BPER: Gruppo

BPER: Banca

Remuneration Policy and Compensation Paid for 2020
Executive Summary

Letter from the Chairman of the Remuneration Committee

Shareholders,
As Chairman of the Remuneration Committee, together with Directors Elisabetta Gualandri and Roberta Marracino, I have the pleasure of presenting the Annual Remuneration Report of the BPER Group for 2020.
2019 was an extraordinary year in many ways, with all business sectors committed on multiple fronts. In addition their planned activities, many "specials" were needed in order to reach the various objectives established with reference to the strategic guidelines contained in the Business Plan for 2019-2021 presented at the start of the year. The satisfactory results achieved are evidence of the considerable efforts made.

The remuneration policies outlined for 2020 by the Remuneration Committee build logically on those adopted in the past, constantly seeking sustainability, efficacy and adequacy in compliance with the ever expanding regulations, with particular reference to the transparency of the remuneration policies applied and consistency with the best market practices. These last aspects are important, as the Remuneration Committee - assisted by the competent functions and independent advisors - has adopted constant peer-level comparisons and verification of market best practices as a “modus operandi” when addressing from both internal and external standpoints the major topics concerning personnel, the Bank and the shareholders.
Indeed, the Committee checks constantly that the policies adopted are adequate and consistent with the inputs received from stakeholders both within and outside the Group.
In this sense, the Remuneration Committee strives at all times to align the remuneration policies adopted with the business strategies followed, in order to ensure close correlation between remuneration levels, the results attained and the sustainability of actions designed to manage risks prudently and comply with the regulations.
To the extent relevant, our work involves cooperation with the Chairman and members of the Remuneration Committee of Banco di Sardegna, namely Viviana Ferri, Daniela Petitto and Paolo Rinaldi.

The principal innovations introduced during the year and included in the 2020 Remuneration Report include:

- the inclusion of a specific section on application of the new instructions governing the “Transparency of banking and financial services and operations. Propriety in the relations between intermediaries and customers”;

- alignment of the Report with the aspects already embodied in Italian regulations of the Shareholder Rights Directive II (SRD II), which seeks to strengthen shareholder engagement and facilitate the exercise of their rights;
- the inclusion of a specific paragraph dedicated to Arca Fondi S.G.R., an asset management company that became part of the Group during the year, given the special characteristics of its remuneration policies;
- the ability to raise the ratio of variable to fixed remuneration to 2:1 for certain professional categories and business segments, as well as - in exceptional cases - for redundancy incentive payments. In this regard, a specific maximum limit has been set for the personnel of Arca Fondi S.G.R., in order to keep their remuneration attractive and competitive with the packages offered by Italian and foreign competitors;
- the introduction of a different materiality threshold for the payment of bonuses, with a view to simplification and alignment with the likely future regulatory changes;
- evolution of the MBO schemes in line with market best practices and changes in the regulatory framework, accompanied by rigorous checks on their application. The primary objective is to refine their structure and scope, paying close attention to key roles and areas within the Bank that generate considerable value added, in line with the business plan. In this regard, the categories of personnel who benefit from incentive schemes have been expanded: specifically, they now include the network of financial advisers now that Unipol Banca has joined the Group and been absorbed by BPER Banca.

The use of financial instruments in 2020 to service the various incentive schemes is confirmed: in particular, virtual shares (or "phantom stock") will again be used to pay part of the bonus deriving from the short-term incentive scheme and shares will be used to pay the bonuses earned under the Long-Term Incentive Plan 2019-2021.

All this work has been carried out in order to improve even further the remuneration policy and incentive schemes, as part of the close attention paid to personnel policies, promotion of the Bank and the protection of customers and investors, given the changes in the overall regulatory framework.

Once again, work in 2020 will focus on communications, the transparency of information, sustainability in the broadest sense and diversity, as well as the provision of ever more complete, useable and clear information via:

- an executive summary that shows the remuneration policy for the various categories of staff also in tabular form;

- better disclosure of the Policy on the identification of key personnel;
- in relation to the Group's MBO system:
    - a representation in tabular form of the target and maximum bonuses by categories of personnel;
    - ex-ante communication of entry gates and thresholds;
    - a graphic representation of the correlation between gross profit and the bonus pool created;
    - ex-post communication about achievement of the thresholds for the entry gates and the multiplier;
    - an ex-ante and ex-post communication about the scorecard assigned to the Chief Executive Officer and General Manager.

I conclude by thanking you, on behalf of myself and my Committee, for your attention and for the support that I hope you will give to the 2020 policies explained in our Report.

Mara Bernardini

Group profile

National presence and strong regional roots

Widespread national presence and strong multi-regional footprint

Commercial banks	# branches
BPER Banca	958
Banco di Sardegna	343
CR Bra	26
CR Saluzzo	22
Total	**1,349**

Geographic areas	# branches
North	521
Centre	244
South & Islands	584
Total	**1,349**

- The Group has a presence in 19 Regions of Italy, with 1,349 branches.
- The Headquarter of BPER Banca is based in Modena (Emilia-Romagna region)

Figures at 31.12.2019
***Figures at 31.10.2019**

One of the largest Banking Group in Italy

#6 in Italy by branches and total asset focused on traditional business with customers

Number of Italian branches

Total assets (€/bn)

Customer loans / Total assets (%)

Composition of customers (%)

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Objectives, principles and governance

Objectives and principles of the remuneration policy

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

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

	PRINCIPLES – To create value for:
Customers	▪ Awareness of customers' different needs. ▪ Products offered in an appropriate way to each segment or market. ▪ Attention to the quality of the relationship. ▪ Discouraging any conduct that is considered pure speculation or financial gambling.
Shareholders	▪ Increase in profitability and investment value over time. ▪ Balanced development. ▪ Diversification and expansion of markets served. ▪ Conscious management of risk.
Group personnel	▪ Development of internal expertise. ▪ Stimulation of human and professional growth. ▪ Implementation of a transparent and effective communication at all levels. ▪ Continuing education.
Social context	▪ Adopting a business approach with a broader scope than just making a profit, in line with the mutualistic aims that characterised the Group's origins.

PURPOSE

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

BPER 2021 Strategic Plan and sustainability

The new “BPER 2021 Strategic Plan” was presented at the start of 2019. This is founded on 3 pillars with common cross-functional accelerators:

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The business plan includes a sustainable approach, founded on the digital transformation, people and positioning as a point of reference for society, among the "drivers" that will accelerate the achievement of our long-term objectives: ensuring that the BPER Group remains a point of reference for households and businesses by supporting economic growth in the areas served, with a growing focus on the digital transformation, innovation in processes and products, new internationalisation strategies and a renewed commitment to corporate social responsibility.

This investment in digital skills and the transformation of customer relations and internal processes represents our commitment to develop a "sustainable" working environment, in which the new professions combine different experiences that fuel a culture of inclusion and respect for diversity (roots, experience, gender, age, education, professional specialisation etc.).

People are the "heart" of the organisation. We strive daily to ensure that they are the starting point for our future development and leaders of constant, sustainable growth focused on:

- diversity and inclusion
- corporate welfare
- training and coaching
- flexible working

Being a reference model for society means working every day to improve the lives of people, building on their experiences and the territories in which they live, and concentrating our efforts on:

- energy consumption
- sustainable mobility
- culture and literature
- financial education
- optimisation of the value chain

The enhancement of people and the creation of value for the entire ecosystem in which BPER operates underpin the social responsibility policy of the Group and, therefore, the systems designed to incentivise the achievement of our short and long-term goals in a sustainable manner.

Governance of the remuneration and incentive policies

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

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Remuneration policy

Governance of the remuneration and incentive policies

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

- Corporate bodies
- Key personnel
- Managers
- "Other personnel"
- External collaborators
- S.G.R. personnel

	2020	2019
Total	138	129
% Total BPER Group Personnel	0,96%	1,09%

Pay-Mix

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

Part of the variable remuneration is paid in financial instruments

Benchmark sample

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

BPER:

- Intesa Sanpaolo
- UniCredit
- Banco BPM
- BNL
- UBI Banca
- CREDEM
- Mediobanca
- CreVal

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Remuneration policy

Fixed remuneration

The fixed remuneration is the part of remuneration determined and paid based on pre-established criteria; it includes components that do not create any incentive to take risks and not related to company performance.

In order to determine this and other remuneration components, the Group periodically benchmarks salaries against those of a panel of companies operating in the same sector, as well as those identified in segment surveys carried out by the trade association, and applies analytical criteria to compare similar roles and positions in order to determine the positioning of our pay levels in terms of fixed and total remuneration.

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The remuneration of non-executive directors and the Statutory Auditors is represented by the total amount paid every year.

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Variable remuneration

Variable remuneration is the component of remuneration that can change in relation to measured performance or other parameters (such as the period of service with the company).

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In line with the regulatory requirements and the resolutions adopted at the Shareholders' Meeting held in 2019, the ratio between variable and fixed remuneration is set to 2:1 for all key personnel (except for personnel belonging to Arca Fondi S.G.R., the limit of whom is 3:1), net of control and similar functions.

For the rest of the personnel, a maximum ratio between the components of remuneration of 1:1 is normally adopted, with the exception of key personnel of Corporate Control Functions, for whom their variable remuneration cannot exceed one third of their fixed remuneration.

Nevertheless, the Group also envisages that the maximum fixed/variable ratio may reach 2:1 for all other personnel too (excluding the control functions once again) in the following limited circumstances:

a. to make payments ahead or in the event of early severance, within the maximum limits already established in these policies under specific circumstances;

b. to obtain the appropriate flexibility needed to manage in a suitable manner the competitive pressures in the job markets for certain, highly profitable business segments and specific professional families (wealth management and corporate banking); these professional families comprise a maximum of 388 persons, within which only a very small minority can exceed the 1:1 limit.

Without prejudice to the purposes mentioned, the Group's intention is to maintain the proportion of variable to fixed remuneration largely within the ordinary limits, as shown in the table below.

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	Short-term target bonus		*Long-term target bonus spread over 8 annual tranches*		Long-term target bonus calculated on the three-year vesting period	
	Target bonus (% RAL)	**Maximum bonus (% RAL)**	*Target bonus (% RAL)*	*Maximum bonus (% RAL)*	**Target bonus (% RAL)**	**Maximum bonus (% RAL)**
CEO and GM	**35%**	**45%**	*15%*	*21%*	**40%**	**55%**
Key personnel	**35%**	**45%**	*12%*	*16%*	**32%**	**45%**
Control functions	**33% (25%)**	**33%**	-	-	**-**	**-**

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Entry Gate

In line with current regulations, the MBO system does not pay any bonus in the case of failure to reach the so-called entry gates, i.e. the minimum levels of capital, liquidity and risk-adjusted return ratios.

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

Chief Executive Officer and General Manager

Short-term incentive schemes- MBO

The CEO and General Manager are beneficiaries of the MBO system, based on a bonus pool which is the maximum amount of bonuses that can be paid; for the CEO, this is defined at Group level. The amount of the bonus pool is correlated with the results achieved, in terms of the Post-Provision Profit reported by the Group, and constitutes a maximum limit.

After checking that the entry gates have been exceeded, the bonus allocation and the extent of the variable remuneration are defined by evaluating individual performance using a process that includes the analysis of various qualitative and quantitative indicators. For 2020, the scorecard of the CEO is made up of qualitative and quantitative objectives.

CEO scorecard

Quantitative objectives	weighting
Group post-provisons profit	40%
Group gross performing commercial loans	15%
Group Wealth Management and Bancassurance commissions + Consumer Division 1st margin	15%
Group gross non-performing loans	15%
Group Fully Phased CET 1 ratio (%)	15%

Qualitative objectives	
CSR (social and environmental sustainability) objectives	+/- max 10%, on Board of Directors proposal
Functional objectives, handling of planned projects, management skills shown	

The qualitative assessment of the CEO is approved by the Board of Directors, acting on a proposal from the Remuneration Committee following a hypothesis made by the Chairman of the Board of Directors, and adjusts the quantitative amount by a maximum of +/- 10%.

Once the results have been measured, the system provides for the application of parameters to adjust for risk, based on those contained in the Risk Appetite Framework (RAF). These parameters adjust the incentive earned on achievement of the objectives specified in the CEO's personal scorecard. If they are not satisfied, the bonus earned may be reduced, or even eliminated.

Adjustments (in order of impact)
LCR
Gross non-performing loans ratio
Indicator of Capital Adequacy for ICAAP purposes
Fully-loaded CET1 %
MREL (% TLOF)

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

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

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

Long-term incentive scheme – 2019-2021 LTI Plan

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The CEO, together with other senior functions, is also the beneficiary of a long-term variable incentive scheme[1] based on a long-term period of performance assessment (2019-2021), consistent with the objectives and duration of the Group's strategic plan. The bonus is recognised at the end of the performance evaluation period. The Board has also decided to use BPER ordinary shares for 100% of the long-term bonus.

The entry gates for the LTI Plan 2019-2021, all of which have to be achieved at the same time, are in line with those established for the MBO, to which reference should be made.

Failure to achieve even only one of the entry gates means not paying any bonus under this long-term incentive scheme. If all of these entry gates are achieved, the plan provides for an assessment of the Group's key performance indicators (KPIs) at the end of the three-year vesting period (2021).

The scorecard of the LTI Plan for the three-year period 2019-2021, which is the same for all beneficiaries, is made up of objectives of operating efficiency, credit quality and profitability of a quantitative nature.

LTI 2019-2021 scorecard

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

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

Following the measurement of these KPIs, the performance of the BPER stock is evaluated with respect to a peer group and the achievement of sustainability objectives.

Multiplier/Demultiplier
Positioning of the TSR of the BPER stock compared with a panel of competitors (Intesa Sanpaolo, Unicredit, UBI, Banco BPM, Credem, Popolare di Sondrio*Intesa Sanpaolo, UniCredit, UBI, Banco BPM, Credem, Popolare di Sondrio.*

Positioning	Accrued bonus increase
1st or 2nd position	**+15%**
3rd o 4th position	**none**
5th, 6th o 7th posizione	**-15%**

Sustainability Corrective (CSR)		
Depending on whether three CSR (social and environmental sustainability) objectives are achieved or not		
1 To acquire the Standard Ethics Rating at EE level	2 To increase the share of female managers to 15%from the current level of 8,5%.	3 To hold classes in Financial Literacy in 1st and 2nd grade secondary schools

Objectives achieved	Impact on the accrued bonus
3 out of 3	**none**
2 out of 3	**-10%**
0-1 out fo 3	**-15%**

In line with the above, payment of the CEO's bonus is structured as follows:

[1] For the target bonus, see the table at the beginning of page 10

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

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

Key personnel

The MBO scheme is addressed to resources falling within the scope of key personnel, as described for the CEO. Some figures are also recipients of the long-term variable incentive scheme as described for the CEO with certain specificities (see para. 7.2 of the Remuneration Report). The maximum opportunity with reference to the annual MBO stands at 45% of fixed remuneration for key personnel, with the exception of resources belonging to control functions, for which a specific policy applies.

As regards the LTI target bonus, please refer to the table on page 10.

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

*particularly high amount
** phantom stock are subject to a retention period of one year

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

Control functions

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

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

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Remuneration of SGR personnel

The Banking Group includes an asset management company (OICVM–FIA) subject to the related sector regulations[2] and to the specific requirements of the broader consolidated banking regulations.

This subsidiary prepares the remuneration and incentives policy for its personnel in application of the principles and objectives embodied in the Group's remuneration policy (described in chapter 3), having regard for the applicable regulatory requirements and, in particular:

- identification of key personnel at SGR level and contribution to the process of identifying the key personnel at Group level;
- application of specific deferral procedures for the different categories of risk taker, envisaging assignment of part of the variable remuneration in the form of financial instruments linked to fund units;
- limits on the variable remuneration, having regard for membership of the Banking Group and the applicable regulations in force at the time. A proposal is submitted for the approval of BPER's Shareholders' Meeting of 22 April 2020 to make use of the option to increase the limit of the variable/fixed remuneration ratio to 3:1 compared with the Group's cap of 2:1 for the management of Arca Fondi S.G.R (including Key Personnel of the Group) and for those involved in the investment process and in commercial development, including the evolution of digital platforms.

Termination of employment of key personnel

If there are cases of termination of employment on the initiative and/or interest of the Group, in a unilateral or consensual form, additional compensation[3] may be envisaged as a leaving indemnity or in the case of early retirement (for whatever reason) or paid for the settlement of a current or potential dispute, in order to avoid the risk of the court deciding against the Group.

The amount of such additional remuneration cannot exceed two years' fixed remuneration and will be subject to a maximum limit of € 2.4 million (gross per employee).

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

If a party to the agreement is a member of the control functions, the following predefined formula will apply to quantify any additional amounts of remuneration: 1 monthly payment for each year of service provided, up to a maximum of 1 year of fixed remuneration[4].

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

[2] Joint Bank of Italy and Consob regulation dated 27 April 2017.
[3] Compared with what the contracts foresee by way of compensation in lieu of notice.
[4] Without prejudice to the exemptions referred to in Circ. 285, part one, title IV, Chap. 2, Sec. III, 2.2.3 which are an alternative to the formula.

Pay-for-Performance

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

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

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Chief Executive Officer

MBO Scheme Results -2019

With specific reference to the CEO, the result achieved in 2019 is described in the following tables:

Determination of the CEO's bonus

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Group performance

Entry gates

Common Equity Tier 1 Ratio (CET1) – pillar 1	✓
Return On Risk-Weighted Assets (RORWA)	✓
Liquidity Coverage Ratio (LCR)	✓

Bonus pool (Multiplier)	No Bonus Pool	Base	Target	Maximum
Group Ordinary Gross Profit*			■	

*net of extraordinary items

The MBO scheme for the CEO is founded in 5 indicators that reached the envisaged budget for access to the system of incentives.

Risk correctives did not show any specific problems.

The CEO's scorecard

Individual performance

Quantitative assessment (Weighting 80%)

		Not reached	Base	Target	Maximum
Group gross non-performing loans	20%				■
Group 1st Margin	20%		■		
Group CET 1 ratio - Group Phased In	20%			■	
Group operating costs	20%			■	
Group default flow	20%				■
Qualitative assessment (Weighting 20%)				■	

Correction factors

Economic Capital Adequacy Ratio (ICAAP)	✓
Gross NPL Ratio	✓
Liquidity Coverage Ratio (LCR)	✓

	Not reached	Base	Target	Maximum
Overall assessment of individual performance			■	

Given the achievement of this level of performance the total bonus assigned to the CEO is € 377,986.

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This document constitutes a summary of the remuneration policies and compensation paid for 2020 of the BPER Group. For more information, see the 2020 Report on the Remuneration Policy and compensation paid, published on the website www.bper.it.

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