
Report of the Board of Directors

Item 2 on the agenda

Remuneration and own shares:

- b) Extension of the increase in the cap on the variable-to-fixed remuneration to all the Risk Takers who are not part of the Corporate Control Functions

Distinguished Shareholders,

You have been called to this Ordinary Meeting to resolve on the proposal to extend the increase in the cap on the variable-to-fixed remuneration to the Risk Takers not belonging to Corporate Control Functions, in accordance with the Supervisory Provisions on remuneration ("Remuneration and incentive policies and practices", Title IV – Chapter 2, Circular 285 of 17 December 2013 published in the Official Gazette of the Italian Republic on 2 December 2014 and adopted in application of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013" (CRD IV), published in the EU Official Journal on 27 June 2013).

The current business context of the Group, which continued to develop according to the guidelines defined in the 2014-17 Business Plan and recorded a better performance than the main international competitors, in a framework of high liquidity and capital strength, exceeding the regulatory requirements also in the adverse scenario of the stress test, determines the opportunity to extend the cap of the variable remuneration on the fixed remuneration from the sole category of Risk Takers belonging to specific professional sectors (asset management, investment banking, treasury, private banking), as already approved by the Shareholders' Meeting both in 2015 and in 2016, to all the Risk Takers not belonging to the Corporate Control Functions.

To support the results over time, it is appropriate to offer those who have a major direct involvement in the Bank's management (i.e. the Risk Takers) the opportunity to gain competitive bonuses, in line with the level of performance achieved.

Raising the cap on variable remuneration thus allows to support the Group's attractiveness and retention through competitive salary brackets, given that most of the competitors has already requested and obtained the 2:1 cap. Out of 12¹ companies operating in the financial sector in the EU, 9² banks have already approved the increase in the cap on the variable remuneration to 2 times the fixed remuneration for the category of Risk Takers, while one³ bank has determined a higher cap between fixed and variable remuneration greater than 1:1 only for the members of the Management Board.

The increase in the cap on the variable remuneration ensures, in any event, compliance with prudential regulations given that:

- it does not lead to a proportional increase in the resources allocated to the variable remuneration, since the ex-ante funding mechanism of the Incentive System correlates the resources allocated to the overall bonus pool to a specific Group indicator, currently identified in Gross Income;
- having checked the Regulator's activation conditions and individual access conditions:
 - o the assignment of the bonus is not permitted to at least 10% of all the Risk Takers in case the funding condition set at Group level exceeds the access threshold but is lower than the set target;

¹ Commerzbank, Deutsche Bank, UniCredit, SoGen, Credit Agricole, BNP, BBVA, Santander, Lloyds, Barclays, ING and Nordea.

² Deutsche Bank, UniCredit, SoGen, Credit Agricole, BNP, BBVA, Santander, Lloyds and Barclays.

³ Commerzbank.

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- the incentive system is not activated for Top Risk Takers if the funding condition envisaged at Group level is below the access threshold;
 - the incentive system is not activated for Top Risk Takers or for the remaining Risk Takers or for the Managers of the Division in the event whereby the funding condition envisaged at the structure level is below the access threshold.
 - the strong correlation between bonus pay out and prudential requirements in terms of capital and liquidity is guaranteed at multiple levels through the links between the Incentive System and the Risk Appetite Framework (RAF), that are:
 - compliance with the CET1 and NSFR limits set by the RAF as preliminary conditions to access the System (and with Malus Condition in the settlement of bonus deferred portions);
 - compliance with the LCR limits set by the RAF as preliminary conditions to access the System for Top Risk Takers (and with Malus Condition in the settlement of bonus deferred portions);
 - KPIs are drilled down from the budget targets and the budgeting process sets the general and specific limits envisaged in the RAF as constraints .

At the time of presenting the proposal, there are about 280 Group resources concerned by the cap increase, thus representing an extension of the scope by about 180 Risk Takers compared to the amount approved by the 2016 Shareholders' Meeting.

Overall, these resources equate to approximately 0.03% of the Group's personnel and about 90% of the scope of Risk Takers.

Distinguished Shareholders, you are therefore invited to approve the proposed increase in the variable-to-fixed remuneration cap from 1:1 to 2:1 of the population identified as Risk Takers not belonging to the Corporate Control Functions.

14 March 2017

For the Board of Directors
the Chairman – Gian Maria Gros-Pietro

This is an English translation of the Italian original report that has been prepared solely for the convenience of the reader