
Report of the Board of Directors

Item 2 on the agenda

Remuneration and own shares:

- c) Approval of the criteria for the determination of the compensation, including the maximum amount, to be granted in the event of early termination of the employment agreement or early termination of office

Distinguished Shareholders,

You have been called to this Ordinary Meeting to resolve on the proposal for the approval of the criteria and the maximum limits for the determination of the compensation in the event of termination of the employment agreement, in compliance 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).

In particular, the Shareholders’ Meeting is responsible for the approval of the criteria for the determination of the compensation to be granted in the event of early termination of the employment agreement or early termination of office, including the limits established for said compensation in terms of number of years of fixed remuneration and the maximum amount arising from the application of such limits.

According to the Supervisory Provisions on remuneration, the severance payment agreed in view of or upon early termination of the employment agreement or early termination of office for the amount exceeding the provisions of the National Collective Bargaining Agreement concerning payments related to the indemnity for failed notice constitutes the so-called golden parachutes, including any compensation paid according to the non-competition agreement.

If the severance payment is included in this category, the Group provides for it to be paid according to the methods set for the short-term variable remuneration, for each cluster, in compliance with the requirements of the Supervisory Provisions on remuneration.

For Top Risk Takers not belonging to the Corporate Control Functions at the time of terminating the employment agreement, the compensation exceeding the provisions of the national collective bargaining agreement as indemnity for failed notice is attributed as follows:

- 40% upfront at the time of terminating the employment agreement, of which:
 - 20% in cash;
 - 20% in shares, subject to a two-year holding period;
- 60% deferred, of which:
 - 20% in cash in the year following the one of termination of the employment agreement;
 - 30% in shares, in equal amounts, in the second, third and fourth years following the one of termination of the employment agreement, subject to a 1-year holding period;
 - 10% in cash, five years following the one of termination of the employment agreement.

For Top Risk Takers belonging to the Corporate Control Functions and for all the remaining Risk Takers (as identified at the time of terminating the employment agreement), the compensation exceeding the provisions of the national collective bargaining agreement as indemnity for failed notice is attributed as follows:

- 60% upfront at the time of terminating the employment agreement, of which:

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- 30% in cash;
 - 30% in shares, subject to a two-year holding period;
 - 40% deferred, of which:
 - 10% in cash and 10% in financial instruments (the latter subject to a holding period of 1 year), in the year following the one of termination of the employment agreement;
 - 10% in shares in the second year following the one of termination of the employment agreement, subject to a 1-year holding period;
 - 10% in cash in the third year following the one of termination of the employment agreement.

In accordance with the Remuneration Policies, subject to your decision-making vote, symmetrically to the provisions of the Incentive System, each deferred portion of such payments is subject to an ex post adjustment mechanism - the so-called malus conditions - according to which the relative amount recognised and the number of financial instruments assigned, if any, may be reduced, even to zero, in the year to which the deferred portion refers, in relation to the level of achievement of the activation conditions at Group level, namely:

1. Common Equity Tier Ratio (CET1) at least equal to the limit envisaged in the RAF;
2. Net Stable Funding Ratio (NSFR) at least equal to the limit envisaged in the RAF;
3. No loss or positive Gross Income, net of any contribution of profits from the buyback of the Bank's own liabilities, from the fair value measurement of the Bank's liabilities and from income components arising from accounting policies following changes to the internal model on core deposits.

In particular, if either condition 1 or 2 does not occur individually, the deferred portion is reduced by 50%; if condition 3 is not met, the deferred portion is brought down to zero.

For Top Risk Takers, in parallel with the provisions for activation of the Incentive System, a fourth condition – in addition to the three mentioned above – is also envisaged, relating to verification of the LCR compared to the RAF limits. As regards this cluster, if either condition 1 or 2 or that relating to the LCR does not occur individually, the deferred portion is reduced by 50%; if condition 3 is not met, the deferred portion is brought down to zero.

The compensation agreed for amounts lower than 80,000 euro is attributed entirely in cash and upfront in accordance with the Remuneration Policies, subject to your decision-making vote.

As provided for by EBA Guidelines of December 2015, the payments set for early termination of the employment relationship or for early termination of the office are subject to the Regulations described above only in cases where this would not be contrary to the provisions of law relating to the early termination of the employment relationship in a single country, or to the provisions laid down by the judicial authority or otherwise specifically represented and agreed with the Bank of Italy.

Distinguished Shareholders, all that said, which remains unchanged, and approved at previous Shareholders' Meetings, you are therefore invited to approve with binding resolution the maximum limit of 24 months of fixed salary¹ to "golden parachute" payments, as above defined, envisaging the exclusion from this calculation of the payments relating to the indemnity for failed notice in accordance with the National Collective Bargaining Agreement, in line with the practices of Italian competitors. The adoption of said maximum limit may result in a maximum severance payment equal to 5.2 million euro.

14 March 2017

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

¹ The fixed remuneration includes the gross annual remuneration and any role allowance and/or remuneration received for the office and not paid back.

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