
Report of the Management Board

Item 2 on the agenda

Remuneration and own shares:

d) Proposal for the approval of an increase in the cap on variable-to-fixed remuneration for specific and limited professional categories and business segments

Distinguished Shareholders,

You have been called to this Ordinary Shareholders' Meeting to resolve on the proposal to increase the variable remuneration-to-fixed remuneration cap for specific and limited professional categories and business segments, in accordance with the Supervisory Provisions on remuneration ("Provisions regarding 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 maximum limit set in the general criteria (1:1) is increased to 2:1, according to CRD IV, as permitted by the Bank of Italy and subject to your qualified majority binding approval at the Shareholders' Meeting, for specific and limited professional categories and business segments:

- segment of the Asset Management portfolio managers (excluding MD/GM)
- segments of the Global Markets & Investment Banking (excluding GM) and similar professionals in the Treasury Department
- segment of the Private Bankers (excluding MD/GM)

There are many reasons behind the corporate need to differentiate the maximum limit of the variable remuneration for these clusters.

Firstly, these clusters belong to business segments that, in current and future terms, are particularly important for the implementation of the Business Plan 2014-2017, as shown by their contribution to the Group with regard both to the Operating income (21%) and the Income before tax from continuing operations for 2014 (76%).

In addition, these intensely people-based business segments feature a high level of competitiveness concerning resources, therefore with high retention risk and high attraction difficulty, which is a particularly important element in growth scenarios.

In terms of compensation, the reference competitive context is uneven, considering that:

- of the banks with registered office in the EU, a good 11 out of 14¹ players requested, and obtained, the increase of the cap to 2:1 already from 2014;
- important players are located in Switzerland or the USA and, therefore, do not have cap limits on variable remuneration; the global nature of these business segments intensifies their power of attraction among top talents also outside domestic borders;
- in general, Asset Managers are independent, as they do not belong to large banking groups, do not have limits on variable remuneration and, therefore, are very aggressive operators in the people competition, often in a way that is not linked to the corporate size;

¹ Société Générale, BNP Paribas, Natixis, Deutsche Bank, UniCredit, Monte dei Paschi di Siena, UBI Banca, Mediobanca, Lloyds Banking Group, HSBC, and Barclays.

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- the Business Plan 2014-2017 identifies potential synergies in the Private Banking and Asset Management segments - even cross-border - as one of the key growth drivers, with even more emphasis on attraction.

In any case this provision ensures compliance with prudential regulations given that:

- it affects a limited number of people
- it does not imply an increase in the resources with variable remuneration, since it does not affect the ex ante structured funding mechanism of the Incentive System, but only leads to a different distribution and differentiation of the premiums in favour of the most talented people in the abovementioned business segments (in line with their culture)
- the close correlation between premiums and protection of the prudential requirements in terms of capital and liquidity is ensured at many levels by the connection of the Incentive System with the RAF, i.e.:
 - 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);
 - derivation of the KPIs from the Budget, with the definition process requiring the assumption of the general and specific limits set by the RAF as constraints.

At the time of presenting the approval proposal, there are about 1800 Group resources concerned by the cap increase, of which:

- 410 in Asset Management, including four Risk Takers;
- 800 in Private Banking, including no Risk Takers;
- 470 in Investment Banking, including 22 Risk Takers;
- 120 in Treasury, including six Risk Takers.

Overall, these resources equate to 2.3% of the Group staff and 12.4% of the scope of Risk Takers.

Distinguished Shareholders, you are therefore invited to approve with binding resolution the proposed increase in the variable remuneration-to-fixed remuneration cap from 1:1 to 2:1 in 2015, only for Asset Management, Private and Investment Banking professional categories, according to the abovementioned terms.

3 March 2015

For the Management Board
The Chairman - Gian Maria Gros-Pietro