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# Report of the Board of Directors

## Ordinary Part - Item 3 on the agenda

### Remuneration and own shares:

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

Distinguished Shareholders,

You have been called to this Ordinary Meeting to resolve on the proposal to confirm the increase in the variable-to-fixed remuneration ratio for the Risk Takers not belonging to Corporate Control Functions, where this does not conflict with national regulations, 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), based on the reasons illustrated, the number of persons involved and compliance with prudential regulations.

In an ongoing business scenario in which the Intesa Sanpaolo Group has increased its income results, maintaining high capitalisation, the reasons for raising the variable-to-fixed remuneration ratio for Risk Takers not belonging to Corporate Control Functions and the related impacts on the Group's capital base remain unchanged with respect to those which were the subject of previous shareholders' meeting resolutions.

Furthermore, to also support the achievement of the ambitious targets set in the 2018 – 2021 Business Plan, it is all the more 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 performances achieved.

Raising the cap on variable remuneration thus allows for supporting the Group's attractiveness and capacity of retention through suitably competitive salaries, given that most of the players that are the Bank's competitors have already requested and obtained the 2:1 cap. Out of 12<sup>1</sup> companies operating in the financial sector in the EU, 10<sup>2</sup> banks have already approved the increase in the incidence of the variable remuneration to 2 times the fixed remuneration for the category of Risk Takers.

The number of Risk Takers is periodically updated, as requested by the reference regulations (Regulation EU 604/2014).

The increase in the maximum limit of the variable remuneration ensures, in any event, compliance with prudential standards given that:

- it does not entail a proportional increase in the resources allocated to the variable remuneration, since the ex-ante funding mechanism of the Incentive Plan correlates the resources allocated to the overall bonus pool to a specific Group indicator, currently identified in Gross Income;
- having checked the activation conditions required by the Regulator and individual access conditions:

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

<sup>2</sup> Deutsche Bank, UniCredit, SoGen, Credit Agricole, BNP, BBVA, Santander, Lloyds, Barclays and ING.

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- 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;
  - the incentive plan is not activated for Top Risk Takers if the funding condition envisaged at Group level is below the access threshold;
  - the incentive plan 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 Plan 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 Plan (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 Plan 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 starts from the assumption of the general and specific limits envisaged in the RAF as not negotiable boundaries.

At the time of submission of this proposal, based on the situation as at 31 December 2017, 264 of the Group's Risk Takers will see the cap raised, thus remaining substantially in line with the number previously approved by the Shareholders' Meeting of 27 April 2017.

Overall, these resources equate to approximately 0.28% of the Group's personnel and about 79% of the scope of Risk Takers.

Furthermore, in line with the revenue growth drivers set out in the 2018 – 2021 Business Plan, you are informed that the variable-to-fixed remuneration ratio is intended to be raised to 2:1 also for personnel who, though not belonging to the category of Group Risk Takers, work in the value chain dedicated to the non-captive market of the Asset Management Division and for Managers of the business units in the Insurance Division who oversee the development and management of insurance products.

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

20 March 2018

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

*This is an English translation of the original Italian document. In cases of conflict between the English language document and the Italian document, the interpretation of the Italian language document prevails.*