 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 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 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 used to estimate the ECL, the Bank 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.

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, consistent with the current processes adopted for the recovery of non-performing loans, which include realisation via disposal on the market, the impairment model now includes a disposal scenario as a possible alternative to the internal recovery or 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 Group has adopted a model for calculating the multi-scenario net value of impaired financial assets, which considers the following parameters:

$$\mathrm{NBV_{Multiscenario}} = FMV \times Disposal\ Scenario\,\% + \mathrm{NBV_{Workout}} \times (1 - Disposal\ Scenario\,\%)$$

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 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 the workout and disposal 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 becomes 100%). The best estimate of the disposal price of 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 in which the positions are classified (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 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 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 purchased) 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 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, BPER Banca has not envisaged the possibility of a manual override of the classification resulting from application of the staging rules.

For a homogeneous application of the impairment model between portfolios of 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. Specifically, the Parent Company 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 (or transition to the standard), 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.
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 purchased through business combinations) classified at the time of initial recognition in 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, “Purchased Originated Credit Impaired” 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.

BPER Bank identifies as “Purchased Originated Credit Impaired” 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 Financial statements, the Bank 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).

Paragraph 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, paragraphs from 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 value of the CGU (Value in use) 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 performed at the end of each reporting period and involves the determination of recoverable value, being the greater of fair value less selling costs or 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 and equipment and intangible assets with a defined 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.

The criteria adopted to select positions for analysis and prepare documentation to justify the sustainability of adverse differences between net carrying amount and fair value are described below:

- Buildings (business and non-business use): no further analysis is needed if positive values emerge from comparison of the total value of the property (ground up or otherwise), or if negative differences fall within the following parameters:
  - 10% of net book value. If the negative difference exceeds that limit, a check is carried out to see if it amounts to less than 5 years of depreciation for properties used for business purposes;
  - 10% of net book value. If the negative difference exceeds that limit, a check is carried out to see if it amounts to less than 3 years of depreciation or, alternatively, one year of rental, in the case of non-business properties that are rented out;
  - 5% of net book value. If the negative difference exceeds that limit, a check is carried out to see if it amounts to less than the absolute value of 3 years of depreciation for non-business properties that are not rented out.
- Mixed use buildings: no further analysis is needed if positive values emerge from comparison of the total value of the property (ground up or otherwise), or if negative differences are contained within 10% of their net carrying amount. If the negative difference exceeds that limit, a check is carried out to see if it amounts to less than 3 years of total depreciation.
- Rented land: no further analysis is needed if negative differences are less than 10% of the net carrying amount or, alternatively, one year of rental.
- Unrented land: negative differences are only considered if they exceed 5% of the net carrying amount.
- Special blocks (buildings used for several purposes or property complexes): the valuation requires an expert appraisal confirmed by a specific Board resolution.

Any adjustment 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.

21. 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.
The required disclosures about any business combinations carried out in the reporting period are provided in Part G of the Explanatory notes.
Under IFRS 3, business combinations must be recognised using the acquisition method.
Using the acquisition method, the price of the business combination must be allocated (Purchase Price Allocation – PPA) at the date of acquisition of the control by recognising the assets acquired and the liabilities (including contingent liabilities) assumed at their fair values and minority interests, as well as identifying any implicit intangible assets previously not recognised in the financial statements 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 Gain on a bargain purchase (or “Badwill”).
IFRS 3 allows for the final purchase price allocation 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 assets, liabilities and contingent liabilities. 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 the below Part A.4, 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 (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 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: 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 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 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 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;
- presence of a significant increase in the embedded risk premiums, or default rates, of the transactions being considered or in quoted prices;
- presence of a wide bid-ask spread or of a significant increase therein;
- significant decline in the level of trading activity;
- 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, 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 the 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 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.
As from 2013, the Bank started issuing protection certificates. 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 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 (usually that at the end of the previous half-year period) 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 periodically 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[30] the fund, in order to identify any differences that might be reflected immediately in market value, but not in the NAV calculated according to the relevant method of determination. 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.

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:

- 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;

[30] *Fair market value included, for example, in the EVCA reports.*

- 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 captions 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, BPER Banca 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 (with a positive current exposure) 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 (with a negative current exposure) 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 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.

In particular, for BPER Banca, there are two factors that mitigate the impact on fair value of credit risk:

- the signing of ISDA (International Swaps and Derivatives Association, the international industry standard on OTC derivatives) agreements with the main corporate and all the institutional counterparties to OTC derivatives. In respect of the institutional counterparties the related CSA (Credit Support Annex) was also executed in order to cover the provision of collateral and to further reduce current exposure and consequent risks;
- the entry into force of the new EMIR (European Market Infrastructure Regulation) platform, in respect of the exclusion from the scope of CVAs and DVAs of derivatives entered into on that platform/market. On the basis of assessments made, it is likely that most derivative transactions will go through the new system as they mainly consist of derivatives that are eligible for that purpose.

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.

With reference to the above, 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 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

Assets and liabilities categorised within Level 3 of the fair value hierarchy mainly consist of:

- inter-related derivative transactions offsetting each other and linked with self-securitisation contracts classified as "Financial assets measured at fair value through profit or loss - financial assets held for trading" and "Financial liabilities held for trading";
- limited investments in equities measured at nominal value or using the equity method, classified as "Financial assets measured at fair value through other comprehensive income";
- non-controlling equity investments, often held to maintain contact with the territory, or to develop commercial relations (mainly measured using the equity method or at cost), classified as "Financial assets measured at fair value through other comprehensive income";
- investments in asset-backed securities classified as "Financial assets measured at amortised cost" or "Financial assets measured at fair value through profit or loss - other financial assets mandatorily measured at fair value".

For the latter, the related sensitivity is provided below:

Financial asset/liability	Non-observable parameter	Change in parameter	Sensitivity (in thousands)
Investments in Asset Backed Securities	Credit Spread	+25 bps	(4,861)

For the other positions which have just been illustrated, given the use of valuation techniques involving the use of estimates, the measurement thereof is incapable of being significantly impacted by changes in inputs.

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 Bank has set out[31]:

- 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.

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."

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[31] *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.*

BPER Banca 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 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.

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	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through	231,782	419,868	288,149	339,105	390,851	274,100
a) Financial assets held for trading	101,258	195,987	14,436	126,072	150,260	10,753
b) Financial assets designated at fair value	-	125,864	1,083	70,745	132,244	-
c) Other financial assets mandatorily measured at fair value	130,524	98,017	272,630	142,288	108,347	263,347
2. Financial assets measured at amortised cost	5,508,810	475,247	218,344	6,632,973	636,389	261,115
3. Hedging derivatives	-	81,869	-	-	34,916	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	5,740,592	976,984	506,493	6,972,078	1,062,156	535,215
1. Financial liabilities held for trading	1,137	168,606	6,476	44	142,311	8,452
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	283,792	-	-	85,717	-
Total	1,137	452,398	6,476	44	228,028	8,452

Transfers of assets from Level 2 to Level 1 of the fair value hierarchy during the period amounted to € 114,142 thousand and those from Level 1 to Level 2 amounted to € 38,607 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 were due to the reduction in the number of contributors below the minimum threshold established.

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	**274,100**	**10,753**	**-**	**263,347**	**261,115**	**-**	**-**	**-**
2. Increases	**152,224**	**3,703**	**1,083**	**147,438**	**26,625**	**-**	**-**	**-**
2.1. Purchases	62,683	-	-	62,683	4,502	-	-	-
2.2. Gains recognised to:	19,412	3,703	-	15,709	2,145	-	-	-
2.2.1. Income statement	19,412	3,703	-	15,709	-	-	-	-
- of which capital gains	9,776	3,692	-	6,084	-	-	-	-
2.2.2. Shareholders'equity	-	X	X	X	2,145	-	-	-
2.3. Transfers from other levels	11,324	-	1,083	10,241	-	-	-	-
2.4. Other increases	58,805	-	-	58,805	19,978	-	-	-
3. Decreases	138,175	20	-	138,155	69,396	-	-	-
3.1. Sales	66,146	-	-	66,146	1,009	-	-	-
3.2. Refunds	53,645	11	-	53,634	5,071	-	-	-
3.3. Losses recognised to:	18,132	9	-	18,123	63,304	-	-	-
3.3.1. Income statement	18,132	9	-	18,123	-	-	-	-
- of which capital losses	15,981	8	-	15,973	-	-	-	-
3.3.2. Shareholders'equity	-	X	X	X	63,304	-	-	-
3.4. Transfers from other levels	252	-	-	252	-	-	-	-
3.5. Other decreases	-	-	-	-	12	-	-	-
4. Closing balance	**288,149**	**14,436**	**1,083**	**272,630**	**218,344**	**-**	**-**	**-**

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	**8,452**	**-**	**-**
2. Increases	**210**	**-**	**-**
2.1 Issues	-	-	-
2.2. Losses recognised to:	210	-	-
2.2.1. Income statement	210	-	-
- of which capital losses	210	-	-
2.2.2. Shareholders' equity	X	-	-
2.3. Trasferts from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**2,186**	**-**	**-**
3.1. Refunds	490	-	-
3.2. Repurchases	-	-	-
3.3. Profits recognised to:	1,696	-	-
3.3.1. Income statement	1,696	-	-
- of which capital gains	1,696	-	-
3.3.2. Shareholders' equity	X	-	-
3.4. Trasferts from other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**6,476**	**-**	**-**

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	31.12.2019				31.12.2018			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	56,133,805	9,141,168	283,629	48,067,390	45,851,401	5,721,114	125,300	40,711,364
2. Property, plant and equipment held for investment	84,570			88,196	77,552			80,265
3. Non-current assets and disposal groups classified as held for sale	3,128			3,128	2,800			2,800
Total	**56,221,503**	**9,141,168**	**283,629**	**48,158,714**	**45,931,753**	**5,721,114**	**125,300**	**40,794,429**
1. Financial liabilities measured at amortised cost	61,608,916	3,231,215	1,862,426	56,623,325	52,728,319	2,509,988	1,108,826	49,091,158
2. Liabilities related to non-current assets classified as held for sale								
Total	**61,608,916**	**3,231,215**	**1,862,426**	**56,623,325**	**52,728,319**	**2,509,988**	**1,108,826**	**49,091,158**

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 2019 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 31.12.2019	Total 31.12.2018
a) Cash	429,141	330,609
b) On demand deposits with Central banks	-	-
Total	**429,141**	**330,609**

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 31.12.2019			Total 31.12.2018		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	41,776	52,906	-	60,994	58,719	2
1.1 Structured securities	27,060	1,571	-	21,004	4,843	-
1.2 Other debt securities	14,716	51,335	-	39,990	53,876	2
2. Equity instruments	59,475	3,416	32	65,051	2,391	32
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	**101,251**	**56,322**	**32**	**126,045**	**61,110**	**34**
B. Derivative instruments						
1. Financial derivatives	7	139,665	14,404	27	89,150	10,719
1.1 trading	7	139,665	14,404	27	89,150	10,719
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)	**7**	**139,665**	**14,404**	**27**	**89,150**	**10,719**
Total (A+B)	**101,258**	**195,987**	**14,436**	**126,072**	**150,260**	**10,753**

The classification levels used (fair value hierarchy) are described in Part A.4 of the Explanatory notes to the financial statements at 31 December 2019.

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 31.12.2019	Total 31.12.2018
A. Cash assets		
1. Debt securities	94,682	119,715
a) Central Banks	-	-
b) Public Administrations	16,166	14,797
c) Banks	43,862	67,566
d) Other financial companies	31,389	27,930
of which: insurance companies	1,327	941
e) Non financial companies	3,265	9,422
2. Equity instruments	62,923	67,474
a) Banks	16,102	16,116
b) Other financial companies	4,854	5,878
of which: Insurance companies	2,105	3,208
c) Non financial companies	41,967	45,480
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)	**157,605**	**187,189**
B. Derivative instruments	-	-
a) Central counterparties	-	-
b) Others	154,076	99,896
Total (B)	**154,076**	**99,896**
Total (A+B)	**311,681**	**287,085**

2.3 Financial assets designed at fair value: breakdown by product

Description/Amounts	Total 31.12.2019			Total 31.12.2018		
	L1	L2	L3	L1	L2	L3
1.Debt securities	-	125,864	1,083	70,745	132,244	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	125,864	1,083	70,745	132,244	-
2. Loans	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	-
2.2 Others	-	-	-	-	-	-
Total	**-**	**125,864**	**1,083**	**70,745**	**132,244**	**-**

The classification levels used (fair value hierarchy) are described in Part A.4 of the Explanatory notes to the financial statements at 31 December 2019.

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 31.12.2019	Total 31.12.2018
1. Debt securities	**126,947**	**202,989**
a) Central Banks	-	-
b) Public Administrations	123,901	191,466
c) Banks	1,963	6,961
d) Other financial companies	-	2,242
of which: Insurance companies	-	-
e) Non financial companies	1,083	2,320
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	**126,947**	**202,989**

2.5 Other financial assets mandatorily measured at fair value: breakdown by product

Description/Amounts	Total 31.12.2019			Total 31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**98,017**	**57,600**	**9,774**	**108,347**	**106,648**
1.1 Structured securities	-	-	-	3,437	-	-
1.2 Other debt securities	-	98,017	57,600	6,337	108,347	106,648
2. Equity instruments	**2,277**	**-**	**59,640**	**2,133**	**-**	**56,555**
3. UCITS units	**128,247**	**-**	**129,603**	**130,381**	**-**	**100,144**
4. Loans	**-**	**-**	**25,787**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others	-	-	25,787	-	-	-
Total	**130,524**	**98,017**	**272,630**	**142,288**	**108,347**	**263,347**

The classification levels used (fair value hierarchy) are described in Part A.4 of the Explanatory notes to the financial statements at 31 December 2019.

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 31.12.2019	Total 31.12.2018
1. Equity instruments	**61,917**	**58,688**
of which: banks	16	6,576
of which: other financial companies	30,977	49,729
of which: non-financial companies	30,924	2,383
2. Debts securities	**155,617**	**224,769**
a) Central Banks	-	-
b) Public Administrations	51,859	51,569
c) Banks	29,720	50,038
d) Other financial companies	72,999	122,199
of which: insurance companies	-	-
e) Non financial companies	1,039	963
3. UCITS Units	**257,850**	**230,525**
4. Loans	**25,787**	**-**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	25,787	-
of which: insurance companies	25,787	-
e) Non financial companies	-	-
f) Households	-	-
Total	**501,171**	**513,982**

2.6 bis UCITS units breakdown

Description	31.12.2019	31.12.2018
1. Equities	19,464	8,356
2. Property - closed end	28,774	25,213
3. Equities - open end	21,135	20,925
4. Balanced - open end	4,666	4,555
5. Bonds - open end	4,351	4,087
6. Equities closed end	37,572	20,408
7. Speculative securities	5,265	-
8. Bonds - short term	-	-
9. Bonds - long term	9,095	8,092
10. Other	127,528	138,889
Total	**257,850**	**230,525**

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 31.12.2019			Total 31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debts securities	**5,508,794**	**472,870**	**11,796**	**6,632,963**	**633,739**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	5,508,794	472,870	11,796	6,632,963	633,739	-
2. Equity instruments	**16**	**2,377**	**206,548**	**10**	**2,650**	**261,115**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**5,508,810**	**475,247**	**218,344**	**6,632,973**	**636,389**	**261,115**

The classification levels used (fair value hierarchy) are described in Part A.4 of the Explanatory notes to the financial statements at 31 December 2019.

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 31.12.2019	Total 31.12.2018
1. Debt securities	**5,993,460**	**7,266,702**
a) Central Banks	-	-
b) Public Administrations	449,767	862,225
c) Banks	4,045,678	4,788,313
d) Other financial companies	1,013,206	1,120,635
of which: insurance companies	41,878	55,552
e) Non financial companies	484,809	495,529
2. Equity instruments	**208,941**	**263,775**
a) Banks	28,155	81,470
b) Other issuers:	180,786	182,305
- other financial companies	153,490	155,387
of which: insurance companies	104,330	104,330
- non financial companies	27,290	26,905
- others	6	13
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	**6,202,401**	**7,530,477**

3.3 Financial assets measured at fair value through other comprehensive income: gross carrying amount and total impairment provisions

		Gross value				Total impairment provisions			
		First stage	of which: low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Total partial write-off
Debt securities		5,693,375	-	304,428	26	3,302	1,059	8	-
Loans		-	-	-	-	-	-	-	-
Total	**31.12.2019**	**5,693,375**	**-**	**304,428**	**26**	**3,302**	**1,059**	**8**	**-**
Total	**31.12.2018**	**6,799,216**	**-**	**471,884**	**18**	**3,943**	**473**	**-**	**-**
of which: purchased or originated credit-impaired financial assets		X	X	-	-	X	-	-	-

At 31 December 2019 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 financial assets, reference should be made to Part A of these Explanatory notes.

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 31.12.2019						Total 31.12.2018					
	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	**1,079,578**	**-**	**-**	**-**	**-**	**1,079,578**	**909,185**	**-**	**-**	**-**	**-**	**909,185**
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirement	1,068,684	-	-	X	X	X	901,739	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Others	10,894	-	-	X	X	X	7,446	-	-	X	X	X
B.Loans to banks	**7,289,525**	**-**	**-**	**2,628,345**	**192,862**	**4,511,838**	**3,518,553**	**-**	**-**	**1,737,173**	**46,512**	**1,719,265**
1. Loans	4,511,838	-	-	-	-	4,511,838	1,719,265	-	-	-	-	1,719,265
1.1 Current accounts and demand deposits	756,392	-	-	X	X	X	428,293	-	-	X	X	X
1.2. Time deposits	850,977	-	-	X	X	X	612,658	-	-	X	X	X
1.3 Other loans:	2,904,469	-	-	X	X	X	678,314	-	-	X	X	X
- Repurchase agreements	2,148,132	-	-	X	X	X	228,088	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Others	756,337	-	-	X	X	X	450,226	-	-	X	X	X
2. Debts	2,777,687	-	-	2,628,345	192,862	-	1,799,288	-	-	1,737,173	46,512	-
2.1 Structured	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	2,777,687	-	-	2,628,345	192,862	-	1,799,288	-	-	1,737,173	46,512	-
Total	**8,369,103**	**-**	**-**	**2,628,345**	**192,862**	**5,591,416**	**4,427,738**	**-**	**-**	**1,737,173**	**46,512**	**2,628,450**

The classification levels used (fair value hierarchy) are described in Part A.4 of the Explanatory notes to the financial statements at 31 December 2019.

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 31.12.2019						Total 31.12.2018					
	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	**38,877,918**	**1,951,565**	**969,244**	**-**	**-**	**41,997,657**	**34,644,926**	**2,028,553**	**671,924**	**-**	**-**	**37,528,110**
1.1.Current accounts	5,432,320	347,431	142,754	X	X	X	4,315,903	314,239	86,685	X	X	X
1.2. Repurchase agreements	93,002	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgages	25,663,285	1,260,876	714,798	X	X	X	21,839,405	1,362,155	500,831	X	X	X
1.4. Credit cards, personal loans and assignments of one-fifth	659,290	12,921	4,582	X	X	X	765,765	13,984	5,644	X	X	X
1.5. Financial leasing	6,022	305	-	X	X	X	11,859	247	-	X	X	X
1.6. Factoring	10,827	61	-	X	X	X	12,376	64	-	X	X	X
1.7. Other loans	7,013,172	329,971	107,110	X	X	X	7,699,618	337,864	78,764	X	X	X
2. Debt securities	**6,935,219**	**-**	**-**	**6,512,823**	**90,767**	**478,317**	**4,750,184**	**-**	**-**	**3,983,941**	**78,788**	**554,804**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	6,935,219	-	-	6,512,823	90,767	478,317	4,750,184	-	-	3,983,941	78,788	554,804
Total	**45,813,137**	**1,951,565**	**969,244**	**6,512,823**	**90,767**	**42,475,974**	**39,395,110**	**2,028,553**	**671,924**	**3,983,941**	**78,788**	**38,082,914**

The purchased or originated impaired financial assets at 31 December 2019 in relation to the absorption of Unipol Banca total € 311.6 million. The sub-caption "Other loans" of performing loans includes:€ 3,920 million of bullet loans (+4.34%), € 2,093 million of advances on invoices subject to collection (-5.93%), € 788 million of import/export advances (+0.51%), € 43 million of credit assignment (-12.24%) and € 169 million of other miscellaneous entries (-80.28%).
The classification levels used (fair value hierarchy) are described in Part A.4 of the Explanatory notes to the financial statements at 31 December 2019.

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 31.12.2019			Total 31.12.2018		
	First and second stage	Third stage	of which: purchased or originated impaired	First and second stage	Third stage	of which: purchased or originated impaired
1. Debt securities	**6,935,219**	**-**	**-**	**4,750,184**	**-**	**-**
a) Public Administration	5,996,103	-	-	3,835,189	-	-
b) Other financial companies	820,472	-	-	857,218	-	-
of which: insurance companies	4,990	-	-	4,985	-	-
c) Non financial companies	118,644	-	-	57,777	-	-
2. Loans:	**38,877,918**	**1,951,565**	**969,244**	**34,644,926**	**2,028,553**	**671,924**
a) Public Administration	2,069,160	10,226	4,855	2,102,661	34	-
b) Other financial companies	5,828,132	106,691	75,641	4,896,867	101,966	43,581
of which: insurance companies	40,558	-	-	25,080	-	-
c) Non financial companies	16,533,791	1,386,572	623,799	16,371,119	1,546,113	451,085
d) Households	14,446,835	448,076	264,949	11,274,279	380,440	177,258
Total	**45,813,137**	**1,951,565**	**969,244**	**39,395,110**	**2,028,553**	**671,924**

The classification of loans to customers between Stage 1 and Stage 2 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
Current accounts	**88,985**	**354**	**88,631**	**2,696,048**	**1,731**	**2,694,317**
- First stage	85,985	342	85,643	2,683,415	1,541	2,681,874
- Second stage	3,000	12	2,988	12,633	190	12,443
Repurchase agreements	**-**	**-**	**-**	**93,002**	**-**	**93,002**
- First stage	-	-	-	88,254	-	88,254
- Second stage	-	-	-	4,748	-	4,748
Mortgages and Other loans	**1,988,080**	**7,551**	**1,980,529**	**3,043,762**	**2,949**	**3,040,813**
- First stage	1,977,694	1,231	1,976,463	3,017,442	2,651	3,014,791
- Second stage	10,386	6,320	4,066	26,320	298	26,022
Total	**2,077,065**	**7,905**	**2,069,160**	**5,832,812**	**4,680**	**5,828,132**

(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	
Current accounts	**2,162,153**	**9,871**	**2,152,282**	**499,629**	**2,539**	**497,090**	**5,432,320**
- First stage	1,836,979	6,268	1,830,711	451,149	1,704	449,445	5,047,673
- Second stage	325,174	3,603	321,571	48,480	835	47,645	384,647
Repurchase agreements	**-**	**-**	**-**	**-**	**-**	**-**	**93,002**
- First stage	-	-	-	-	-	-	88,254
- Second stage	-	-	-	-	-	-	4,748
Mortgages and Other loans	**20,192,269**	**85,706**	**14,381,509**	**19,891,998**	**44,143**	**13,949,745**	**33,352,596**
- First stage	13,129,008	18,004	13,111,004	12,551,160	8,472	12,542,688	30,644,946
- Second stage	1,317,135	46,630	1,270,505	1,427,534	20,477	1,407,057	2,707,650
Total	**22,354,422**	**95,577**	**16,533,791**	**20,391,627**	**46,682**	**14,446,835**	**38,877,918**

4.4 Financial assets measured at amortised cost: gross carrying amount and total impairment provisions

	Gross book 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	9,717,285	-	-	-	4,379	-	-	-
Loans	41,416,420	-	3,175,411	4,123,336	44,132	78,365	2,171,771	272,430
Total 31.12.2019	**51,133,705**	**-**	**3,175,411**	**4,123,336**	**48,511**	**78,365**	**2,171,771**	**272,430**
Total 31.12.2018	**39,257,517**	**-**	**4,697,282**	**4,905,782**	**84,382**	**47,569**	**2,877,229**	**476,303**
of which: purchased or originated credit-impaired financial assets	X	X	184,447	1,111,329	X	2,586	323,946	1,664

For the approach used in the presentation of the gross value and total impairment provisions of 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.

Section 5 – Hedging derivatives Caption 50

5.1 Hedging derivatives: breakdown by type of hedge and level

	FV 31.12.2019			NV 31.12.2019	FV 31.12.2018			NV 31.12.2018
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair Value	-	80,648	-	2,640,430	-	34,916	-	2,083,317
2. Cash flows	-	1,221	-	54,446	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair Value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**81,869**	**-**	**2,694,876**	**-**	**34,916**	**-**	**2,083,317**

The classification levels used (fair value hierarchy) are described in Part A.4 of the Explanatory notes to the financial statements at 31 December 2019.

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	221	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	34,951	X	-	-	X	X	X	1,221	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other operations	-	-	-	-	-	-	X	-	X	-
Total assets	35,172	-	-	-	-	-	-	1,221	-	-
1. Financial Liabilities	45,476	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	45,476	-	-	-	-	-	-	-	-	
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 Banca di Sassari s.p.a.	Sassari	Sassari	78.536	
4 BPER Bank Luxembourg S.A.	Lussemburgo	Luxembourg	100.000	
5 Banco di Sardegna s.p.a.	Cagliari	Sassari	98.677	100.000
6 BPER Credit Management s.cons.p.a.	Modena	Modena	67.000	
7 BPER Trust Company s.p.a.	Modena	Modena	100.000	
8 Cassa di Risparmio di Bra s.p.a.	Bra	Bra	84.286	
9 Cassa di Risparmio di Saluzzo s.p.a.	Saluzzo	Saluzzo	100.000	
10 Emilia Romagna Factor s.p.a.	Bologna	Bologna	95.954	
11 Estense Covered Bond s.r.l.	Conegliano	Conegliano	60.000	
12 Estense CPT Covered Bond s.r.l.	Conegliano	Conegliano	60.000	
13 Finitalia s.p.a.	Milan	Milan	100.000	
14 Italiana Valorizzazioni Immobiliari s.r.l.	Milan	Milan	100.000	
15 Modena Terminal s.r.l.	Campogalliano	Campogalliano	100.000	
16 Nadia s.p.a.	Modena	Modena	100.000	
17 Optima s.p.a. S.I.M.	Modena	Modena	100.000	
18 Sardaleasing s.p.a.	Sassari	Milan	52.741	
19 SIFA' - Società Italiana Flotte Aziendali s.p.a.	Trento	Milan/Reggio Emilia	51.000	
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 CONFORM Consulenza Formazione e Management s.cons. a r.l.	Avellino	Avellino	46.430	
8 Immobiliare Oasi nel Parco s.r.l.	Milan	Milan	36.800	
9 Lanciano Fiera - Polo Fieristico d'Abruzzo Consorzio	Lanciano	Lanciano	25.000	
10 Resiban s.p.a.	Modena	Modena	20.000	
11 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 testin order to check its reasonable with respect to the related recoverable value.
Impairment test has to be performed by comparing the carrying amount of an asset with its recoverable value, where the recoverable amount 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 due, in substance, to the different carrying amounts involved. Section 7 and Section 10 of the consolidated Explanatory notes discuss, respectively, the elements supporting the projections made and the assumptions underlying the estimated recoverable value of the principal subsidiaries and associates.
The information at the foot of table 7.5 includes, inter alia, details of the adjustments made to carrying amounts as a result of the impairment test.

7.5 Equity investments: annual changes

	Total 31.12.2019	Total 31.12.2018
A. Opening balance	**1,747,684**	**1,686,979**
B. Increases	**685,749**	**109,386**
B.1 Purchases	685,107	107,800
of which: business combinations	*51,891*	-
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	642	1,586
C. Decreases	**295,012**	**48,681**
C.1 Sales	6,706	-
C.2 Impairment losses	26,026	48,681
C.3 Depreciations	-	-
C.4 Other changes	262,280	-
D. Closing balance	**2,138,421**	**1,747,684**
E. Total revaluations	**-**	**-**
F. Total adjustments	**243,070**	**217,044**

Increases due to purchases (caption B.1) refer to:
- Acquisition of 21,550,939 ordinary shares in Banco di Sardegna from Fondazione di Sardegna, with a book value of € 292.4 million, as part of the operation to acquire 100% of Banco di Sardegna;
- Purchase of 431,374 preference shares in Banco di Sardegna for € 6.9 million, of which 430,850 in the transaction completed with Fondazione di Sardegna, as part of the operation to acquire 100% of Banco di Sardegna;
- Acquisition of 2,708,363 savings shares in Banco di Sardegna following a Public Offer of Exchange, with a book value of € 28.5 million;
- Purchase of 12,154,752 shares in Arca Holding s.p.a. for € 83.9 million;
- Purchase of 897,384,181 shares in Unipol Banca for € 220 million; the same transaction also included the acquisition of equity interests in Finitalia (15,376,285 shares with a book value of € 45.2 million), SCS Azioninnova (6,000 shares with a book value of € 1.6 million) and Promorest (1 quota with a book value of € 5.1 million), which were all subsequently sold for the same amounts;
- Purchase of 15,040 shares in BPER Services for € 1.5 million.

The main " Impairment losses" (caption C.2.) refer to:
- impairment loss made to the holding in Sardaleasing s.p.a. (€ 19.2 million);
- impairment loss made to the holding in Saluzzo s.p.a. (€ 5.3 million);
- impairment loss made to the holding in Italiana Valorizzazione Immobili s.r.l. (€ 0.8 million);
- impairment loss made to the holding in Immobiliare Oasi nel Parco (€ 0.7 million).

The "Other changes" (caption C.4) relate principally to the equity investments in Unipol Banca (€ 220 million) and BPER Services (€ 19.6 million), which were absorbed during the year, and to reclassification of the investment in Banca Farnese s.p.a. in liquidation (€ 22 million) to the FVTPLM portfolio, given the advanced stage reached in the liquidation process.

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 31.12.2019	Total 31.12.2018
1. Assets owned	**392,708**	**368,380**
a) lands	87,950	89,592
b) buildings	216,696	224,356
c) furniture	23,321	20,944
d) electronic system	20,767	7,418
e) other	43,974	26,070
2. Rights of use acquired through leases	**324,823**	**2,192**
a) lands	-	-
b) buildings	297,620	2,192
c) furniture	-	-
d) electronic system	23,854	-
e) other	3,349	-
Total	**717,531**	**370,572**
of which: arising from the recovery of guarantees received	-	-

Rights of use acquired through leases reported at 31 December 2018 comprise the leased property, plant and equipment recognised in accordance with IAS 17, given the decision by the BPER Banca Group not to restate the comparative amounts on the first-time application of IFRS 16.

8.2 Property, plant and equipment held for investment: breakdown of assets measured at cost

Description/Amounts	Total 31.12.2019				Total 31.12.2018			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Assets owned	**84,570**	**-**	**-**	**88,196**	**77,552**	**-**	**-**	**80,265**
a) lands	26,184	-	-	22,757	26,058	-	-	20,815
b) buildings	58,386	-	-	65,439	51,494	-	-	59,450
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) lands	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**84,570**	**-**	**-**	**88,196**	**77,552**	**-**	**-**	**80,265**
of which: arising from the recovery of guarantees received	-	-	-	-	-	-	-	-

BPER Bank 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 these 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	**89,592**	**573,094**	**146,638**	**81,739**	**213,085**	**1,104,148**
A.1 Total net value adjustments	-	140,103	125,694	56,235	183,958	505,990
A.2 Net opening balance	**89,592**	**432,991**	**20,944**	**25,504**	**29,127**	**598,158**
B. Increases:	**18**	**193,959**	**5,182**	**35,801**	**30,471**	**265,431**
B.1 Purchases	-	147,232	4,432	16,189	27,714	195,567
- of which business combinations	-	104,228	2,979	3,341	4,111	114,659
B.2 Capitalised expenditure on improvements	-	1,984	-	-	-	1,984
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	18	47	-	-	-	65
B.7 Other changes	-	44,696	750	19,612	2,757	67,815
C. Decreases:	**1,660**	**112,634**	**2,805**	**16,684**	**12,275**	**146,058**
C.1 Sales	-	7,331	35	2,186	795	10,347
C.2 Depreciations	-	54,358	2,217	12,781	9,275	78,631
C.3 Impairment losses allocated to	-	2,953	-	-	-	2,953
a) shareholders' equity	-	-	-	-	-	-
b) profit or loss	-	2,953	-	-	-	2,953
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:	1,660	3,159	-	-	-	4,819
a) transfer to property, plant and equipment held for investment	1,660	1,587	-	-	-	3,247
b) non-current assets and groups of assets held for sale	-	1,572	-	-	-	1,572
C.7 Other changes	-	44,833	553	1,717	2,205	49,308
D. Net closing balance	**87,950**	**514,316**	**23,321**	**44,621**	**47,323**	**717,531**
D.1 Total net value adjustments	-	187,362	150,830	105,549	251,591	695,332
D.2 Gross closing balance	**87,950**	**701,678**	**174,151**	**150,170**	**298,914**	**1,412,863**

The opening balances take into account first-time adoption of IFRS 16 for a total of € 227.6 million.
Other increases include the property, plant and equipment acquired on the absorption of BPER Services s.cons.p.a.
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 2019, 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 adjustment totalling € 2,953 thousand, of which € 389 thousand relating to buildings owned by the Bank and € 2,564 thousand 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	**26,058**	**74,590**
A.1 Total net value adjustments	-	23,096
A.2 Net opening balance	**26,058**	**51,494**
B. Increases	**1,661**	**17,333**
B.1 Purchases	-	15,149
- of which: business combinations	-	15,149
B.2 Capitalised expenditure on improvements	-	539
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	1,661	1,586
B.7 Other adjustments	-	59
C. Decreases	**1,535**	**10,441**
C.1 Sales	184	3,535
C.2 Amortizations	-	1,697
C.3 Negative changes in fair value	-	-
C.4 Impairment losses	840	1,346
C.5 Negative exchange difference	-	-
C.6 Transfer to:	451	3,666
a) transfer to property, plant and equipment held for investment	17	48
b) non-current assets and group of assets held for sale;	434	3,618
C.7 Other adjustments	60	197
D. Net closing balance	**26,184**	**58,386**
D.1 Total net value adjustments	-	25,410
D.2 Gross closing balance	**26,184**	**83,796**
E. Measured at fair value	22,757	65,439

The updated valuation at fair value of the real estate holdings, as mentioned previously, resulted in the recognition of an impairment adjustment totalling € 2,186 thousand.

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 31.12.2019		Total 31.12.2018	
	Defined duration	Undefined duration	Defined duration	Undefined duration
A.1 Goodwill	X	225,792	X	225,792
A.2 Other intangible assets	**212,447**	**-**	**13,347**	**-**
A.2.1 Assets measured at cost	212,447	-	13,347	-
a) intangible assets generated internally	-	-	-	-
b) other assets	212,447	-	13,347	-
A.2.2 Assets measured at fair value	-	-	-	-
a) intangible assets generated internally	-	-	-	-
b) other assets	-	-	-	-
Total	**212,447**	**225,792**	**13,347**	**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; the increase was due to the absorption of BPER Services cons.s.p.a.
The remaining "Other intangible assets" mainly comprise the value of the client relationships identified on the Purchase Price Allocation relating to the acquisition at the end of 2008 of former UNICREDIT branches with an estimated useful life of 18 years (€ 9.3 million), as well as the intangibles recognised on the PPA relating to Unipol Banca (€ 28.6 million).
Goodwill includes goodwill arising from bank acquisitions and subsequent mergers by absorption in past years, as well as goodwill relating to purchases of bank branches from the Unicredit Group.

Goodwill impairment test

In recent years, BPER Banca has been subject to a series of internal reorganisation transactions, including the merger of a number of subsidiary banks (specifically, 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.) that did not result in changes in the amounts of goodwill, but simply a different allocation of their value to the Cash Generating Units (CGUs).

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 the CGU, representing 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 the individual legal entity.

Goodwill recorded in the Bank's assets for a total of Euro 225.8 million is therefore verified on the basis of cash flows potentially distributable by the Bank as a whole. Accordingly, goodwill that prior to the

absorptions was checked at individual entity level is checked with reference to the post-absorption 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 analysis performed and the results of impairment tests conducted for the preparation of the consolidated financial statements were also considered valid 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 sensitivity analysis 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
		DEF	UNDEF	DEF	UNDEF	
A. Opening balance	**280,236**	**-**	**-**	**35,519**	**-**	**315,755**
A.1 Total net value adjustments	54,444	-	-	22,172	-	76,616
A.2 Net opening balance	**225,792**	**-**	**-**	**13,347**	**-**	**239,139**
B. Increases	**-**	**-**	**-**	**268,680**	**-**	**268,680**
B.1 Purchases	-	-	-	102,716	-	102,716
- of which: business combinations	-	-	-	30,870	-	30,870
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	-	-	-	165,964	-	165,964
C. Decreases	**-**	**-**	**-**	**69,580**	**-**	**69,580**
C.1 Sales	-	-	-	-	-	-
C.2 Adjustments	-	-	-	49,532	-	49,532
- Depreciations	X	-	-	49,532	-	49,532
- 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	-	-	-	20,048	-	20,048
D. Net closing balance	**225,792**	**-**	**-**	**212,447**	**-**	**438,239**
D.1 Total net value adjustments	54,444	-	-	71,704	-	126,148
E. Gross closing balance	**280,236**	**-**	**-**	**284,151**	**-**	**564,387**

All intangible assets are stated at cost.
Caption B.6 “Other changes” relates to the intangible assets acquired on the absorption of BPER Services s.cons.p.a.
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:
DEF: defined useful life
UNDEF: undefined useful life

9.3 Intangible assets: other information

There are no information to be disclosed other than those already 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 31.12.2019	Total 31.12.2018
Impairment losses on loans to customers	587,795	54,697	642,492	599,834
Impairment losses on equity investments and securities	4,713	10,878	15,591	35,296
Goodwill convertible into tax credits	156,929	32,151	189,080	138,887
Non-convertible goodwill	761	154	915	15,736
Personnel provisions	86,332	8,729	95,061	47,712
Endorsement credits, revocatory action during bankruptcy proceedings and outstanding lawsuits	55,346	4,087	59,433	60,071
Impairment losses on loans to customers FTA IFRS 9	108,670	22,011	130,681	119,764
Non-convertible tax losses	-	-	-	33,013
ACE reportable	21,163	-	21,163	19,245
Other deferred tax assets	30,323	3,074	33,397	30,066
Total	**1,052,032**	**135,781**	**1,187,813**	**1,099,624**

The total includes deferred tax assets recorded pursuant to Law 214/2011, € 831.6 million, in relation to the impairment adjustment of loans to customers and goodwill convertible into tax credits.
The remaining deferred tax assets - € 335.2 million referring to temporary differences and € 21.2 million referring to ACE surpluses - were recorded on the basis of the positive outcome of the probability test carried out in accordance with IAS 12.The time horizon used for the forecasts is 5 years.
The position at 31 December 2019 also includes tax losses for which no deferred tax assets have been recognised. These include € 420.5 million subject to the full rate of 27.5%, that would result in DTA of € 115.6 million, and € 1,015 million to which the additional rate of 3.5% would apply, resulting in DTA of € 35.5 million. In addition, deferred tax assets have not been recognised in relation to the portions of the IFRS 9 FTA recoverable beyond the time horizon for the probability test, amounting to € 309.5 million, that would result in DTA of € 102.4 million.

10.2 Deferred tax liabilities: breakdown

	IRES	IRAP	Total 31.12.2019	Total 31.12.2018
Gains from equity instruments and securities	21,056	8,682	29,738	24,043
Staff costs	1,578	-	1,578	1,518
Depreciation of property, plant and equipment and intangible assets	7,982	1,482	9,464	2,326
Other deferred taxes	2,300	553	2,853	3,530
Total	**32,916**	**10,717**	**43,633**	**31,417**

"Deferred tax assets" and "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 2019, 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.

10.3 Changes in deffered tax assets (through profit or loss)

	Total 31.12.2019	Total 31.12.2018
1. Initial amount	**1,045,063**	**969,356**
2. Increases	**201,828**	**186,451**
2.1 Defferred tax assets recognised in the year	92,428	186,451
a) related to previous years	26,136	33,747
b) due to changes in accounting criteria	-	122,944
c) value recoveries	-	-
d) others	66,292	29,760
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	109,400	-
- of which: business combinations	108,403	-
3. Decreases	**111,096**	**110,744**
3.1 Defferred tax assets derecognised in the year	109,091	53,921
a) reversals	82,955	48,829
b) write-offs	-	-
c) due to changes in accounting criteria	-	-
d) others	26,136	5,092
3.2 Decreases in tax rates	-	-
3.3 Other decreases:	2,005	56,823
a) changes into tax credits	-	56,823
b) others	2,005	-
4. Final amount	**1,135,795**	**1,045,063**

Caption 2.1 a) “related to previous years” includes the adjustments made on the FTA of IFRS 9, recoverable in 2024 and recognised during the year after passing the probability test.
Caption 2.1 d) “others” increases mainly relates to: deferred tax assets relating to the provisions for employee benefits, € 37.5 million, provisions for legal disputes and loan guarantees, € 12 million, the ACE surplus, € 8.8 million, and goodwill, € 6.6 million.
Caption 3.1 a) “reversals” mainly relates to: the use of prior-year tax losses, € 33 million, use/release of provisions for risks and charges, € 19.3 million, and provisions for employee benefits, € 17.9 million, and the use of ACE surpluses, € 6.9 million.
Caption 3.1 d) “others” decreases relates to the deferred tax assets relating to that annual portion of the IFRS 9 FTA that has become disallowed, because the 2020 Finance Law deferred it from 2019 to 2028, which is beyond the time horizon considered for the probability test.

10.3 bis Changes in deferred tax assets pursuant to Law 214/2011

	Total 31.12.2019	Total 31.12.2018
1. Initial amount	**738,721**	**817,687**
2. Increases	**92,850**	**-**
3. Decreases	**-**	**78,966**
3.1 Reversals	-	-
3.2 Changes into tax credits	-	56,823
a) from losses for the year	-	-
b) from fiscal losses	-	56,823
3.3 Other decreases	-	22,143
4. Final amount	**831,571**	**738,721**

With regard to the changes in 2018, 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 (in total, Deferred Tax Assets - DTAs) are transformed into a tax credit. The transformation runs from the date of approval of the financial statements 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 DTAs transformed into tax credits are not deductible.
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 the impairment on loans and on the value of goodwill and other intangible assets, also in the case of "negative net value of production".
The increases indicated in point 2 are related to the eligibility as convertible DTAs of the DTA on goodwill envisaged in the 2020 Finance Law, as well as to the DTAs acquired on the absorption of Unipol Banca; the law also redefined the deductibility of the convertible impairment losses on loans to customers and goodwill due to be recovered in 2019, deferring them to future tax periods: accordingly, no reclassifications or transformations into tax credits were recorded during the year.
These rules therefore ensure the recovery of the DTAs in the case of a loss in the statutory accounts and even if a tax loss is recorded, therefore fully justifying the recognition of € 831.6 million in deferred tax assets.

10.4 Changes in deffered tax liabilities (through profit or loss)

	Total 31.12.2019	Total 31.12.2018
1. Initial amount	**9,272**	**20,460**
2. Increases	**22,366**	**5,618**
2.1 Defferred tax liabilities recognised in the year	6	5,618
a) related to previous years	-	-
b) due to changes in accounting criteria	-	2,174
c) others	6	3,444
2.2 New taxes or tax rates increases	-	-
2.3 Other increases	22,360	-
- of which: business combinations	22,214	-
3. Decreases	**10,851**	**16,806**
3.1 Defferred tax liabilities derecognised in the year	8,257	16,806
a) reversals	8,257	16,806
b) due to changes in accounting criteria	-	-
c) others	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	2,594	-
4. Final amount	**20,787**	**9,272**

Caption 2.3 “other increases” mainly relates to the absorption of Unipol Banca. Caption 3.1 a) “reversals”mailnly relates to the measurement of non-current securities amounting to € 5.3 million.

10.5 Changes in deffered tax assets (through shareholders' equity)

	Total 31.12.2019	Total 31.12.2018
1. Initial amount	**54,561**	**47,073**
2. Increases	**23,989**	**29,553**
2.1 Defferred tax assets recognised in the year	19,459	29,553
b) related to previous years	-	109
b) due to changes in accounting criteria	-	-
c) others	19,459	29,444
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	4,530	-
- of which: business combinations	2,479	-
3. Decreases	**26,532**	**22,065**
3.1 Defferred tax assets derecognised in the year	26,532	21,955
a) reversals	26,532	15,056
b) write-offs	-	-
c) due to changes in accounting criteria	-	6,899
d) others	-	-
3.2 Decreases in taxl rates	-	-
3.3 Other decreases	-	110
4. Final amount	**52,018**	**54,561**

Caption 2.1 c) "Increases in deferred tax assets recognised in the year – others", mailny relates to provisions for employee benefits, € 10.1 million, and the measurement of securities, € 9.3 million.
Caption 2.3 "Other increases – of which business combinations" mainly relates to the absorption of Unipol Banca.
Caption 3.1 a) "reversals" includes € 25.9 million relating to securities.

10.6 Changes in deffered tax liabilities (through shareholders' equity)

	Total 31.12.2019	Total 31.12.2018
1. Initial amount	**22,145**	**53,549**
2. Increases	**12,373**	**103,600**
2.1 Defferred tax liabilities recognised in the year	9,255	103,600
a) related to previous years	-	-
b) due to changes in accounting criteria	-	48,029
c) others	9,255	55,571
2.2 New taxes or tax rates increases	-	-
2.3 Other increases	3,118	-
- of which: business combinations	670	-
3. Decreases	**11,672**	**135,004**
3.1 Defferred tax liabilities derecognised in the year	11,672	135,004
a) reversals	11,672	135,004
b) due to changes in accounting criteria	-	-
c) others	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
4. Final amount	**22,846**	**22,145**

Caption 2.1 c) "Increases in deferred tax assets recognised in the year – others",, relates entirely to unrealised gains on securities.
Caption 2.3 "Other increases – of which business combinations" mainly relate to the absorption of Unipol Banca.
Caption 3.1 a) "reversals" relate entirely to non-current securities.

10.7. Other information

Current tax assets

	31.12.2019	31.12.2018
IRES provisions	148	-
IRAP provisions	-	-
Other assets and withholdings	458,889	451,791
Gross current tax assets	**459,037**	**451,791**
Offset current tax liabilities	2,747	4,856
Net current tax assets	**456,290**	**446,935**

Current tax liabilities

	31.12.2019	31.12.2018
Tax debt for IRES	375	357
Tax debt for IRAP	2,372	4,499
Other current tax liabilities on income	-	-
Gross current tax liabilities	**2,747**	**4,856**
Offset current tax assets	2,747	4,856
Net current tax liabilities	**-**	**-**

Changes in gross current tax liabilities

	31.12.2019	31.12.2018
Balance at the end of the prior year	**4,856**	**1,558**
Decreases	**4,856**	**1,120**
- uses for payment of income taxes	4,856	-
- uses for payment of other taxes	-	-
- other decreases		1,120
Increases	**2,747**	**61**
- provisions:	**1,485**	**-**
- income taxes: parent company	-	-
- income taxes: members of domestic tax group	-	61
- 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	1,262	-
Total gross current tax liabilities	**2,747**	**499**

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

	31.12.2019	31.12.2018
A. Assets held for sale		
A.1 Financial assets	-	-
A.2 Equity investments	-	-
A.3 Property, plant and equipment	3,128	2,800
of which: arising from the recovery of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**3,128**	**2,800**
of which measured at cost	3,128	2,800
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 amortised 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.)

	31.12.2019	31.12.2018
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 amortised 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

	31.12.2019	31.12.2018
Taxes withheld on interest, withholdings and tax credits on dividends, advance taxation	122,495	102,728
Sundry amounts to be charged to customers	117,913	34,762
Bank charges to be debited to customers or banks	55,862	34,226
Cheques being processed	40	144
Cheques drawn on other banks	112,809	124,634
Items relating to securities transactions	40,339	13,205
Leasehold improvement expenditure	6,948	2,766
Gold, silver and precious metals	1,897	891
Accrued income and prepaid expenses	6,757	8,517
Other items for sundry purposes	62,510	41,190
Receivables from group companies	7,171	9,599
Total	**534,741**	**372,662**

From the analysis carried out in the Bank 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 31.12.2019				Total 31.12.2018			
	B V	Fair Value			B V	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to Central Banks	**9,414,867**	X	X	X	**9,057,608**	X	X	X
2. Due to banks	**6,334,675**	X	X	X	**7,378,431**	X	X	X
2.1 Current accounts and demand deposits	3,473,519	X	X	X	2,657,365	X	X	X
2.2 Deposits to maturity	160,135	X	X	X	104,277	X	X	X
2.3 Loans	2,516,195	X	X	X	4,614,179	X	X	X
2.3.1 Repurchase agreements	2,364,330	X	X	X	4,387,677	X	X	X
2.3.2 Others	151,865	X	X	X	226,502	X	X	X
2.4 Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease payables	14,031	X	X	X	-	X	X	X
2.6 Other payables	170,795	X	X	X	2,610	X	X	X
Total	15,749,542	-	-	15,749,542	16,436,039	-	-	16,436,039

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 31.12.2019				Total 31.12.2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	36,366,341	X	X	X	27,216,395	X	X	X
2. Time deposits	875,135	X	X	X	1,788,114	X	X	X
3. Loans	2,005,387	X	X	X	2,087,268	X	X	X
3.1 Repurchase agreements	88,537	X	X	X	91,235	X	X	X
3.2 Others	1,916,850	X	X	X	1,996,033	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease payables	316,441	X	X	X	-	X	X	X
6. Other payables	737,298	X	X	X	417,339	X	X	X
Total	**40,300,602**	**-**	**-**	**40,300,602**	**31,509,116**	**-**	**-**	**31,509,116**

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 31.12.2019				Total 31.12.2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	4,949,480	3,231,215	1,825,659	430	3,584,489	2,509,988	1,055,793	-
1.1 structured	-	-	-	-	-	-	-	-
1,2 others	4,949,480	3,231,215	1,825,659	430	3,584,489	2,509,988	1,055,793	-
2. other securities	609,292	-	36,767	572,751	1,198,675	-	53,033	1,146,003
2.1 structured	36,541	-	36,767	-	52,672	-	53,033	-
2.2 others	572,751	-	-	572,751	1,146,003	-	-	1,146,003
Total	**5,558,772**	**3,231,215**	**1,862,426**	**573,181**	**4,783,164**	**2,509,988**	**1,108,826**	**1,146,003**

"Bonds" include subordinated bonds issued totalling € 757,326 thousand, 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 31.12.2019	Nominal value 31.12.2019	Book value 31.12.2018	Nominal value 31.12.2018
B.P.E.R. Lower Tier II subordinated non-convertible bond 5.81%, 2013-2020	2,513	2,389	5,026	4,778
B.P.E.R. Tier II subordinated non-convertible bond 4.25%, 2015-2025 callable	225,271	224,855	225,279	224,855
BPER Banca Tier II subordinated non-convertible bond 4.60%, 2016-2026 callable	12,023	12,000	12,023	12,000
BPER Banca EMTN Tier II subordinated non-convertible bond 5.125%, 2017-2027 callable	513,252	500,000	513,097	500,000
CARISPAQ Lower Tier II subordinated non-convertible bond floating rate, 2010-2020	4,267	4,250	4,268	4,250
Total non-convertible bonds	**757,326**	**743,494**	**759,693**	**745,883**
Total bonds	**757,326**	**743,494**	**759,693**	**745,883**

There are no convertible subordinated bonds outstanding at 31 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 31.12.2019	Present value 31.12.2018
Up to 3 months	15,656	41
Between 3 months and 1 year	44,196	125
Between 1 year and 5 years	189,095	377
Beyond 5 years	81,525	-
Total	**330,472**	**543**

The amounts reported at 31 December 2018 reflect the finance lease payables recognised pursuant to IAS 17, given the decision by the BPER Banca Group not to restate the comparative amounts on the first-time application of IFRS 16.

Section 2 – Financial liabilities held for trading Caption 20

2.1 Financial liabilities held for trading: breakdown by product

Type of transactions/Amounts	Total 31.12.2019					Total 31.12.2018				
	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	-	-	-	-	-	500	-	546	-	546
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	**-**	**-**	**-**	**-**	**-**	**500**	**-**	**546**	**-**	**546**
B. Derivative instruments										
1. Financial derivatives	X	1,137	166,923	6,476	X	X	44	141,764	8,452	X
1.1 Trading	X	1,137	144,740	6,476	X	X	44	108,101	7,962	X
1.2 Connected with the fair value option	X	-	21,017	-	X	X	-	32,450	-	X
1.3 Others	X	-	1,166	-	X	X	-	1,213	490	X
2. Credit derivatives	X	-	1,683	-	X	X	-	1	-	X
2.1 Trading	X	-	1,683	-	X	X	-	1	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Others	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**1,137**	**168,606**	**6,476**	**X**	**X**	**44**	**141,765**	**8,452**	**X**
Total (A+B)	**X**	**1,137**	**168,606**	**6,476**	**X**	**X**	**44**	**142,311**	**8,452**	**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 31.12.2019			NV	Fair value 31.12.2018			NV
	L1	L2	L3	31.12.2019	L1	L2	L3	31.12.2018
A. Financial derivatives	**-**	**283,792**	**-**	**5,015,514**	**-**	**85,717**	**-**	**4,462,219**
1) Fair value	-	278,047	-	4,965,514	-	81,208	-	4,412,219
2) Cash flows	-	5,745	-	50,000	-	4,509	-	50,000
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**283,792**	**-**	**5,015,514**	**-**	**85,717**	**-**	**4,462,219**

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			
	debt securities and interest rates	equity instruments and stock indexes	currencies and gold	credit	goods	others		Specific	General	
1. Financial assets measured at fair value through other comprehensive income	129,179	-	-	-	X	X	X	5,745	X	X
2. Financial assets measured at amortised cost	148,868	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other operations	-	-	-	-	-	-	X	-	X	-
Total assets	**278,047**	**-**	**-**	**-**	**-**	**-**	**-**	**5,745**	**-**	**-**
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

	31.12.2019	31.12.2018
Amounts due to banks	133,282	8,773
Amounts due to customers	521,563	450,972
Net adjustments on collection of receivables for third parties	364,960	347,468
Staff emoluments and related social contributions	41,258	33,497
Amounts due to third parties for coupons, securities and dividends to be collected	23,782	11,057
Amounts due to the tax authorities on behalf of customers and personnel	134,390	104,397
Bank transfers for clearance	16,863	13,887
Advances for the purchase of securities	47	-
Due to suppliers	142,861	68,190
Third-part payments as surety for loans	119	108
Accrued expenses and deferred income	12,460	10,860
Other liabilities to third parties	184,868	168,247
Payables due to members of the tax group	18,088	12,925
Total	**1,594,541**	**1,230,381**

From the analysis carried out by the Bank for the purposes of IFRS 15, a single type of contract liability has been identified, amounting to € 10.9 million classified under the caption "Accrued expenses 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

	31.12.2019	31.12.2018
A. Opening balance	**114,024**	**116,670**
B. Increases	**16,214**	**941**
B.1 Provisions for the year	746	694
B.2 Other changes	15,468	247
- of which: business combinations	9,213	-
C. Decreases	**6,936**	**3,587**
C.1 Benefits paid	6,497	3,587
C.2 Other changes	439	-
D. Closing balance	**123,302**	**114,024**
Total	123,302	114,024

Note that the caption "Other changes" (B.2) include the actuarial losses (€ 5,076 thousand) and the quota of employee termination indemnities acquired by the absorption of Unipol Banca s.p.a. (€ 9,213 thousand).

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); 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	31.12.2019	31.12.2018
A. Opening balance	**114,024**	**116,670**
B. Increases	**16,214**	**941**
1. Pension cost relating to current work	76	-
2. Financial charges	670	694
3. Contribution to the plan by employees	-	-
4. Actuarial losses	5,076	247
5. Exchange differences	-	-
6. Pension cost of prior work	-	-
7. Other changes	10,392	-
C. Decreases	**6,936**	**3,587**
1. Benefits paid	6,497	3,587
2. Pension cost of prior work	-	-
3. Actuarial gains	-	-
4. Exchange differences	-	-
5. Reductions	-	-
6. Positions closed	-	-
7. Other changes	439	-
D. Closing balance	**123,302**	**114,024**

The caption “Other changes” increases include the quota of employee termination indemnities acquired by the absorption of Unipol Banca s.p.a. (€ 9,213 thousand).

9.2.2 Description of the main actuarial assumptions

Main actuarial assumptions/Percentages	31.12.2019	31.12.2018
Discount rates	0.36%	0.85%
Expected increase in remuneration	n/a	n/a
Turn Over	1.99%	1.99%
Inflation rate	1.20%	1.50%
Interest rate adopted for the calculation of interest cost	0.60%	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 1.2% 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	31.12.2019	31.12.2018	31.12.2017	31.12.2016
1. Present value of provisions (+)	123,302	114,024	116,670	122,008
2. Fair value of assets servicing the plan (-)	-	-	-	-
3. Plan deficit (surplus) (+/-)	123,302	114,024	116,670	122,008
4. Adjustments to plan liabilities based on historical experience - actuarial (gains)/losses	5,076	247	1,807	3,634
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 financial 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	31.12.2019	+50 bps	-50 bps
	DBO	DBO	DBO
discount rates	123,302	119,860	126,990
inflation rate	123,302	126,058	120,639

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 2019, as shown in the following table:

Employee termination indemnities	1st year	2nd year	3rd year	4th year	5th year
Future cash-flows	25,403	12,052	5,490	5,363	5,109

Section 10 - Provisions for risks and charges Caption 100

10.1 Provisions for risk and charges: breakdown

Descriptions/Amounts	31.12.2019	31.12.2018
1. Impairment provisions for credit risk related to commitments and financial guarantees granted	36,939	42,256
2. Impairment provisions related to other commitments and guarantees granted	9,129	7,616
3. Provisions for pension benefits	159,720	129,931
4. Other provisions for risk and charges	314,776	199,909
4.1 legal and fiscal disputes	122,422	130,638
4.2 personnel charges	159,865	50,174
4.3 others	32,489	19,097
Total	**520,564**	**379,712**

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	**7,616**	**129,931**	**199,909**	**337,456**
B. Increases	**3,968**	**36,379**	**196,628**	**236,975**
B.1 Provisions for the year	3,968	-	120,259	124,227
B.2 Time value changes	-	1,483	163	1,646
B.3 Changes due to discount rate modifications	-	33,852	1,161	35,013
B.4 Other changes	-	1,044	75,045	76,089
of which: business combinations	-	1,043	73,118	74,161
C. Decreases	**2,455**	**6,590**	**81,761**	**90,806**
C.1 Uses for the year	2,455	6,590	50,525	59,570
C.2 Changes due to discount rate modifications	-	-	-	-
C.3 Other changes	-	-	31,236	31,236
D. Closing balance	**9,129**	**159,720**	**314,776**	**483,625**

"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 losses relating to Provisions for pension benefits mainly derive from changes in the demographic assumptions (€ 16.7 million), changes in the financial assumptions (13 million) and experience (€ 4.1 million).
"Provision for the year" relating to "Other provisions for risks and charges" includes the provisions for leaving incentives and to the solidarity fund totalling € 70.1 million, following signature of the agreement with the Trade Unions on 29 October 2019, in implementation of the 2019-2021 Business Plan.
The "Other changes" increases relating to "Other provisions for risks and charges" (€ 75 million) mainly relate to the liabilities acquired on the absorption of Unipol Banca (€ 73.1 million, of which about € 51.2 million relating to the provisions for employee benefits).

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	8,057	228	-	8,285
2. Financial guarantees granted	703	1,754	26,197	28,654
Total	**8,760**	**1,982**	**26,197**	**36,939**

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 pension with 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 employee 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	31.12.2019	31.12.2018
Opening balance	**129,931**	**135,674**
A. Increases	**36,379**	**1,232**
1. Pension cost relating to current work	-	-
2. Financial charges	1,483	1,232
3. Contribution to the plan by employees	-	-
4. Actuarial losses	33,852	-
5. Exchange differences	-	-
6. Pension cost of prior work	-	-
7. Other changes	1,044	-
B. Decreases	**6,590**	**6,975**
1. Benefits paid	6,590	6,533
2. Pension cost of prior work	-	-
3. Actuarial gains	-	442
4. Exchange differences	-	-
5. Reductions	-	-
6. Positions closed	-	-
7. Other changes	-	-
Closing balance	**159,720**	**129,931**

The "Actuarial losses" mainly derive from changes in the demographic assumptions (€ 16.7 million), changes in the financial assumptions (13 million) and experience (€ 4.1 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	31.12.2019	31.12.2018
Discount rates	0.75%	1.30%
Expected increase in remuneration	n/a	n/a
Turn Over	n/a	n/a
Inflation rate	1.20%	1.50%
Interest rate adopted for the calculation of interest cost	1.17%	0.93%

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 1.2% was used;
- Interest Cost: 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 provisions for pension benefits 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	31.12.2019	+50 bps	-50 bps
	DBO	DBO	DBO
Fund Section A	159,720	148,701	169,782

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 2019, as shown in the following table:

Funds	1st year	2nd year	3rd year	4th year	5th year
Fund Section A	7,075	7,015	6,938	6,854	6,764

10.5.6 Multi-employer plans

At 31 December 2019 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 2019 there were no plans of this type.

10.6 Provisions for risks and charges - other provisions

10.6.1 Legal disputes

	31.12.2019	31.12.2018
A. Opening balance	**130,638**	**115,369**
B. Increases	26,070	47,653
Provisions for the year	24,354	41,686
Other increases	1,716	5,967
C. Decreases	34,286	32,384
Other decreases	12,884	19,893
Uses for the year	21,402	12,491
D. Closing balance	**122,422**	**130,638**

Provisions for legal and tax disputes amounted to Euro 117.5 million and Euro 4.9 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, 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 47 judgements in first instance pending before the Court of Rome, while for other 29 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 against eighteen rulings, which were in favour of the Bank, to the civil Court of Appeal of Rome. 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

By the time of preparing these financial statements, the Bologna regional tax commission has 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 has operated properly.
In the meantime, the Commission accepted the request to suspend the enforceability of the second instance sentence presented by the Bank.

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 rather an estimate of the legal fees.

10.6.2 Personnel charges

Description/Amounts	Other personnel provisions	
	31.12.2019	31.12.2018
Opening balance	**50,174**	**70,973**
A. Increases	**141,799**	**16,981**
1. Pension cost relating to current work	89,073	16,000
2. Financial cherges	149	144
3. Contribution to the plan by employees	-	-
4. Actuarial losses	1,121	543
5. Exchange differences	-	-
6. Pension cost of prior work	-	-
7. Other changes	51,456	294
B. Decreases	**32,108**	**37,780**
1. Benefits paid	30,203	34,299
2. Pension cost of prior work	-	-
3. Actuarial gains	34	278
4. Exchange differences	-	-
5. Reductions	-	-
6. Positions closed	-	-
7. Other changes	1,871	3,203
Closing balance	**159,865**	**50,174**

The "Pension cost relating to current work" includes the provisions for leaving incentives and to the solidarity fund totalling € 70.1 million, following signature of the agreement with the Trade Unions on 29 October 2019, in implementation of the 2019-2021 Business Plan.
The "Actuarial losses" relate to the "25-year Service Award", € 197 thousand, the "Special long-service payment on termination", € 607 thousand, and the "Provision for additional death cover", € 317 thousand; with the "Actuarial gains relate to the "Special one-time long-service payment on termination", € 34 thousand.
The caption "Other changes" increases comprises the provisions for employee benefits acquired on the absorption of Unipol Banca (€ 51.2 million, mainly including the solidarity fund, € 40 million, long-service awards and other forms of incentive, € 10.8 million).

10.6.3 Other provisions

Captions	31.12.2019		31.12.2018	
	Other provisions	Provision for charitable donations	Other provisions	Provision for charitable donations
A. Opening balance	**18,540**	**557**	**38,991**	**561**
B. Provisions	28,796	-	11,250	-
C. Uses	(14,905)	(499)	(31,701)	(4)
D. Closing balance	**32,431**	**58**	**18,540**	**557**

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	31.12.2019	31.12.2018
Ordinary shares no. 520,627,948	1,561,884	1,443,925
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	**481,308,435**	**-**
- fully paid-in	481,308,435	-
- not fully paid-in	-	-
A.1 Treasury shares (-)	(455,458)	-
A.2 Shares outstanding: opening balance	**480,852,977**	**-**
B. Increases	**39,319,513**	**-**
B.1 New issues	39,319,513	-
- against payment:	39,319,513	-
- business combination transaction	-	-
- conversion of bonds	-	-
- esxercise of warrants	-	-
- others	39,319,513	-
- 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	**520,172,490**	**-**
D.1 Treasury shares (+)	455,458	-
D.2 Final number of shares	520,627,948	-
- fully paid-in	520,627,948	-
- not fully paid-in	-	-

Caption B.1 "New Issues", comprises the new shares issued by BPER Banca following:
- the contribution on 25 July 2019 by Fondazione di Sardegna of ordinary and preference shares in Banco di Sardegna in payment following its subscription for 33,000,000 new ordinary shares in BPER Banca carrying normal dividend rights;
- execution of the Public Offer to exchange savings shares in Banco di Sardegna for ordinary shares in BPER Banca, as approved by the Board of Directors on 7 November 2019, with the issue of 6,319,513 ordinary BPER shares carrying normal dividend rights. The POE and related capital increase were completed on 20 December 2019.
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 Bank'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		**1,561,884**			
Share capital reserves:		**1,502,578**	**1,626,482**	**1,626,482**	**1,626,482**
share premium		1,002,722	1,002,722	1,002,722	1,002,722
other reserves		499,856	623,760	623,760	623,760
- concentration reserve (Law 218/90)		-	-	-	-
- equity element of convertible instruments		-	-	-	-
- differences of shareholders' equity		(24,488)	-	-	-
- surplus/deficit from mergers		533,909	593,760	593,760	593,760
- reserve for reserved share capital increase		(42,774)	-	-	-
-reserve for call option premium on AT1 instrument		30,000	30,000	30,000	30,000
- reserve from transfer of business line		3,200			
- reserve art. 55 Decree 917/86		9	-	-	-
Reserves from profits:		**1,539,867**	**2,287,880**	**1,973,548**	**1,971,655**
ordinary / legal reserve		300,320	300,320		
other reserves		1,239,547	1,987,560	1,973,548	1,971,655
- extraordinary reserve		1,553,792	1,553,792	1,553,792	1,553,792
- reserve for other risks		1,807	1,807	1,807	1,807
- 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)	14,214	14,214	-	-
- reserve from gains on FVO securities - available portion		216,617	216,617	216,617	216,617
- 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	
- 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		202	-	202	-
- other reserves		89,478	89,478	89,478	89,478
Valuation reserves:		**(135,730)**	**-**	**-**	**-**
- Valuation reserves for the financial assets measured at fair value through other comprehensive income		(2,300)	-	-	-
- reserve for cash-flow hedges		(1,214)	-	-	-
- reserve for actuarial gains (losses)		(132,270)	-	-	-
- reserve for revaluations		54	-	-	-
Treasury shares		**(7,253)**	**-**	**-**	**-**
Equity instruments		**150,000**	**-**	**-**	**-**
Total shareholders' equity		**4,611,346**	**3,914,362**	**3,600,030**	**3,598,137**

(1) In the last 3 years the extraordinary reserve was used for the distribution of dividends for an amount of Euro 14,378 thousand.
(2) Management has decided that the reserves in suspense for tax purposes are not available for distribution.
(3) Pursuant to art. 6.5 of Legislative Decree 38/05, these reserves can only be used after fully using the available reserves and the legal reserve.
The negative elements of shareholders' equity reduce the availability of the positive elements.

Reserves from profits are generally established when the profit resulting from the financial statements is allocated through a specific reserve.
The Italian Civil Code obliges companies to set aside at least 5% of profit in a special reserve until it reaches one-fifth of 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 net profit until the shortfall is covered.
This caption also includes the effects generated by the transition to international accounting standards.

The proposed allocation of the net profit for the year is discussed in the Directors' report on operations accompanying these 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

On 25 July 2019, BPER Banca issued the Additional Tier 1 convertible bond for a total nominal amount of Euro 150,000,000, which was immediately subscribed for in full by Fondazione di Sardegna for a total price of Euro 180,000,000.

There were no changes in this capital instrument during the rest of the year.

12.6. Other information

There are no amounts to be disclosed other than those already 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 31.12.2019	Total 31.12.2018
	First stage	Second stage	Third stage		
Commitments to distribute funds	**14,996,634**	**1,281,169**	**226,352**	**16,504,155**	**16,314,511**
a) Central Banks	-	-	-	-	-
b) Public Administrations	489,213	7,818	29,928	526,959	554,031
c) Banks	864,445	-	-	864,445	573,826
d) Other financial companies	1,477,530	66,829	4,607	1,548,966	2,026,436
e) Non-financial companies	11,341,226	1,158,207	189,929	12,689,362	12,003,692
f) Households	824,220	48,315	1,888	874,423	1,156,526
Financial guarantees granted	**657,750**	**226,479**	**39,090**	**923,319**	**711,556**
a) Central Banks	-	-	-	-	-
b) Public Administrations	10,249	-	-	10,249	267
c) Banks	351	-	-	351	335
d) Other financial companies	306,359	3,641	39	310,039	306,450
e) Non-financial companies	314,891	210,972	37,901	563,764	369,722
f) Households	25,900	11,866	1,150	38,916	34,782

2. Other commitments and other guarantees granted

	Nominal value	
	31.12.2019	31.12.2018
Other guarantees granted	**2,354,033**	**2,111,223**
of which: non performing	71,358	74,779
a) Central Banks	-	-
b) Public Administrations	1,403	1,986
c) Banks	149,575	137,639
d) Other financial companies	72,037	28,006
e) Non-financial companies	2,037,471	1,851,769
f) Households	93,547	91,823
Other commitments	-	-
of which: non performing	-	-
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-

3. Assets pledged as collateral of own liabilities and commitments

Portfolios	Amounts 31.12.2019	Amounts 31.12.2018
1. Financial assets measured at fair value through profit or loss	44,250	322,471
2. Financial assets measured to fair value through other comprehensive income	4,051,120	6,838,031
3. Financial assets measured at amortised cost	16,291,386	16,828,299
4. Property, plant and equipment	-	-
of which: inventories of property, plant and equipmet	-	-

Type of assets pledged as collateral of own liabilities and commitments

	31.12.2019	31.12.2018
1. Assets sold as part of Covered Bonds operations	3,329,951	3,170,178
2. Securities and deposits pledged as collateral for derivative transactions	624,299	355,774
3. Securities pledged as collateral for securitisations	10,057	10,057
4. Securities pledged as collateral for treasury transactions	4,235,158	6,559,494
5. Loans pledged as collateral for treasury transactions	8,971,598	8,542,547
6. Securities guaranteeing the issue of bankers' drafts	-	-
7. Securities and deposits pledged as collateral for repurchase agreements	2,468,584	4,655,651
8. Loans pledged as collateral for the related funding	180,039	169,280
9. Securities pledged as collateral for the subsidised loans funding	567,070	525,820

The amounts indicated in point 5 " Loans pledged as collateral for treasury transactions " include, in addition to A.BA.CO operations, Euro 4,733,432 thousand relating to mortgage loans sold as part of covered bond issues.
Operationally, the instruments provided as a guarantee are represented by the Senior Notes originated by the transactions.
No securities pertaining to reverse repurchase agreements have been provided as collateral for guaranteed funding transactions (repurchase agreements).

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	**2,947,678**
3. Custody and administration of securities	**170,150,013**
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	75,300,050
1. securities issued by companies included in the consolidation area	2,951,271
2. other securities	72,348,779
c) third party securities deposited with third parties	74,216,456
d) own portfolio securities deposited with third parties	20,633,507
4. Other transactions	**14,581,907**

5. Financial assets to offsetting in balance sheet 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)	31.12.2019	31.12.2018
1. Derivatives		184,863	-	184,863	160,194	4,881	19,788	11,674
2. Repurchase agreements		2,241,135	-	2,241,135	2,241,135	-	-	195
3. Securities lending		-	-	-	-	-	-	-
4. Others		-	-	-	-	-	-	-
Total	**31.12.2019**	2,425,998	-	2,425,998	2,401,329	4,881	19,788	X
Total	**31.12.2018**	322,615	-	322,615	305,010	5,736	X	11,869

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 € 102,994 thousand and under caption 50 "Hedging derivatives" for € 81,869 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 in the caption 10 b) "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 customers”, € 2,148,132 thousand, in caption 40 b) “Financial assets measured at amortised cost - Loans to customers”, € 93,002 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".

6. Financial liabilities subject in balance sheet 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)		
1. Derivatives		455,549	-	455,549	160,194	294,078	1,277	1,835
2. Repurchase agreements		2,452,867	-	2,452,867	2,450,753	1,197	917	872
3. Securities lending		-	-	-	-	-	-	-
4. Others		-	-	-	-	-	-	-
Total	**31.12.2019**	2,908,416	-	2,908,416	2,610,947	295,275	2,194	X
Total	**31.12.2018**	4,706,246	-	4,706,246	4,555,157	148,382	X	2,707

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 € 171,757 thousand of derivatives recorded under caption 20 "Financial liabilities held for trading" and € 283,792 thousand recorded under caption 40 "Hedging derivatives"; the related financial instruments (d) consist of derivatives recorded under caption 20 "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) "Loans to banks" and under 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" at an amount of € 2,364,330 thousand and under caption 10 b) "Due to customers" at an amount of € 88,357 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) "Loans to banks" and 40 b) "Loans to customers".

7. Securities lending transactions

Type of lender/Use	As collateral of own financing operations	Sold	Subject to repurchase agreements	Other	31.12.2019
a) Banks	1,205,144	-	-	-	**1,205,144**
b) Public Entities	-	-	-	-	**-**
c) Non-financial companies	-	-	-	-	**-**
d) Financial companies	504,787	-	-	-	504,787
e) Insurance companies	-	-	-	-	**-**
f) Others	-	-	-	-	**-**
Total	**1,709,931**	**-**	**-**	**-**	**1,709,931**

8. Disclosure on joint control activities

There are no amounts to be disclosed in this section.

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 31.12.2019	Total 31.12.2018
1. Financial assets measured at fair value through profit or loss:	**21,621**	**17**	**-**	**21,638**	**12,790**
1.1 Financial assets held for trading	1,936	-	-	1,936	3,757
1.2 Financial assets designated at fair value	14,159	-	-	14,159	5,200
1.3 Other financial assets mandatorily measured at fair value	5,526	17	-	5,543	3,833
2. Financial assets measured at fair value through other comprehensive income	**82,126**	**-**	**X**	**82,126**	**104,816**
3. Financial assets measured at amortised cost:	**93,339**	**841,849**	**X**	**935,188**	**883,994**
3.1 Loans to banks	26,120	9,994	X	36,114	21,307
3.2 Loans to customers	67,219	831,855	X	899,074	862,687
4. Hedging derivatives	**X**	**X**	**(42,128)**	**(42,128)**	**(35,281)**
5. Other assets	**X**	**X**	**511**	**511**	**724**
6. Financial liabilities	**X**	**X**	**X**	**42,699**	**45,025**
Total	**197,086**	**841,866**	**(41,617)**	**1,040,034**	**1,012,068**
of which: interest income on impaired financial assets	4	90,533	-	90,537	57,475
of which: interest income on finance lease	-	53	-	53	832

Caption 6. “Financial liabilities" includes the benefit, € 37.9 million, deriving from application of the negative rate of 0.40% applied on the funding obtained from the ECB under the TLTRO II programme.
Caption 1.3 “Other financial assets mandatorily measured at fair value” includes interest of € 2 million recognised by the FITD Voluntary Scheme on the subordinated loan issued by Banca Carige.

1.2 Interest and similar income: other information

1.2.1 Interest income on foreign currency financial assets

Captions	31.12.2019	31.12.2018
Interest income on foreign currency financial assets	7,683	6,541

1.3 Interest and similar expense: breakdown

Captions/Technical forms	Loans	Debts securities	Other transactions	Total 31.12.2019	Total 31.12.2018
1. Financial liabilities measured at amortised cost	150,859	92,607	X	243,466	238,780
1.1 Due to central banks	-	X	X	-	-
1.2 Due to banks	57,203	X	X	57,203	48,043
1.3 Due to customers	93,656	X	X	93,656	84,014
1.4 Debt securities issued	X	92,607	X	92,607	106,723
2. Financial liabilities held for trading	14	-	11,976	11,990	4,738
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	(13,447)	(13,447)	(16,041)
6. Financial assets	X	X	X	11,343	10,731
Total	**150,873**	**92,607**	**(1,471)**	**253,352**	**238,208**
of which: interest expense on lease payables	2,167	-	-	2,167	5

1.4 Interest and similar expense: other information

1.4.1 Interest expense on foreign currency liabilities

Captions	31.12.2019	31.12.2018
Interest expense on foreign currency liabilities	46,725	40,849

1.5 Differentials on hedging transactions

Captions	Total 31.12.2019	Total 31.12.2018
A. Positive differentials on hedging transactions	42,379	46,347
B. Negative differentials on hedging transactions	(71,060)	(65,587)
C. Balance (A-B)	**(28,681)**	**(19,240)**

Section 2 – Commissions Captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	Total 31.12.2019	Total 31.12.2018
a) guarantees granted	26,274	24,921
b) credit derivatives	-	-
c) management, brokerage and consulting:	323,293	260,846
1. trading on financial instruments	10	23
2. trading on foreign currencies	8,512	5,317
3. individual portfolio management	28,643	25,587
4. custody and administration of securities	19,662	3,885
5. depositary bank	-	-
6. placement of securities	151,864	130,909
7. order taking and trasmission	11,148	11,218
8. advisory services	7,084	5,861
8.1 on investments	-	-
8.2 on financial structure	7,084	5,861
9. distribution of third-party services	96,370	78,046
9.1 portfolio management	2,149	1,982
9.1.1 individuals	-	-
9.1.2 collectives	2,149	1,982
9.2 insurance products	56,426	46,566
9.3 other products	37,795	29,498
d) collection and payments services	102,999	89,522
e) services related to securitisations	28	706
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) management of multilateral trading system	-	-
i) maintenance and management of current accounts	133,942	113,737
j) other services	154,635	139,795
1. commissions income on other loans to customers	112,254	102,144
2. commissions income on pos and pagobancomat services	21,395	19,375
3. other commisions income	20,986	18,276
Total	**741,171**	**629,527**

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 the commission not subject to repayment risk (hence the variable nature of the revenue), against an PO 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 means they have 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 31.12.2019	Total 31.12.2018
a) at own branches:	**276,877**	**234,542**
1. portfolio management	28,643	25,587
2. securities placement	151,864	130,909
3. third party services and products	96,370	78,046
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 31.12.2019	Total 31.12.2018
a) guarantees received	2,013	2,115
b) credit derivatives	-	-
c) management and brokerage services	19,853	12,298
1.trading on financial instruments	594	513
2. trading on foreign currencies	-	-
3. portfolio management:	11,057	9,585
3.1 own portfolio	-	-
3.2 third party portfolio	11,057	9,585
4. custody and administration of securities	2,577	1,320
5. placement of financial instruments	974	880
6. out-of-branche offer of securities, financial instruments, products and services	4,651	-
d) collection and payment services	5,396	4,591
e) other services	24,308	20,176
Total	**51,570**	**39,180**

Section 3 – Dividends and similar income Caption 70

3.1 Dividends and similar income: breakdown

Captions/Income	Total 31.12.2019		Total 31.12.2018	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	2,647	-	2,325	133
B. Other financial assets mandatorily measured at fair value	106	3,685	16,494	4,562
C. Financial assets measured at fair value through other comprehensive income	7,456	-	10,450	-
D. Equity investments	20,469	-	11,220	-
Total	**30,678**	**3,685**	**40,489**	**4,695**

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	**12,747**	**9,382**	**(1,016)**	**(1,986)**	**19,127**
1.1 Debt securities	4,481	2,361	(321)	(403)	6,118
1.2 Equity instruments	8,266	7,021	(695)	(1,583)	13,009
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**	**(2,322)**
4. Derivative instruments	**109,810**	**100,052**	**(82,296)**	**(158,305)**	**(19,704)**
4.1 Financial derivatives:	109,810	99,846	(81,875)	(156,064)	(17,248)
- on debt securities and interest rates	108,130	91,641	(80,714)	(148,082)	(29,025)
- on equities and stock indexes	1,680	2,988	(1,161)	(6,444)	(2,937)
- on currency and gold	X	X	X	X	11,035
- others	-	5,217	-	(1,538)	3,679
4.2 Credit derivatives	-	206	(421)	(2,241)	(2,456)
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	**122,557**	**109,434**	**(83,312)**	**(160,291)**	**(2,899)**

Section 5 – Net income from hedging activities Caption 90

5.1 Net income from hedging activities: breakdown

Income items/Amounts	Total 31.12.2019	Total 31.12.2018
A. Income from:		
A.1 Fair value hedging derivatives	55,977	21,476
A.2 Hedged financial assets (fair value)	218,099	72,646
A.3 Hedged financial liabilities (fair value)	2,325	7,656
A.4 Cash-flow hedging derivatives	-	-
A.5 Foreign currency assets and liabilities	-	-
Total income from hedging activity (A)	276,401	101,778
B. Charges from:		
B.1 Fair value hedges	223,517	82,016
B.2 Hedged financial assets (fair value)	36,534	12,021
B.3 Hedged financial liabilities (fair value)	17,742	6,274
B.4 Cash-flow hedging derivatives	-	-
B.5 Foreign currency assets and liabilities	-	-
Total charges from hedging activity (B)	277,793	100,311
C. Net income from hedging activities (A-B)	(1,392)	1,467
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 31.12.2019			Total 31.12.2018		
	Gains	Losses	Net result	Gains	Losses	Net result
A. Financial assets						
1. Financial assets measured at amortised cost	35,958	(17,260)	18,698	16,245	(73,924)	(57,679)
1.1 Loans to banks	3,081	(92)	2,989	-	-	-
1.2 Loans to customers	32,877	(17,168)	15,709	16,245	(73,924)	(57,679)
2. Financial assets measured at fair value through other comprehensive income	64,156	(316)	63,840	168,150	(8,733)	159,417
2.1 Debt securities	64,156	(316)	63,840	168,150	(8,733)	159,417
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**100,114**	**(17,576)**	**82,538**	**184,395**	**(82,657)**	**101,738**
B. Financial liabilities measured at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	895	(658)	237	1,246	(233)	1,013
Total liabilities (B)	**895**	**(658)**	**237**	**1,246**	**(233)**	**1,013**

The net result from Financial assets measured at amortised cost relating to customers includes the net profit on the sale of debt securities, € 23.1 million, and the new loss on the disposal of loans, € 4.4 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	**3,173**	**-**	**(1,238)**	**(10,373)**	**(8,438)**
1.1 Debt securities	3,173	-	(1,238)	(10,373)	(8,438)
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	2
Total	**3,173**	**-**	**(1,238)**	**(10,373)**	**(8,436)**

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	**18,560**	**13,322**	**(16,941)**	**(2,557)**	**12,384**
1.1 Debt securities	2,100	9,615	(13,097)	(2,260)	(3,642)
1.2 Equity securities	367	-	(25)	-	342
1.3 UCITS units	16,093	3,707	(3,819)	(297)	15,684
1.4 Loans	-	-	-	-	-
2. Foreign currency financial assets: exchange differences	X	X	X	X	165
Total	**18,560**	**13,322**	**(16,941)**	**(2,557)**	**12,549**

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			31.12.2019	31.12.2018
A. Loans to banks	(2,785)	-	-	273	-	(2,512)	(300)
- Loans	(2,169)	-	-	273	-	(1,896)	255
- Debt securities	(616)	-	-	-	-	(616)	(555)
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
B. Loans to customers	(7,196)	(27,459)	(606,547)	45,962	308,807	(286,433)	(149,605)
- Loans	(7,130)	(27,459)	(606,547)	45,759	308,807	(286,570)	(147,280)
- Debt securities	(66)	-	-	203	-	137	(2,325)
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
Total	**(9,981)**	**(27,459)**	**(606,547)**	**46,235**	**308,807**	**(288,945)**	**(149,905)**

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		
		Write-off	Others			31.12.2019	31.12.2018
A. Debt securities	(346)	-	-	1,287	-	941	1,893
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
Total	**(346)**	**-**	**-**	**1,287**	**-**	**941**	**1,893**

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 750 thousand and Euro 1,231 thousand respectively.

Section 10 – Administrative expenses
Caption 160

10.1 Staff costs: breakdown

Type of costs/Amounts	Total 31.12.2019	Total 31.12.2018
1) Employees	**731,437**	**572,700**
a) wages and salaries	479,240	419,206
b) social security charges	125,022	108,895
c) Termination indemnities	26,764	23,815
d) Pension expenses	-	-
e) provision for employee termination indemnities	746	694
f) provision for pension and similar commitments:	402	528
- defined contribution plan	-	-
- defined benefit plans	402	528
g) payments to external supplementary pension funds:	13,843	11,813
- defined contribution plan	13,843	11,813
- defined benefit plans	-	-
h) costs from share based payments	692	(67)
i) other personnel benefits	84,728	7,816
2) Other not-retired employees	**13,754**	**12,648**
3) Directors and Statutory Auditors	**4,525**	**4,058**
4) Retired employees	**1,147**	**769**
5) Recovery of costs for employees seconded to other companies	**(15,300)**	**(67,487)**
6) Refunds of costs for third party employees seconded to the company	**28,331**	**11,015**
Total	**763,894**	**533,703**

Caption i) "other personnel benefits" includes the provisions for leaving incentives and to the solidarity fund totalling € 70.1 million, following signature of the agreement with the Trade Unions on 29 October 2019, in implementation of the 2019-2021 Business Plan.

10.2 Average number of employees by category

	31.12.2019	31.12.2018
Employees:	**9,247**	**7,136**
a) Managers	174	147
b) Middle managers	3,159	2,417
c) Other employees	5,914	4,572
Other employees	**258**	**239**

10.2 bis Number of employees by category

	31.12.2019	31.12.2018
Employees:	**10,416**	**8,292**
a) Managers	197	175
b) Total 3rd and 4th level middle managers	1,460	1,165
c) Total 1st and 2nd level middle managers	2,131	1,565
d) Other employees	6,628	5,387
Other employees	**167**	**248**

10.3 Provisions for defined-benefit pension plans: costs and revenues

Type of costs/Amounts	31.12.2019	31.12.2018
Provisions for defined-benefit pension plans	402	528

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	31.12.2019	31.12.2018
Other benefits for employees	84,728	7,816

The increase comprises the provisions for leaving incentives and to the solidarity fund totalling € 70.1 million, following signature of the agreement with the Trade Unions on 29 October 2019, in implementation of the 2019-2021 Business Plan.

10.5 Other administrative expenses: breakdown

Captions	31.12.2019	31.12.2018
Indirect taxes and duties	**115,781**	**103,721**
Stamp duty	97,781	88,695
Other indirect taxes with right of recourse	8,200	6,961
Municipal property tax	4,216	4,233
Others	5,584	3,832
Other costs	**389,726**	**469,369**
Maintenance and repairs	60,687	13,868
Rental expense	16,126	60,687
Post office, telephone and telegraph	12,149	9,804
Data transmission fees and use of databases	27,479	20,760
Advertising	14,415	12,494
Consulting and other professional services	72,911	68,611
Lease of IT hardware and software	28,275	-
Insurance	4,687	4,338
Cleaning of office premises	6,919	5,924
Printing and stationery	3,233	2,692
Energy and fuel	13,329	9,806
Transport	7,894	8,062
Staff training and expense refunds	10,467	9,632
Information and surveys	8,353	7,466
Security	6,902	7,170
Administrative services	14,228	70,360
Use of external data gathering and processing services	9,411	97,273
Membership fees	7,208	5,599
Condominium expenses	3,155	2,044
Contribution to SRF, DGS, IDPF-VS	49,109	41,087
Sundry other	12,789	11,692
Total	**505,507**	**573,090**

The caption "SRF, DGS, IDPF-VS contributions" includes the 2019 ordinary contribution to the SRF (European Single Resolution Fund), € 19,628 thousand; the additional contribution requested by the SRF (European Single Resolution Fund) for 2017 from Italian banks, € 8,455 thousand and the 2019 contribution to the DGS (Deposit Guarantee Scheme), € 21,026 thousand.
The reduction in "rental expense" reflects the application from 1 January 2019 of IFRS 16; the amounts relating to the prior year have not been restated given the decision by the BPER Banca Group not to restate the comparative balances on the first-time application of IFRS 16.
Certain balances have been affected the absorption of BPER Services s.cons.p.a. during the year, with tax and accounting effect from 1 January 2019.
The caption was influenced by the non-recurring expenses incurred on extraordinary transactions during the year, totalling about Euro 22.2 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			31.12.2019	31.12.2018
	First stage	Second stage	Third stage	First stage	Second stage	Third stage		
Commitments to distribute funds	(142)	(6)	-	409	2,017	-	2,278	(287)
Financial guarantees granted	(173)	(54)	(8,573)	-	-	12,596	3,796	9,908
Total	**(315)**	**(60)**	**(8,573)**	**409**	**2,017**	**12,596**	**6,074**	**9,621**

11.2 Net provisions on other commitments and other guarantees granted: breakdown

Type of risks and charges	Impairment losses	Write-backs	31.12.2019	31.12.2018
Other guarantees granted	(4,136)	3,828	(308)	2,288
Other commitments	-	-	-	-
Total	**(4,136)**	**3,828**	**(308)**	**2,288**

11.3 Net provisions for other risks and charges: breakdown

Type of risks and charges	31.12.2019	31.12.2018
A. Provisions	**(31,274)**	**(48,752)**
1. for legal disputes	(24,943)	(43,597)
2. other	(6,331)	(5,155)
B. Write-backs	**17,437**	**33,113**
1. for legal disputes	11,848	9,681
2. other	5,589	23,432
Total	**(13,837)**	**(15,639)**

Section 12 – Net adjustments to property, plant and equipment
Caption 180

12.1 Net adjustment 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	(78,631)	(2,953)	-	(81,584)
- Owned	(24,101)	(389)	-	(24,490)
- Rights of use acquired through leases	(54,530)	(2,564)	-	(57,094)
2. Held for investment	(1,697)	(2,186)	-	(3,883)
- Owned	(1,697)	(2,186)	-	(3,883)
- Rights of use acquired through leases	-	-	-	-
3. Inventories	X	-	-	-
Total	**(80,328)**	**(5,139)**	**-**	**(85,467)**

The amount recorded in the caption "impairment losses" relates to the impairment test carried out in accordance with IAS 36 on certain real estate holdings owned by the Bank (€ 2,575 thousand) and to the impairment loss of rights of use acquired through leases deriving from the early closure of certain rental contracts (€ 2,564 thousand).

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	(49,532)	-	-	(49,532)
- Generated internally by the company	-	-	-	-
- Other	(49,532)	-	-	(49,532)
A.2 Rights of use acquired through leases	-	-	-	-
Total	**(49,532)**	**-**	**-**	**(49,532)**

Section 14 – Other operating expense (income) Caption 200

14.1 Other operating expense: breakdown

Description/Amounts	31.12.2019	31.12.2018
Reimbursement of interest for collections and payments settled through the clearing house	75	435
Amortisation of leasehold improvement expenditure	2,717	1,553
Other expense	30,999	41,297
Total	**33,791**	**43,285**

The caption "Other expenses" includes losses on legal disputes (€ 9.8 million), losses on loss data collection (€ 4.6 million), and the operating expense of SPVs (€ 3.6 million).

14.2 Other operating income: breakdown

Description/Amounts	31.12.2019	31.12.2018
Rental income	2,809	5,079
Recovery of taxes	105,404	95,118
Other income	120,546	62,416
Total	**228,759**	**162,613**

The caption "Other income" includes recoveries for services provided to Group companies (€ 56,480 thousand) and recoveries for rapid preliminary investigation fees (€ 16,998 thousand).

Section 15 – Gains (Losses) of equity investments Caption 220

15.1 Gains (Losses) of equity investments: breakdown

Income items/Amounts	Total 31.12.2019	Total 31.12.2018
A. Gains	**167**	-
1. Revaluations	-	-
2. Gains on disposals	167	-
3. Writebacks	-	-
4. Other income	-	-
B. Losses	**(26,146)**	**(48,681)**
1. Write-downs	-	-
2. Impairment losses	(26,026)	(48,681)
3. Loss from disposals	(120)	-
4. Other charges	-	-
Net result	**(25,979)**	**(48,681)**

The amount shown under "Impairment losses" refers to the impairment test carried out on equity investments. The principal impairment related to the holdings in Sardaleasing s.p.a. (€ 19,242 thousand), Cassa di Risparmio di Saluzzo s.p.a. (€ 5,281 thousand), Immobiliare Oasi nel Parco s.r.l. (€ 682 thousand) and Italiana Valorizzazioni Immobiliari s.r.l. (€ 758 thousand).

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 (impairment losses in the previous year by Euro 54,444 thousand). 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 17 bis – Gain on a bargain purchase
Caption 245

The caption "Gain on a bargain purchase" includes the badwill - being the difference between the purchase price and the fair value of the acquired assets and liabilities - generated by the acquisition, and subsequent absorption, of Unipol Banca. The amount calculated at the end of the Purchase Price Allocation (PPA) process came to Euro 329.4 million. For further details, please refer to Part G of these Explanatory notes.

Section 18 – Gains (Losses) on disposal investments
Caption 250

18.1 Gains (Losses) on disposal investments

Income items/Amounts	Total 31.12.2019	Total 31.12.2018
A. Assets	1,076	95
- Gains on disposal	1,559	137
- Losses on disposal	(483)	(42)
B. Other assets	(48)	(45)
- Gains on disposal	23	6
- Losses on disposal	(71)	(51)
Net profit	**1,028**	**50**

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 31.12.2019	Total 31.12.2018
1. Current tax (-)	(5)	2,429
2. Change in current tax of prior years (+/-)	3,476	(1,863)
3. Reduction in current tax for the year (+)	-	-
3. bis Reduction in current tax for the year for tax credit pursuant to L. 214/2011 (+)	-	56,823
4. Change in deferred tax assets (+/-)	(16,525)	(16,966)
5.Change in deferred tax liabilities (+/-)	8,252	13,362
6. Tax for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(4,802)**	**53,785**

19.2 Reconciliation between the theoretical tax charge to total income tax expense for the year

IRES	31.12.2019
Profit (Loss) from current operations before tax	**390,237**
Negative components of the gross result definitively considered not relevant (+)	**37,787**
Losses on disposal/remeasurement of securities and equity investments	26,424
Non-deductible taxes (other than on income)	2,262
Administrative expenses of limited deductibility	3,741
Other non-deductible costs	2,132
Write-down of property, plant and equipment	2,186
Other	1,042
Positive components of the gross result definitively considered not relevant (-)	**(410,825)**
Non-relevant portion of dividends	(25,813)
Badwill	(329,433)
Other	(55,579)
Definitive increases not linked to elements of the gross result (+)	**29,804**
Temporary differences recoverable beyond the time horizon of the probability test	29,804
Definitive decreases not linked to elements of the gross result (-)	**(3,237)**
A.C.E. (aid for economic growth) deduction	(3,237)
Basis of calculation of IRES shown in the income statement	**43,766**
IRES tax rate	*27.50%*
Effective IRES	**12,036**
Tax Rate IRES	*3.08%*

IRAP	31.12.2019
Profit (Loss) from current operations before tax	**390,237**
Negative components of the gross result definitively considered not relevant (+)	**136,700**
Non-deductible interest expense	12,816
Other non-deductible administrative expenses	70,257
Staff costs net of permitted deductions	15,362
Net provisions for risks and charges	8,070
Losses of equity investments	25,979
IMU	4,216
Positive components of the gross result definitively considered not relevant (-)	**(445,807)**
Non-relevant portion of dividends	(17,181)
Other operating income	(42,672)
Other write-backs (caption 130 of the income statement)	(941)
Badwill	(329,433)
Other	(55,580)
Definitive decreases not linked to elements of the gross result (-)	**(101,501)**
Recovery of non-relevant charges of prior periods (loan disposals)	(101,501)
Basis of calculation of IRAP shown in the income statement	**(20,371)**
Weighted average nominal rate of IRAP	5.57%
Effective IRAP	(1,135)
Tax rate IRAP	-0.29%

Out-of-period IRES and IRAP and other taxes	31.12.2019
Total impact	**(6,099)**
Changes in current taxes not for the year	(3,476)
Other	(2,623)
Effective out-of-period IRES and IRAP and other taxes	-1.56%

Total tax on gross result	31.12.2019
IRES + IRAP + other taxes	**4,802**
Overall effective tax rate	1.23%

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.

	31.12.2019			31.12.2018		
	Attributable earnings	Weighted average ordinary shares	Earnings per share (Euro)	Attributable earnings	Weighted average ordinary shares	Earnings per share (Euro)
Basic EPS	385,435	495,526,495	0.778	306,715	480,852,977	0.638
Diluted EPS	385,435	511,182,072	0.754	306,715	480,852,977	0.638

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)

	31.12.2019	31.12.2018
Weighted average number of outstanding ordinary shares for Base EPS calculation	495,526,495	480,852,977
Weighted dilutive effect the potential conversion of convertible bonds	15,655,577	-
Weighted average number of outstanding ordinary shares for diluted EPS calculation	511,182,072	480,852,977

22.2 Other informations

	31.12.2019	31.12.2018
Profit (Loss) for the year	385,435	306,715
Allocations not attributable to the shareholders	-	-
Net profit for Basic EPS calculation	385,435	306,715
Change in income and charges deriving form conversion	-	-
Net profit for diluted EPS calculation	385,435	306,715

Part D – Other comprehensive income

Detailed statement of other comprehensive income

	Captions	31.12.2019	31.12.2018
10.	**Profit (Loss) for the year**	**385,435**	**306,715**
	Other comprehensive income that will not be reclassified to profit or loss	(85,332)	19,020
20.	Equity instruments measured at fair value through other comprehensive income	(61,216)	22,539
	a) changes in fair value	(61,497)	22,542
	b) transfer to other components of shareholders' equity	281	(3)
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:	-	-
	a) change in fair value (hedged instrument)	-	-
	b) change in fair value (hedging instrument)	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(39,501)	90
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	15,385	(3,609)
	Other comprehensive income that may be reclassified to profit or loss	**40,555**	**(200,022)**
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:	(214)	176
	a) changes in fair value	(214)	176
	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:	60,807	(299,969)
	a) changes in fair value	78,491	(130,651)
	b) transfer to the income statement	(17,684)	(169,318)
	- impairment for credit risk	(764)	(1,892)
	- gains/losses from realization	(16,920)	(167,426)
	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	(20,038)	99,771
190.	**Total other comprehensive income**	**(44,777)**	**(181,002)**
200.	**Other comprehensive income (Captions 10+190)**	**340,658**	**125,713**

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[32] has established internal control guidelines for the entire BPER Banca Group by issuing and implementing "Guidelines for the Group internal control system"[33], 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 of 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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[32] *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.*
[33] *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.

Specifically, the RAF macro-process involved the following phases:

- identification of risks to be assessed: process to identify risks that might significantly affect the economic and financial equilibrium of the Group;
- set up of the RAF structure: definition of the elements that express the Group's level of risk appetite for measurable and non-measurable risks;
- calibration of measurements for RAF metrics: definition of the calibration rules for RAF metrics and quantification of the levels of risk appetite, risk capacity and risk tolerance, consistent with management's decision in terms of strategic planning and economic/financial forecasting;
- formalisation and approval of the decisions taken within the ambit of the RAF in the Risk Appetite Statement (RAS), which is subject to periodic update;
- declension of the RAF metrics by type of risk or other relevant analysis axes to transfer the levels of risk appetite and risk tolerance to the corporate structures involved in taking on the risk so as to direct operations in a consistent manner;
- monitoring and managing threshold overruns by verifying the trend in the risk profile compared with the risk tolerance, operational limits and risk capacity and consequent activation of measures to reduce any overruns;
- periodic reporting on the evolution of the risk profile compared with the risk appetite, risk tolerance and risk capacity thresholds and on implementation of diversified action plans according to the purpose of the communication and the recipients in terms of the corporate bodies/functions of the Company and the Group.

The process 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 27 February 2019, 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.
At the board meeting on 19 December 2019, the Parent Company's Board of Directors also approved a first update of the RAF thresholds which were an integral part of the BPER Group's 2019 Recovery Plan.
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.

The steps involved in the development process and the related responsibilities of the Corporate Bodies are explained below[34].

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, ensuring that it is consistent with the strategic guidelines and risk appetite established in the RAF and that it is able to reflect the various types of risk as they evolve and interact;
- the risk objectives, the threshold of tolerance (where identified) and the process of risk governance, to ensure that risks are properly governed and effective control maintained over all strategic decisions of the Group as a whole, along with balanced management of the individual components;
- 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, being aware of the risks to which this model exposes the Company and understanding the ways in which risks are identified and assessed; in this context it approves the adoption of internal risk measurement for the determination of capital requirements;
- the corporate control functions, specifying their duties and responsibilities within the Group, the procedures for coordination and collaboration and the information flows between these functions and between them and the Corporate Bodies;
- further internal information flow mechanisms to ensure that the corporate bodies and control functions are fully aware of the various risk factors and have the ability to govern them;
- formalised coordination and liaison procedures between Companies and the Parent Company for all areas of operation;
- the ICAAP process, identifying the roles and responsibilities assigned to functions and business structures, ensuring consistency with the RAF and rapid adjustment in relation to significant changes in strategic lines, organisational structure and operational context of reference;
- the Recovery Plan of BPER Banca Group;
- the process for managing anomalies identified by corporate control functions and by control functions, the activation criteria therefore and those to be adopted for the identification of the priority to be assigned to the analysis, consolidation and implementation of corrective action

[34] *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").*

and the means of doing so, as well as the acceptance – in compliance with the RAF – of the residual risk identified by the control functions;
- policies and processes for the measurement of assets, financial instruments in particular, verifying that they always remain appropriate; it also establishes the Bank's maximum exposure to financial instruments or products that are uncertain or difficult to measure;
- 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.

Finally, 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[35].
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 the principles and requirements laid down in regulatory provisions, monitoring compliance on an ongoing basis.
For this purpose, the CEO, for the Group as a whole and for its components:
- ensures that the responsibilities and duties of the various corporate structures and functions involved in risk assumption and management processes are clearly assigned and potential conflicts of interest are avoided;
- ensures that the activities carried out by the functions and structures involved in the internal control system are carried out by qualified personnel with an adequate degree of independence of judgement and with adequate experience and knowledge for the tasks to be performed;

[35] *The Chief Executive Officer only intervenes for the appointment of the heads of Internal Audit, Compliance and Risk Control*

- carries out any initiatives and interventions needed to ensure the overall reliability of the internal control system on an ongoing basis;
- takes corrective action or makes adjustments as necessary in the event of weaknesses or anomalies being found, or following the introduction of significant new products, activities, services or processes;
- defines and oversees implementation of the risk management process. In this context, the CEO establishes operating limits for the assumption of various types of risk, in line with the risk appetite, explicitly taking account of the results of stress tests and developments in the economic situation;
- examines the more significant transactions subject to an unfavourable opinion by the risk control function and, if appropriate, authorises them; informs the Board of Directors and the Board of Statutory Auditors about these transactions;
- implements the ICAAP and ILAAP processes, ensuring they are developed in accordance with the strategic guidelines and the risk profile identified in the RAF; designs and implements the Group's training programmes to raise awareness among employees about the responsibility for risks so as not to limit the process of risk management to specialists or to the control functions;
- defines internal information flow mechanisms to ensure that the Corporate Bodies and control functions are fully aware of the various risk factors and have the ability to govern them and the assessment of compliance with RAF;
- as part of the RAF, where a tolerance threshold is defined, authorises overruns of the risk appetite within the limit represented by the tolerance threshold and gives prompt notice to the Board of Directors, identifying the management actions needed to bring the risk back down to below the set objective;
- ensures that risks deriving from new operations are fully assessed and that these risks are consistent with the risk appetite, and that the Bank is able to manage them;
- ensures that the risk management process is consistent with the risk appetite and risk governance policies, also taking into account the evolution of the internal and external conditions in which the Bank operates;
- issues instructions to ensure that internal risk measurement systems are developed according to the chosen strategies and are integrated into decision-making processes and operational management.

More specifically, for the Group, the CEO issues instructions to define and render operational:

- mechanisms for the integration of information systems and processes of data management, in order to ensure the reliability of consolidated figures;
- regular information flows to permit effective implementation of the various forms of control over all members of the Group;
- procedures to ensure, at a centralised level, an effective standard process of Group risk management, involving a single register, or several registers providing they can be easily linked, for the various companies in the Group;
- systems for monitoring financial flows, credit reports and other relations between members of the Group;
- controls over the achievement of objectives in terms of information security and business continuity as defined for the entire Group and for the individual members of the Group.

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[36], identifying possible improvements and defining the steps needed to correct any weaknesses.

In addition, with regard to internal risk measurement systems for the determination of capital requirements, the Board of Directors:

- periodically verifies the choices of model made to ensure that they remain valid over time, approving significant changes to the system and carrying out overall supervision to ensure that it functions properly;
- monitors, with the assistance of the relevant functions, effective use of internal systems for management purposes and their compliance with regulatory requirements;
- reviews at least once a year the results of the validation process and passes a formal resolution, with the approval of the Board of Statutory Auditors, by which it certifies compliance with the requirements for the use of internal measurement systems.

The Board of Directors of each Group company, including the Parent Company, periodically assesses the internal control system[37].

The function responsible for providing support in assessing the effectiveness of the overall internal control system, company-wide, is the Internal Audit Department.

The Boards of Statutory Auditors of the Parent Company and of Group companies, each to the extent of their 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 Public Disclosures required by the "Third Pillar". For this, the Board of Directors of the Parent Company assigns control responsibilities and

[36] *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".*

[37] *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".

duties to the Corporate Bodies and the various functions involved in the different stages in the handling of such information.

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 Department;
- 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 prevention of money laundering and financing of terrorism and to prevent and combat money laundering and financing of terrorism through the reporting of suspicious transactions and the execution of continuing control activities. This activity is entrusted to the Anti-Money Laundering Unit;
  - 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 Unit;
  - 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 Department

The primary objective of the Internal Audit Department is to provide independent and objective assurance and consulting services aimed at improving 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.
The 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 Internal Audit Department, through the Organisational Units that comprise it, has the following main responsibilities, which are differentiated according to:

- outsourcing of Control Functions to the Parent Company;
- exercise of control within the Parent Company's management and coordination activity;
- liaison with Control Functions in Group companies and not centralised at the Internal Audit Department.

Specifically, the principal responsibilities associated with the individual internal audit processes are described below.

- Planning of internal audit activities
  - Preparation and proposal to the competent Body of planning guidelines and the consequent annual and long-term planning of audit activities, based on the methodological models approved by the Board of Directors. The identification of the activities to be audited is in line with the operations of the members of the Group and their propensity to risk and is compatible with the resources available. In this context, the audit universe - being all the areas of risk that could subjected to audit - is updated and its components allocated to the relevant Organisational Units. Checks that are not preannounced or not expressly indicated in the Audit Plan are also carried out.
- QAIP – Quality Assurance and Improvement Programme
  - Development and maintenance of an Internal Audit quality assurance and improvement programme, not least to monitor to its broad convergence with the international standards and best practices applicable to the internal audit function.

- Conduct of assurance assignments
  - With a view to third-level controls, it also verifies with on-site checks 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. It makes recommendations to the Corporate Bodies on the basis of its audit results.
  - Periodically, at banking group level, it carries out on-site checks on Group members, taking into account the importance of the various types of risk taken on by the various entities; this in order to verify whether their conduct complies with the Parent Company's guidelines, as well as the effectiveness of the internal control system as defined by the Parent Company for the individual legal entities.
  - It checks the Risk Control, Compliance and Anti-Money Laundering Functions.
  - It checks the regularity of the various company activities, including outsourced activities, and the evolution of risks both at the Central Functions and at the distribution network. The frequency of checks is consistent with the activity performed and the propensity to risk; random and unannounced inspections are also performed;
  - It monitors compliance with the rules of the activity at all company levels.
  - It verifies the adequacy and proper functioning of the processes and methods adopted to assess corporate activities and checks compliance with the limits established by the mechanism of mandates.
  - It carries out Fraud Audits (Detection and Investigation) through the recording, assessment and, where appropriate, reporting of anomalous behaviours detected during the audit, also in order to allow the competent functions to start the "internal disciplinary procedure" or, in any case, to take appropriate action to protect the Company.
- Conduct of advisory assignments
  - It can provide consultancy services, not having auditing and/or validation/approval nature of the choices made by management, within the limits of the sustainability of the plan. These advisory services consist in the provision of support and recommendations, generally upon specific request from the Organisational Unit or Body, known as the "Principal". Advisory assignments, when accepted, are agreed with the Principals concerned. The main assignments accepted must be reported in the Audit Plan.
- Periodic reporting
  - It illustrates and summarises with appropriate information to the Corporate Bodies of the Parent Company and of Group companies the results of the audit work performed.
  - It prepares the reports required by the Supervisory Authorities and assigned to the Internal Audit Function.
  - Based on the Audit Plan approved by the Board of Directors at the time the Plan was adopted, it makes an assessment, at least once a year, of the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the overall Internal Control System for the Banking Group as a whole.

In general terms, the Group's internal control system provides for the delegation of second and third level Control Functions of the Italian Group companies to the Parent Company, as provided by the "Group Guidelines - Internal Control System".

As regards Group companies based abroad, this centralised model is partially waived in consideration of the complexity and delicacy of operations run in a different regulatory environment. In this case, it is possible to activate organisational models that enhance the specific nature of the context in which these companies operate, for each control function required by local regulations, as requested by the Supervisory Authority or by the Parent Company.

Specifically, the Internal Audit Department:

- for companies that have an Internal Audit function that has been outsourced to the Parent Company, it performs the control activities foreseen for BPER Banca, according to the audit plan approved by the Board of Directors, while retaining the right to perform internal audit work in fulfillment of the responsibilities assigned to the Parent Company as part of its Group management and coordination role.
- for companies that do not have an Internal Audit function, the analyses and assessments performed by the Parent Company's control function are carried out to fulfil the responsibilities allocated to the Parent Company as part of its Group guidance and coordination role and not to fulfil the responsibility of individual Group companies;
- for companies that have an Internal Audit function that has not (yet) been outsourced to BPER Banca, internal audit work is performed in fulfillment of the responsibilities assigned to the Parent Company as part of its Group management and coordination role.

At the date of this document, the Italian Banks have all delegated the Internal Audit function to the Parent Company.

Acting on a recommendation from the Internal Audit Department, in December 2018 the Board of Directors decided to commence the Quality Certification of the Internal Audit Function of the Parent Bank with reference to the International Professional Practices Framework of the Institute of Internal Auditors (IPPF IIA) and the internal audit mandate granted by the Bank to that function.
All this in order to:

- provide assurance to the Board of Directors and the Control Body about the proper and effective functioning of the audit function, in compliance with relevant professional standards and code of ethics;
- seek to improve the audit work performed by ever closer application of the professional standards generally accepted at an international level;
- provide assurance to the Group companies that outsource their audit functions to the Parent Company about the proper provision of the service.

The External Quality Assessment Review (EQAR) was carried out by a leading firm of consultants, which presented the results of the assessment to the Board of Directors of the Parent Company on 17 October 2019.
The summary outcome of the EQAR assigned the maximum possible rating to the function, namely: "Generally compliant".

Risk Management Department

The Risk Management Department now reports directly to the Parent Company's Chief Executive Officer and is broken down into the following Organisational Units:

- Rating Office and Risk Governance Office, as staff functions for the Chief Risk Officer;
- Financial Risk Department;

- Credit and Operational Risk Department;
- Credit Control and Internal Ratification Department.

The Risk Management Department, 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[38].
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.

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. The principal 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;
- proposal of 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 oversight of their implementation, ensuring that the various stages of the risk management process are consistent with the Risk Appetite Framework;
- development of 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. In particular:
  - definition of common metrics of operational risk assessment (including IT risks) that are consistent with the RAF, in coordination with the Compliance Function, the ICT function and the Business Continuity function;
  - definition of methods to evaluate and control reputational risk, in coordination with the Compliance function and the corporate functions that are most exposed to this type of risk;
  - provision of assistance to the Corporate Bodies in the assessment of strategic risk by monitoring significant variables.
- 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;

[38] *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."*

- provision of support to the Chief Executive Officer in the implementation of the ICAAP and ILAAP, preparation of reports to be submitted to the Supervisory Authority and coordination of the various phases of the process and performance of those assigned to it;
- coordination of the process for the preparation and update of the BPER Banca Group recovery plan to be submitted to the Supervisory Authority and performance of the phases assigned to it;
- coordination of activities associated with the internal stress testing programme with the help of the various organisational structures involved, in the various execution areas (operational and regulatory stress test);
- checking the adequacy and effectiveness of the measures taken to correct weaknesses in the risk management process;
- development, ratification[39] and upkeep of 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;
- provision of preventive advice on the consistency of more significant transactions with the RAF, acquiring if necessary, depending on the nature of the transaction, the opinion of other functions involved in the risk management process;
- analysis of risks deriving from new products/services and from entry into new business segments;
- control of the rating and override processes;
- 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; the effectiveness of the recovery process;
- involvement in defining, updating and monitoring the Non-Performing Loans strategy (providing estimates of the impact on the risk parameters used in the internal rating system and on the Group's capital profile in terms of RWA and Shortfall), as well as in policies and processes for their management before submission to the Corporate Bodies of the Parent Company and Group companies;
- it handles execution of the activities included in the second-level control framework on non-performing loans;
- it coordinates the preliminary activities for the preparation and updating of the Resolution Plan, prepared by the Resolution Authority, directly carrying out the steps that are within its sphere of competence.

In addition, the Risk Management Department:

- takes part in the definition of the Group's strategy, assessing the relative impact on risk;
- takes part in deciding on strategic changes to the Group's internal control system.

Anti-Money Laundering Unit

The task of the Anti-Money Laundering Unit 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).

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[39] *Through the Model Ratification Office*

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.
As regards the Parent Company's guidance and coordination activities, performed for all Group companies subject to anti-money laundering regulations - for the Luxembourg subsidiary, only with regard to matters of identification and knowledge of customers and monitoring of reports on suspicious transaction - the Anti-Money Laundering Unit 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, 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. The report also includes the results of the self-assessment carried out. For the Luxembourg subsidiary, it reports any critical issues arising from the opinions expressed and data provided by the relevant Corporate Functions;
- it proposes changes to the Group policy for governing the risks of money laundering and the financing of terrorism;
- it defines methods, processes and tools for performing the activities of the Anti-Money Laundering function and uses the reports defined in coordination with other control functions (corporate or otherwise);
- for companies that have not outsourced the function to the Parent Company (being BPER Bank Luxembourg SA), it defines general standards for the adequate verification of customers, the retention of data and the reporting of suspicious transactions, checking their implementation;
- it ensures adequate reporting on the outcome of its activities to the Corporate Bodies, 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 aimed at preventing and combating money laundering, in order to ensure adequate control over the non-compliance risks that have been identified and to monitor that it is carried out;
- it supports the head of the Anti-Money Laundering Unit, 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 Office by the consolidated banks and companies that have outsourced AML control to the Parent Company. 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.
- it helps the General Manager of the Parent Company, or his appointee, or other person holding management or administrative powers, to evaluate the opening of correspondent accounts with entities in foreign countries by Group companies (Italian and foreign), as well as with the authorisation or maintenance processes for continuous relations or occasional transactions with "politically-exposed persons".

Among other activities, the Unit also:

- 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.

Compliance Department

The Compliance Department'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 the Group's 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 Department 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 Department, as part of the management of compliance risk, works - directly or through Special Units - on regulations that concern the entire banking activity, with the exception of those for which there are dedicated corporate functions and other 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 is only subject to management and coordination activities.

As part of the guidance and coordination activity exercised by the Parent Company on behalf of the Group companies, the Compliance Department 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 231/01.

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, who is Marco Bonfatti, manager of the Administration and Reporting Department, 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).

The "Group Policy for managing the risk of unintentional errors and fraud in financial reports" approved by the Parent Company's Board of Directors, based on the "Group Guidelines for the Internal Control System", established the roles and responsibilities of the bodies and organisational units involved in the governance (assumption and management) of financial reporting risks at Group level. At methodological level, this process is governed by the methodological note addressing macro process management of unintentional errors and fraud in financial disclosures. In this regard, the basis for the acceptance and control of the risks covered by the Policy and the related methodologies are described in the "Process for managing the risk of unintentional errors and fraud in financial disclosures".
With reference to the financial reporting control model, it should be noted that the high-level sources were updated during the second half of 2018 and approved by the Parent Company's Board of Directors on 10 January 2019, substantially for the purpose of revising the model as regards adequacy and effective application of the administrative and accounting procedures, as well as an overall assessment of the risk of unintentional errors and fraud in financial reporting, particularly by reducing the grading levels from six to four.

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.

The staff of the Financial Reporting Monitoring and Control Office, in performing the duties assigned to it, is vested with the powers deriving from the Manager Responsible for preparing the company's financial reports, regardless of the position held in the corporate hierarchy.

In the process for managing the risk of unintentional errors and fraud in financial reports of BPER Banca Group, the Manager responsible for preparing the company's financial reports of the Parent Company is also supported by the Manager responsible for the Sub-Holding Company Banco di Sardegna (this role exists as this is a listed company); the latter reports to the General Manager and is under the Parent Company's Manager responsible for preparing the company's financial reports as regards methods, instruments, reporting and work processes used in carrying out his duties.

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 Chief Executive Officer, when there are changes in the regulations governing the administrative responsibility of legal entities pursuant to Decree 231/01, or in internal organisation and/or business activities, or if significant weaknesses in/infringements of the Model are identified.

For the above purposes, the Board has established a system of internal communications in order to:

- facilitate reports to the Supervisory Board about non-compliance with the Model and the Code of Ethics, as well as all relevant information pursuant to Legislative Decree 231/01;
- obtain timely data and documents needed for its supervisory activities from the Corporate bodies, Organisational units and personnel of the Bank (so-called information flows).

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 on 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 Decree 231/01 (Italian Group banks, BPER Credit Management S.C.p.A., Optima s.p.a. SIM, Nadia s.p.a., Sifà s.p.a.) and monitors the adoption of those instructions by them, albeit with the necessary adjustments to consider 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 Disclosures – Pillar 3" has been 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 at 31 December 2019 is published together with the financial statements on the websites of the Parent Company – www.bper.it.

Section 1 - Credit risk

Qualitative information

The Group's organisation centralises 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

Considering the situation in December 2019, the world economy seems to be evolving towards moderate growth after the stagnation that, with fluctuations, affected the first three quarters of the year. International trade has started to expand again, with signs of attenuation of the tariff disputes between the United States and China, while the Brexit process seems clearer. By contrast, the outlook remains uncertain and geopolitical tensions have heightened.
In the Euro area, economic activity is held in check by the weakness of the manufacturing sector, with the risk that this might stunt the growth in services, which has been more solid until now.
The same weakness is visible in Italy, where economic activity is almost stationary, despite slight growth in the third quarter.
In particular, industrial production rose slightly towards the end of the year, due to the significant contribution made by the operating assets sector.
With regard to foreign trade, exports were higher while imports declined, but the foreign sales performance was mainly attributable to shipbuilding for the United States.
Again in December 2019, the projections indicate modest growth in world trade, accommodative monetary conditions and low borrowing costs for businesses; Bank of Italy Economic Bulletin 1 – 2020 expects Italian GDP to rise by 0.5% in 2020, largely due to the gradual recovery in international trade and the modest expansion of domestic demand. These forecasts are likely to need revision due to the COVID-19 pandemic that, starting from China, is steadily spreading around the world.
In view of the expected macroeconomic scenario and the assessment of lending risk, not yet revised for events in early 2020 linked to the global spread of COVID-19, the BPER Group has defined new lending

policy guidelines for operations that are designed to optimise asset allocation, in quali-quantitative terms, with reference to the following drivers:

- maintenance of broad equilibrium between Retail and Corporate growth;
- growth of green and technological innovation loans across the various economic sectors, which should enable the beneficiary businesses to become more competitive;
- continuity in the various technical forms of lending to private customers

On the other hand, specific guidelines have been prepared for the Group's Product Companies, in consideration of the intrinsic characteristics of the products being distributed (lease, factoring, personal loans and salary-backed loans) and the lower risk profile with respect to similar banking transactions.

Lastly, in confirmation of the connection with and support for the territory, the BPER Banca Group has continued to promote participation in the ABI initiatives in favour of individuals ("Mortgage loans Solidarity Fund" and "First Home Guarantee Fund") and companies (2019 Lending Agreement – Recovering Companies 2.0), as well as the various measures required by law that suspend loan repayments in areas hit by natural calamities.

2. Credit risk management policies

The lending 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 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;
- the diversification of the portfolio, limiting the concentration of exposures towards individual counterparties and sectors of economic activity.

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 Bank of the Group 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 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 banks in the Group);
- 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 allocation process for these segments also allows the account manager to activate an override process i.e. to request an exception to the quantitative rating based on true and documented information not processed by the model. The requested exception is evaluated by a central function that operates at Group level;
- to support risk analysis in the Large Corporate, Holding and Financial Companies segment, another component was added to the model to take into account whether counterparties belong to a 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 analysed and 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 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.

Determination of the final rating depends on the type of counterparty. In particular, the rating allocation process involves a level of investigation that is proportional to the complexity/scale of the counterparty under review: a more complex and sophisticated structure is foreseen for medium-large businesses (Corporate SMEs, Long-term Property SMEs, Holding, Financial Companies and Large Corporates), which are fewer but with larger average exposures, while there is a simpler structure for Retail customers (Retail SMEs, Individuals and Small Businesses), which are more numerous, but with lower exposures.

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 2019 included:
- completion of the activities related to the "Targeted Review of Internal Models" (TRIM) with communication of the final assessment report by the Supervisory Authority in March 2019;
- extension of the AIRB advanced methodologies to the exposures of Cassa di Risparmio di Bra, commencing from the March 2019 Regulatory Reports;
- update of the IFRS 9 risk models;
- continuation of the activities to adapt internal models to the new definition of default, implemented for the purpose of classifying credit exposures from 8 October 2019 without having any particular impact in terms of increased impairment adjustments.

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:
- a Credit Risk Book is prepared on a quarterly basis and is an essential tool for the Risk Committee. This is the basic information support for the Risk Committee and contains detailed

reports on credit risk at consolidated and individual level (distribution of the portfolio by type and rating classes, dynamics of risk parameters and expected loss, transition matrices, dynamics of general and analytical provisions and decay rates), with differentiated analyses for risk and management segments and geographical area;
- 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 Banca di Sassari). This perimeter has now been extended to Cassa di Risparmio di Bra, commencing from the March 2019 Regulatory Report, following the authorisation granted by the ECB on 28 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 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, "Exposures to UCITS" and "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.

2.3 Methods for measuring expected losses

The model for calculating Expected Credit Losses (ECL) 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 IFRS 9 impairment models and related risk parameters is presented in Part A of these Explanatory notes, to which reference should be made.

Update of IFRS 9 impairment models

The 2019 updates to the various risk parameters used to estimate the IFRS 9 ECL are summarised below, indicating their effects.

These updates were part of the routine maintenance of the models, which is carried out annually in the context of credit risk management.

Back-testing was carried out on all risk parameters and on the framework adopted to estimate the Significant Increase in Credit Risk (PD difference).

The outcomes were essentially satisfactory overall, with very satisfactory results regarding those segments/portfolios for which the BPER Group has developed specific models.

The back-testing evidence identified certain room for improvement and the following refinements were made:

- The PD and LGD parameters were calibrated by extending the time series to include the most recent data in the models (consistent with the regulatory models used for prudential purposes).
- The correlation of the CCF parameter with the economic cycle was checked, here too including the most recent data: as on the first-time application of IFRS 9, it was confirmed that the CCF parameter is not sensitive to changes in macroeconomic conditions.
- Particular attention was paid to those segments/portfolios for which the BPER Group applies simplified methodologies. Here too, all parameters were calibrated with reference to the most recent data. The product companies (leasing and factoring) were included in the work, with the BPER Group developing a specific LGD model for the leasing component.

Application of the various updates increased the ECL overall by about Euro 11.1 million, +4.99% (Euro 10.2 million, +5.49% solely in relation to on-balance sheet exposures).

With regard to the qualitative results of the checks carried out, as on the FTA of IFRS 9, the model for identifying Significant Increases in Credit Risk – SICR adopted by the BPER Banca Group was not found to be sensitive to changes in macroeconomic conditions.

Update of macroeconomic scenarios and ECL sensitivity

As stated in Part A – Accounting policies, 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:

- Baseline scenario;
- Adverse scenario;
- Favourable scenario.

Development of the scenarios is outsourced to a leading company that carries out economic research, which provides the BPER 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.

The scenarios are updated every six months for the purpose of calculating the ECL at 30 June and 31 December each year.

A probability of occurrence is assigned to each of the scenarios considered, in order to obtain a multiscenario ECL as the weighted average of the individual ECLs.
The ECL is not particularly sensitive to changes in the probability of occurrence assigned to each scenario, falling within the range -1.93% / +2.20% around the ECL for the baseline scenario.

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 new 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 granted by various guarantee consortiums in favour of their members firms are becoming more significant, as well as guarantees granted by third party institutions, such as SACE; MCC (Guarantee Fund for SMEs); EIF

(European Investment Fund); Guarantee Fund for the First Home, B.E.I (Life for Energy) also subject to periodic monitoring.

3. Non-performing exposures

3.1. Strategies and management policies

With respect to the initial 2018-2020 version, the NPE Strategy of BPER Banca Group was updated at the end of March 2019 to consider the results for 2018 and the inclusion of Unipol Banca in the banking group. In particular, during 2018, the BPER Group reduced the NPE stock from Euro 10.5 billion to Euro 7.0 billion, thus lowering the NPE ratio from 19.8% to 13.8%; these results were achieved, in part, by bulk sales of bad loans (the "4Mori" and "Aqui" transactions).
The NPE Strategy sets a quantitative objective for the NPE ratio of less than 9% in 2021 (down from 13.8% in 2018), which means reducing the stock by Euro 2.7 billion between 2018 and 2021 (from Euro 7.0 billion to Euro 4.4 billion) via active and efficient management of the NPEs, as well as by additional major sales.
The priority initiatives identified in the Group's operating plan, and intended to create solid foundations for steadily improving the management of NPEs over time, include:

- the creation of a «Proactive Management» unit to manage both forborne exposures and performing loans at risk;
- greater use of outsourcing for the recovery of "small ticket" exposures, allowing internal resources to focus on the larger positions;
- development of the organisational models for Anomalous Credit and BPER Credit Management, with further work on capacity planning and on-going initiatives for the training and specialisation of personnel;
- bulk sales of bad loans and UTPs.

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 anomaly 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.
In October 2019, following authorisation from the Supervisory Authority, the BPER Banca Group adopted the New Definition of Default for the classification of credit exposures, aligning processes and procedures with the new rules for identifying and managing defaults at Banking Group level.

Some of the work to improve the processing of anomalous and non-performing loans carried out by the Banking Group (partly introduced in 2018 and completed in 2019) is described below:

- Organisation and governance: Proactive 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:

a) the Anomalous Loans team has been focused on the management of counterparts already classified as in default (non-performing past due exposures and unlikely to pay loans), which have been grouped into three (Retail, Corporate and Real Estate);
b) 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;
c) BCM has been divided into specialist operational and recovery teams focused on specific asset types (Corporate, Retail, centralised or outsourced recovery).

Following the acquisition of Unipol Banca, the territorial 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, such as:
  a) a new Early Warning model, with the development over time of 6 dedicated anomaly detection engines for each customer segment (Corporate, Private, Small Business, Construction, Real Estate and Finance & PA). Optimisation of the identification of anomalies, in particular via the inclusion of trigger anomalies specified in the NPL Guidance;
  b) Electronic Dossier Management, optimised over time with the inclusion of new management measures and new information available to the manager to better understand the potential evolution of the position, with targeted links to other procedures;
  c) external collection system that seeks to recover smaller loans via "phone collection" and "home collection" activities;
  d) a much more precise and targeted system for monitoring the performance of individual teams and not just the overall quality of the portfolio;
  e) more extensive use of the forbearance tool and introduction of sustainability tools and monitoring of the effectiveness of the agreed measures;
  f) 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 concerning the Granting of loans, so as to strengthen the decision-making system and prevent potential deterioration already at the time of granting:

a) 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;
b) 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;
c) 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 disseminate the content of the NPL Guidance and strengthen the supervision of lending in accordance with current regulations, training cycles have been delivered to the central teams, segmented by function, and more general content has been provided to the network with guidance on the strategies to be implemented.

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 within 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 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.
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.

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:

- cancellation of a financial asset in its entirety or in part constitutes an accounting elimination (or "derecognition") and the cancelled amount cannot be subject to write-backs. Cancellations 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;
- cancellation can take place before legal action against the debtor for the recovery of the loan has been definitively concluded;
- cancellation, 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 cancellations 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.

BPER Banca 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).

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	724,625	1,136,127	90,813	595,119	53,587,121	56,133,805
2. Financial assets measured at fair value through other comprehensive income	18	-	-	-	5,993,442	5,993,460
3. Financial assets designated at fair value	-	-	-	-	126,947	126,947
4. Other financial assets mandatorily at fair value	-	1,039	-	-	180,365	181,404
5. Financial assets classified as held for sale	-	-	-	-	-	-
Total 31.12.2019	**724,643**	**1,137,166**	**90,813**	**595,119**	**59,887,875**	**62,435,616**
Total 31.12.2018	**894,537**	**1,112,371**	**22,626**	**358,978**	**51,157,349**	**53,545,861**

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	159,729	632,785	20,209	45,508	460,850	1,319,081

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	4,123,336	2,171,771	1,951,565	272,430	54,309,116	126,876	54,182,240	56,133,805
2. Financial assets measured at fair value through other comprehensive income	26	8	18	-	5,997,803	4,361	5,993,442	5,993,460
3. Financial assets designated at fair value	-	-	-	-	X	X	126,947	126,947
4. Other financial assets mandatorily measured at fair value	1,039	-	1,039	-	X	X	180,365	181,404
5. Financial assets classified as held for sale	-	-	-	-	-	-	-	-
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**
Total 31.12.2018	**4,906,763**	**2,877,229**	**2,029,534**	**476,303**	**51,225,899**	**136,367**	**51,516,327**	**53,545,861**

Details of counterparties	Total write-offs	
	31.12.2019	31.12.2018
Financial companies	25,331	12,202
- of which: financial and non-resident companies	-	-
Non financial companies	242,509	447,182
- of which: non financial and non-resident companies	10	136
Households	4,590	16,919
- of which: non-resident households	-	-
Total	**272,430**	**476,303**
- of which: non-resident	**10**	**136**

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	
	31.12.2019	31.12.2018
Financial companies	17,901	9,280
- of which: financial and non-resident companies	-	-
Non financial companies	77,280	114,722
- of which: non financial and non-resident companies	70	128
Households	17,733	21,465
- of which: non-resident households	213	-
Total	**112,914**	**145,467**
- of which: non-resident	**283**	**128**

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		358	558	248,200
2. Hedging derivatives		-	-	81,869
Total	**31.12.2019**	**358**	**558**	**330,069**
Total	**31.12.2018**	**341**	**423**	**254,104**

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		308,444	-	-	128,701	141,558	16,416	52,408	98,473	1,337,572
2. Financial assets measured at fair value through other comprehensive income		-	-	-	-	-	-	-	-	18
3. Financial assets held for sale		-	-	-	-	-	-	-	-	-
Total	31.12.2019	308,444	-	-	128,701	141,558	16,416	52,408	98,473	1,337,590
Total	31.12.2018	125,586	85	13	108,456	97,113	27,725	32,066	53,607	1,456,087

A.1.4 Financial assets, commitments to distribute funds and financial guarantees granted: changes in total impaiment provisions

Causal / risk stages	Total impaiment provisions									
	First stage activities					Second stage activities				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impaiment losses	of which: collective impaiment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impaiment losses	of which: collective impaiment losses
Total opening adjustments	**84,382**	**3,943**	**-**	**-**	**88,325**	**47,569**	**473**	**-**	**-**	**48,042**
Increases in purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-	-	-	-	-	-
Net impairment losses for credit risk (+/-)	(11,753)	(641)	-	-	(12,393)	(24,501)	586	-	-	(23,915)
Contractual modifications without derecognitions	-	-	-	-	-	-	-	-	-	-
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs non recorded directly in the income statement	-	-	-	-	-	-	-	-	-	-
Other variations	(24,118)	-	-	-	(24,119)	55,297	-	-	-	55,295
Total closing adjustments	**48,511**	**3,302**	**-**	**-**	**51,813**	**78,365**	**1,059**	**-**	**-**	**79,422**
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

(cont.)

Causal / risk stages	Total impaiment provisions						Total provisions on commitments to disburse funds and financial guarantees issued			Totale
	Activities included in the third stage									
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impaiment losses	of which: collective impaiment losses	Of which: impaired financial assets acquired or originated	First stage	Second stage	Third stage	
Total opening adjustments	**2,877,229**	**-**	**-**	**2,877,229**	**-**	**-**	**8,766**	**3,941**	**29,549**	**3,055,852**
Increases in purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	(1,008,801)	-	-	(1,008,801)	-	-	-	-	-	(1,008,801)
Net impairment losses for credit risk (+/-)	273,728	8	-	273,728	-	-	(94)	(1,957)	(4,023)	231,353
Contractual modifications without derecognitions	-	-	-	-	-	-	-	-	-	-
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs non recorded directly in the income statement	(105,154)	-	-	(105,154)	-	-	-	-	-	(105,154)
Other variations	134,769	-	-	134,771	-	-	88	(2)	671	166,705
Total closing adjustments	**2,171,771**	**8**	**-**	**2,171,773**	**-**	**-**	**8,760**	**1,982**	**26,197**	**2,339,955**
Recoveries from financial assets subject to write-off	6,155	-	-	6,155	-	-	-	-	-	6,155
Write-offs recorded directly through profit or loss	27,459	-	-	27,459	-	-	-	-	-	27,459

The caption "other changes" relates to the cancellation of default interest.

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 thirth 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 amortised cost		670,320	1,645,854	261,242	84,176	168,892	27,974
2. Financial assets measured at fair value through other comprehensive income		44,922	19,641	-	-	-	-
3. Financial assets held for sale		-	-	-	-	-	-
4. Commitments to distribute funds and financial guarantees granted		391,107	1,468,679	30,499	4,102	29,291	10,056
Total	31.12.2019	1,106,349	3,134,174	291,741	88,278	198,183	38,030
Total	31.12.2018	1,799,263	3,054,928	416,097	110,885	203,682	12,468

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	42	-	42	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	12,497,971	7,687	12,490,284	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	-	12,498,013	7,687	12,490,326	-
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	1,039,309	172	1,039,137	-
Total (B)	-	1,039,309	172	1,039,137	-
Total (A+B)	-	13,537,322	7,859	13,529,463	-

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	2,285,038	X	1,560,395	724,643	272,430
- of which: forborne exposures	430,309	X	270,580	159,729	7,974
b) Unlikely to pay loans	1,735,578	X	598,412	1,137,166	-
- of which: forborne exposures	939,903	X	307,118	632,785	-
c) Non-performing past due exposures	103,785	X	12,972	90,813	-
- of which: forborne exposures	22,579	X	2,370	20,209	-
d) Performing past due exposures	X	601,411	6,334	595,077	-
- of which: forborne exposures	X	46,530	1,022	45,508	-
e) Other performing exposures	X	47,609,489	117,216	47,492,273	-
- of which: forborne exposures	X	469,754	8,904	460,850	-
Total (A)	**4,124,401**	**48,210,900**	**2,295,329**	**50,039,972**	**272,430**
B. Off-balance sheet credits exposures					
a) Non performing	336,736	X	33,735	303,001	-
b) Performing	X	18,478,651	12,161	18,466,490	-
Total (B)	**336,736**	**18,478,651**	**45,896**	**18,769,491**	**-**
Total (A+B)	**4,461,137**	**66,689,551**	**2,341,225**	**68,809,463**	**272,430**

At 31 December 2019, the gross exposure of impaired financial assets purchased on the absorption of Unipol Banca total € 362,117 thousand (bad loans, € 48,657 thousand; unlikely-to-pay loans, € 273,281 thousand, and past due exposures € 40,179 thousand), while the net exposure is € 311,644 thousand (bad loans, € 39,560 thousand; unlikely-to-pay loans, € 237,078 thousand, and past due exposures, € 35,006 thousand).

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)	**4,123,337**	**2,036,828**	**134,944**	**1,951,564**	**45,934,885**	**121,747**	**45,813,136**
Governments and other public entities	10,845	583	36	10,226	8,075,247	9,983	8,065,263
- of which: foreign	-	-	-	-	1,460,710	63	1,460,647
Financial companies	226,598	118,752	1,155	106,691	6,654,333	5,728	6,648,604
- of which: foreign	27,644	24,308	1	3,336	519,453	157	519,296
Non-financial companies	3,098,855	1,641,179	71,103	1,386,572	16,726,984	74,549	16,652,435
- of which: foreign	33,450	18,086	107	15,257	155,149	101	155,049
Privates and households	787,039	276,314	62,650	448,075	14,478,321	31,487	14,446,834
- of which: foreign	19,258	3,941	324	14,994	44,040	70	43,970

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.1.8bis 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)	**3,071,137**	**1,808,804**	**26,822**
- Sold but not derecognised	-	-	-
B. Increases	**423,178**	**970,385**	**115,063**
B.1 entry from performing exposures	46,687	340,777	63,650
B.2 entry from purchased or originated impaired financial assets	10,261	273,472	30,250
B.3 transfers from other non-performing exposures	227,479	7,379	1,575
B.4 contractual modifications without derecognitions	-	-	-
B.5 other increases	138,751	348,757	19,588
C. Decreases	**1,209,277**	**1,043,611**	**38,100**
C.1 transfers to performing exposures	120	129,278	8,262
C.2 write-offs	112,914	19,591	108
C.3 recoveries	163,462	446,550	12,862
C.4 sales proceeds	140,396	82,605	-
C.5 losses on disposals	9,896	5,197	-
C.6 transfers to other non-performing exposures	1	219,564	16,868
C.7 contractual modifications without derecognitions	-	-	-
C.8 other decreases	782,488	140,826	-
D. Closing balance (gross amounts)	**2,285,038**	**1,735,578**	**103,785**
- Sold but not derecognised	-	-	-

The caption B.2 “entry from purchased or originated impaired financial assets” relates solely to the absorption of Unipol Banca.

A.1.9bis 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)	**1,611,760**	**521,737**
- Sold but not derecognised	-	-
B. Increases	**609,236**	**503,274**
B.1 transfers from performing not forborne exposures	167,299	254,701
B.2 transfers from performing forborne exposures	71,941	X
B.3 transfers from impaired forborne exposures	X	78,226
B.4 transfers from impaired not forborne exposure	-	-
B.5 other increases	369,996	170,347
C. Decreases	**828,205**	**508,727**
C.1 transfers to not forborne performing exposures	X	161,435
C.2 transfers to forborne performing exposures	78,226	X
C.3 transfers to non performing forbone exposures	X	71,941
C.4 write-offs	18,886	-
C.5 recoveries	415,846	275,351
C.6 sales proceeds	26,139	-
C.7 losses on disposals	7,189	-
C.8 other decreases	281,919	-
D. Closing balance (gross amounts)	**1,392,791**	**516,284**
- Sold but not derecognised	-	-

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	**2,176,600**	**325,843**	**696,433**	**397,357**	**4,196**	**41**
- Sold but not derecognised	-	-	-	-	-	-
B. Increases	**417,368**	**106,963**	**407,940**	**183,590**	**17,290**	**2,369**
B.1 impairment losses on purchased or originated assets	-	X	-	X	-	X
B. 2 other value adjustments	302,391	79,122	323,246	125,361	12,811	785
B.3 losses on disposal	9,896	7,189	5,197	-	-	-
B.4 transfer from other non performing exposure	83,627	20,184	1,210	11	625	-
B. 5 contractual modifications without derecognitions	-	-	-	-	-	-
B.6 other increases	21,454	468	78,287	58,218	3,854	1,584
C. Decreases	**1,033,573**	**162,226**	**505,961**	**273,829**	**8,514**	**40**
C.1 write-backs from assessments	60,551	17,364	172,555	39,311	5,633	-
C.2 write-backs from recoveries	55,706	10,053	50,931	-	44	-
C.3 gains on disposal	7,175	-	4,530	-	-	-
C.4 write-offs	112,914	13,327	19,591	5,559	108	-
C.5 transfers to other non performing exposures	1	-	82,907	20,156	2,554	39
C. 6 contractual modifications without derecognitions	-	-	-	-	-	-
C.7 other decreases	797,226	121,482	175,447	208,803	175	1
D. Closing balance in total impairment	**1,560,395**	**270,580**	**598,412**	**307,118**	**12,972**	**2,370**
- Sold but not derecognised	-	-	-	-	-	-

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	1,682,524	2,592,527	5,405,371	1,103,788	51,786	19,236	47,577,222	58,432,454
- First stage	1,679,255	2,562,263	5,303,387	865,163	29,961	7,484	40,686,193	51,133,706
- Second stage	3,269	30,264	101,984	214,049	17,501	154	2,808,190	3,175,411
- Third stage	-	-	-	24,576	4,324	11,598	4,082,839	4,123,337
B. Financial assets measured at fair value through other comprehensive income	2,350,138	1,119,305	1,116,918	45,483	7,738	-	1,358,245	5,997,827
- First stage	2,283,978	966,679	1,071,032	21,520	7,738	-	1,342,427	5,693,374
- Second stage	66,160	152,626	45,886	23,963	-	-	15,792	304,427
- Third stage	-	-	-	-	-	-	26	26
C. Financial assets held for	-	-	-	-	-	-	-	-
- First stage	-	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total (A + B)	**4,032,662**	**3,711,832**	**6,522,289**	**1,149,271**	**59,524**	**19,236**	**48,935,467**	**64,430,281**
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-	-
C. Commitments to distribute funds and financial guarantees granted	101,068	1,867,945	544,800	717,253	12,306	8,245	16,603,078	19,854,695
- First stage	93,666	1,735,556	443,471	467,345	6,719	362	14,850,574	17,597,693
- Second stage	7,402	132,389	101,329	248,060	4,586	899	1,424,531	1,919,196
- Third stage	-	-	-	1,848	1,001	6,984	327,973	337,806
Total (C)	**101,068**	**1,867,945**	**544,800**	**717,253**	**12,306**	**8,245**	**16,603,078**	**19,854,695**
Total (A + B + C)	**4,133,730**	**5,579,777**	**7,067,089**	**1,866,524**	**71,830**	**27,481**	**65,538,545**	**84,284,976**

The following rating agencies are used: Cerved Group for exposure to companies, Scope Ratings for exposures to central administrations, Fitch Rating 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%	below 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%	below 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	4,281,642	3,738,814	5,794,504	5,768,849	5,031,382	2,343,181	3,639,169
- First stage	4,146,697	3,627,266	5,565,489	5,493,722	4,442,408	2,033,303	3,283,185
- Second stage	134,945	111,548	229,015	275,127	588,974	309,878	355,984
- Third stage	-	-	-	-	-	-	-
B. Financial assets measured at fair value through other comprehensive income	841,094	96,343	386,706	537,667	455,774	516,684	1,279,788
- First stage	825,909	91,107	386,706	527,493	412,551	503,637	1,216,826
- Second stage	15,185	5,236	-	10,174	43,223	13,047	62,962
- Third stage	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-
- First stage	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-
Total (A + B)	5,122,736	3,835,157	6,181,210	6,306,516	5,487,156	2,859,865	4,918,957
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-
C. Commitments to distribute funds and financial guarantees granted	3,096,044	3,426,517	3,572,050	2,236,398	1,823,029	1,098,214	457,467
- First stage	2,948,251	3,229,978	3,248,098	1,928,817	1,517,257	860,568	349,646
- Second stage	147,793	196,539	323,952	307,581	305,772	237,646	107,821
- Third stage	-	-	-	-	-	-	-
Total (C)	3,096,044	3,426,517	3,572,050	2,236,398	1,823,029	1,098,214	457,467
Total (A + B + C)	8,218,780	7,261,674	9,753,260	8,542,914	7,310,185	3,958,079	5,376,424

(cont.)

Exposures	Internal rating classes						
	8	9	10	11	12	13	Total
A. Financial assets measured at amortised cost	1,211,505	5,626,488	479,511	135,604	113,068	109,643	38,273,360
- First stage	840,638	5,461,385	260,704	64,308	59,895	23,964	35,302,964
- Second stage	370,867	165,103	218,807	71,296	53,173	85,679	2,970,396
- Third stage	-	-	-	-	-	-	-
B. Financial assets measured at fair value through other comprehensive income	639,522	640,086	131,608	75,696	189,169	-	5,790,137
- First stage	607,540	631,418	131,608	20,967	163,341	-	5,519,103
- Second stage	31,982	8,668	-	54,729	25,828	-	271,034
- Third stage	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-
- First stage	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-
Total (A + B)	1,851,027	6,266,574	611,119	211,300	302,237	109,643	44,063,497
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-
C. Commitments to distribute funds and financial guarantees granted	299,435	84,982	77,847	14,749	12,131	12,302	16,211,165
- First stage	161,817	34,931	21,958	11,362	1,077	182	14,313,942
- Second stage	137,618	50,051	55,889	3,387	11,054	12,120	1,897,223
- Third stage	-	-	-	-	-	-	-
Total (C)	299,435	84,982	77,847	14,749	12,131	12,302	16,211,165
Total (A + B + C)	2,150,462	6,351,556	688,966	226,049	314,368	121,945	60,274,662

	With internal rating	Unrated	Total
Cash exposures	44,063,497	20,366,784	64,430,281
Off-balance sheet exposures	16,211,165	3,643,530	19,854,695
Total	**60,274,662**	**24,010,314**	**84,284,976**

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 equities 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:	**2,169,884**	**2,169,874**	**-**	**-**	**2,138,218**	**-**	**-**	**-**
1.1 totally guaranted	2,169,872	2,169,862	-	-	2,138,218	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partially guaranted	12	12	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**43,723**	**43,692**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 totally guaranted	31,926	31,895	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partially guaranted	11,797	11,797	-	-	-	-	-	-
- 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:	**-**	**-**	**-**	**21,597**	**-**	**-**	**144**	**2,159,959**
1.1 totally guaranted	-	-	-	21,597	-	-	133	2,159,948
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partially guaranted	-	-	-	-	-	-	11	11
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**20,524**	**3,880**	**-**	**17,361**	**41,765**
2.1 totally guaranted	-	-	-	20,524	1,940	-	8,501	30,965
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partially guaranted	-	-	-	-	1,940	-	8,860	10,800
- 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:	**26,598,346**	**24,984,849**	**17,497,257**	**4,304**	**776,672**	**264,467**	**-**	**-**
1.1 totally secured	23,870,069	22,633,169	17,246,408	4,304	547,783	179,951	-	-
- of which non-performing	2,601,493	1,423,545	1,156,646	220	8,408	7,876	-	-
1.2 partially secured	2,728,277	2,351,680	250,849	-	228,889	84,516	-	-
- of which non-performing	617,132	251,500	127,599	-	6,601	5,115	-	-
2. Guaranteed off-balance sheet credit exposures:	**2,998,865**	**2,980,638**	**24,923**	**-**	**185,468**	**196,426**	**-**	**-**
2.1 totally secured	2,576,368	2,561,011	22,984	-	136,949	171,888	-	-
- of which non-performing	27,153	26,974	250	-	124	-	-	-
2.2. partially guaranteed	422,497	419,627	1,939	-	48,519	24,538	-	-
- of which non-performing	29,550	26,841	1,073	-	373	276	-	-

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:	**-**	**-**	**-**	**614,386**	**32,490**	**165,629**	**4,522,751**	**23,877,956**
1.1 totally secured	-	-	-	349,357	27,096	132,644	4,141,262	22,628,805
- of which non-performing	-	-	-	10,442	23,135	10,196	206,956	1,423,879
1.2 partially secured	-	-	-	265,029	5,394	32,985	381,489	1,249,151
- of which non-performing	-	-	-	6,309	-	4,430	35,615	185,669
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**11,286**	**4,725**	**56,726**	**2,309,485**	**2,789,039**
2.1 totally secured	-	-	-	8,014	4,725	45,778	2,170,289	2,560,627
- of which non-performing	-	-	-	337	-	280	25,982	26,973
2.2. partially guaranteed	-	-	-	3,272	-	10,948	139,196	228,412
- of which non-performing	-	-	-	41	-	7,050	4,048	12,861

A.4 Financial and non-financial assets obtained through the enforcement of guarantees received

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		9	28	14,800	48,369	-	-
- of which: forborne exposures		-	-	1,325	4,896	-	-
A.2 Unlikely to pay loans		10,215	590	91,707	71,520	-	-
- of which: forborne exposures		407	-	78,058	55,342	-	-
A.3 Non-performing past due exposures		3	1	184	19	-	-
- of which: forborne exposures		-	-	67	10	-	-
A.4 Performing exposures		8,706,957	10,084	7,791,985	6,825	114,539	29
- of which: forborne exposures		-	-	7,860	228	-	-
Total (A)		**8,717,184**	**10,703**	**7,898,676**	**126,733**	**114,539**	**29**
B. Off-balance sheet credit exposures							
B.1 Non-performing exposures		29,928	-	4,621	33	-	-
B.2 Performing exposures		508,620	63	1,927,413	348	90,130	4
Total (B)		**538,548**	**63**	**1,932,034**	**381**	**90,130**	**4**
Total (A+B)	**31.12.2019**	**9,255,732**	**10,766**	**9,830,710**	**127,114**	**204,669**	**33**
Total (A+B)	**31.12.2018**	**7,614,006**	**10,421**	**9,490,637**	**137,290**	**132,703**	**52**

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		536,270	1,240,095	173,564	271,904
- of which: forborne exposures		121,318	215,828	37,085	49,856
A.2 Unlikely to pay loans		808,850	466,609	226,395	59,694
- of which: forborne exposures		455,538	226,941	98,782	24,834
A.3 Non-performing past due exposures		42,510	5,587	48,116	7,366
- of which: forborne exposures		13,054	1,389	7,088	971
A.4 Performing exposures		17,141,573	75,156	14,446,834	31,485
- of which: forborne exposures		314,324	7,787	184,174	1,911
Total (A)		**18,529,203**	**1,787,447**	**14,894,909**	**370,449**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures		264,295	32,870	4,157	832
B.2 Performing exposures		15,035,991	3,766	994,379	7,983
Total (B)		**15,300,286**	**36,636**	**998,536**	**8,815**
Total (A+B)	**31.12.2019**	**33,829,489**	**1,824,083**	**15,893,445**	**379,264**
Total (A+B)	**31.12.2018**	**32,698,943**	**2,350,294**	**12,935,042**	**559,462**

B.2 Breakdown by geographical area of cash and off-balance sheet credit exposures to customers

Exposures/Geographical areas	Italy		Other european countries		United States
	Net exposure	Total impairment provisions	Net exposure	Total impairment provisions	Net exposure
A. Cash credit exposures					
A.1 Bad loans	716,331	1,520,156	8,285	40,202	27
A.2 Unlikely to pay loans	1,112,087	591,913	23,430	5,935	1,518
A.3 Non-performing past due exposures	90,617	12,944	191	25	2
A.4 Performing exposures	44,198,524	121,980	3,014,294	1,269	640,836
Total (A)	**46,117,559**	**2,246,993**	**3,046,200**	**47,431**	**642,383**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	302,866	33,735	130	-	-
B.2 Performing exposures	18,152,480	11,901	312,659	259	1,086
Total (B)	**18,455,346**	**45,636**	**312,789**	**259**	**1,086**
Total (A+B) 31.12.2019	**64,572,905**	**2,292,629**	**3,358,989**	**47,690**	**643,469**
Total (A+B) 31.12.2018	**59,150,407**	**3,006,506**	**2,623,616**	**49,398**	**799,470**

B.2 Breakdown by geographical area of cash and off-balance sheet credit exposures to customers

(cont.)

Exposures/Geographical areas	United States	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	36	-	-	-	1
A.2 Unlikely to pay loans	522	1	2	130	40
A.3 Non-performing past due exposures	1	2	1	1	1
A.4 Performing exposures	239	209,449	54	24,247	8
Total (A)	**798**	**209,452**	**57**	**24,378**	**50**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	-	-	-	5	-
B.2 Performing exposures	-	68	1	109	-
Total (B)	**-**	**68**	**1**	**114**	**-**
Total (A+B) 31.12.2019	**798**	**209,520**	**58**	**24,492**	**50**
Total (A+B) 31.12.2018	**1,154**	**141,017**	**334**	**24,118**	**75**

The territorial distribution of performing exposures to customers is presented below, considering just the component of loans and distinguishing between the Stage 1 and Stage 2 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
Performing loans	**38,821,742**	**(118,435)**	**38,703,307**	**165,439**	**(124)**	**165,315**	**5,448**	**(6)**	**5,442**
- First stage	35,653,177	(40,136)	35,613,041	159,910	(70)	159,840	4,646	(4)	4,642
- Second stage	3,168,565	(78,299)	3,090,266	5,529	(54)	5,475	802	(2)	800

(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
Performing loans	**2,865**	**(10)**	**2,855**	**1,002**	**(3)**	**999**	**38,996,496**	**(118,578)**	**38,877,918**
- First stage	2,549	(2)	2,547	804	(1)	803	35,821,086	(40,213)	35,780,873
- Second stage	316	(8)	308	198	(2)	196	3,175,410	(78,365)	3,097,045

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		61,059	104,479	301,527	672,057	81,043	163,319	272,702	580,301
A.2 Unlikely to pay loans		97,310	63,097	502,018	295,214	185,448	108,716	327,311	124,886
A.3 Non-performing past due exposures		21,876	2,815	26,292	3,354	15,259	2,455	27,190	4,320
A.4 Performing exposures		5,625,479	14,149	17,346,979	33,686	11,217,497	17,399	10,008,569	56,746
Total (A)		**5,805,724**	**184,540**	**18,176,816**	**1,004,311**	**11,499,247**	**291,889**	**10,635,772**	**766,253**
B. Off-balance sheet credit exposures									
B. 1 Non-performing exposures		15,586	1,103	186,511	22,383	46,330	5,929	54,439	4,320
B. 2 Performing exposures		3,345,276	700	9,612,544	9,214	2,186,006	678	3,008,654	1,309
Total (B)		3,360,862	1,803	9,799,055	31,597	2,232,336	6,607	3,063,093	5,629
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**
Total (A+B)	**31.12.2018**	**7,246,492**	**242,822**	**27,012,816**	**1,393,064**	**11,319,987**	**397,105**	**13,571,111**	**973,515**

B.3 Breakdown by geographical area of cash and off-balance sheet credit exposures to banks

Exposures/Geographical areas	Italy		Other european countries		United States
	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	6,377,187	4,448	5,044,387	3,054	158,633
Total (A)	**6,377,187**	**4,448**	**5,044,387**	**3,054**	**158,633**
B. Off-balance sheet credit					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	164,566	11	350,717	35	69,915
Total (B)	**164,566**	**11**	**350,717**	**35**	**69,915**
Total A+B 31.12.2019	**6,541,753**	**4,459**	**5,395,104**	**3,089**	**228,548**
Total A+B 31.12.2018	**3,501,634**	**2,797**	**5,115,818**	**2,941**	**264,530**

B.3 Breakdown by geographical area of cash and off-balance sheet credit exposures to banks

(cont.)

Exposures/Geographical areas	United States	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	85	103,879	42	806,240	58
Total (A)	**85**	**103,879**	**42**	**806,240**	**58**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	39	398,823	81	55,063	6
Total (B)	**39**	**398,823**	**81**	**55,063**	**6**
Total A+B 31.12.2019	**124**	**502,702**	**123**	**861,303**	**64**
Total A+B 31.12.2018	**81**	**308,904**	**113**	**880,148**	**68**

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 loans		-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-	-	-	-
A.4 Performing exposures		2,030,718	4,036	115,778	174	1,241,634	238	2,989,057	-
Total (A)		**2,030,718**	**4,036**	**115,778**	**174**	**1,241,634**	**238**	**2,989,057**	**-**
B. Off-balance sheet credit exposures									
B.1 Non-performing exposures		-	-	-	-	-	-	-	-
B.2 Performing exposures		46,938	4	6,870	7	3,247	-	107,511	-
Total (B)		46,938	4	6,870	7	3,247	-	107,511	-
Total (A+B)	**31.12.2019**	**2,077,656**	**4,040**	**122,648**	**181**	**1,244,881**	**238**	**3,096,568**	**-**
Total (A+B)	**31.12.2018**	**1,481,915**	**1,944**	**138,442**	**99**	**1,070,823**	**754**	**810,454**	**-**

B.4 Large exposures

	31.12.2019	31.12.2018
a) Book value	22,722,213	20,985,947
b) Weighted value	3,251,639	3,713,696
c) Number	7	12

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 2019, there are seven "large exposures" for an overall amount of € 22,722 million, corresponding to € 3,252 million after CRM and exemptions under art. 400 CRR. Of these, repurchase agreements account for € 1,124 million and € 44 million respectively.
For an amount in excess of 30% of the total, the positions shown include the Treasury Ministry and the Ministry of Economy and Finance for a total exposure of € 8,528 million, € 1,261 million after CRM and exemptions.

The remainder comprises leading European and global companies/banks and an associated/related company (€ 14,194 million - € 1,991 million post CRM and exemptions)

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	21,184,736	1,793,492
First 10 exposures	24,131,962	4,141,960
First 20 exposures	27,035,784	6,461,846

Reference date: 31.12.2018	Amount of the exposure	Amount of the exposure after CRM and exemptions under art. 400 CRR
First 5 exposures	17,050,002	1,950,356
First 10 exposures	19,942,996	2,800,077
First 20 exposures	23,658,851	5,499,905

C. Securitisation transactions

Qualitative information

The primary objectives of the securitisation transactions arranged by the Bank 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 transactions, other than self-securitisation transactions described in the subsequent section 4, are outstanding at 31 December 2019:

- Italian Credit Recycle
- Restart
- AQUI SPV
- Pillarstone
- Sestante no. 2
- Sestante no. 3
- Grecale 2009
- Grecale 2011
- Grecale 2015
- SME Grecale 2017

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 31.12.2019
IT0005274565	Senior	Dec-37	22,400	-
IT0005274573	Junior	Dec-37	18,600	10
Total			**41,000**	**10**

The senior tranche was repaid in full on 20 March 2019.

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:

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2019
IT0005274532	Senior	Dec-37	18,200	12,228
IT0005274540	Junior	Dec-37	14,800	12,570
Total			**33,000**	**24,798**

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:

(in thousands)

ISIN Code	Seniority	Maturity	Issue amount	Residual balance at 31.12.2019	Rating Scope	Rating Moody's
IT0005351330	Senior	Oct-38	544,700	461,167	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**	**534,919**		

The Senior notes were fully subscribed by Bper Banca S.p.A. The Mezzanine and Junior notes were placed with an institutional investor and, for a residual portion of 5%, were subscribed by BPER Banca S.p.A.

Pillarstone

During 2017, BPER Banca securitised a loan of 21 million US dollars granted to Premuda Spa, through the vehicle Pillarstone Italy SPV Srl (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 Spa, 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 Srl) to a company (Pillarstone Italy Holding Spa) 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 regulatory 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 Spa 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 31.12.2019
IT0003760136	Senior	Jul-42	575,300	63,904
IT0003760193	Mezzanine	Jul-42	34,400	34,400
IT0003760227	Mezzanine	Jul-42	15,600	15,600
IT0003760243	Mezzanine	Jul-42	21,900	1,159
IT0003760284	Junior	Jul-42	6,253	6,253
Totale			**653,453**	**121,316**

The Senior and Mezzanine securities were placed with institutional investors, while the junior securities were taken up by Meliorbanca and subsequently sold in 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 31.12.2019
IT0003937452	Senior	Jul-45	791,900	138,851
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**	**236,963**

The Senior and Mezzanine securities were placed with institutional investors, while the junior securities were taken up by Meliorbanca and subsequently sold in the secondary market.

Grecale 2009

Disposal date:	9 April 2009
Seller:	Unipol Banca S.p.a.
Special purpose vehicle:	Grecale ABS s.r.l., based on Piazza della Costituzione, 2 Bologna (BO)
Servicer:	Unipol Banca s.p.a., in the role of Servicer and Corporate Servicer, The Bank of New York Mellon – London Branch in the role of Calculation Agent.
Issue date of securities	30 June 2009
Type of transaction	Standard
Organisation	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 Servicer. 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 612 millions.
Disposal price of securitised assets	The disposal price was 612 millions.
Guarantees and credit lines granted by the bank	None.
Guarantees and credit lines granted by third parties	Solvency guarantee issued by UBS AG.
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 31.12.2019	Rating Moody's
IT0004500598	Senior	Apr-56	531,700	18,620	Aaa
IT0004500606	Junior	Apr-56	95,360	95,360	n.r.
Totale			**627,060**	**113,980**	

Grecale 2011

Disposal date:	4 May 2011
Seller:	Unipol Banca S.p.a.
Special purpose vehicle:	Grecale RMBS 2011 s.r.l., based on Piazza della Costituzione, 2 Bologna (BO)
Servicer:	Unipol Banca s.p.a., in the role of Servicer and Corporate Servicer, Bank of New York Mellon – London Branch in the role of Calculation Agent, Principal Paying Agent and Cash Manager - Centotrenta Servicing in the role of Administrative Servicer.
Issue date of securities	14 October 2011
Type of transaction	Standard
Organisation	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 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 723 millions.
Disposal price of securitised assets	The disposal price was 723 millions.
Guarantees and credit lines granted by the bank	Subordinated loan for Euro 18.1 millions.
Guarantees and credit lines granted by third parties	Solvency guarantee issued by JPMorgan Chase Bank NA
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 31.12.2019	Rating Fitch	Rating S&P
IT0004764228	Senior	Jan-61	175,000	-	AAA	Aaa
IT0004764251	Mezzanine	Jan-61	390,200	21,508	AAA	Aaa
IT0004764269	Junior	Jan-61	158,980	158,980	n.r.	n.r.
Totale			**724,180**	**180,488**		

Grecale 2015

Disposal date:	25 September 2015
Seller:	Unipol Banca S.p.a.
Special purpose vehicle:	Grecale RMBS 2015 s.r.l., based on Piazza della Costituzione, 2 Bologna (BO)
Servicer:	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	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 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 31.12.2019	Rating Fitch	Rating DBRS
IT0005143836	Senior	Dec-67	573,500	160,797	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**	**313,275**		

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:	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	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 31.12.2019	Rating Moody's	Rating DBRS
IT0005285207	Senior	Mar-56	508,220	96,269	Aa2	AA
IT0005285215	Mezzanine	Mar-56	77,000	77,000	A3	BBB
IT0005285223	Junior	Mar-56	184,816	184,816	n.r.	n.r.
Totale			**770,036**	**358,085**		

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 derecognised	**462,064**	**923**	**9,334**	**2**	**42**	**-**
- performing residential mortgages	1,025	3	603	2	42	-
- non-performing residential mortgages	42,416	85	82	-	-	-
- performing no residential mortgages	-	-	-	-	-	-
- non-performing no residential mortgages	253,391	506	488	-	-	-
- leasing performing	-	-	-	-	-	-
- leasing non performing	669	-	680	-	-	-
- other performing loans	-	-	-	-	-	-
- other non-performing loans	164,563	329	7,481	-	-	-
- performing securities	-	-	-	-	-	-
- non-performing securities	-	-	-	-	-	-
B. Partially derecognised	-	-	-	-	-	-
C. Not derecognised	-	-	-	-	-	-

(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 derecognised	**3,048**	**9**	**-**	**-**	**-**	**-**
- performing residential mortgages	3,048	9	-	-	-	-
- 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 derecognised	-	-	-	-	-	-
C. Not derecognised	-	-	-	-	-	-

The table shows the cash exposures assumed by the Bank in connection with its own securitisations Sestante, Restart, Italian Credit Recycle, Pillarstone and Aqui. "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	11,263	7	-	-	-	-
- non-performing residential mortgages	9,092	6	-	-	-	-
- performing no residential mortgages	-	-	-	-	-	-
- non-performing no residential mortgages	-	-	-	-	-	-
- leasing performing	-	-	-	-	-	-
- leasing non-performing	-	-	-	-	-	-
- other performing loans	48,201	-	-	-	-	-
- other non-performing loans	11,796	23	-	-	-	-
- 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	**1,316,480**	**-**	**1,316,480**	**-**	**1,289,552**	**-**	**1,289,552**
1. Debt securities	1,316,480	-	1,316,480	-	1,289,552	-	1,289,552
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**2,375,911**	**1,223,807**	**1,152,104**	**-**	**1,457,817**	**294,503**	**1,163,314**
1. Debt securities	959,959	-	959,959	-	970,761	-	970,761
2. Loans	1,415,952	1,223,807	192,145	-	487,056	294,503	192,553
Total 31.12.2019	**3,692,391**	**1,223,807**	**2,468,584**	**-**	**2,747,369**	**294,503**	**2,452,866**
Total 31.12.2018	**4,655,651**	**-**	**4,655,651**	**-**	**4,478,912**	**-**	**4,478,912**

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

During 2019, BPER Banca arranged just one disposal of non-performing loans, classified in the Unlikely-To-Pay (UTP) category, to a multi-originator mutual fund with simultaneous subscription for units issued by the fund; this transaction took place with Clessidra SGR, as manager, and the new Clessidra Restructuring Fund (CRF or the Fund), as purchaser of the non-performing loans.
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.

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.
With regard to the initial loan portfolio, each participating bank assigned corporate loans to the Fund without recourse. The counterparties assigned by one bank might have been the same as or different to those of the other participants.
In exchange for the assignment, each bank received Fund units in proportion to the value of the loans assigned, with respect to the overall valuation of the loans assigned to the Fund by all banks. This valuation, which determined the disposal values recognised by CRF, resulted in the allocation to BPER Banca of 9.4% of the A units in the Fund.
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 following significant information is provided about the UTP portfolio assigned by BPER Banca, 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	**16,061.21**	**8,466.33**
Diversified Industrial Products	3,815.70	-
Secured	*3,815.70*	-
Marine Applications	12,245.50	8,466.33
Unsecured	*12,245.50*	*8,466.33*
Lombardy	**6,395.70**	**4,167.57**
Consumer Retail	4,205.67	2,835.38
Secured	*2,810.67*	*1,895.44*
Unsecured	*1,395.00*	*939.94*
Iron & Steel	2,190.03	1,332.18
Unsecured	*2,190.03*	*1,332.18*
Veneto	**5,212.30**	**3,579.71**
Food & Beverage	5,212.30	3,579.71
Unsecured	*5,212.30*	*3,579.71*
Total	27,669.21	16,213.61

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, fair value on initial recognition was determined using a mark-to-model approach, resulting in a Level 3 fair value. The model applied was compatible with Discounted Cash Flow (DCF) models and resulted in an initial fair value of Euro 12 million.

E.4 Covered bond transactions

Introduction

GBB issues are foreseen by BPER Banca Group's strategic plan as a means of diversification of funding sources, of reduction of related costs and of lengthening of maturities of liabilities. In particular, guaranteed bank bond issues are extremely appealing at a time when market yields are very low, also considering the relevant volatility of the reference market.
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 of Directors 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 bonds 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").

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 is, in accordance with the Regulations, 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 Bonds 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 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, fifth, 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. Lastly, the third issue was also physiologically repaid on 22 October 2018.
For the fourth, fifth, eighth and ninth issue, which bear a fixed interest rate, it was necessary to execute liability swap agreements. Lastly, the sixth and seventh issues bear a floating interest rate and, thus, have no associated liability swap.
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 par 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 physiologically repaid 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 January 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.
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. Repayments totalled Euro 850 million in 2018 and, lastly, a further Euro 727 million was repaid in 2019 against the principal generated by the loan portfolio sold.
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 may not, however, in view of the inadequate level of rating, be entrusted to BPER Banca. 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.;
- Banca di Sassari s.p.a.;
- Cassa di Risparmio di Bra s.p.a.;
- Cassa di Risparmio di Saluzzo 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.
Guarantor: Estense Covered Bond s.r.l.
Representative of the Bondholders (RoB): Securitisation Services s.p.a.
Italian Paying Agent, Cash Manager and Account Bank: BNP Paribas Securities Services (both Italian and London branches).
Corporate Servicer: Securitisation Services s.p.a.
Guarantor Calculation Agent: Securitisation Services 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 RCCD.
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 5 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 February 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.
The eighth issue of self-subscribed Guaranteed Bank Bonds totalling Euro 200 million, at a fixed interest rate with a tenor of 4 years, is scheduled for January 2020.
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 3 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. Lastly, in 2019, an additional Euro 645 million was repaid, again on the basis of the available capital provided by the transferred loan portfolio.

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 sold Eligible Assets - for which BPER Banca will remain as Servicer - are transferred to current accounts with Citibank N.A., either in Italy or the UK, since this is a third party with an appropriate 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.;
- Banca di Sassari s.p.a.;
- Cassa di Risparmio di Bra s.p.a.;
- Cassa di Risparmio di Saluzzo s.p.a.

Arranger: Finanziaria Internazionale Securitisation Group s.p.a.
Initial Dealer of the first series of bonds issued: Banca Finanziaria Internazionale 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): Securitisation Services s.p.a.
Subsequent Paying Agent, Cash Manager and Account Bank: Citibank N.A. (both Italian and London branches).
Corporate Servicer: Securitisation Services s.p.a.
Guarantor Calculation Agent: Securitisation Services s.p.a.
Legal advisor to BPER Banca: Jones Day 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 2019, the Own Funds of the BPER Banca Group amount to Euro 5,840 million and the Total capital ratio is equal to 16.82%.

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 2019, the Tier 1 Ratio was 14.35% and the Common Equity Tier 1 Ratio 13.91%.

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, therefore, do not 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 Counterbalancy 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 and 2018 without any significant findings emerging.

Quantitative information relating to sold loans

GBB1 Programme

1. Changes during the year

Description	31.12.2019
Opening balance	**4,511,379**
Increases	**669,799**
Purchase of loans portfolio	569,579
Other changes:	100,220
- Interest income accrued on loans	95,374
- Default interest	60
- Penalties and various recoveries	156
- Revenues from IAS adjustments	-
- Out-of-period income from bad loans	-
- Recovery of impairment provisions	4,630
- Recovery of expenses on bad loans	-
Decreases	**724,532**
Collections from customers	685,423
Other changes:	335
- Impairment losses on loans	335
- Losses on loans	-
- Charges from IAS adjustments	-
Repurchases by the Originator	38,774
Closing balance	**4,456,646**

2. Breakdown by residual life

Residual life of securitised loans	31.12.2019
Up to 3 months	445
From 3 to 12 months	6,626
From 1 to 5 years	173,414
Over 5 years	4,289,765
Unspecified duration	1,409
Total	**4,471,659**

3. Risk concentration

Amount by category (Euro)	Number of customers	31.12.2019
0 - 25,000	7,357	103,093
25,000 - 75,000	27,824	1,371,358
75,000 - 250,000	23,258	2,699,645
Over 250,000	841	297,563
Total	**59,280**	**4,471,659**

The loans balance is gross of loan provisions and IAS impairment losses.

As of 31 December 2019, 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	31.12.2019
Opening balance	**2,245,117**
Increases	**1,528,304**
Purchase of loans portfolio	1,468,375
Other changes:	59,929
- Interest income accrued on loans	57,634
- Default interest	66
- Penalties and various recoveries	356
- Revenues from IAS adjustments	-
- Out-of-period income from bad loans	-
- Write-backs on impairment provisions	1,873
Decreases	**517,132**
Collections from customers	510,262
Other changes:	6,870
- Impairment losses on loans	3,050
- Charges from to IAS adjustments	3,820
Repurchases by the Originator	-
Closing balance	**3,256,289**

2. Breakdown by residual life

Residual life of securitised loans	31.12.2019
Up to 3 months	651
From 3 to 12 months	12,741
From 1 to 5 years	283,479
Over 5 years	2,973,556
Unspecified duration	2,060
Total	**3,272,487**

The loans balance is gross of loan provisions and IAS impairment losses.

3. Risk concentration

Amount by category (Euro)	Number of customers	31.12.2019
0 - 25,000	6,978	53,619
25,000 - 75,000	12,220	614,330
75,000 - 250,000	13,904	1,709,773
Over 250,000	1,446	894,765
Total	34,548	**3,272,487**

The loans balance is gross of loan provisions and IAS impairment losses.

As of 31 December 2019, 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

As a primary activity, the Group trades on own account.
The 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 derivatives 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 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 (depending on the degree of liquidity of the portfolio) at a pre-determined level of probability (consistent with the investor's degree of risk aversion).
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 order to meet both regulatory and operational requirements. In fact, an analysis is proposed with a time horizon of one month and with a confidence interval of 99% consistent 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 proprietary 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 interest rate and price risk control process is centralised at BPER Banca and is carried out by the Risk Management Unit. Periodic information is assured by the distribution of specific reports prepared at different time intervals ranging from daily upwards.
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 (sensitivity, stop loss and position) for the portfolios managed by the appropriate Group structures, addressing the various risks to which they are exposed. Limits are checked on a daily basis by the Financial Risk Department.
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.

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 for regulatory purposes at 31 December 2019.

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	1,325	58	4.40%	19	1.42%
CCT	-	-		-	
Other government securities	14,862	46	0.31%	15	0.10%
Bonds	51,311	331	0.64%	106	0.21%
Equities	33	2	4.83%	1	1.54%
Mutual funds and SICAV	-	-			
Derivatives/Transactions to be settled	(153,597)	13,220	-8.61%	3,858	-2.51%
Effect of diversification		(4,622)		(1,318)	
Total portfolio 2019	**(86,066)**	**9,035**	**-10.50%**	**2,681**	**-3.11%**
Total portfolio 2018	**52,978**	**12,788**	**24.14%**	**3,753**	**7.08%**

The value of the trading portfolio at 31 December 2019 given a parallel shift of +/- 100 basis points (sensitivity analysis) is set out below.

	+100 bps	-100 bps
31 dec 2019	19,635	(33,489)
31 dec 2018	(34,535)	36,909

3. Price 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 is set out below, in relation to the price risk associated with the trading portfolio for regulatory purposes at 31 December 2019.

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	90,551	6,234	6.88%	1,971	2.18%
Mutual funds and SICAV	-	-		-	
Derivatives/Transactions to be settled	1,131	4,520	399.73%	1,324	117.13%
Effect of diversification		(7,802)		(2,348)	
Total portfolio 2019	**91,682**	**2,952**	**3.22%**	**947**	**1.03%**
Total portfolio 2018	**69,636**	**5,901**	**8.47%**	**1,895**	**2.72%**

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, considering both current profits (sensitivity of net interest income) and the economic value of shareholders' equity:

- 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 management 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 consider 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 following shocks are considered:

- parallel shock of + 100 bps;
- parallel shock of +/- 50 bps;
- parallel shock of - 25 bps.

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, including market interest rates, the original duration of the loan, the type of loan and personal characteristics of the borrower.
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 equities, 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 for regulatory purposes".
The Risk Management Department determines the exposure to price risk each day in a specific VaR report.

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 2019 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 basis points.

	+100 bps	-50 bps
31 December 2019	**64,479**	**(31,546)**
maximum change	82,686	(43,145)
minimum change	59,898	(30,278)
average change	70,008	(35,176)
31 December 2018	**67,465**	**3,703**

Below are the year-end figures at 31 December 2019 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 basis points (sensitivity analysis).

	+100 bps	-100 bps
31 December 2019	**116,550**	**196,388**
maximum change	204,293	270,204
minimum change	103,654	42,781
average change	153,323	178,643
31 December 2018	**144**	**(185,130)**

2. Price risk - Banking book: internal models and other methodologies for the sensitivity analysis

The VaR readings 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 for regulatory purposes at 31 December 2019.

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	272,039	16,951	6.23%	5,360	1.97%
Mutual funds and SICAV	256,889	12,169	4.74%	3,848	1.50%
Derivatives/Transactions to be settled					
Effect of diversification		(2,296)		(726)	
Total portfolio 2019	**528,928**	**26,824**	**5.07%**	**8,482**	**1.60%**
Total portfolio 2018	**551,775**	**33,035**	**5.99%**	**10,447**	**1.89%**

2.3 Exchange risk

Qualitative information

A. General aspects, management and measurement of exchange risk

The Group is exposed to exchange risk as a consequence of routine funding and lending activities and, to a marginal extent, in relation to speculative activities.
The Parent Company's Financial Risk Department determines the exposure to exchange rate risk each day and summarises it monthly 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	JPY	ZAR	OTHER CURRENCIES
A. Financial assets	2,024,742	152,028	18,408	4,339	854	15,594
A.1 Debt securities	1,887,384	143,947	-	-	-	-
A.2 Equity securities	23,179	-	85	211	-	738
A.3 Loans to banks	28,219	5,577	10,274	2,092	854	13,847
A.4 Loans to customers	85,960	2,504	8,049	2,036	-	1,009
A.5 Other financial assets						
B. Other assets	2,757	1,410	856	111		1,149
C. Financial liabilities	1,793,672	164,584	7,277	6,098	394	15,668
C.1 Deposits from banks	1,574,740	141,634	321	18	5	56
C.2 Deposits from customers	218,932	22,950	6,956	6,080	389	15,612
C.3 Debt securities in issue	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	6,354	188	129			35
E. Financial derivatives	561,489	19,074	20,594	28,082	38,724	20,176
- Options						
+ Long positions	21,815	4,565	-	5,730	-	-
+ Short positions	61,216	3,943	-	5,687	-	1,823
- Other derivative instruments						
+ Long positions	224,874	5,535	19,812	6,231	19,162	9,978
+ Short positions	253,584	5,031	782	10,434	19,562	8,375
Total Assets	2,274,188	163,538	39,076	16,411	20,016	26,721
Total liabilities	2,114,826	173,746	8,188	22,219	19,956	25,901
Net balance (+/-)	159,362	(10,208)	30,888	(5,808)	60	820

2. 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 exchange risk faced by the Bank at 31 December 2019

	VaR Time horizon: 10 days Confidence interval: 99%	VaR Time horizon: 1 day Confidence interval: 99%
2019 figures	(33,741)	(10,672)
2018 figures	2,235	714

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 31.12.2019				Total 31.12.2018			
	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	**-**	**10,748,223**	**422,916**	**-**	**-**	**8,370,413**	**575,725**	**-**
a) Options	-	720,001	-	-	-	557,462	29,214	-
b) Swap	-	9,775,706	-	-	-	7,631,488	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	422,916	-	-	-	546,511	-
e) Others	-	252,516	-	-	-	181,463	-	-
2. Equities and stock indexes	**-**	**107,452**	**90,928**	**-**	**-**	**130,660**	**54,936**	**-**
a) Options	-	107,452	60,769	-	-	130,660	54,936	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	30,159	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**589,110**	**8,183**	**-**	**-**	**586,045**	**49,972**	**-**
a) Options	-	112,700	-	-	-	132,831	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	476,410	8,183	-	-	453,214	49,972	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**25,757**	**-**	**-**	**9,983**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**11,444,785**	**547,784**	**-**	**-**	**9,097,101**	**680,633**	**-**

A.2 Trading financial derivatives: gross positive and negative fair value - breakdown by product

Types of derivatives	Total 31.12.2019				Total 31.12.2018			
	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	-	5,450	65	-	-	7,119	36	-
b) Interest rate swap	-	133,000	-	-	-	79,369	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	4,574	993	-	-	3,239	4,018	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	9,993	-	-	-	6,115	-	-
Total	**-**	**153,017**	**1,058**	**-**	**-**	**95,842**	**4,054**	**-**
2. Negative fair value								
a) Options	-	10,352	2,304	-	-	24,389	1,747	-
b) Interest rate swap	-	151,743	-	-	-	115,943	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	3,074	255	-	-	3,556	1,016	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	6,809	-	-	-	3,608	-	-
Total	**-**	**171,978**	**2,559**	**-**	**-**	**147,496**	**2,763**	**-**

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	422,916	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equities and stock indexes				
- notional value	X	53,879	2	37,047
- positive fair value	X	-	1	64
- negative fair value	X	372	-	1,166
3) Currencies and gold				
- notional value	X	6,348	711	1,123
- positive fair value	X	890	103	-
- negative fair value	X	213	-	43
4)Goods				
- notional value	X	13,228	12,529	-
- positive fair value	X	-	-	-
- negative fair value	X	-	765	-
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	-	9,445,965	251,093	1,051,164
- positive fair value	-	96,828	2,874	44,865
- negative fair value	-	166,461	540	143
2) Equities and stock indexes	-			
- notional value	-	75,388	64	32,000
- positive fair value	-	2,407	12	-
- negative fair value	-	1,051	1	-
3) Currencies and gold	-			
- notional value	-	308,834	41,297	238,980
- positive fair value	-	3,072	208	2,751
- negative fair value	-	1,354	495	1,933
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 year	Over 5 year	Total
A.1 Financial derivative contracts on debt securities and interest rates		3,357,137	4,614,778	3,199,224	11,171,139
A.2 Financial derivative contracts on equity securities and stock indexes		155,387	10,929	32,064	198,380
A.3 Financial derivatives on currencies and gold		573,283	24,010	-	597,293
A.4 Financial derivatives on goods		25,757	-	-	25,757
A.5 Other financial derivatives		-	-	-	-
Total	**31.12.2019**	**4,111,564**	**4,649,717**	**3,231,288**	**11,992,569**
Total	**31.12.2018**	**2,076,966**	**5,318,848**	**2,381,919**	**9,777,733**

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	-	70,000
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31.12.2019	**-**	**70,000**
Total 31.12.2018	**-**	**20,000**
2. Protection sales		
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31.12.2019	**-**	**-**
Total 31.12.2018	**-**	**-**

B.2 Trading credit derivatives: positive and negative gross fair value - breakdown for products

Types of derivatives	Total 31.12.2019	Total 31.12.2018
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	1,683	1
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**1,683**	**1**

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	-	70,000	-	-
– positive fair value	-	-	-	-
– negative fair value	-	1,683	-	-
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	-	70,000	-	70,000
Totale 31.12.2019	**-**	**70,000**	**-**	**70,000**
Totale 31.12.2018	**-**	**20,000**	**-**	**20,000**

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

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 rise in risk-free rates.
The derivatives used for this purpose are:

- Interest Rate Swaps (IRS), 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.

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 undesired fluctuations in market rates. An IRS derivative contract 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

Hedged risk – Exchange rate risk

As part of the Group's operations in foreign currency instruments, the management of foreign exchange risk also occurs through derivatives, used to neutralise the sensitivity of the securities portfolio held in foreign currency, or in the event of exchange rate devaluation.
The derivatives used for this purpose are:

- Cross Currency Swaps, 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.
- Repos in foreign currency

Compared with what is shown, the exchange rate risk is only hedged for management purposes, as none of them qualify for hedge accounting.

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 derivatives.

E. Hedged items

The BPER Banca Group currently has accounting hedges on bonds in the banking book, on loans (mortgages) granted and on its own bond issues. For these instruments, either the interest-rate risk component or the exchange-rate risk component is hedged.

IBOR Reform

As already discussed in the Directors' report on operations (Principal risks and uncertainties – IBOR Reform), following the decision of the Financial Stability Board to gradually replace the IBOR with "alternative interest rates" consistent with the EU Benchmark Regulation – BMR, the Bank has commenced work to manage the transition in relation to existing contracts that might be affected by the reform.

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	EURIBOR	110,686	0.19
		Fixed rate	5,014,100	8.21
Interest Rate Swap	GBP LIBOR	Fixed rate	29,384	6.43
Interest Rate Swap	USD LIBOR	Fixed rate	607,353	4.03
Interest Rate Swap	Fixed rate	EURIBOR	1,844,422	3.84
		Fixed rate	104,446	5.93
Total			**7,710,391**	**6.68**

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 stated in Part A of the Explanatory notes, the BPER Banca Group has therefore considered it necessary to apply early and, therefore, in the consolidated financial statements at 31 December 2019, the amendments made to IFRS 9, IFRS 7 and IAS 39[40]; these amendments made it possible, on an exceptional and temporary basis, to carry out the forward-looking tests using the current benchmark rates, even for maturities subsequent to 31 December 2021.

[40] *EU Regulation 2020/34.*

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 31.12.2019				Total 31.12.2018			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparties	without central counterparties: with clearing arrangements	without central counterparties: without clearing arrangements		Central Counterparties	without central counterparties: with clearing arrangements	without central counterparties: without clearing arrangements	
1. Debt securities and interest rate	**-**	**7,655,945**	**-**	**-**	**-**	**6,545,536**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	7,655,945	-	-	-	6,545,536	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
2. Equities and stock indexes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**54,446**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	54,446	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**7,710,391**	**-**	**-**	**-**	**6,545,536**	**-**	**-**

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 31.12.2019				Total 31.12.2018				Total	Total
	Over the counter			Organized markets	Over the counter			Organized markets	31.12.2019	31.12.2018
	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	-	80,648	-	-	-	34,916	-	-	-	-
c) Cross currency swap	-	1,221	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**81,869**	**-**	**-**	**-**	**34,916**	**-**	**-**	**-**	**-**
2. Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swap	-	283,792	-	-	-	85,717	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**-**	**283,792**	**-**	**-**	**-**	**85,717**	**-**	**-**	**-**	**-**

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) Other values				
- 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	-	7,566,930	89,015	-
- positive fair value	-	80,427	221	-
- negative fair value	-	283,792	-	-
2) Equities and stock indexes				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	54,446	-
- positive fair value	-	-	1,221	-
- negative fair value	-	-	-	-
4) Other values				
- 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 year	Over 5 year	Total
A.1 Financial derivative contracts on debt securities and interest rates	229,522	3,413,155	4,013,268	7,655,945
A.2 Financial derivative contracts on equity securities and stock indexes	-	-	-	-
A.3 Financial derivative contracts on currency and gold	-	-	54,446	54,446
A.3 Financial derivative on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2019	**229,522**	**3,413,155**	**4,067,714**	**7,710,391**
Total 31.12.2018	**152,617**	**2,906,898**	**3,486,021**	**6,545,536**

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

There are no amounts in the financial statements as BPER Banca has decided to use the “opt-out” option, which means that hedging transactions will continue to be managed in accordance with IAS 39.

E. Effects of hedging transactions on shareholders’ equity

There are no amounts in the financial statements as BPER Banca has decided to use the “opt-out” option, which means that hedging transactions will continue to be managed in accordance with IAS 39.

3.3. Other information on derivative instruments (trading and hedging)

A. Financial and credit derivatives

At 31 December 2019, the BPER Banca does not have any derivatives that satisfy the criteria envisaged in IAS 32.42 for the offset of 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), which includes the plan covering the objectives, processes and strategies for action (Contingency Funding Plan).

Group Policy for Liquidity and Funding Risk GovernanceThis 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 management 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 Policy to be followed 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 analyses, the scenarios are constructed with reference to both systemic events (Market Stress Scenario) and events specific to the Bank (Name Crisis Stress Scenario), as well as a combination of the two (Composite Scenario). In view of the macroeconomic context, commercial policies and possible changes in customer behaviour;
- 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 or "market driven" liquidity crises generated by market, political or macroeconomic crises;
- specific liquidity crises or "name 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 currently updated, 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 2019 it was 158.9% calculated as a ratio of 12,676 million of highly liquid assets and 7,979 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 2019, the indicator stood at 114.0%.

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".

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	**9,547,585**	**896,933**	**835,960**	**2,887,351**	**3,157,752**
A.1 Government securities	-	-	1,718	-	24,173
A.2 Other debt securities	5,022	17	57,967	35,849	63,103
A.3 UCITS units	242,028	-	-	-	-
A.4 Loans	9,300,535	896,916	776,275	2,851,502	3,070,476
- Banks	1,382,660	509,443	137,516	267,930	1,131,403
- Customers	7,917,875	387,473	638,759	2,583,572	1,939,073
B.Cash liabilities	**40,245,889**	**412,540**	**226,685**	**363,104**	**624,473**
B.1 Deposits and current accounts	39,607,464	34,243	59,872	206,579	294,510
- Banks	3,448,050	-	-	110,169	-
- Customers	36,159,414	34,243	59,872	96,410	294,510
B.2 Debt securities	25,502	9,754	102,465	30,784	199,964
B.3 Other liabilities	612,923	368,543	64,348	125,741	129,999
C. Off-balance sheet transactions					
C.1 Physically settled financial derivatives					
- Long positions	-	39,536	17,557	25,746	145,757
- Short positions	49,250	17,081	12,302	31,208	34,294
C.2 Cash settled financial derivatives					
- Long positions	106,887	-	-	-	-
- Short positions	105,691	-	-	-	-
C.3 Deposit to be received					
- Long positions	-	1,290,958	-	-	-
- Short positions	-	243,570	-	723,710	323,678
C.4 Commitments to disburse funds					
- Long positions	11,428	-	-	-	124
- Short positions	864,728	-	-	-	-
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	1,683	-	-	-	-

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	**1,961,425**	**4,061,160**	**18,314,231**	**20,921,882**	**1,069,955**
A.1 Government securities	10,237	54,739	2,051,538	3,511,931	-
A.2 Other debt securities	92,026	144,382	3,101,156	4,343,940	608
A.3 UCITS units	-	-	-	-	-
A.4 Loans	1,859,162	3,862,039	13,161,537	13,066,011	1,069,347
- Banks	600	235,771	668,651	71,963	1,069,347
- Customers	1,858,562	3,626,268	12,492,886	12,994,048	-
B.Cash liabilities	**5,178,326**	**2,318,879**	**7,356,575**	**2,795,693**	**-**
B.1 Deposits and current accounts	217,490	136,499	3,770	-	-
- Banks	-	-	-	-	-
- Customers	217,490	136,499	3,770	-	-
B.2 Debt securities	434,121	1,082,183	2,271,017	1,373,669	-
B.3 Other liabilities	4,526,715	1,100,197	5,081,788	1,422,024	-
C. Off-balance sheet transactions					
C.1 Physically settled financial derivatives					
- Long positions	40,550	93,363	14,684	103,697	-
- Short positions	37,070	40,427	3,146	-	-
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	848	3,107	433,697	10,650	-
- 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	**88,950**	**11,948**	**7,758**	**14,617**	**79,304**
A.1 Government securities	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	19,558
A.3 UCITS units	15,821	-	-	-	-
A.4 Loans	73,129	11,948	7,758	14,617	59,746
- Banks	61,392	9,403	1,780	-	1,626
- Customers	11,737	2,545	5,978	14,617	58,120
B.Cash liabilities	**271,241**	**27,660**	**300,520**	**322,742**	**1,109,289**
B.1 Deposits and current accounts	271,126	-	31,537	690	16,239
- Banks	13,232	-	30,297	-	9,792
- Customers	257,894	-	1,240	690	6,447
B.2 Debt securities	-	-	-	-	-
B.3 Other liabilities	115	27,660	268,983	322,052	1,093,050
C. Off-balance sheet transactions					
C.1 Physically settled financial derivatives					
- Long positions	-	12,855	12,343	30,587	33,906
- Short positions	-	41,816	17,538	25,588	141,331
C.2 Cash settled financial derivatives					
- Long positions	-	-	-	-	-
- Short positions	1,716	-	-	-	-
C.3 Deposit to be received					
- Long positions	-	-	-	-	-
- Short positions	-	-	-	-	-
C.4 Commitments to disburse funds					
- Long positions	-	-	65	-	-
- Short positions	40	25	-	-	-
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	**179,866**	**125,691**	**1,328,880**	**546,230**	**-**
A.1 Government securities	-	-	129,202	111,625	-
A.2 Other debt securities	149,980	118,932	1,199,678	434,605	-
A.3 UCITS units	-	-	-	-	-
A.4 Loans	29,886	6,759	-	-	-
- Banks	22,094	-	-	-	-
- Customers	7,792	6,759	-	-	-
B.Cash liabilities	**13,532**	**819**	**-**	**-**	**-**
B.1 Deposits and current accounts	13,532	819	-	-	-
- Banks	9,792	-	-	-	-
- Customers	3,740	819	-	-	-
B.2 Debt securities	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-
C. Off-balance sheet transactions					
C.1 Physically settled financial derivatives					
- Long positions	37,536	39,232	2,285	-	-
- Short positions	53,552	91,720	14,222	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	-	-	-	-	-
- 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 at 31 December 2019, as shown below.

Grecale 2008 (former Unipol Banca) self-securitisation

Following the acquisition of Unipol Banca S.p.A. and its absorption in November 2019, BPER Banca acquired exposure to a self-securitisation operation originated by Unipol Banca.
This operation did not generate derecognition and BPER Banca still holds all the senior and junior notes issued.
More specifically, this is an RMBS whose portfolio comprises residential mortgages.
The residual exposure at 31 December 2019 is analysed below.

Grecale ABS - series 2008:

- € 150,117,261 in senior notes, later reduced to € 121,807,347 after the January 2020 payment date;
- € 96,510,000 in junior notes.

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[41]".
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[42].

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 Department, 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.

[41] *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.*
[42] *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.

The Parent Company prepares a quarterly report for top 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 and reputational risk management framework.

Membership by the BPER Banca Group of the DIPO consortium[43] 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.

Quantitative information

The following is the distribution of the number of events and operating losses recorded in 2019, 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;

[43] *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.*

- 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

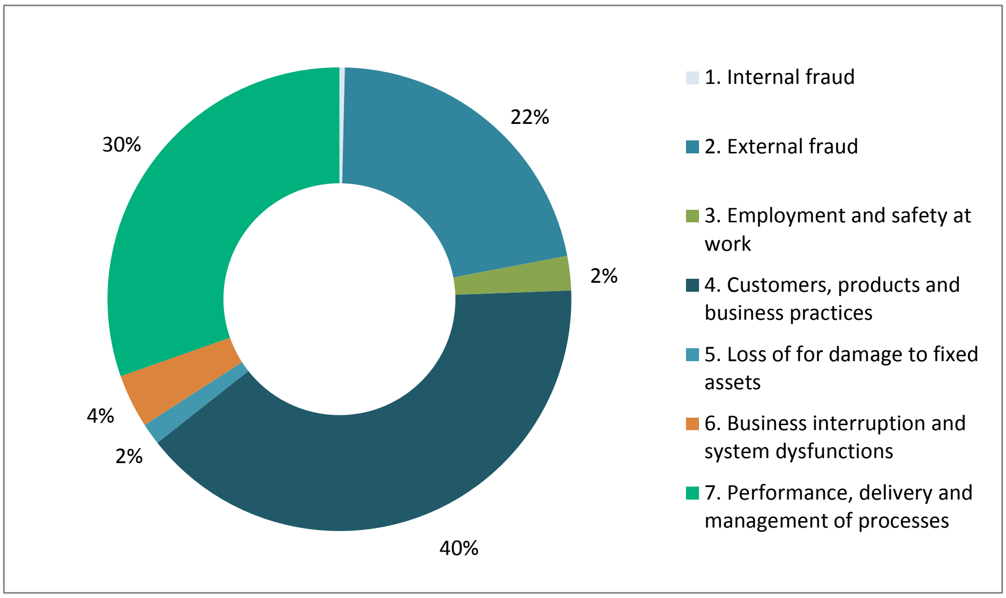
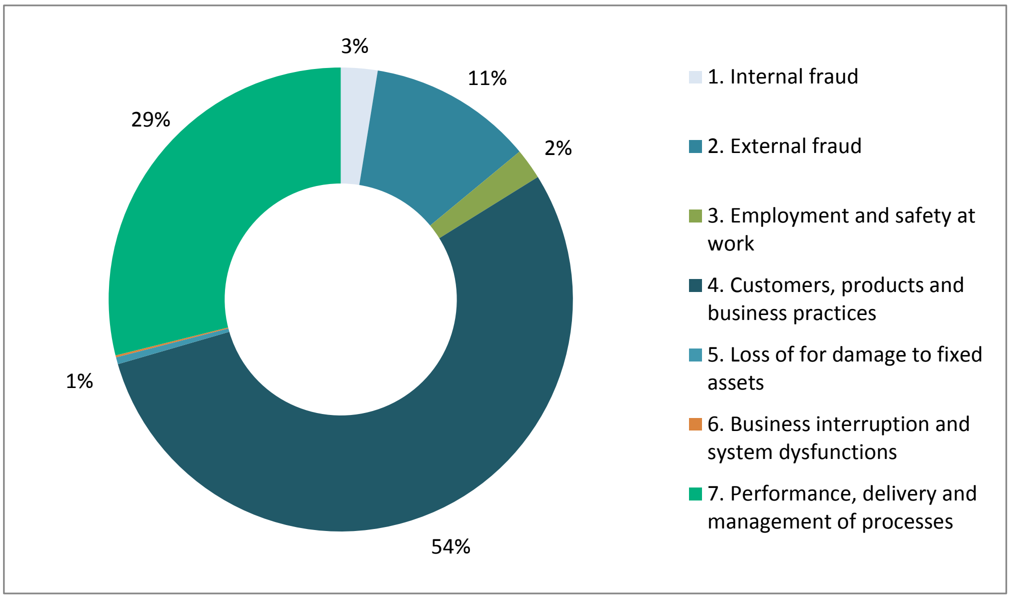


Figure 2 – Breakdown by Gross Actual Loss



An analysis of the graphs shows that the most relevant type of event in terms of frequency is:

- "Customers, products and business practices", with 40% of the total frequency;
- "Performance, delivery and management of processes", with 30% of the total frequency;

In terms of economic impact the most significant events related to:

- "Customers, products and business practices", with 54% of the total gross loss;
- "Performance, delivery and management of processes", with 29% 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 framework envisages the following activities:

- identification of the reputational risk;
- risk assessment;
- constant monitoring/supervision of the exposure of the BPER Group to the risk, by analysing trends in the risk indicators and managing any reputational events that may be particularly critical;
- reporting to the 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 31.12.2019	Amount 31.12.2018
1. Share capital	1,561,884	1,443,925
2. Share premium reserve	1,002,722	930,073
3. Reserves	2,039,723	1,797,104
- from profits	1,539,867	1,296,134
a) legal	300,320	286,326
b) statutory	-	-
c) treasury shares	-	-
d) others	1,239,547	1,009,808
- others	499,856	500,970
4. Equity instruments	150,000	-
5. (Treasury shares)	(7,253)	(7,253)
6. Valuation reserves:	(135,730)	(82,514)
- Equity instruments designated at fair value through other comprehensive income	(24,081)	32,096
- Hedging of equity instruments designated at fair value through other comprehensive income	-	-
- Financial assets (no equity instruments) measured at fair value through other comprehensive income	21,781	(15,376)
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Foreign investments hedges	-	-
- Cash flow hedges	(1,214)	(1,070)
- 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	(132,270)	(98,218)
- Share of the valuation reserves of equity investments carried at equity	-	-
- Special revaluation laws	54	54
7. Profit (Loss) for the year	385,435	306,715
Total	4,996,781	4,388,050

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

Assets/values	Total 31.12.2019		Total 31.12.2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	30,357	8,576	33,947	49,323
2. Equity instruments	52,638	76,719	49,775	17,679
3. Loans	-	-	-	-
Total	**82,995**	**85,295**	**83,722**	**67,002**

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	**(15,376)**	**32,096**	**-**
2. Positive changes	**123,461**	**10,315**	**-**
2.1 Fair value increases	84,974	1,637	-
2.2 Impairment losses for credit risk	1,564	X	-
2.3 Reclassification to profit or loss of negative reserves to be realized	12,376	X	-
2.4 Transfer to other components of shareholders' equity (equity instruments)	-	289	-
2.5 Other changes	24,547	8,389	-
- of which: business combinations	786	-	-
3. Negative changes	**86,304**	**66,492**	**-**
3.1 Fair value decreases	6,482	63,134	-
3.2 Write-backs for credit risk	2,329	-	-
3.3 Reclassification to profit or loss of positive reserves to be realized	29,295	X	-
3.4 Transfer to other components of shareholders' equity (equity instruments)	-	8	-
3.5 Other changes	48,198	3,350	-
- of which: business combinations	4,327	219	-
4. Closing balance	**21,781**	**(24,081)**	**-**

B.4 Valuation reserves about actuarial gains (losses) on defined-benefit plans: annual changes

	31.12.2019	31.12.2018
1. Opening balance	**(98,218)**	**(98,283)**
2. Positive changes	**10,194**	**4,174**
2.1 Actuarial gains	34	4,077
2.2 Other changes	10,160	97
3. Negative changes	**44,246**	**4,109**
3.1 Actuarial losses	39,535	3,986
3.2 Other changes	4,711	123
4. Closing balance	**(132,270)**	**(98,218)**

Section 2 - Own funds and capital adequacy ratios

Information about own funds and capital adequacy is provided in the "Public Disclosures at 31 December 2019 – 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) 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: acquisition of Unipol Banca s.p.a.

The "strategic transactions" agreed between BPER Banca and the Unipol Group on 7 February 2019 were finalized on 31 July 2019.
Accordingly, BPER Banca acquired from Unipol Gruppo s.p.a. and UnipolSai Assicurazioni s.p.a. respectively 85.24% and 14.76% of the share capital of Unipol Banca s.p.a., obtaining in total 100% of the share capital, as well as 100% of the share capital of Finitalia S.p.A., which was a wholly-owned subsidiary of Unipol Banca.
More specifically, Unipol Gruppo sold 764,955,603 ordinary shares to BPER Banca for Euro 187,534,209, while UnipolSai sold 132,428,578 ordinary shares to BPER Banca for Euro 32,465,791. As a result, BPER Banca acquired 100% of the share capital for a total price of Euro 220,000,000.
In the months that followed, BPER Banca completed the formalities that resulted in the absorption of Unipol Banca by BPER Banca on 25 November 2019; the tax and accounting effects were backdated to 1 July 2019.
The reasons for the transaction are described in the Directors' report on Group Operations accompanying the consolidated financial statements, in the section entitled "Significant events and strategic operations".

The disclosure required by IFRS 3 § B64 (q) (i), i.e. the revenues and profits/losses of the entity acquired from the acquisition date up to the balance sheet date, is not provided because, following the absorption of Unipol Banca by BPER Banca and the fact that the merged bank is not a separate operating segment, this information is not available.

Accounting treatment of the transaction

The merger by absorption of Unipol Banca by BPER Banca can be classified among mergers with the nature of acquisitions, as required by the preliminary interpretative guidelines (OPI) prepared by Assirevi, and specifically by OPI no. 2 "Accounting treatment of mergers in the financial statements".
This document provides that such transactions, even if carried out within a merger, entail the identification of an acquirer and the acquisition of control over the business of the merged entity, with the result that IFRS 3 "Business combinations" applies.
This standard defines a business combination as a transaction or other event in which a purchaser obtains control of one or more businesses and provides for the recognition of the assets, liabilities and contingent liabilities of the acquired company at their fair value at the date of acquisition, including any identifiable intangible assets not recognised in the acquiree's financial statements.

See Part A.2 of the Explanatory notes for more information about the recognition of business combinations using the acquisition method.

The separate financial statements were prepared using the final Purchase Price Allocation (PPA), following measurement by BPER Banca of the fair value of the assets acquired and liabilities assumed.
Recognition of the fair values led to the identification of badwill totalling Euro 329.4 million, as detailed below. The bargain purchase represented by the transaction was essentially due to the favourable market conditions for purchasers at the time; in particular, one of the reference parameters for determining price

in similar circumstances, together with others of lesser significance, is the ratio of market price to the book value of listed banks.

The table below summarises the adjustments made and the economic benefit (so-called "badwill" or gain on a bargain purchase) following definitive allocation of the cost, identifying the fair value of identifiable assets and liabilities (including contingent liabilities) at the acquisition date; for accounting purposes, the business combination was recognised using the carrying amounts of the acquired entity at 1 July 2019, being the effective date of the absorption for tax and accounting purposes.

(in thousands)

PPA Unipol Banca	
Accounting difference between assets and liabilities* at 1st July 2019 (A)	**565,590**
Value of the consideration (B)	220,000
Negative difference to allocate (B-A)	**345,590**
Greater fv of Financial assets measured at fair value	12,008
Greater fv of debt securities classified as Financial assets measured at amortised cost	29,879
Greater fv of performing Loans to customers	25,091
Smaller fv of non-performing Loans to customers	(69,683)
Greater fv of Property, plant and equipment	1,163
Greater fv of IFRS 16 rights of use	41,332
Greater fv of Intangible assets	30,500
Smaller fv of Tax assets (*)	(6,433)
Greater fv of Exposures classified as Other Assets	1,382
Greater fv di Tax Liabilities (*)	(20,189)
Greater fv of IFRS 16 lease liabilities	(41,950)
Greater fv of Debt securities issued	(10,988)
Greater fv of contingent liabilities	(8,269)
Badwill	**329,433**

(*) The effects of deferred taxes caused by misalignments between book values and fair values are included.

On completion of the allocation process, the total benefit of the acquisition, Euro 329.4 million, was recognised as income in caption 235 of the income statement "Gain on a bargain purchase".

The aggregate book value at the acquisition date of the Unipol Banca assets and liabilities acquired is shown below together with their fair value (gross of tax effect):

(in thousands)

	Purchased assets	Book Value 01.07.2019	Purchase Price Allocation	Fair value 01.07.2019
10.	Cash and cash equivalents	76,958	-	76,958
20.	Financial assets measured at fair value through profit or loss	56,712	10,243	66,955
	a) financial assets held for trading	350	-	350
	c) other financial assets mandatorily measured at fair value (*)	56,362	10,243	66,605
30.	Financial assets measured at fair value through other comprehensive income (*)	539,334	1,765	541,099
40.	Financial assets measured at amortised cost	10,214,083	(14,713)	10,199,370
	a) loans to banks	1,727,837	-	1,727,837
	b) loans to customers	8,486,246	(14,713)	8,471,533
70.	Equity investments	51,891	-	51,891
80.	Property, plant and equipment	87,313	42,495	129,808
90.	Intangible assets	370	30,500	30,870
	of which:			
	- goodwill	-	-	-
100.	Tax assets	118,390	(6,433)	111,957
	a) current	1,075	-	1,075
	b) deferred	117,315	(6,433)	110,882
120.	Other assets	347,528	1,382	348,910
	Total	**11,492,579**	**65,239**	**11,557,818**

(*) Euro 1,836 thousand was reclassified between the FVOCI and the FVTPL portfolios.

(in thousands)

	Purchased liabilities	Book Value 01.07.2019	Purchase Price Allocation	Fair value 01.07.2019
10.	Financial liabilities measured at amortised cost	10,355,848	52,938	10,408,786
	a) due to banks	453,543	2	453,545
	b) due to customers	8,649,933	41,948	8,691,881
	c) debt securities issued	1,252,372	10,988	1,263,360
20.	Financial liabilities held for trading	39	-	39
60.	Tax liabilities	6,599	20,189	26,788
	a) current	3,904	-	3,904
	b) deferred	2,695	20,189	22,884
80.	Other liabilities	487,417	-	487,417
90.	Employee termination indemnities	9,213	-	9,213
100.	Provisions for risks and charges	67,873	8,269	76,142
	a) commitments and guarantees granted	1,981	-	1,981
	b) pension and similar obligations	1,043	-	1,043
	c) other provisions for risks and charges	64,849	8,269	73,118
	Accounting difference between assets and liabilities	565,590	(16,157)	549,433
	Total	**11,492,579**	**65,239**	**11,557,818**

The considerations made in the process of determining fair value for the purposes of the PPA are summarised below and were carried out with the support of an external advisor:

- Performing loans: the measurement of performing loans at fair value identified a surplus with respect to their carrying amount of Euro 25.1 million, gross of the related deferred tax effect. Further information is provided later about the measurement methodology used and its effects.

- Non-performing loans: the measurement of non-performing loans at fair value identified a deficit with respect to their carrying amount of Euro 69.7 million, gross of the related deferred tax effect. Further information is provided below about the measurement methodology used and the relevant effects.
- Intangible assets: analyses indicated that the fair value of the "Client Relationship", not recorded in the financial statements of Unipol Banca, was Euro 30.5 million. It was not appropriate to measure the value of the Client Relationship represented by so-called Core Deposits, as the benefit from the lower cost of that funding with respect to alternative sources (the mark-down) was zero.

  Conversely, the fair value of the client relationships linked to the management and administration of indirect deposits was determined by discounting the net cash flows (margin for the Bank) expected from existing relationships, over a time horizon estimated with reference to the average duration of those relationships (the churn rate), as adjusted to consider estimated attrition. The above cash flows were discounted using the cost of own capital (Ke), consistent with the equivalent parameter used to determine the fair value of loans and advances.
- Property, plant and equipment: the measurement was based on on-site appraisals of the properties owned by Unipol Banca provided by the independent expert appointed by the BPER Banca Group. The measurement at fair value identified a surplus with respect to their carrying amount of Euro 1.2 million, gross of the related deferred tax effect. This additional value mainly relates to a property in Rome used for operational purposes.
- Asset securities: the measurement at fair value identified a surplus with respect to their carrying amount of Euro 41.9 million, gross of the related deferred tax effect. In particular: the additional value of (i) securities measured at FVTPL was Euro 10.2 million, (ii) securities measured at FVOCI was Euro 1.8 million and (iii) securities measured at amortised cost was Euro 29.9 million. The measurement differences in relation to instruments already measured at fair value (FVTPL and FVOCI) arose from the different internal models used to measure financial instruments not listed in active markets; the BPER Banca Group applied the methodologies described in Part A.4 of the Explanatory notes. The financial instruments measured at amortised cost (Italian government securities) were measured at their market price on the absorption date.
- Other assets: the measurement at fair value identified a surplus with respect to their carrying amount of Euro 1.4 million. In particular: (i) higher value of indemnities recognised in relation to the provisions for risks covered by contractual special indemnities (described briefly below), resulting in a surplus of Euro 2.4 million, already net of the related deferred tax effect (ii) write-downs of two items not recoverable by Unipol Banca totalling Euro 1 million, gross of the related deferred tax effect.

  In the context of the contract to purchase the entire equity interest in Unipol Banca, the sellers gave a guarantee regarding certain disputes to which the acquired bank was party, ensuring indemnities to BPER Banca for any liabilities and legal charges deriving from adverse court rulings for amounts in excess of the provisions for risks already recorded at 31 March 2019. In accordance with IFRS 3.27-28, this guarantee has resulted in recognition of the above indemnities following increases in the provisions recorded by Unipol Banca at 30 June 2019 and the PPA measurements made by BPER Banca.
- Tax assets: the analyses identified a reduction in the value of tax assets by Euro 10.1 million due to reversal of part of the DTAs recognised in the financial statements of Unipol Banca, deemed

unrecoverable against the taxable income of the absorbing company, as well as additional tax assets of Euro 3.7 million related to differences between carrying amounts and fair values.

- Securities issued: measurement at fair value identified an additional amount with respect to their book value of Euro 11 million, gross of the related deferred tax effect, principally comprising the higher amounts for all types of security issued, especially senior securities at fixed rates, totalling Euro 10.1 million.
  The fair value of the bonds issued, which are not instruments listed in regulated markets, was measured by discounting their future cash flows (DCF method) using a rate that includes the issuer risk associated with the BPER Banca Group.
- Right of Use: analyses resulted in the recognition of right-of-use assets totalling Euro 41.3 million and lease liabilities of Euro 41.9 million, deriving from the application of paras. 28A and 28B of IFRS 3.
- Contingent liabilities: the analysis of contingent liabilities resulted in the recognition of a higher amount with respect to their book value of Euro 8.3 million, gross of the related deferred tax effect, in relation to (i) civil disputes covered by the special indemnity of Euro 2.5 million, (ii) contingent liabilities in relation to other risks linked with the operations of the acquired bank and other civil disputes of Euro 5.8 million.
- Deferred tax liabilities: the analyses identified deferred tax liabilities of Euro 20.2 million, related to differences between carrying amounts and fair value.

The composition of Loans to customers (classified as "*Financial assets measured at amortised cost*") is analysed below by risk category at the PPA date:

(in thousands)

Purchased assets	Gross book value 01.07.2019	Impairment provisions 01.07.2019	Net book value 01.07.2019	Purchase Price Allocation	Fair value 01.07.2019
Performing loans	7,427,764	(42,806)	7,384,958	25,091	7,410,049
Non-Performing Loans	707,782	(335,428)	372,354	(69,683)	302,671
Bad loans	83,971	(59,219)	24,752	(7,032)	17,720
Unlikely to pay loans	588,618	(271,266)	317,352	(61,085)	256,267
Past due exposueres	35,193	(4,943)	30,250	(1,566)	28,684
Total	**8,135,546**	**(378,234)**	**7,757,312**	**(44,592)**	**7,712,720**

The fair value of performing and non-performing loans was determined by discounting the expected gross cash flows, as suitably adjusted to consider the expected losses and the related operating costs (recovery costs incurred in relation to non-performing positions), using a rate linked to the Weighted Average Cost of Capital (WACC). This model reflects the remuneration that would be required by investors for the purchase, on normal contractual and market conditions, of a portfolio of loans similar to that being measured. Separate rates were determined for performing and non-performing loans. For the latter, the discounting process also considered the time needed to recover the expected cash flows. The parameters used in the model were determined with maximum recourse to the available market information.

Following the identification of badwill during the PPA process, pursuant to IFRS 3.36, BPER Banca deemed it appropriate to check the entire process required by IFRS 3 by obtaining a fairness opinion from a firm of independent external expert different to that appointed to perform the audit of the Group. That opinion, which confirmed badwill of Euro 329.4 million, was obtained on 21 January 2020.

Other information

A second transaction between the parties involved in the business combination was carried out on 31 July 2019, being the sale by the BPER Banca Group to UnipolReC (wholly owned by the Unipol Group) of a portfolio of bad loans granted by BPER Banca and Banco di Sardegna, of which the gross carrying amount as at 30 September 2018 (reference date for the sale) was about Euro 1 billion (gross recoverable value of about Euro 1.3 billion). The consideration received by BPER Banca (Euro 88.4 million) was in line with the net carrying amount of the loans sold and, therefore, had no significant economic effect on the financial statements of BPER Banca. This transaction was recognised and reported in the financial statements separately from the business combination that resulted in the acquisition of control of Unipol Banca.

As required by IFRS 3, B64 q ii.), the following pro forma information is presented about the full-year revenues, profits and losses of the combined entity had the business combination been effective at the start of the reporting period.

(in thousands)

Name	Total revenues (*)	Net profit/loss
BPER Banca	1,781,863	408,781

** The data refers to Net interest and other banking income.*

1.2 Operations between entities under common control

On 6 May 2019 BPER Banca purchased up to 100% of the shares of BPER Services s.c.p.a. held by other Group companies, as a preliminary step towards the merger which took place on 10 June 2019 (with accounting and tax effects backdated to 1 January 2019).
The transaction was consistent with the action plan that has reduced the number of legal entities belonging to the BPER Group with a view to improving operating efficiency and creating cost/income synergies. This operation was a business combination between entities under common control, which are excluded from the scope of application of IFRS 3, and was recognised using the carrying amounts reported in the consolidated financial statements of the Parent Company, pursuant to OPI 2 on mergers to reorganise companies within the same group that do not involve economic negotiations between independent stakeholders ("mergers for restructuring purposes"). See the attached "Pro forma balance sheet at 1 January 2019" for the financial effects of the merger.

Ten branches in the Unipol Banca network located in Sardinia were transferred to Banco di Sardegna on 25 November 2019, consistent with the distribution model adopted by the BPER Banca Group, which limits presence on the island to branches operated by Banco di Sardegna.
This line of business was transferred at book value, since it was carried out between Unipol Banca (absorbed by BPER Banca) and Banco di Sardegna, whih is a company under common control.

Section 2 – Transactions subsequent to the year end

2.1 Business combinations

No business combinations have been carried out subsequent to the end of 2019.
Although obviously not a completed business combination, it is relevant in this context to refer to the information on subsequent events provided in Part A and in the Directors' Report on Group Operations accompanying the consolidated financial statements about the possible acquisition of a line business under an agreement with conditions precedent between BPER Banca and Intesa Sanpaolo.

Part H – Related-party transactions

1. Information on the remuneration of directors, auditors and managers

	Description	31.12.2019	31.12.2018
	Directors		
	- short-term benefits	3,059	2,854
	- other long-term benefits	302	248
	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 the executive subcommittees):		
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.	3,150	3,084
	- other short-term benefits - contributions for social security taxes	1,002	943
2	- post-employment benefits includes payments to supplementary pension funds and provisions for termination indemnities.	297	292
3	- other long-term benefits	584	442
4	- indemnities for termination of employment	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, as regards the amounts relating to Directors (€ 3,059 thousand), details are disclosed at the foot of the table included in the Explanatory notes to the consolidated financial statements.
The amounts shown for other Managers with strategic responsibilities (the General Manager, 5 Deputy General Managers, the Manager responsible for preparing the company's financial reports and 3 other Managers belonging to top management) 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 requirements.
As indicated in the Remuneration Report, other long-term benefits relating to Directors (specifically, the Chief Executive Officer) and to other managers with strategic responsibilities relate to deferred variable compensation, including a value of € 649 thousand relating to a compensation plan based on financial instruments called "Phantom stock".

2. Related-party disclosures

The following shows the transactions with related parties, identified in application of IAS 24.

	Assets	Liabilities	Guarantees and commitments	Revenues	Costs
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**
Subsidiaries	4,999,254	3,908,960	1,307,636	65,379	276,960
Associates	480,624	3,791	42,450	3,965	794
Directors, Statutory Auditors and Managers	639	1,390	-	69	8
Other related parties	833	103,864	619	83,505	1,581
Total 31.12.2018	**5,481,350**	**4,018,005**	**1,350,705**	**152,918**	**279,343**

There are no critical outstanding balances or transactions with related parties. 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 2019, qualified as related parties have been made in 2019.
"Managers" are understood to mean Managers with strategic responsibilities, as defined in the table on the previous page.
"Other related parties" are presented by situations other than those set out in the table, such as entities controlled by associated companies of BPER Banca and entities subject to the control of directors, statutory auditors or managers, or by subjects that may have significant influence over them, as defined by IAS 24.
As already mentioned in the Directors' report on operations, with reference to the 2012 entry into force of the regulation on "Risk Activities and Conflicts of Interest with Related Parties" contained in the 9th update to Bank of Italy Circular 263/2006, the Group has adopted a series of regulations that include the Group policy governing non-compliance risk in relation to conflicts of interest with related parties and risk activities involving related parties, which describes the prudential limits placed on risk activities involving related parties; continuous monitoring of the limits; managing situations where the limits have been 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 - 2019	69,347,747	64,350,966	19,781,507	2,009,964	1,608,114
Total reference amounts - 2018	59,108,427	54,720,376	19,137,290	1,804,208	1,427,466

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	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%**
Subsidiaries	8.46%	7.14%	6.83%	3.62%	19.41%
Associates	0.81%	0.01%	0.22%	0.22%	0.06%
Directors, Statutory Auditors and Managers	0.00%	0.00%	0.00%	0.00%	0.00%
Other related parties	0.00%	0.19%	0.00%	4.63%	0.11%
Total 31.12.2018	**9.27%**	**7.34%**	**7.06%**	**8.48%**	**19.57%**

3. Balances and transactions between the Parent Company and subsidiary and/or correlated 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	2,096,143	3,381,766	92,012	41,813	41,828
Banca di Sassari	923,133	185,978	-	39,648	6,206
Cassa di Risparmio di Bra	411,926	58,047	34,320	5,913	1,087
BPER Bank Luxembourg	114,589	465,827	20,108	1,221	1,914
Emilia Romagna Factor s.p.a.	810,426	1,180	130,951	2,576	-
Modena Terminal s.r.l.	894	3	2,915	68	108
ARCA Fondi SGR s.p.a.	28,754	-	-	127,833	-
Nadia s.p.a.	93,305	57,739	13,205	806	2,641
Numera s.p.a.	354	1,245	-	44	1,983
Tholos s.p.a.	1,615	1,611	-	3	67
Optima s.p.a.	1,017	8,210	-	3,187	11,313
Estense Covered Bond s.r.l.	-	-	-	-	-
Sardaleasing s.p.a.	2,096,707	25,045	389,728	9,952	-
BPER Trust Company s.p.a.	53	413	-	69	29
Estense CPT	-	-	-	-	-
Italiana Valorizzazioni Immobiliari s.r.l.	13,488	510	-	1,012	-
Adras s.p.a.	14,506	205	-	27	-
Sifà s.r.l.	311,929	8,838	-	1,839	912
BPER Credit Management s.c.p.a.	2,665	3,422	21,000	10,268	12,488
Cassa di Risparmio di Saluzzo s.p.a.	86,996	83,845	3,500	3,353	1,698
Finitalia s.p.a.	510,799	41	202,738	16,180	12
Total subsidiaries	**7,519,299**	**4,283,925**	**910,477**	**265,812**	**82,286**

	Assets	Liabilities	Guarantees and commitments	Revenues	Costs
CO.BA.PO Consorzio Banche Popolari dell'Emilia Romagna	-	85	-	1	15
CONFORM Consulenza Formazione e Management s.cons.a r.l.	2	1,303	2,200	77	495
Cassa di Risparmio di Fossano s.p.a.	-	266	-	-	-
CAT Progetto Impresa Modena s.c.r.l.	76	29	111	4	-
Cassa di Risparmio di Savigliano s.p.a.	-	63	-	-	-
Resiban s.p.a.	-	25	-	1	229
Unione Fiduciaria s.p.a.	-	9	10,000	65	42
Sarda Factoring s.p.a.	730	25	-	-	-
Alba Leasing s.p.a.	596,187	2,896	86,048	4,395	7
Atriké s.p.a.	1,435	73	-	-	-
Emil-Ro Service s.r.l.	60	71	-	1	-
Lanciano Fiera - Polo Fieristico d'Abruzzo Consorzio	7	-	194	5	44
Sofipo s.a. in liquidation	-	-	-	-	-
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	-	-	-	-	-
Total associates	**598,497**	**4,845**	**98,553**	**4,549**	**832**
Total 31.12.2019	**8,117,796**	**4,288,770**	**1,009,030**	**270,361**	**83,118**
Total 31.12.2018	**5,479,878**	**3,912,751**	**1,350,086**	**69,344**	**277,754**

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.
The qualitative information set out below also reflects the individual position of BPER Banca.

1. Description of equity-based payments

On 27 February 2019, the Board of Directors of the Parent Company BPER Banca approved the "2019-2021 Long-Term Incentive Plan for key personnel", pursuant to art. 114-bis of Legislative Decree 58 of 24 February 1998, in implementation of the Remuneration policies for 2019 of BPER Banca Group.
On 5 March 2019 the Board of Directors of the Parent Company BPER Banca also approved:

- the Remuneration Report pursuant to art. 123-*ter* of Legislative Decree 58 dated 24 February 1998, relating to the Remuneration policies for 2019 of the BPER Banca Group;
- the remuneration plan pursuant to art. 114-*bis* of Legislative Decree 58 dated 24 February 1998, implementing the Remuneration policies for 2019 of the BPER Group. The Plan covers those employees of the BPER Banca Group identified as "key personnel" in accordance with the 25th update of 23 November 2018 of Circular 285 "Supervisory Provisions for banks", Title IV, Chapter 2 "Remuneration and incentive policies and practices" and in Delegated EU Regulation 604 of 4 March 2014.

The documents above were approved by BPER's Shareholders' Meeting held on 17 April 2019 at single calling.

The remuneration of key personnel is composed of a fixed element and a short-term variable element that for some may also be long-term.
With regard to the maximum ratio between the variable and fixed elements, the above Meeting authorised the raising of this ratio to a maximum of 2:1 for key personnel, excluding those responsible for control and similar functions, in order to have the room to make payments ahead or at the time of early terminations of working relationships or appointments, and to establish all the operational levers needed to attract external resources that can contribute to achievement of the established business objectives.
In general, the above limit is maintained below the regulatory limit of 100% of the fixed element, being set at a maximum of 60%, except for specific situations in which it can be raised to 100% or to the limit authorised in a specific shareholders' resolution[44], subject to particularly strict rules (Bank of Italy Circular 285, 25th updated issued on 23 October 2018, Section III paras. 1.2, 2.1 points 3 and 4, 2.2.1 and 2.2.2). With particular regard to risk alignment before the event, this is based on actual and lasting results, it also takes qualitative objectives into account, it is parameterised to performance indicators, it is measured net of risks and takes into account the level of capital resources.

The sustainability of the overall maximum amount of variable remuneration allocated to key personnel (those most responsible for running the company), is assessed in relation to the economic and financial stability of the Group as a whole.

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[44] *for example, the granting of entry bonuses or incentive packages designed to facilitate the acquisition of resources that the company deems necessary for the achievement of important objectives.*

Short-term variable component

The payment of bonuses is dependent on achieving basic economic and financial objectives (the so-called "entry gates") that have to be achieved at the same time.

The entry gates that have been identified are based on the following parameters:

- Common Equity Tier 1 (CET 1) – Pillar 1 consolidated ratio;
- Consolidated Return On Risk-Weighted Assets (RORWA);
- Consolidated Liquidity Coverage Ratio (LCR).

If all the above entry gates are achieved, the company's results are subjected to an assessment that results in the application of a multiplier/demultiplier mechanism which acts directly on the individual target bonuses.

In particular, the target bonus for key personnel belonging to the Parent Company, with the exception of those within the branch network, is determined entirely with reference to the *"Profit from current operations before tax"* caption of the consolidated financial statements.

For key personnel belonging to Group companies and those of the Parent Company within the branch network, the target bonus is determined with reference to both the *"Profit from current operations before tax"* caption of the consolidated financial statements and the same caption of the company to which they belong.

After verifying that the entry gates have been exceeded and the target bonus has been calculated (and the size of the available bonus pool checked), the actual allocation of the bonus and the related amount, relating to the maximum level[45] of variable remuneration, are defined via an assessment of individual performance that includes an analysis of various quantitative and qualitative 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"[46].

In particular, this Plan provides for (apart from as provided by the stricter regulations foreseen for the CEO of the Parent Company):

Material Risk Takers (MRTs) belonging to top management

- Bonus > Euro 434 thousand (particularly high amount)[47]
  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% (25% cash and 35% through phantom stock) is deferred in equal annual instalments over the five 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 100 thousand ≤ Euro 434 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;
  b) 55% (25% cash and 30% phantom stock) is deferred in equal annual instalments over the five 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.

[45] *The theoretical maximum amount of the bonus payable is the sum of the maximum bonuses obtainable at an individual level.*

[46] *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 2019, at the payment date.*

[47] *As defined by Bank of Italy's Circular 285, 25th update.*

- Bonus ≥ Euro 30 thousand ≤ Euro 100 thousand – simplified procedure
  a) 55% of the bonus is granted through phantom stock, allotted in equal annual instalments over 5 years from that of the grant, subject to a retention period (during which the shares cannot be sold) of 1 year starting from the vesting date of each deferred tranche;
  b) 45% is awarded in cash up-front. A deductible threshold[48] is reserved, by which the first Euro 30 thousand (or 30% of the GAS, if lower) gets paid up-front in the form of cash.

Material Risk Takers (MRTs) not belonging to top management

- Bonus > Euro 434 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 five 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 100 thousand ≤ Euro 434 thousand
  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 30 thousand ≤ Euro 100 thousand
  a) 50% of the bonus is granted through phantom stock, allotted in equal annual instalments over 3 years from that of the grant and subject to verification of the maintenance of adequate income and capital standards, subject to a retention period (during which the shares cannot be sold) of 1 year starting from the vesting date of each deferred tranche;
  b) 50% is awarded in cash up-front. A deductible threshold is reserved, by which the first Euro 30 thousand (or 30% of the GAS, if lower) gets paid up-front in the form of cash.

The deferred instalments are subject to malus rules that can reduce the instalment to zero in the event of failure to achieve the access thresholds ("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 on activation of the clawback clauses. Note that there are compensation plans still outstanding for the years 2015, 2017 and 2018.

[48] *For example, a bonus of Euro 40 thousand is divided into Euro 30 thousand cash up-front and Euro 10 thousand deferred over five years and paid through phantom stock; a bonus of Euro 90 thousand is divided into 40,500 (45%) cash up-front and 49,500 deferred over five years and paid through phantom stock.*

Long-term variable component – LTI Plan

The Group has defined 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 the interests of Management with long-term value creation for shareholders;
- motivate management to achieve the objectives of the Business Plan 2019-2021, within a framework of healthy, prudent risk management and 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 ordinary Shareholders' Meeting held on 17 April 2019 authorised the acquisition and disposal of treasury shares pursuant to arts. 2357 and 2357-ter of the Italian Civil Code and art. 132 of Legislative Decree 58/1998 and subsequent amendments and additions, in order to service the "Long-Term Incentive Plan (LTI) 2019-2021 for strategic personnel" of the Parent Company and Group Companies (approximately 40 top managers within the Group considered key to the success of the Business Plan).

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 key personnel is set at a 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).

After checking that the entry gates have been achieved and calculating the target bonus, 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 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 Group's 2019 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) 575/2019, the Group provides information on Remuneration Policies also in the "Public Disclosures at 31 December 2019 - Pillar 3" document, which is available, as provided by law, on the website of the Parent Company - www.bper.it – Institutional Area.

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.
Purchase of the shares was subject to issue of the required authorisation from the ECB, which was received on 24 April 2019.

At 31 December 2019, the Parent Company has not yet purchased any treasury shares in order to service the Plan.

2. Other information

Determination of fair value and accounting treatment

Short-term variable component
Note that the variable remuneration for 2019 is currently being determined. With reference to the compensation plan for 2019, in the light of the economic and financial results achieved at Group level, it is estimated that 206,856 phantom shares will be allocated for a total consideration of Euro 928 thousand.
The same results also affect the 2017 Plan, allowing the vesting of 8,233 phantom shares for a consideration of Euro 37 thousand, and the 2018 Plan, allowing the vesting of 66,690 phantom shares for a consideration of Euro 299 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.

In order to estimate the potential number of shares that may be granted to each beneficiary on achievement of the target objectives, the meeting of the Group's Board of Directors held on 27 February 2019 considered a total bonus linked to the GAS of each beneficiary (percentage varying from a minimum of 90% to a maximum of 120%, depending on the professional role), totalling about Euro 7.8 million. On the grant date, 4 December 2019, membership of the group of employees and managers identified at 27 February 2019 was revised in accordance with the “LTI Plan Regulation” prepared by the Group. The total potential number of shares to be granted was therefore revised as, between the date of Shareholders' approval, 17 April 2019, and the Grant date, membership of the group of plan recipients was revised to reflect changes in the key personnel identified.

At 31 December 2019, the total cost of the plan amounts to Euro 8.4 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, being 3.74 euro, resulted in estimating the total number of shares to be granted to beneficiaries to be 1,916,380. 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 remaining 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 consider market conditions which resulted in the identification of a unit price of 4.39 euro and a charge for 2019 of Euro 225 thousand (of which Euro 202 thousand attributable to BPER).

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

As discussed in Part A – Accounting policies, IFRS 16 Leases, in force from 1 January 2019, has replaced the previous international accounting standards and interpretations including, in particular, IAS 17.
IFRS 16 introduced a new definition of leasing, albeit confirming the distinction between operating and finance leases with reference to their accounting treatment by the lessor.
With reference to the accounting model to be applied by the lessee, the new standard requires the recognition, for all types of lease, of both a Right-of-Use (RoU) asset and the related Lease Liability, being the outstanding lease principal.
At the time of initial recognition this asset must be measured with the reference to the cash flows associated with the lease contract. Subsequent to initial recognition, this asset must be measured in the same way as for intangible assets and property, plant and equipment, pursuant to IAS 16, IAS 38 or IAS 40, and therefore at cost net of accumulated amortisation/depreciation and any impairment, at the "redetermined value" or at fair value, as applicable.
See Part A - Accounting policies of these Explanatory notes for further information about the contents of the standard and the principal accounting elections made by BPER Banca.

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 190. "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 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 01.01.2019	Depreciations of the year	Other changes of the year	Impairment losses of the year	Book value 31.12.2019
a) lands	-	-	-	-	-
b) buildings	208,635	(46,045)	137,594	(2,564)	297,620
c) furniture	-	-	-	-	-
d) electronic system	18,086	(6,783)	12,551	-	23,854
e) others	3,058	(1,702)	1,993	-	3,349
Total	**229,779**	**(54,530)**	**152,138**	**(2,564)**	**324,823**

Rights of use acquired through leases at 01.01.2019 include buildings held under finance leases, € 2.2 million, already recognised in that caption at 31.12.2018 in accordance with IAS 17.
With regard to the other changes during the year:
- new contracts of € 147 million, of which € 103 million acquired on the absorption of Unipol Banca;
- close-out of contracts with a value on initial recognition of € 28 million;
- migration of former BPER Services contracts, including finance leases under IAS 17, with a value on initial recognition of € 30 million;
- positive effect of remeasuring the RoU assets due to ISTAT changes and increases in the lease term;
- negative effect of remeasuring the RoU assets due to renegotiation of the lease instalments and reduction of the lease term on early termination/withdrawal.

1.2 Costs and Gains relating to lease transactions other than right of use

	Total 31.12.2019
Costs relating to short-term leases	1,605
Costs relating to lease of assets with a low unit value (*)	8,949
Gains relating to finance sub-leases	28

(*) including VAT

1.3 Lease payables: changes

	Lease payables 01.01.2019	Interest expense	Lease instalments paid	Other changes	Book value 31.12.2019
Total lease payables	232,077	2,167	(55,193)	151,421	330,472

With regard to the other changes during the year, the effect was principally attributable to the absorption of Unipol Banca s.p.a., remeasurement of the lease payable due to ISTAT changes and increases in the lease term; arrangement and close-out of contracts.

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	31.12.2019 Payments to be received	31.12.2018 Payments to be received
Up to 1 year	1,751	-
Between 1 and 2 years	658	-
Between 2 and 3 years	658	-
Between 3 and 4 years	658	-
Between 4 and 5 years	658	-
Over 5 years	3,636	-
Total lease payments to be received	**8,019**	**-**
Reconciliation with loans		
Not accrued gains (+)	1,041	-
Unguaranteed residual value (-)	0	-
Loans for leases	**6,978**	**-**

The table does not show figures as at 31 December 2018 as, given the choice made by the BPER Banca Group for the transition to IFRS 16 without restating the comparative balances, the breakdown required by the 6th update of Bank of Italy Circular 262/2005 is not applicable at that date.
The unrealised financial income comprises unearned interest embedded in lease instalments.

2.2. Other information

2.2.1 Other information about finance leases: type and credit quality

	31.12.2019	
	Performing exposures	Non-performing exposures
A - Real estate assets	**5,976**	**258**
Lands	-	-
Buildings	5,976	258
B - Operating assets	**15**	**24**
C - Movable assets	**31**	**23**
Motor vehicles	5	13
Aircraft and rolling stock	-	5
Others	26	5
D - Intangible assets	**-**	**-**
Trademarks	-	-
Software	-	-
Others	-	-
Total	6,022	305

2.2.2 Other information about finance leases: unexercised assets, assets withdrawn following termination, other assets

	31.12.2019		
	Unexercised assets	Assets withdrawn following termination	Other assets
A - Real estate assets	**447**	**245**	**-**
Lands	-	-	-
Buildings	447	245	-
B - Operating assets	**-**	**-**	**-**
C - Movable assets	**50**	**-**	**-**
Motor vehicles	-	-	-
Aircraft and rolling stock	50	-	-
Others	-	-	-
D - Intangible assets	**-**	**-**	**-**
Trademarks	-	-	-
Software	-	-	-
Others	-	-	-
Total	497	245	-

3. Operating leases

3.1 Breakdown of payments to be received by time bands

Time bands	31.12.2019 Payments to be received for leases	31.12.2018 Payments to be received for leases
Up to one year	2,753	-
Over one year up to 2 years	2,634	-
Over 2 years up to 3 years	2,528	-
Over 3 years up to 4 years	2,348	-
Over 4 years up to 5 years	2,185	-
For over 5 years	6,945	-
Total	**19,393**	**-**

The table does not show figures as at 31 December 2018 as, given the choice made by the BPER Banca Group for the transition to IFRS 16 without restating the comparative balances, the breakdown required by the 6th update of Bank of Italy Circular 262/2005 is not applicable at that date.

3.2 Other information

See the section of the Directors' report on operations on “The Bank in 2019”, 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 financial statements as at 31 December 2019, could be consulted in the Italian version:

- Statement of cash flow of the staff pension fund
- Statement of properties revaluation

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 additions and amendments), reports the 2019 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		664
Attest services	Deloitte & Touche s.p.a	BPER Banca	(1)	670
Other services	Deloitte & Touche s.p.a	BPER Banca	(2)	35
Other services	Deloitte Consulting s.r.l.	BPER Banca	(3)	612
Total				**1,981**

(1) Attest services by Deloitte & Touche s.p.a.:
- activities performed in relation to the translation into English of the independent auditors' reports on the consolidated half-year financial statements at 30 June 2019 and the separate and consolidated financial statements at 31 December 2019;
- activities performed in relation to the covered bond issue programmes and EMTN programme;
- activities relating to the issue of fairness opinions on capital increase transactions;
- activities to check the GHG Statement that will 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).

(2) Other services provided for by Deloitte & Touche s.p.a.:
- activities carried out in order to confirm the conformity of the 2019 income tax return and the supplementary 2018 tax return.

(3) Other services rendered by Deloitte Consulting s.r.l.:
- methodological support for identifying the current Pillar III process and preparing the related documentation, in order to assist the Bank in identifying possible gaps with respect to the regulatory requirements;
- methodological support for benchmarking on best practices as part of the assessment carried out prior to defining the new CRM – Client Relationship Management ecosystem;
- methodological support for benchmarking on best practices and recognizing user requirements as part of the ongoing evolution of the Contact Center – Everyday Bank;
- methodological support for recognizing the input flows to the accounting normaliser;
- methodological support for recognizing user requirements and benchmarking in the context of the Data Governance project.

Pro-forma Balance sheet as at 1 January 2019

The pro forma balance sheet at the effective date of the absorption of BPER Services by the Parent Company is presented below.

(in thousands)

	Assets	BPER Banca 01.01.2019	BPER Services 01.01.2019	Consolidation adjustments	BPER Banca pro-forma 01.01.2019
10.	Cash and cash equivalents	330,609	-	(1,477)	329,132
20.	Financial assets measured at fair value through profit or loss	1,004,056	-	-	1,004,056
	a) financial assets held for trading	287,085	-	-	287,085
	b) financial assets designated at fair value	202,989	-	-	202,989
	c) other financial assets mandatorily measured at fair value	513,982	-	-	513,982
30.	Financial assets measured at fair value through other comprehensive income	7,530,477	-	-	7,530,477
40.	Financial assets measured at amortised cost	45,851,401	-	(82,855)	45,768,546
	a) loans to banks	4,427,738	-	-	4,427,738
	b) loans to customers	41,423,663	-	(82,855)	41,340,808
50.	Hedging derivatives	34,916	-	-	34,916
70.	Equity investments	1,747,684	-	(18,089)	1,729,595
80.	Property, plant and equipment	448,124	18,215	-	466,339
90.	Intangible assets	239,139	145,915	-	385,054
	- of which: goodwill	225,792	-	-	225,792
100.	Tax assets	1,546,559	939	-	1,547,498
	a) current	446,935	-	-	446,935
	b) deferred	1,099,624	939	-	1,100,563
110.	Non-current assets and disposal group classified as held for sale	2,800	-	-	2,800
120.	Other assets	372,662	19,426	(5,253)	386,835
	Total assets	**59,108,427**	**184,495**	**(107,674)**	**59,185,248**

The absorption of BPER Services by BPER Banca was completed during the year following the acquisition by BPER Banca of the shares held by other Group companies for € 1,477 thousand.

(in thousands)

Liabilities and shareholders' equity		BPER Banca 01.01.2019	BPER Services 01.01.2019	Consolidation adjustments	BPER Banca pro-forma 01.01.2019
10.	Financial liabilities measured at amortised cost	52,728,319	116,507	(72,932)	52,771,894
	a) due to banks	16,436,039	105,167	(72,932)	16,468,274
	b) due to customers	31,509,116	11,340	-	31,520,456
	c) debt securities issued	4,783,164	-	-	4,783,164
20.	Financial liabilities held for trading	150,807	-	-	150,807
40.	Hedging derivatives	85,717	-	-	85,717
60.	Tax liabilities:	31,417	101	-	31,518
	b) deferred	31,417	101	-	31,518
80.	Other liabilities	1,230,381	47,026	(15,176)	1,262,231
90.	Employee termination indemnities	114,024	1,180	-	115,204
100.	Provisions for risks and charges	379,712	300	-	380,012
	a) commitments and guarantees granted	49,872	-	-	49,872
	b) pension and similar obligations	129,931	-	-	129,931
	c) other provisions for risks and charges	199,909	300	-	200,209
110.	Valuation reserves	(82,514)	(91)	-	(82,605)
140.	Reserves	1,797,104	167	(261)	1,797,010
150.	Share premium reserve	930,073	8,600	(8,600)	930,073
160.	Share capital	1,443,925	10,920	(10,920)	1,443,925
170.	Treasury shares (-)	(7,253)	-	-	(7,253)
180.	Profit (Loss) for the year (+/-)	306,715	(215)	215	306,715
	Total liabilities and shareholders' equity	**59,108,427**	**184,495**	**(107,674)**	**59,185,248**

Certifications and other reports

Certification of the individual financial statements for 2019 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 2019, of the administrative and accounting procedures adopted for the preparation for 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 2019 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 Tradeway 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 2019:
    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, 10 March 2020

Chief Executive Officer

Alessandro Vandelli

Manager responsible for preparing the company's financial report

Marco Bonfatti

Deloitte.

Deloitte & Touche S.p.A.
Piazza Malpighi, 4/2
40123 Bologna
Italia

Tel: +39 051 65811
Fax: +39 051 230874
www.deloitte.it

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, 2019, 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, 2019, 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, 2019, performing loans to customers measured at amortized cost of BPER Banca S.p.A. show a gross amount of Euro 38,996 million, reduced by portfolio adjustments of Euro 119 million, to come to a net amount of Euro 38,878 million, resulting in a coverage ratio of 0.30%.

	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, 2019, 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. Given the complexity of the process of classifying loans to customers in homogeneous risk categories followed by the Bank, we considered the classification of high-risk performing loans to customers measured at amortized cost a key audit matter of the financial statements of BPER Banca S.p.A. as at December 31, 2019.
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 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; • checking, on a sample basis, the classification of high-risk performing loans to customers measured at amortized cost in accordance with the regulatory framework; • checking the completeness and the compliance of the disclosures provided in the financial statements in accordance with the regulatory framework and applicable accounting standards.

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, 2019, non-performing loans to customers measured at amortized cost of BPER Banca S.p.A. show a gross amount of Euro 4,123 million, reduced by specific adjustments of Euro 2,172 million, resulting in a net amount of Euro 1,952 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, 2019 is equal to 52.67%. 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 725 million and a coverage ratio of 68.29% and unlikely to pay loans for a net value of Euro 1,136 million and a coverage ratio of 34.50%.

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.

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, 2019.

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 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;

- 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;

- 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 and applicable accounting standards, also by obtaining and examining written confirmations by the lawyers appointed for their collection; • 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, 2019, intangible assets include goodwill in the amount of Euro 225.8 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. 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, 2019.
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 of the main assumptions adopted to estimate cash flows, carried out also by obtaining information from the Bank;
- 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 applicable accounting standard.

Accounting recognition of the merger of Unipol Banca S.p.A.

Description of the key audit matter	As reported in "Part G – Business combinations" of the explanatory notes, on November 25, 2019, the Bank completed, with tax and accounting effects running from July 1, 2019, the merger of Unipol Banca S.p.A. (Unipol Banca), which was acquired on July 31, 2019 in execution of the share purchase agreement signed on February 7, 2019 with Unipol Gruppo S.p.A. and UnipolSai Assicurazioni S.p.A. The transaction was recognized in the financial statements, as required by IFRS 3 "Business combinations", applying the purchase method, which provides that the purchase price allocation ("PPA") is based on the fair value of the assets and liabilities involved in the acquisition. For the purpose of applying the purchase method, the Bank, with the support of an external advisor, implemented valuation processes and methods that, by their very nature, feature elements of high subjectivity. The income statement caption "Gain on a bargain purchase" includes the positive income component, in the amount of Euro 329.4 million, resulting from the process of allocating the difference between the purchase price and the net value of the assets acquired and liabilities assumed, measured at their fair value, in compliance with the applicable accounting standard, and on which the Bank obtained a fairness opinion by an independent external expert. Given the subjectivity that characterizes the process of determining the fair value of the assets and liabilities involved in the acquisition, as well as the significance of the effects recorded in the income statement, we considered the accounting recognition of the merger of Unipol Banca a key audit matter of the financial statements of BPER Banca S.p.A. as at December 31, 2019.

Audit procedures performed	The main procedures carried out as part of our audit work were, among others, as follows: • discussing the application of the purchase method for accounting recognition of the business combination with the Bank's management and gaining an understanding of the process and of the key controls implemented by the Bank in connection with the accounting recognition of the transaction; • checking the implementation and operating effectiveness of the key controls identified in relation to that process; • performing an analysis of compliance with the accounting framework of the accounting recognition of the business combination in the financial statements; • performing an analysis, also supported by specialists of the Deloitte network, of the reasonableness of the main assumptions adopted by the Bank in determining the fair value of the assets acquired and liabilities assumed, also by obtaining information from the Bank and in-depth analysis with the external advisor; • obtaining and reviewing the fairness opinion issued by the independent external expert, also through discussions with the Bank and the external expert himself; • checking the completeness and the compliance of the disclosures provided in the financial statements in accordance with the relevant accounting framework and the applicable accounting standard.

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, 2019, 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, 2019 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, 2019 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 27, 2020

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 are required to report to the Shareholders' Meeting of BPER Banca S.p.A. (“BPER” or “Bank”) on the supervisory activities carried out and on any omissions or censurable facts identified pursuant to art. 153 of Legislative Decree 58/1998 (“TUF”) 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 ("CBA") and 58/1998 ("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.

Our activities are underpinned by the Board rules of compliance that were last updated in January 2020.

On 17 April 2019, the Shareholders' Meeting of BPER Banca S.p.A. reconstructed the Board of Statutory Auditors for the remainder of the three-year period 2018-2020 by appointing Paolo De Mitri as Chairman, Cristina Calandra Buonaura as another Acting Auditor and two Alternate Auditors, Patrizia Tettamanzi and Veronica Tibiletti.

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.

Additionally, we held regular meetings with top management represented by the Chairman of the Board of Directors, the Chief Executive Officer and the 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 attended regularly the 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).*

Recommendations and suggestions made by us are communicated to the internal departments concerned through the general secretarial structure or communicated directly to the Body with management or strategic supervision functions and to the related Board committees, monitoring the follow-up.

I - INFORMATION ON THE PRINCIPAL ECONOMIC, FINANCIAL AND CAPITAL TRANSACTIONS CARRIED OUT BY THE BANK AND ON SIGNIFICANT 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 2019, the Report on Operations highlights the following:

BEST WAY – The 2019-2021 Business Plan of the BPER Banca Group

On 27 February 2019, the BPER Banca Group approved and presented to the market the new "2091-2021 Business Plan – BEST WAY" which has three pillars:

Growth and development of the business

The Plan envisages organic growth, with a strong focus on the advanced services required by customers, especially in relation to those products and services that provide significant value added.

In particular, the Plan expects to accelerate the growth and development of the customer base, to which the special transactions have contributed via the acquisition of about 500,000 new customers and expansion into high-potential territories not previously served by BPER Banca. The broadened catalogue of products and services offers significant value added to the more sophisticated customers by, in particular, strengthening the partnerships in the Bancassurance sector with UnipolSAI, Arca Vita and Arca Assicurazioni, developing the wealth management sector with Arca Fondi SGR, enhancing the multi-manager role of the Luxembourg-based SICAV, improving the development and specialisation of the distribution model and, lastly, leveraging the network of financial advisors acquired on the absorption of Unipol Banca.

Acceleration of de-risking, confirming maximum capital solidity

During 2019, the de-risking process was further strengthened by the completion of the "Emilia" operation, which involved sale to the Unipol Group of a portfolio of bad loans originated by BPER Banca and Banco di Sardegna with a gross carrying amount of about Euro 1.0 billion, comprising about 68% unsecured loans and 32% secured; the "cash" consideration was essentially in line with the net carrying amount of the loans, resulting in a marginal impact on the income statement. Additional loan management processes will be activated during 2020.

The objective of reducing the non-performing portfolio will be addressed by further disposals of NPEs. In confirmation, the Board of Directors of BPER Banca has accepted the qualitative recommendations made by the ECB in its 2018 SREP Decision, by approving the Group NPE Strategy for 2019-2021, which sets a target for the NPE ratio of less than 9% by 2021. In this regard, we note that the gross NPE ratio was 13.80% at 31 December 2018 and 11.07% at the end of 2019.

Consistent with this strategy, the BPER Banca Group started work during the year on a new bad loan securitisation (assisted by GACS) that should be completed by the end of the first half of 2020, with the aim of reaching the target gross NPE ratio of less than 9%, set in the Business Plan for 2021, more than one year ahead of schedule. In this regard and in line with the recommendations contained in the 2019 SREP Decision, the Bank will send the ECB an updated Plan covering the period from 31 December 2019 to 31 December 2022.

Effective operations and simplified organisation

The 2019-2021 Business Plan focuses strongly on cost containment, to be achieved by rationalising and simplifying the distribution model, the corporate structure and internal processes, as well as by optimising the size of the workforce and reducing organisational complexity. Lastly, additional cost synergies will be released by creating a specialist central organisation for the management and promotion of the real estate sector ("*Active Real Estate Management*"). The principal drivers of the Plan include a net reduction of the workforce by 1,300 persons from the level at 31 December 2018 by 2021, development of the distribution model by reorganising the territorial footprint, introducing new branch formats and rationalising and simplifying the corporate structure of the Group, via the absorption by BPER Banca of BPER Services (merger completed on 10 June 2019) and Unipol Banca (merger completed on 25 November 2019).

Special corporate transaction - Arca Holding -

On 22 July 2019 BPER Banca completed the acquisition of a 24.31% interest in the share capital of Arca Holding S.p.A. This was the total equity interest previously held by the Venetian banks that have been wound up. BPER Banca has signed a shareholders' agreement with Banca Popolare di Sondrio, the other long-term reference shareholder, governing their reciprocal relations with regard to corporate governance and the transfer of shares.

Following the above transaction, BPER Banca now owns 57.06% of Arca Holding (which, in turn, holds the entire equity interest in Arca Fondi SGR). Consequent to this acquisition of control, Arca Fondi SGR has been added to the BPER banking group and is now consolidated on a line-by-line basis.

Acquisition and absorption of Unipol Banca (and indirectly of Finitalia)

On 31 July 2019, BPER Banca paid a total of Euro 220,000,000 to acquire from Unipol Gruppo S.p.A. and UnipolSai Assicurazioni S.p.A. respectively 85.24% and 14.76% of the share capital of Unipol Banca S.p.A., which is now wholly owned.

Unipol Banca in turn wholly owned the share capital of Finitalia S.p.A., a company specialised in consumer credit, which therefore became indirectly controlled by and a member of the BPER Banca Group.

Firstly, the Board of Directors of BPER approved the sale by Unipol Banca to Banco di Sardegna S.p.A. of a line of business comprising 10 bank branches located in Sardinia and the sale by Unipol Banca to Sardaleasing of a portfolio of leasing loans, pursuant and consequent to art. 58 of Legislative Decree 385/1993 (TUB). Subsequently, on 7 August 2019, it approved the absorption of Unipol Banca by BPER Banca, pursuant to arts. 2501 et seq of the Italian Civil Code, which was filed with the Modena and Bologna Companies Registers on 25 and 26 September 2019 respectively, following authorisation in the meantime from the competent Supervisory Authority pursuant to art. 57 of Legislative Decree 385/1993 (TUB).

BPER Banca S.p.A. did not receive any requests from shareholders by the legal deadline for a shareholders' meeting in this regard pursuant to art. 2505, para. 3, of the Italian Civil Code, while Unipol Banca S.p.A. obtained the required authorisation from the competent Supervisory Authority;

accordingly, the absorption process continued by adoption of the respective merger resolutions on 30 October 2019.

The merger deed was signed on 15 November 2019 and, as the final step in the process, was filed with the competent Companies Registers on 18 November 2019. The merger took legal effect from 25 November 2019; the tax and accounting effects were backdated to 1 July 2019.

Acquisition of the minority interest in Banco di Sardegna

On 4 July 2019 the Extraordinary Shareholders' Meeting of BPER Banca approved the delegation of the following powers to the Board of Directors in the context of acquiring the minority interest in Banco di Sardegna:

• authorise by no later than 31 December 2019 an increase in share capital for payment, by a maximum total amount of Euro 171,708,624.00, on a non-divisible basis reserved for subscription solely by Fondazione di Sardegna, via the issue with the exclusion of option rights of 33,000,000 BPER Banca ordinary shares, to be settled on one occasion by the contribution of 10,731,789 Banco di Sardegna ordinary shares;

• issue by no later than 31 December 2019: (i) an Additional Tier 1 convertible bond for up to a maximum total nominal amount of Euro 150,000,000, to be offered for subscription solely to Fondazione di Sardegna and consequently (ii) increase share capital for payment, by a maximum total amount of Euro 150,000,000, on one or more occasions and on a divisible basis to service solely and irrevocably the conversion of that bond, by the issue of a maximum of 35,714,286 BPER Banca ordinary shares;

• by no later than 30 June 2020, increase share capital by a maximum total amount of Euro 40,993,513.60, on one or more occasions and on a divisible basis, via the issue with the exclusion of option rights of a maximum of 7,883,368 BPER Banca ordinary shares, at an issue price to be determined in compliance with the law, to service a public offer for the exchange of Banco di Sardegna savings shares;

• amend the Articles of Association as a consequence of the above.

On 11 July 2019 the Board of Directors of BPER Banca resolved to exercise the powers assigned by the Extraordinary Shareholders' Meeting held on 4 July 2019 and, later, all the conditions precedent envisaged in the framework agreement signed by BPER Banca and Fondazione di Sardegna on 7 February 2019 were satisfied on receipt of the required authorisations from the Supervisory Authorities.

Accordingly, on 25 July 2019, BPER Banca acquired 49% of the ordinary share capital of Banco di Sardegna S.p.A. and about 36.90% of the preference shares from Fondazione di Sardegna, and holds 100% of the ordinary share capital and about 98.67% of the preference shares.

BPER Banca also issued an "Additional Tier 1" convertible bond with a nominal value of Euro 150,000,000 that was immediately subscribed for in full by Fondazione for a total consideration of Euro 180,000,000.

Public Offer of Exchange for savings shares in Banco di Sardegna S.p.A.

On 7 November 2019, BPER Banca notified its decision pursuant to art. 102, para. 1, of Legislative Decree 58/98 to promote a voluntary Public Offer of Exchange (POE) for all the savings shares in Banco di Sardegna, held by parties other than BPER Banca, that are listed on the electronic equities market (MTA) organised and managed by Borsa Italiana S.p.A.

On the same date, the Board of Directors of BPER Banca resolved to exercise the mandate granted at the Extraordinary Meeting held on 4 July 2019, regarding the capital increase to service the POE, and fixed the maximum amount of the increase at Euro 23,650,104, plus a maximum premium of Euro 4,178,185, via the issue of a maximum of 7,883,368 BPER ordinary shares at a price of Euro 3.53 each, of which Euro 3 to be recognised as share capital and Euro 0.53 as premium.

CONSOB authorised publication of the offer prospectus on 14 November 2019 and approved the offer document on 21 November 2019.

The POE acceptance period commenced on 25 November 2019 and ended on 13 December 2019 and 6,319,513 ordinary shares in BPER Banca were subscribed for and issued following execution of the capital increase reserved for subscription by the parties that accepted the POE.

Optima CUBE Project

The Boards of Directors of BPER Banca and Optima SIM approved the Optima Cube project during 2019, the feasibility study for which commenced in 2018 and was included in the business plan for the BPER Banca Group.

The objective of the Optima Cube project, scheduled for completion during 2020, is to develop the offer of investment services and the positioning of BPER Banca within the wealth management sector.

Change in Top Management

On 28 November 2019, the Board of Directors of BPER Banca resolved to revise the organisation model for top management, with a view to making the governance and administration of the Bank and the Group more efficient, streamlining business development decisions and assigning the supervision of governance, business and operating activities to just one exponent.

In view of this, after involving and obtaining the favourable opinion of the Remuneration Committee, an agreement was reached with the now former General Manager, Fabrizio Togni, for the early termination of his employment relationship at 31 December 2019.

Accordingly, as from 1 January 2020, Alessandro Vandelli is both the Chief Executive Officer and the General Manager of the Bank. Lastly, after involving and obtaining the favourable opinion of the Nominations Committee, the Board of Directors resolved to strengthen the General Management team by appointing Stefano Rossetti (formerly the General Manager of Unipol Banca S.p.A.) as the Senior Deputy General Manager of the Bank.

We examined the strategic reasons for the transactions described above, their impact on the Bank's structure, their rationales and the related economic effects, with no evidence of any substantial or formal anomalies or any critical issues.

The main events following the end of the financial year include:

Potential acquisition of a line of business from the Intesa Sanpaolo Group

On 17 February 2020, the Board of Directors of BPER Banca approved the planned acquisition of a line of business comprising 400/500 bank branches from the Intesa Sanpaolo Group, signing on that date a specific agreement with the counterparty that is conditional on completion of the voluntary POE by Intesa Sanpaolo for the entire share capital of UBI Banca.

More specifically, this line of business comprises about 1.2 million customers distributed among 400/500 bank branches, mostly located in Northern Italy, and the related assets, liabilities and legal relationships. The transaction would be serviced by a capital increase to be offered under option to existing shareholders, for an amount originally estimated on a prudent basis not to exceed Euro 1 billion.

COVID-19

Unfortunately, as known to all, the domestic and international situation has been afflicted since January 2020 by the spread of the COVID-19 pandemic, sometimes known as the "Coronavirus" and the consequent restrictive containment measures adopted by the public authorities in the affected countries. The measures to implement the decisions taken by the national authorities have restricted many activities. Given the unforeseeable final outcome of this phenomenon, we recognise that its impact cannot be quantified at this time in a structured manner or, indeed, at all, and that the documents accompanying the financial statements describe the situation of generalised and widespread uncertainty about its evolution over time. The potential effects of this phenomenon on the activities of the Bank and, therefore, on the 2020 financial statements cannot be determined at present and will be monitored closely as the year progresses.

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.

On 14 July 2019 the Board of Directors adopted the new "Group policy for the governance of non-compliance risk concerning conflicts of interest with related parties and risk assets with associated persons, issued pursuant to art. 136 of Legislative Decree 385/93, the Bank of Italy instructions on risk assets and conflicts of interest with associated persons (Circular 263/2006, Title IV, Chapter 5), the Consob Regulation containing instructions about related-party transactions (Consob Resolution 17221/2010), and IAS 24 on the disclosure of related-party transactions. Following a favourable opinion from the Independent Directors Committee, on 7 August 2019 the Board of Directors approved the revision of the limits on the acceptance of risk in relation to associated persons, raising the internal limits on the exposures of subsidiaries and associates and, consequently, the maximum risk assets with all associated persons. Previously, on 14 March 2019, the Group adopted a new "Group Regulation of the process of managing conflicts of interest for Company Representatives" to regulate the assessment of the suitability of corporate officers to hold their offices by identifying, managing and monitoring conflicts of interest of directors actually 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 Legislative Decree 58/98 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 263 dated 27 December 2006, with regard to the amendments made.

Given the above, it should be noted that further information on transactions with associated persons and related parties is provided in the Group report on operations (section 8.6) and in the report on operations (section 4.2), as well as in Section H of the notes to the consolidated financial statements and the draft separate financial statements.

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, there has been a reduction in transactions with directors and other members of top management and an increase in exposures to subsidiaries and associates, as well as to controlling investors, albeit well within the established limits; the volumes of the liability entries for intragroup transactions are significant, also due to the centralisation of the Group's liquidity management at the Parent Company.

Via our Chairman and/or another Acting Auditor, this Board has monitored constantly the entire process regarding the special transactions completed with Related Parties and Associated Persons and, accepting the permanent invitation made, has attended all the meetings of the Independent Directors Committee held from 9 May 2019 onwards.

At the meeting held on 12 November 2019, that Committee examined inter alia the changes to the regulations governing related-party transactions described in the Consob Consultative Document dated 31 October 2019, which was issued following publication in the Italian Official Gazette of Legislative Decree 49 of 10 May 2019 transposing EU Directive 2017/828 (SHRD 2), with a particular focus on the setting of materiality thresholds.

The Board of Directors provides complete information about related-party transactions in the Report on operations and in the notes to the separate financial statements.

To our knowledge, these transactions were concluded in the interests of the Bank and do not lead to comments about their appropriateness.

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 legal 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" or "Legal Auditors"), together with the issue of opinions on consistency and conformity with the law pursuant to art. 123-bis, para. 4, TUF.

On 27 March 2020, the independent auditors issued their report on the separate financial statements for the year ended 31 December 2019, pursuant to art. 14 of Legislative Decree 39/2010 and art. 10 of Regulation (EU) 537/2014.

In that auditors' 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 2019, 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 Legislative Decree 58/1998, are consistent with the draft financial statements at 31 December 2019 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;
- impairment test of goodwill;
- accounting recognition of the business combination with Unipol Banca S.p.A..

On 27 March 2020 the Independent Auditors released their auditors' report on the consolidated financial statements, also without qualifications or emphasis of matter, containing attestations and declarations similar to those indicated above at the separate level, as well as the same key aspects as those summarised above, with the addition of the accounting recognition of the business combination with Arca Holding S.p.A.

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.

Additionally, the auditing firm has presented to the Board of Statutory Auditors 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 acknowledges 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 2019. This non-financial statement, approved by the Board of Directors on 10 March 2020, 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. This statement 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). In order to implement the above requirements, BPER Banca S.p.A. adopted specific procedures and internal regulations during 2019 in order to govern the methodologies, rules and reporting process followed to prepare to NFS, as well as the related roles and responsibilities at Group level.

Additionally, in implementation of the internal regulations and, in particular, the "Group regulation for the process of preparing the consolidated Non-financial Statement", the Bank approved the 2019 Materiality Matrix on 28 November 2019. This Matrix is an essential element in the preparation of the consolidated NFS of the BPER Group, identifying the material aspects and key performance indicators that reflect the economic, environmental and social impacts of the Group or that, in any case, influence the decisions of stakeholders and must, therefore, be included in the Sustainability Report. The Materiality Matrix is usually updated every two years and was particularly appropriate this time in view of the significant changes in the reference environment, with the expansion of the banking group during the year on the arrival of Unipol Banca, Arca Holding, Arca Fondi S.p.A. SGR and Finitalia S.p.A.

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 business activity 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.

As part of ongoing efforts by BPER Banca to improve implementation of the principles embodied in Legislative Decree 254/2016, in 2019 BPER Banca began the process of joining the Carbon Disclosure Project (CDP), an independent, non-profit organisation that provides a system to firms for measuring, recording, managing and sharing climate change information at a global level. The sustainability reporting system made available by CDP will be used by BPER to inform stakeholders about the performance of the Group in the environmental field.

Lastly, the Board of Directors approved the "*2020-2021 Sustainability Plan*" on 10 March 2020, identifying strategic guidelines for the development of sustainable business processes that are an integral part of the 2019-2021 BPER Business Plan.

On 27 March 2020, 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 a conformity opinion 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

No complaints pursuant to art. 2408 of the Italian Civil Code were received during 2019 or up to the date of this report.

VI - INFORMATION ABOUT ANY STATEMENTS RECEIVED AND ACTION TAKEN

We received a number of complaints or other types of claim, including one that was signed, the others anonymous. In these cases, we took prompt action to obtain from the pertinent structures the information necessary to examine and assess the circumstances reported. The analyses have already been completed without identifying any circumstances 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 S.p.A. may be involved, in order to obtain the best possible outcome.

We took note of the information contained in the Report on the internal system for reporting violations (so-called "Whistleblowing") for 2019, prepared pursuant to the Bank of Italy's Supervisory Provisions (Circular 285/2013 Part One, Title IV, Chapter 3, Section VIII "Internal systems for reporting violations"), which summarises relevant aspects of the reports received by BPER Banca S.p.A. during 2019. In the circumstances, no reports of this type were received during the year.

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 legal audit activities performed in relation to 2019, as authorised at the Shareholders' Meeting held on 26 November 2016, and supplemented by resolution adopted at the Shareholders' Meeting held on 17 April 2019, totalled Euro 664 thousand for the audit of the separate financial statements and the consolidated financial statements. This amount is detailed below:

- Euro 266 thousand for the legal audit of the financial statements of the Bank at 31 December 2019, pursuant to art. 14 of Legislative Decree 39/2010;

- Euro 46 thousand for the legal audit of the consolidated financial statements at 31 December 2019;

- Euro 72 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 119 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 2019;

- Euro 161 thousand for the limited examination of the consolidated accounting schedules to determine the interim profit for the periods ended 31 March 2019 and 30 September 2019, for the purpose of including these interim results in the calculation of Common equity Tier 1 capital.

In addition, during 2019 Deloitte & Touche S.p.A. presented a request for supplementary fees in relation to the additional time spent on auditing activities not envisaged in the initial proposal for the years 2017-2025 and beyond the supplement already approved on 17 April 2019, as a consequence of the acquisition by BPER Banca S.p.A. of Unipol Banca S.p.A. and the subsequent absorption of Unipol Banca S.p.A. by BPER Banca S.p.A. With regard to the above acquisition and subsequent absorption, the Independent Auditors in fact revised, on a one-off basis, the time estimated to perform the 2019 audit work and, on a running basis, the fees for the legal audit work to be carried out in the remaining years of the 2019-2025 mandate. The request presented by Deloitte & Touche S.p.A. for supplementary fees totalling Euro 95 thousand, of which Euro 34 thousand on a one-off basis in relation to 2019 and Euro 61 thousand on a running basis for the remaining years of the mandate, was addressed in the reasoned proposal presented as point 3 on the Agenda for the Ordinary session of the Shareholders' Meeting called for 22 April 2020.

Deloitte & Touche S.p.A. was also recognised the following additional fees, for other appointments ancillary to and/or connected with the legal audit, totalling Euro 705 thousand:

Certification services (amounting to Euro 670 thousand) including:

a) Euro 41 thousand for the activities performed in order to release the conformity opinion on the Consolidated non-financial declaration (Sustainability Report pursuant to Legislative Decree 254/2016);

b) Euro 29 thousand for the work performed on the translation to 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 2019;

c) Euro 192 thousand for the activities performed in relation to the programme for the issue of covered bonds;

d) Euro 37 thousand for the release of comfort letters in relation to the Euro Medium Term programme;

e) Euro 365 thousand for activities relating to the issue of fairness opinions on capital increase transactions;

f) Euro 6 thousand for activities to check the GHG Statement that will be attached to the CDP Questionnaire – Reporting on Climate Change;

Other services (for a total of Euro 35 thousand):

g) Euro 35 thousand for audit activities carried out in order to stamp for conformity the 2019 and supplementary 2018 tax declarations.

To the extent not already authorised by resolutions adopted at the Shareholders' Meeting held on 26 November 2016, the above appointments were authorised by the Board of Statutory Auditors 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 legal auditors and parties associated with them, the roles and responsibilities at Group level, and the related rules and methodologies. Work continued during 2019 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 28 November 2019. This update principally took account of the analytical work carried out during 2019 in order to interpret the external regulations relating to the application of Regulation (EU) 537/2014. 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 legal 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 took note of the information about non-audit services prepared in advance and every quarter by the competent business function; 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 to the three-year average cost of audit services (2017-2018-2019) was 7% at a consolidated level in 2019, which was less than the 70% limit established in the internal regulation and the Fee Cap regulation applicable, as mentioned, from 1 January 2020.

In addition to the above, the fees paid by subsidiaries to Deloitte & Touche S.p.A. and to Deloitte Audit S.à.r.l. (a company of Deloitte's network) amounted to Euro 522 thousand in 2019, in addition to Euro 11 thousand for certification services and Euro 33 thousand for other services. In addition, during 2018 and 2019 Deloitte Audit S.à.r.l. performed additional one-off and running audit work for Bper Bank Luxembourg s.a., beyond that included in the initial proposal for the years 2017-2025, following expansion of the regulatory scope and an increase in the volume of business of the company. With regard to the above audit work, additional to that included in the initial proposal, during 2019 Deloitte Audit S.à.r.l. requested supplementary fees for the extra time incurred totalling Euro 23 thousand, which are the subject of a proposed resolution on the agenda for the Shareholders' Meeting of the subsidiary called for 20 April 2020.

In the context of the voluntary first audit mandate granted by Sifà S.p.A., during 2018 and 2019 Deloitte & Touche S.p.A. carried out additional one-off and running audit work due to an increase in the volume of business of the company. With regard to the above audit work, additional to that included in the initial proposal, the supplementary fees requested for the extra time incurred on one-off audit work in 2018 amounted to Euro 18 thousand, while those to be incurred on running audit work in 2019-2020 totalled Euro 11 thousand. These fees were approved at the Shareholders' Meeting of the subsidiary held on 5 November 2019, following a reasoned proposal from its Board of Statutory Auditors.

We also note that, on joining the banking group, Finitalia S.p.A. granted Deloitte & Touche S.p.A. a mandate to perform the legal audit of the accounts for the period 2019-2027, at an annual fee of Euro 26 thousand. This was authorised at the Shareholders' Meeting of the subsidiary held on 14 November 2019, following a reasoned proposal from its Board of Statutory Auditors.

At the respective Shareholders' Meetings held to approve the financial statements for the year ended 31 December 2019, certain companies within the Group (IVI S.r.l., Adras S.p.A., BPER Trust Company S.p.A., BPER Credit Management S.C.p.A., Modena Terminal S.r.l., Nadia S.p.A., Numera Sistemi e Informatica S.p.A., Tholos S.p.A., Estense Covered Bond S.r.l., Estense CBT Covered Bond S.r.l.) renewed or will renew the audit mandates granted to Deloitte & Touche S.p.A. for a further three years (2020-2022).

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.

VIII - INFORMATION ABOUT ANY ADDITIONAL ASSIGNMENTS TO PARTIES WITH ONGOING RELATIONSHIPS WITH THE INDEPENDENT AUDITORS AND RELATED COSTS

During 2019 the BPER Group granted a number of assignments to companies that have ongoing relationships with the Independent Auditors. In particular, Deloitte Consulting S.r.l. was appointed to:

a) perform non-audit work for BPER Banca totalling Euro 612 thousand (methodological support for recording the current Pillar 3 process and preparing the related documentation, in order to help the Bank identify any gaps with respect to the regulatory requirements, , for Euro 50 thousand;

provide methodological support for benchmarking against best practices, as part of the assessment carried out prior to defining the new CRM – Client Relationship Management ecosystem, for Euro 165 thousand; perform work in the context of developing the Contact Centre – Everyday Bank, for Euro 157 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 140 thousand; provide methodological support for identifying user requirements and benchmarking in the context of the Data Governance project, for Euro 100 thousand;

b) perform non-audit work for BPER Group companies totalling Euro 83 thousand (methodological support for benchmarking against best practices, as part of the assessment carried out prior to defining the new CRM – Client Relationship Management ecosystem, for Banco di Sardegna, Euro 54 thousand; Cassa di Risparmio di Bra, Euro 3 thousand, and Cassa di Risparmio di Saluzzo, Euro 3 thousand; methodological support for benchmarking against best practices and recording user requirements in the context of developing the Contact Centre – Everyday Bank, for Banco di Sardegna, Euro 21 thousand; Cassa di Risparmio di Bra, Euro 1 thousand, and Cassa di Risparmio di Saluzzo, Euro 1 thousand).

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.

IX - OPINIONS ISSUED BY THE BOARD OF STATUTORY AUDITORS PURSUANT TO THE LAW DURING 2019

During 2019 and up to the date of this report, we issued opinions according to 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 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.
2. An opinion on the remuneration of directors who perform special duties as per art. 2389 of the Italian Civil Code.
3. An opinion on the update of the Group policy for the governance of non-compliance risk concerning conflicts of interest with related parties, pursuant to Bank of Italy Circular 263, Title V, Chapter 5, Section IV.A, Sub-section 3 and Section III, Sub-section 2.
4. Observations on the internal audit mandate pursuant to Bank of Italy Circular 285/2013, Part I, Title IV, Chapter 3, Section II.
5. An opinion on the approval of updates made to the 2019 Risk Appetite Statement based on the 2018 SREP Letter.
6. An opinion on the update of the Group policy for the governance of money laundering and the financing of terrorism risk and the Regulation for the Anti-Money Laundering Office pursuant to Legislative Decree 231/07, Bank of Italy Measures dated 26/3/2019 and 30/07/2019.
7. An opinion on the additional report pursuant to art. 11 of Regulation (EU) 537/2014.
8. Observations on the Report on the Outsourcing of Operational Functions pursuant to Bank of Italy Circular 263/2006.
9. An opinion on the Report on Internal Audit activities pursuant to Consob Decision 17297/2010.
10. Observations on the reply to CONSOB Communication, ref. 0238900/19.
11. 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.

12. An opinion of the self-assessment activities of the Compliance and Internal Audit functions pursuant to the 2018 SREP Letter

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We also updated the Board of Directors on the analysis of Internal Audit activity carried out under a mandate from the Board, and presented a reasoned proposal for supplementing the fees of the Independent Auditors pursuant to art. 13, para. 1, of Legislative Decree 39/2010.

X - INFORMATION ABOUT MEETINGS ATTENDED BY THE BOARD OF STATUTORY AUDITORS IN 2019

During 2019 we held 52 meetings lasting an average of 4 hours 19 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 up to the date of this report, we have held 14 meetings.

We also attended the meetings of the Board of Directors, which are convened in accordance with the current articles of association; 25 meetings were held during 2019. We also took part in meetings of the Executive Committee, which normally meets with frequency required in the "Operating Rules" of the Executive Committee; 15 meetings took place in 2019.

During 2019, the Control and Risk Committee held 28 meetings, with 89 total participations on the part of the Statutory Auditors: of these 28, 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 2019, through our Chairman or another Statutory Auditor appointed by him, we attended all the 22 meetings of the Remuneration Committee (6 meetings were held during 2020 up to the date of this report).

During 2019, we also attended 15 meetings of the Nominations Committee on invitation from its Chairman (3 meetings were held during 2020 up to the date of this report).

During 2019, we also attended 24 meetings of the Independent Directors Committee, again on invitation from its Chairman, of which 1 was a joint meeting of the two bodies (6 meetings were held during 2020 up to the date of this report).

In the context of the 2018-2020 Training Plan, in-house training continued during 2019 with 3 sessions covering: (i) IFRS 9 and IFRS 16 Leases; (ii) the 2019 materiality matrix and the foundations of the BPER Banca Sustainability Plan in the context of the Corporate Social Responsibility programme; (iii) digital innovation and cyber risks; (iv) the so-called "regulatory map", in other words, how to pro-actively manage regulatory requests on the basis of clear internal governance, leading to the identification of potential business opportunities.

In addition, a number of Statutory Auditors attended the training day envisaged in the annual training plan for the Supervisory Board pursuant to Law 231/01, which was held on 22 November 2019.

Further information is contained in the Report on Corporate Governance and the Ownership Structure for 2019 (Chapter XIX), prepared pursuant to art. 123-bis TUF and approved by the Board of Directors on 10 March 2020.

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 BPER's Internal Control System. The controls implemented by BPER 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 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.

Note that Board meetings were attended by the General Manager and the Secretary to the Board of Directors, for the explanation and analysis of the measures to be decided. The Deputy General Managers and other Executives also attended, upon invitation, based on the specific topics on the agenda. Benefiting from attendance by these persons, this Board was able to obtain additional information, as appropriate, about the proposed transactions and their economic and financial effects.

During our regular meetings with the Chief Executive Officer, we examined and provided our observations on the topics of greatest interest to the Bank and the Group, including in particular the special transactions that resulted in the acquisition of shares in Banca Unipol, Banco di Sardegna and Arca Holding, preparation of the Business Plan, the self-assessments carried out by the Internal Audit Department and the Compliance Office, the “Emilia” Operation, the Public Offer of Exchange for the shares of Banco di Sardegna, and the results of road shows and meetings with analysts and investors.

During 2019, this Board continued to monitor the progress made in the areas of strategic planning and management control, given that the Bank is committed to migrating from traditional system of control towards a new model more focused on executive and strategic analysis.

XII - OBSERVATIONS OF THE ADEQUACY OF THE ORGANISATIONAL STRUCTURE

In this context, we held regular meetings with General Management, the Human Resources Department, the Systems Department and the Business Area, in order to assess the adequacy of the organisational structure and the response of management and strategic supervision to the market and to the competitive environment and requirements.

We note that, on 28 November 2019, the Board of Directors further optimised the organisational model and the project to reorganise the management team that will implement the Business Plan. 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 organisation reports to the Chief Executive Officer, who exercises direct control over its activities, especially with regard to the determination of Group strategy.

From 1 January 2020, the Chief Executive Officer is also the General Manager of the Bank, having taken responsibility for operational management. The Chief Operating Officer (COO) promotes coordination and synergistic action between the Functions that represent the "operational machine" of the Group, i.e. Organization 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 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 the Risk Manager in accordance with the Bank of Italy Communication dated 7 June 2011 and Bank of Italy Circular no. 285/2013 and the 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) and the Internal Capital Adequacy Assessment Process (ICAAP) 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 have examined the 2020-2022 Group Audit Plan approved by the Board of Directors on 5 February 2020. We have also been updated regarding changes in the capacity and gaps identified, taking note of the number of persons employed by the function, their skills and the related actions taken. Based on the information obtained, we consider that the capacity of the function is adequate to perform its duties. In addition, we have monitored constantly the *EQAR* (*External Quality Assessment*

Review) process of the Internal Audit Function, which was implemented by the Bank in order to certify the Internal Audit Department pursuant to international internal auditing standards.

We have examined the key elements of the 2020 Activity Plan of the Compliance Function, approved by the Board of Directors on 10 March 2020, 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 believe that the current quali-quantitative profile of the function is consistent with the objectives indicated in the 2020 Activity Plan.

During 2019, we constantly supervised, in a systematic manner, the assessment processes followed by BPER, including the self-assessment activities carried out by the Internal Audit Department and the Compliance Office with support from a leading external firm of advisors. Consistent with the requirements of the European Central Bank, this assessment addressed the principal focuses of attention of these second and third-level control functions, being: governance, quali-quantitative capacity, organisation, processes, available tools, methodology for the evaluation of findings, internal reporting and the monitoring and follow-up process.

The second assessment activity was carried out by the Bank, which adopted the results of the independent assessment, to which the first activity was entrusted, and expressed its own independent considerations about them, identifying appropriate corrective actions that were documented in detailed action plans for gradual and timely implementation.

With regard to the Internal Audit Department, we will continue to monitor the corrective actions identified, which address: (i) the management of auditor conflicts of interest, (ii) the implementation of quality assurance programmes within the function, and (iii) the logic and methods adopted by the function to carry out the related follow-up activities.

In addition, we have noted the "Action Plan" envisaged by the Bank for the Compliance function, considering it adequate overall to guarantee proper implementation of the corrective actions identified following the self-assessment work; nevertheless, we believe that management of the Bank should dedicate particular attention to the timely and effective implementation of the action planned in relation to:

- the need to build capacity, with regard to which the Bank must consider taking the most appropriate action to add managers (internal or external) with sufficient seniority and experience to support the current leader of the Compliance Office, ahead of orderly leadership succession in the near future, as well as several specialists with IT and Digital skills;
- the need to strengthen ex-post controls designed to verify the effectiveness of the processes implemented. In this context, we believe that completion of the work to implement "distance controls" over the investment services provided must be a priority.

We are working to ensure constant and periodic monitoring of the real and effective implementation by both functions of the corrective actions identified.

We have examined the 2020 Activity Plan of the Risk Management Function, approved by the Board of Directors on 23 January 2020, which was prepared in the context of the overall requirements of the ECB and the changing regulatory framework. We believe that the current resources are essentially adequate, as is - based on the information obtained - the capacity of the function to achieve the objectives envisaged in the 2020 Activity Plan.

We have noted the 2020 Activity Plan of the Anti-Money Laundering Unit approved by the Board of Directors at the meeting held on 26 February 2020.

We also note that, at the meeting held on 10 March 2020, the Board of Statutory Auditors approved the overall framework of the 2020 Remuneration Policies to be presented at the Shareholders' Meeting.

XIII – OBSERVATIONS ABOUT 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 entity. The internal control system of the Group 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 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.

Regular checks, governed by specific outsourcing contracts, are carried out for those Group companies required to establish control functions or that are exposed to significant risks. With regard to the activities formerly carried out by UNIPOL BANCA S.p.A. and FINITALIA S.p.A., we analysed and checked the organisation of the internal control system and the principal matters worthy of attention in their regard, with particular reference to UNIPOL BANCA S.p.A. during the transition period prior to its absorption by BPER Banca.

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 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 OSI of operational risks carried out in 2018, the Supervisory Authority highlighted the need to strengthen the role of the Control Functions Coordination Committee; the Bank took action in this regard during the first quarter of 2019, preparing an Action Plan that was approved by the Board of Directors on 25 July. This plan described the procedures and mechanisms for coordinating the various control functions, as well as the principal activities planned to raise the level of coordination achieved. Following this Board resolution and commencing from the third quarter of 2019, this Board of Statutory Auditors and the Control and Risk Committee receive copies of the minutes of the meetings held during the period, as well as quarterly updates on the activities carried out.

As indicated in the previous section, the architecture of the internal control system was subjected to self-assessment during the first half of 2019 by the Internal Audit Department and the Compliance Office. This activity, specifically requested by the Supervisory Authority in the 2017 SREP Letter, was carried out under our constant supervision and, as requested by the Supervisory Authority, we also expressed an opinion on the self-assessment process followed. In our report, we highlighted the need to align the capacity of the organisations concerned, ahead of the special transactions that were completed during 2019. We also informed the Bank about the need to carry out, during the current year, specific project work designed to make a more complete, holistic assessment of the internal control system, consistent with the logic expressed in the SREP Letter.

An External Quality Assessment Review (EQAR) - pursuant to international internal auditing standards - was commenced during the same period by a firm of consultants appointed by the Board of Directors of the Parent Company. As already mentioned, the purpose of this work was to obtain certification for the Internal Audit function, following a quali-quantitative assessment of all aspects of its activities.

Work also continued during the year on the fine tuning of the system for identifying, monitoring, managing and reporting on the findings of the internal control functions, in order to ensure consistent, timely and prioritised action in line with best practices (EBA/CP/2016/16). We arranged periodic meetings during the year to identify the timely progress made and the functionality of this system, which enhances efficient and effective analysis of the control function recommendations not yet implemented and the progress made on the related implementation work.

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.

We addressed various aspects of the internal control system during 2019, with particular reference to the capability and strengthening of the functions concerned, not least due to the direct consequences of the acquisition and subsequent absorption of UNIPOL BANCA S.p.A. by BPER Banca on the planning and management of the findings, as well as on the management and control of credit, operational and financial risks.

Following the absorption of BPER Services by BPER Banca, the IT system is now managed directly by the Parent Company and is the subject of numerous major projects for the proper implementation of policies and regulations that comply with regulatory requirements (Bank of Italy Circular 285, Title V, Chapter IV), with a particular focus on Data Governance, in response to the need for ever improved data quality expressed by the control and operational functions within the Group.

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 special 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.

Risk management and control system

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 is a coordinated set of methodologies, processes, policies, controls and systems via which the Group establishes, communicates and monitors its risk appetite, being the set of risk objectives, tolerance thresholds and operational limits, under both ordinary and stressed conditions, that the Group intends to respect in pursuing its strategic guidelines, defining the respective levels in a manner consistent with the maximum risk that can be accepted (risk capacity).

In this context, the areas associated with the ICAAP and the ILAAP have continued to evolve; further functional implementations have improved the links between these processes, the RAF, the budget, the 2021 business plan and the NPE business plan; a metric has been introduced regarding the position in Italian *govies*; the RAF quarterly reports take greater account of the ICAAP parameters, and the forward-looking assessment of capital adequacy now includes an initial estimate of the impact of adopting the New Definition of Default.

The recovery plan prepared in 2018 was updated and approved in December 2019, after which it was sent to the European Supervisory Authority for an overall opinion on its adequacy. The revised plan includes certain improvements to the recovery actions available, consistent with the supervisory findings expressed with regard to the 2018 recovery plan.

With reference to the management of credit and counterparty risk, updates to the high level internal regulations were approved in early 2019, including in particular the Group regulation for the management of problem loans and the Group policy for the governance of credit risk, with special reference to the assessment of real estate guarantees.

As highlighted earlier in relation to the significant activities carried out in 2019, the New Definition of Default was applied to the classification of non-performing loans during the final quarter of the year, and work started on the update of the internal rating system to reflect the changes made by the New Definition of Default and by the EBA Guidelines for risk models. We devoted particular attention once again to the configuration of the second-level controls over lending, which are a significant element in the internal control system applicable to financial disclosures.

Market risks are monitored using a system of limits that is updated annually, or more frequently, depending on the complexity of the portfolios. In response to our requests and those made by the Supervisory Authority when checking on the management of market and liquidity risks, the Bank has begun and almost completed an ambitious enhancement of the framework for the management and control of financial risks (including banking book interest rate, liquidity, market and counterparty risks).

In this regard, we believe that the size of the portfolio of financial assets and the related risks justifies making further enhancements to the processes and systems concerned.

Various refinements have been made in the area of operating risks, partly following finalisation of the OSI of the Group in 2018

Lastly, the internal validation function has developed further its monitoring and verification of the internal models adopted by the Group, both for prudential purposes and in order to manage risk.

Supervisory checks and the SREP process

During 2019, we continued to monitor implementation of the action taken by the Bank in response to the comments, observations and suggestions made by the Supervisory Authorities following inspections and other supervisory activities, ensuring compliance with the established deadlines; among others, the following topics were addressed:

- September to December 2017: the ECB carried out OSI 2017-itper 3283 regarding the management of market and liquidity risks, the findings from which have all been addressed at 31 December 2019.

- February to May 2019: the liquidity stress test promoted by the ECB pursuant to art. 100 of CRD IV was carried out, the results of which were included in the 2019 SREP Letter.

- During 2018: the ECB carried out OSI 2018-itper 3710 regarding operational risk, which was followed up by a request for an Action Plan to resolve the related findings. The related work was completed in March 2020.

- During 2019: the ECB completed OSI 2018-itper 3284, started at the end of 2018, which took the form of a credit quality review carried out at the Bank; on 23 January 2020, the Board of the Bank approved the Action Plan to address the findings notified in the final follow-up letter; on 3 February 2020, the plan was sent to the Supervisory Authority in compliance with the deadline agreed;

- April 2019: the Bank received the assessment report from the Head of Mission responsible for the Target Review of Internal Models (TRIM) inspection carried out during 2018. March 2020: a decision letter was received from the ECB containing certain authorisations and a limitation, as well as a number of obligations to be satisfied on the basis of an Action Plan to be submitted to the ECB by the end of March 2020.

November 2019: the ECB notified the Bank about its 2020 Pillar 2 Requirement (regulatory capital adequacy) and provided the related Pillar 2 Guidance following the outcome of the SREP process.

In particular, consistent with the previous decision, the binding requirements mean that BPER Banca S.p.A. must maintain a Total SREP Capital Requirement (TSCR) of 10% at a consolidated level, including an additional Pillar 2 requirement for own funds to be held in the form of Common Equity Tier 1 (CET 1) capital.

Specifically, the minimum requirement for own funds is 8.00%, while the specific requirement for Pillar 2 capital remains 2.00%.

The SREP Letter also requests an update to the three-year strategic and operational plan for the level of NPEs, covering the period from 31 December 2019 to 31 December 2021, as well as the preparation of suitable governance mechanisms for the monitoring and control of NPEs. In this context, the ECB also requested periodic information about the implementation of the strategic and operational plan for governing the NPEs, together with certain updates regarding the measurement of risk in the context of the ICAAP and ILAAP processes.

In this regard, noting that the prudential requirements and guidance provided by the Supervisory Authority were satisfied at the end of the year, we confirm the high degree of commitment displayed by the internal organisations (including the Risks Department, the Internal Audit Department, the General Secretariat and the Compliance Office) in managing relations with the Supervisory Authority and implementing its findings.

XIV - COMMENTS ON THE ADEQUACY OF THE ADMINISTRATIVE AND ACCOUNTING SYSTEM AND ON 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, examining the most significant corporate documents, analysing the work performed by the Independent Auditors Deloitte & Touche S.p.A. and by the Manager responsible for preparing the company's financial reports.

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 approved by the Board of Directors. In order to perform the duties envisaged by Law 262/2005 and by art. 154-bis of Legislative Decree 58/1998, the Manager Responsible has at his disposal a specific internal structure, the Office for the monitoring and control of financial reporting ("UMCIF"). On 10 January 2019, the Board of Directors approved the update to the complete Financial Reporting Control Model and related internal regulation.

In addition during 2019, as part of the continuous improvement of the Group's internal regulations, the entire set of decisions made in order to prepare the separate and consolidated financial statements under IAS/IFRS was formalised in the “BPER Banca Group Accounting Policies” manual. This document is drawn to the attention of the Board every quarter.

We took note of the positive 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 Legislative Decree 58/1998 that describes the Control Model for Financial Information, the checks carried out, the overall positive evaluation of the system and any points of attention.

Given the task attributed to us as part of the financial reporting process and as Internal Control and Audit Committee pursuant to art. 19, para. 2 letter c. of Legislative Decree 39/2010, we maintained close coordination with the Financial Statements and Administration Department (DAB). In particular, we periodically met with DAB exponents to exchange information on the administrative-accounting system, as well as on the reliability of the latter in presenting properly the results of operations. During these meetings, the Manager responsible for preparing the company's financial reports did not highlight any significant weaknesses in the operational and control processes that, due to their importance, could jeopardise the adequacy and effective application of the administrative-accounting procedures designed to present properly the results of operations, so that the economic and financial position can be properly stated in accordance with international accounting standards.

Additionally during the year, we examined the report on the verifications carried out by the UMCIF, also with respect to Group companies, and the related outcomes, analysing the causes and corrective actions for any weaknesses that had been identified; in this regard, we monitored implementation of the corrective actions by performing specific follow-up checks, coordinating directly with the boards of statutory auditors of the legal entities concerned in order to ensure consistent action at Group level. We note that meetings were held at the end of 2019 with the new companies consolidated by the BPER Banca Group - Arca Holding, Arca Fondi SGR (indirectly) and Finitalia - to discuss the process for making financial disclosures. Supervision of this activity was centralised within the Parent Company, with their boards of directors approving the Control Model for Financial Information and appointing contact persons for the Group Manager responsible for preparing financial reports at their meetings held on 4 November 2019 and 19 December 2019 respectively.

Further, noting that certain corrective actions regard matters of interest at subsidiary level for consolidation purposes, we invited the Parent Company to monitor their implementation and continue to strengthen its guidance and coordination role, in order to achieve ever greater agreement, harmonisation and monitoring of the various financial disclosure processes and internal control systems. At the start of 2020, we noted the work performed during 2019 with regard to the matters raised for attention. We monitor the situation and, in the usual spirit of constructive guidance, provide and suggestions and recommendations considered necessary.

We also examined the 2020 Activity Plan, which focuses strongly on work to address potential non-conformity risks in relation to those companies that joined the Group as a result of the special transactions. In this context, with regard to the processes for making financial disclosures, we noted implementation of the design and control activities planned by the UCMIF. These included the start of a project to create and make available an IT architecture that allows use of the data/information needed for the automated management of certain activities by that office, as well as the completion, by the end of the current year, of work to update the administrative-accounting repository that records the activities, risks and controls relating to the various processes.

During the year, we continued to monitor implementation of the alignment work needed to apply IFRS 9 and IFRS 15, which came into force on 1 January 2018, including adoption of the suggestions regarding those standards made by the Independent Auditors, without noting any significant matters.

With specific reference to IFRS 9, we made checks and held meetings with the Manager responsible for preparing the company's financial reports, also attended by the Independent Auditors, in order to analyse the evolution of the disposal scenario, consistent with the Group 2019-2021 NPE Business Plan and the 2019-2021 NPE Strategy, which envisage the recovery of non-performing loans via, in part, their sale to third parties.

With regard to the update of accounting policies, we analysed in particular the impairment model for Stage 3 loans (the non-performing portfolio), the fine tuning of the criteria and assumptions for recognising the impairment of unlikely-to-pay (UTP) exposures, the criteria for calculating expected losses, especially on positions that are very likely to be sold, and the standards for presenting and reporting the provisions made on the FTA of IFRS 9 in the financial disclosures and, in particular, in the Explanatory notes.

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. In particular, we held periodic meetings with the Manager responsible for preparing the company's financial reports to discuss how the amount recoverable is determined in a multi-scenario situation. This requires calculation of the weighted average of the recoveries expected from internal activities (workout scenario) and the estimated sales proceeds (disposal scenario), after multiplying each by their probability of occurrence. Discussions covered this impairment model, which envisages constant update of the parameters used in relation to both the workout scenario, with continuous review of the recoverability of exposures by internal efforts, and the disposal scenario, in relation to which the fair market value of loans is updated every quarter with reference to the information available about disposal conditions. At the same time, the probabilities associated with both scenarios for each position are also subject to change and amendments, principally with reference to conditions in the NPE market and the progressive achievement of the objectives envisaged in the current NPE Strategy. Further discussions were held about how to determine and update this fair market value, with the introduction of market benchmarks based on the experience accumulated by the Group in various disposal transactions, mainly involving the sale of bad loans via GACS and having regard for the target recoveries envisaged in the new NPE strategy

During 2019, we dedicated particular attention to the FTA of IFRS 16, which came into force on 1 January 2019, noting that the BPER Banca Group had already commenced the related alignment work during the second half of 2018.

In this regard, we made checks and held meetings with the Manager responsible for preparing the company's financial reports and the DAB manager, also attended by the Independent Auditors, in order to analyse the accounting impacts and how to implement the related accounting policies, as well as to identify the effects on the business, the organisation, processes and the related IT systems.

With regard to the first-time application of IFRS 16, the BPER Banca Group chose to adopt the practical expedient of not restating the FTA scope, instead applying the new standard to all lease contracts already identified in accordance with the definition contained in IAS 17. In addition, the Group adopted the modified retrospective approach for the impact assessments and the reference method for the transition, recognising the cumulative impact of the first-time application of the standard to existing contracts as an adjustment of the opening balances at 1 January 2019, without recalculating and restating the comparative figures at 31 December 2018. For the determination of the Right of Use during the transition, reference was made to the option that allows quantification of the asset at the same amount as the lease liability, calculated by discounting future contractual lease instalments back to the FTA date at an appropriate discount rate.

Accordingly, the transition to IFRS 16 had no effect on shareholders' equity, as the recognised value of the related assets and liabilities coincided, net of the reclassification of accruals/deferrals and the presentation of contracts previously classified as finance leases under IAS 17.

As required by the new accounting standard, at 31 December 2019 the Group carried out an impairment test on the right-of-use assets to identify any loss of value, having regard for their expected future usage and market information about the costs to be incurred for their rental.

The Directors' report on operations the work performed in order to apply IFRS 16 for the first time, while the Explanatory notes provide information about the effects of the transition to the new accounting standard.

In addition, we note the checks carried out by the UMCIF in the context of adopting IFRS 16. Analyse of the conformity of the methodological and functional decisions made in relation to the regulatory requirements placed on the BPER Banca Group resulted in concluding that the residual risk is "*medium low*".

We will continue to monitor how the points for improvement and suggestions made are addressed.

During 2019, we continued to monitor the improvements in the process adopted by BPER Banca for revising and refining the methodologies used to measure the banking portfolio of financial instruments for accounting and regulatory purposes. The objective of the project, assisted by a leading firm of advisors, is to analyse the illiquid financial instruments and identify more suitable ways to identify the principal component parts of their risk profiles.

The Long-Term Incentive Plan (LTI 2019-2021) approved at the Shareholders' Meeting held on 17 April 2019 is the first share-based incentive plan for the key personnel of BPER Banca and Group companies. In accordance with IFRS 2, the cost of this equity-settled share-based plan has been spread over the entire eight-year vesting period, commencing from the date on which the individual beneficiaries were informed about their participation (4 and 5 December 2019), with a matching entry to a specific equity reserve.

We also monitored the progress made on implementing the requirements of EBA Guidelines 2014/14 and 2016/11 and the corrective actions contained in the Action Plan prepared in response to the observations of the Supervisory Authority following assessment of the conformity of the “Public Disclosures at 31 December 2018 – Pillar 3” document, which was completed in December 2019 on issue of the ECB Assessment Letter. The above implementation work and actions were essentially addressed in the disclosure document dated 31 December 2019, which sets out in a clearer and more detailed manner the sequence of information required by the regulation (CRR Part 8). In this regard, we encourage continuation of the process to rationalise and supplement the disclosures made to the public, including the projects to be completed during the current year, as well as to implement internal control procedures that participate in the production of those disclosures.

During the year, we monitored, via periodic meetings with the Manager responsible for preparing the company's financial reports and the Independent Auditors, the Purchase Price Allocation process carried out following the acquisition of Unipol Banca S.p.A., which resulted in crediting badwill of Euro 343.4 million to the income statement. In accordance with IFRS 3, the BPER Group decided to carry out an overall check on the measurements made by obtaining a fairness opinion, with confirmation of the processes followed, from an auditing firm other than that appointed by the Group to perform the legal audit of the accounts.

We also monitored the Purchase Price Allocation process relating to the acquisition of control over Arca Holding, which resulted in the recognition of goodwill totalling Euro 170 million.

The so-called "probability test" of deferred tax assets and liabilities foreseen in IAS 12 was carried out on BPER Banca S.p.A. and on the consolidated tax perimeter. This test, based on the economic forecast developed over a prospective 5-year horizon (2020-2024), allows an appropriate estimate to be made of the future taxable income expected to be available for the recovery of deferred tax assets and, 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 the 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 2019, 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.

We confirm that the internal control system on financial reporting, constantly subject to updates and maintenance, is organised, structured and equipped with appropriate resources and tools.

We also reviewed the results of the assessment carried out, with assistance from leading firms of advisors, in order to qualify the organisational structure of the UMCIF, which reports in a staff role to the Manager responsible for preparing the company's financial reports, and the activities assigned to it with regard to the governance and management of financial disclosures at Group level, as well as the results of the benchmark analysis carried out in order to obtain information about the approach taken by other players in the banking sector concerning the types of document subject to the "Declaration" issued by the Manager responsible for preparing the company's financial reports pursuant to art. 154-bis, para. 2, TUF.

This assessment identified the essential adequacy of the instruments and methodologies adopted by the UMCIF with respect to market peers, showing that the methodologies used in some areas are more advanced than others found in the market, and confirming that the current organisation of the UMCIF is consistent with the operational complexity of the activities assigned to it. This positive assessment lays the groundwork for future systems to monitor the financial disclosures made by the Group.

The Independent Auditors checked the administrative and accounting procedures without highlighting any matters regarding their reliability. 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. This result was obtained following the positive outcome of an investigation carried out by the Tax Authorities to check the adequacy, in practical terms, of the specific system adopted for identifying, measuring, managing and controlling tax risks (the Tax Control Framework). 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 2019, by updating the “Policy for governing the risk of non-compliance with the tax regulations", approved in December 2018, formalising operating manuals that describe in detail the activities carried out, adopting a specific IT platform whose assessment metrics are consistent with the methodology adopted by the Compliance office of the Bank, development of a telematic platform for the management of tax advice, based on the ticketing system already used by the Bank, and defining formalised models for the assessment of interpretation risk.

An inspection of the 2018 tax year commenced on 18 April 2019 with regard to the tax effects deriving from the absorption of Nuova Cassa di Risparmio di Ferrara. At present, based on discussions with the relevant organisation within the Tax Authority, no risk elements have emerged in relation to that inspection.

It is also noted that from 1 January 2019 the BPER VAT Group is operational, a new VAT payer regulated by the EU legislation introduced into national law by Law 232 of 11 December 2016, which 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.

Lastly, it should be noted that the Bank and the Group do not have any situations that could be considered significant for disclosure purposes under IFRS 12.

XV - OBSERVATIONS ON THE ADEQUACY OF THE INSTRUCTIONS GIVEN TO SUBSIDIARIES UNDER ART. 114 OF LEGISLATIVE DECREE 58/1998

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 2019, supported by appropriate accounting documents and calculations relating to the management of legal entities under the Bank's control.

We can confirm that we have remained in constant contact with the corresponding bodies of the main Group banks and companies; in this context, it should be noted that in October we held individual meetings with the Chairmen of the Boards of Statutory Auditors of the Italian Banks and of the main operating companies of the Group for an exchange of information on the main issues pertaining to the individual companies (assessment of the internal control system, supervision of the legal audit, systems, IT, human resources; business performance; management and assessment of non-performing loans; significant disputes/legal cases; anti-money laundering; overall compliance; implementation of guidance and coordination instructions). These meetings also related to the new companies included within the scope of consolidation, including Unipol Banca (now absorbed), Finitalia and Arca Holding. Particular attention was also dedicated to a non-banking subsidiary that is growing rapidly, with the organisation of various meetings with its board of statutory auditors in order to monitor the alignment of its internal control system with the new scale of the business.

Additional discussion and training meetings were held when the Chairmen of the Group Boards of Statutory Auditors attended the Group Convention held in June 2019, which were attended by all the Chairmen of the Control Bodies of Italian banks and numerous non-bank companies within the BPER Group. As part of this Convention, reports were presented by the Corporate Control Functions, by the Manager responsible for preparing the company's financial reports and by the Manager responsible for the planning and control of credit policies, with discussions on matters of common interest. In addition, during November, we organised and held training sessions together with the Chairmen of the Boards of Statutory Auditors of Group banks and certain product companies, covering the New Definition of Default, Calendar Provisioning, Methodologies and Processes for the definition of credit policies; the Group policy for the governance of money-laundering risk, the Regulatory Map, the Cooperative compliance regime, the Probability test, the appointment of Independent Auditors and Compliance 4.0. Further, the updated version of the “Manual of the Board of Statutory Auditors” was sent to the boards of statutory auditors of the Italian banks and principal product companies within 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.

This Board also notes that no issues worthy of mention were identified from the meetings held throughout the year with the other Control Bodies, from the periodic conventions organised to share ever greater information among all the Control Bodies of the Italian banks and other Group companies or from consideration of the directives issued by the Parent Company.

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 2019 and up to the date of this Report, we carried out continuous and intensive monitoring of the work performed by the Independent Auditors, analysing the related implications for disclosure in the financial statements.

In this context, we met the Independent Auditors in November 2019 to examine the plan for the audit of the 2019 financial statements. Particular attention was paid to the work plan adopted for the audit of the financial statements of BPER Banca S.p.A. and the consolidated financial statements of the Group (Audit Scope), the determination of materiality considering the expansion of the Group, the personnel assigned to the work (Group Engagement Team) and the hours planned for the 2019 legal audit of the accounts, the risks identified as significant and the preliminary list of key audit matters.

During the year, we were updated periodically about the relations with other auditors and the engagement instructions given to them in the Global Referral Instructions, which detailed the scope of the work, the deliverables and the deadlines requested for their work on Group companies(Arca Holding S.p.A. and Arca S.p.A. SGR), and requested confirmation of their independence.

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.

We scheduled a series of ad hoc meetings during the various phases of the audit, in which we also examined with reference to 2019:

- the NPE Strategy, with examination of the criteria for identifying exposures eligible for the disposal scenario and determining the related disposal prices;

- the impairment testing of goodwill, equity investments and real estate;

- the probability test for tax purposes;

- the Purchase Price Allocation (PPA) following the acquisition of controlling interests in Unipol Banca S.p.A. and Arca Holding S.p.A.

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 Legislative Decree 58/1998. In particular, we met on two separate occasions the partners within the Deloitte network responsible for the audits of BPER Bank Luxembourg s.a., Banco di Sardegna, Cassa di Risparmio di Bra and Cassa di Risparmio di Saluzzo, as well as Sifà S.p.A., for the usual annual update regarding the principal results of their respective audit 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 attention was dedicated to the transition to IFRS 16, with particular reference to proper determination of the effects, the methodological approach and the analysis of consistency with the requirements of the accounting standard, as well as the impairment of financial assets (securities and loans) and, as already mentioned, determination of the estimated realisable value of the non-performing loans to be sold, in application of the NPL strategy notified to the ECB. Analysis also covered: the disposal of certain unlikely-to-pay (UTP) exposures to parties specialised in their management, the composition and stratification of the non-performing loans portfolio, the classification of performing loans to customers at greater risk, the outcome of ECB inspections and/or updates on those in progress, and measurement processes in the financial 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.

At the time of examining the half-yearly report, the Independent Auditors described to us the statistical and other analyses and benchmark comparisons with competitors carried out on the loans portfolio of the Bank and the Group, including: the coverage of performing loans, the coverage of other categories of non-performing exposures, the measurement of real estate guarantees, the qualitative characteristics of bad loans and unlikely-to-pay exposures (e.g. period in that state and discounting provision), and incidence of exposures subject to concessions or forbearance measures.

We discussed the relevant points for improvement with the functions concerned (second-level controls over lending, BPER Credit Management, CLO, Risk Department / CRO, Manager responsible for preparing the company's financial reports) and with the Chief Executive Officer, who supervised implementation of the recommendations made by the auditing firm. We also note that almost all the suggestions made in prior years have been implemented and potential anomalies removed.

During the year, we also continued to verify and monitor the independence of the Independent Auditors Deloitte & Touche S.p.A. in particular as regards the adequacy of the services provided other than the audit of the entity being audited.

Overall, based on the relations of this Board with the auditing firm, any 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 close reference to the "Format for the report on corporate governance and the ownership structure" issued by Borsa Italiana S.p.A., and this Board confirms approval of that document by the Board of the Bank on 10 March 2020.

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 has noted that the new Code of Corporate Governance was approved in January 2020 and must be applied from 1 January 2021; during the current year, the Parent Company will carry out a gap analysis in order to assess the degree of compliance with the new requirements and prepare an action plan, as necessary, to achieve full compliance by 2021.

The adherence of the Bank to the spirit of the Code is further confirmed by the fact that, as requested by the Committee for Corporate Governance in a communication from the Chairman dated 19 December 2019, the Board of Directors met on 26 February 2020 and made observations on the recommendations made (sustainability of business activities, adequate management of information flows to the Board, rigorous definition of quali-quantitative independence criteria, adequacy of the remuneration of non-executive directors and members of the control body), as described in section 24 of its Report.

Following issue of the Code of Conduct for the boards of statutory auditors of listed companies (8 April 2018) and the Self-Assessment of Boards of Statutory Auditors (May 2019) by the Italian Accounting Profession, we updated and supplemented our “Rules for Self-Assessment of the functioning of the Board of Statutory Auditors” together with the related questionnaire, and then carried out a Self-Assessment in compliance with Bank of Italy Circular 285/2013, First Part, Title IV. We believe that our composition is adequate overall, with room for certain improvements with regard to the experience accumulated over time. At the meeting held on 8 May 2019, we also assessed the independence (TUF), integrity and professionalism required of new members (the Chairman, an Acting Auditor and two Alternate Auditors), as well as compliance with the instructions governing the accumulation of appointments and the absence of impediments or reasons for being unable to serve, while the meeting held on 22-23 May 2019 checked that all exponents satisfied the independence requirements specified in application criteria 3.C.1 and 8.C.1 of the Code of Corporate Governance for listed companies.

By participation as a permanent guest, our Chairman attended the meetings of the Nominations Committee and monitored constantly the self-assessment work regarding the Board of Directors carried out by that committee, which approved its quali-quantitative composition and functioning and presented the outcome of the process to the Board of Directors on 27 March 2020.

XVIII - FINAL ASSESSMENT OF THE SUPERVISORY ACTIVITIES PERFORMED AND OF ANY OMISSIONS, MISCONDUCT OR IRREGULARITIES FOUND

Shareholders,

In concluding this report, we would like to confirm that we carried out our supervisory activities with the full cooperation of the Corporate Bodies, of the managers in charge of administrative and management activities of the Independent Auditors, of the Internal Audit Department, the Manager responsible for preparing the company's financial reports and other Corporate Control Functions and that there are no omissions, misconduct, transactions at risk or irregularities that ought to be reported.

Our supervision and control activity did not reveal any facts that would require reporting to the Supervisory and Control Authorities or mentioning 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 2019.

The economic, financial and equity position of the Bank presented in the draft financial statements report a net profit for the year of Euro 385,435,201, a comprehensive profit of Euro 340,657,952 and shareholders' equity of Euro 4,996,780,431.

In relation to this result for the year, the Board of Directors recommends (i) the preliminary allocation pursuant to art. 42 (para. 2) of the Articles of Association of Euro 14,546,628.14 to the non-distributable reserve pursuant to Legislative Decree 38/2005 (art. 6, para. 1, letter a), in relation to unrealised profits net of the related tax effects, (ii) allocation to the legal reserve of the required profit percentage, equal to Euro 18,544,428.66, and (iii) the declaration of a dividend of Euro 72,887,912.72 (Euro 0.14 for each of the 520,627,948 shares representing share capital), corresponding to 18.91% of the profit for the year, and thus (iv) allocation to equity reserves of the residual profit for the year of Euro 279,456,231.85.

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 (SREP 2019) and in line with its Communications concerning dividend distribution policies.

In fact, the capital ratios of the Bank, Common Equity Tier 1 ratio of 16.64% and Total Capital Ratio of 20.10%, are markedly greater than the established minimums and SREP requirements.

The consolidated financial statements of the BPER Group report a profit of Euro 379,583 thousand, a comprehensive profit of Euro 361,029 thousand and shareholders' equity, including the profit for the year, of Euro 5,159,885 thousand.

The incidence of gross non-performing loans is 11.07% (5.77% on a net basis) at consolidated level, with average coverage of 51.03%. The reduction with respect to the prior year was principally due to the sale of a portfolio of bad loans to UnipolRec; the Texas ratio is therefore 79.04%.

The capital ratios at consolidated level, Common Equity Tier 1 ratio of 13.91% (fully phased: 12.01%) and Total Capital Ratio of 16.82%, are also markedly greater than the established minimums and SREP requirements.

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.

Overall, the results for the year just ended confirm the good performance of the Bank and the Group.

The results obtained and the good level of capitalization achieved, as highlighted by the Directors, must be directed towards a continuation of the reduction in non-performing loans.

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 Legislative Decree 58/1998.

XX - CONCLUSIONS

Shareholders,

Taking into account all of the above, having considered the content of the reports prepared by the Independent Auditors, having taken note of the statements issued jointly by the Chief Executive Officer and the Manager responsible for preparing the company's financial reports, for matters within our sphere of competence, we are not aware of any impediment to approval of the draft separate financial statements at 31 December 2019. With regard to the distribution of dividends proposed by the Board of Directors, we acknowledge that this was recommended on a prudent basis in order to ensure, on a consistent basis over time, constant compliance with the prudential capital requirements; nevertheless, we draw attention to the ECB recommendation dated 27 March 2020 that calls for the suspension of dividend payments until October 2020 at the earliest.

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, 30 March 2020

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)

Other attachments

Geographical organisation of the Group

Group commercial banks

Details	BPER Banca	BSAR	CR BRA	CR SALUZZO	31.12.2019	31.12.2018
Emilia - Romagna	**333**				**333**	**337**
Bologna	60				60	55
Ferrara	45				45	55
Forlì – Cesena	31				31	33
Modena	80				80	76
Parma	28				28	27
Piacenza	5				5	5
Ravenna	31				31	31
Reggio Emilia	38				38	38
Rimini	15				15	17
Friuli Venezia G.	**2**				**2**	**34**
Pordenone	1				1	19
Trieste	1				1	15
Abruzzo	**97**				**97**	**97**
Chieti	37				37	37
L'Aquila	41				41	41
Pescara	11				11	11
Teramo	8				8	8
Basilicata	**30**				**30**	**34**
Matera	16				16	19
Potenza	14				14	15
Calabria	**38**				**38**	**42**
Catanzaro	9				9	10
Cosenza	14				14	14
Crotone	7				7	8
Reggio Calabria	5				5	6
Vibo Valentia	3				3	4
Campania	**96**				**96**	**94**
Avellino	23				23	26
Benevento	4				4	4
Caserta	7				7	5
Naples	28				28	23
Salerno	34				34	36
Lazio	**84**	**4**			**88**	**63**
Frosinone	7				7	3
Latina	15				15	10
Rieti	2				2	2
Roma	59	4			63	47
Viterbo	1				1	1
Liguria	**8**	**3**			**11**	**3**
Genova	5	1			6	1
La Spezia	2	1			3	1
Savona	1	1			2	1
Lombardy	**60**	**1**			**61**	**41**
Bergamo	2				2	1
Brescia	7				7	4
Como	1				1	-
Cremona	5				5	5
Lecco	1				1	1
Lodi	1				1	1
Mantua	11				11	11
Milan	24	1			25	16
Monza Brianza	3				3	1
Pavia	2				2	-
Varese	3				3	1
Marche	**17**				**17**	**9**
Ancona	6				6	2
Ascoli Piceno	3				3	2
Fermo	1				1	1
Macerata	3				3	2
Pesaro-Urbino	4				4	2

Details	BPER Banca	BSAR	CR BRA	CR SALUZZO	31.12.2019	31.12.2018
Molise	**10**				**10**	**10**
Campobasso	7				7	7
Isernia	3				3	3
Piedmont	13		**26**	**22**	**61**	**55**
Alessandria	2		3		5	3
Asti	1		4		5	4
Biella	1				1	-
Cuneo			15	15	30	37
Novara	1				1	-
Turin	8		4	7	19	11
Puglia	**40**				**40**	**35**
Bari	12				12	11
Barletta Andria Trani	4				4	5
Brindisi	1				1	-
Foggia	16				16	16
Lecce	4				4	-
Taranto	3				3	3
Sardinia		**334**			**334**	**327**
Cagliari		35			35	34
Nuoro		63			63	62
Oristano		50			50	49
Sud Sardegna		83			83	82
Sassari		103			103	100
Sicily	**36**				**36**	**17**
Agrigento	3				3	4
Catania	8				8	3
Messina	10				10	5
Palermo	8				8	2
Siracusa	4				4	3
Trapani	3				3	-
Tuscany	**32**	**1**			**33**	**9**
Arezzo	2				2	-
Florence	8				8	2
Grosseto	4				4	-
Pisa	3	1			4	1
Livorno	4				4	1
Lucca	2				2	3
Massa e Carrara	3				3	-
Pistoia	2				2	1
Prato	2				2	1
Siena	2				2	-
Trentino-Alto Adige	**4**				**4**	**3**
Trento	4				4	3
Umbria	**9**				**9**	**2**
Perugia	6				6	
Terni	3				3	2
Veneto	**49**				**49**	**40**
Belluno	2				2	2
Padua	10				10	8
Rovigo	10				10	10
Treviso	4				4	2
Venice	4				4	3
Verona	12				12	11
Vicenza	7				7	4
Total as at 31.12.2019	958	343	26	22	1,349	
Total as at 31.12.2018	827	336	28	27		1,218
Changes during the year of the Group's territorial organization						131

List of IAS/IFRS endorsed by the European Commission as at 31 December 2019

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
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
IFRS 4	Insurance Contracts	Reg. 1126/2008	Reg. 1274/2008, 494/2009, 1165/2009, 1255/2012, 1905/2016, 2067/2016, 1986/2017, 1988/2017
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
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
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	

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

Legend
(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 22 April 2020

The Ordinary and Extraordinary Shareholders' Meeting, in a single calling, chaired by the Chairman dott. ing. Pietro Ferrari, adopted the following resolutions:

- Separate financial statements for 2019 and proposal to allocate entire 2019 profit, total to Euro 385.435.201,37, to reserves approved; consolidated financial statements 2019 presented.
  In this regard, reference should be made to the press release of 1 April 2020 for the resolution passed by the Board of Directors following the Recommendation of the European Central Bank of 27 March 2020 to "*abstain from paying dividends and not to take any irrevocable commitment to pay any dividends for the years 2019 and 2020*", given that banks had to maintain an adequate level of capitalisation to provide credit to households and corporates suffering from the serious repercussions of the Covid-19 health emergency.
- Directors' remuneration for 2020 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 2020 of Gruppo BPER Banca S.p.A. and the compensation paid in 2019.
- Approval of the remuneration plan pursuant to art. 114-bis of Legislative Decree 58 dated 24 February 1998, implementing the remuneration policies for 2020 of Gruppo BPER Banca S.p.A.
- Derogation approved to exceed the 1:1 limit on the ratio between variable remuneration and fixed remuneration for personnel belonging to Arca Fondi SGR S.p.A., the BPER Banca Group's asset management company.
- Approval given to 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 for payment on one or more occasions, also in several tranches, for a total maximum amount of Euro 1,000,000,000.00, including any share premium, by issuing ordinary shares without nominal value to be offered under option to those entitled to them under art. 2441.1 of the Italian Civil Code. Approval given to the related amendment of art. 5 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, in accordance with the provisions of art. 106.4 of Legislative Decree 18 of 17 March 2020, as foreseen in the notice of meeting.

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 290 Shareholders attended the Shareholders' Meeting representing no. 233,754,835 ordinary shares equal to 44.90% of the total share capital.

Directors and officers of the Parent Company on 22 April 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
		Roberta Marracino
		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

General Management

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

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.