
Report of the Board of Directors

Item 4 on the agenda

Remuneration and own shares:

- d) Increase in the cap on the variable-to-fixed remuneration to certain categories of personnel belonging to Asset Management Companies (*Società di Gestione del Risparmio*) of the Intesa Sanpaolo Group

Distinguished Shareholders,

you have been called to this Ordinary Meeting to discuss and pass resolutions on the proposal for the increase of the ratio between the variable and fixed remuneration (c.d. “cap”) up to a maximum of 4:1 for personnel operating exclusively in the Investment Management units belonging to Intesa Sanpaolo Group Asset Management entities¹, both in Italy and abroad, based on illustrated reasons, the number of employees involved and within a framework of economic-financial sustainability of the proposal.

The distinguished Shareholders should note that:

1. the updated version of the Supervisory Provisions on remuneration (“Remuneration and incentive policies and practices”, Title IV – Chapter 2 of the Circular 285 of 17 December 2013 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), published in the Official Gazette of the Italian Republic on 12 November 2018, introduced a new provision on the maximum amount of variable remuneration, stipulating for each Intermediary the possibility to waive the application of cap set by the European regulation (i.e. 1:1, up to a maximum of 2:1 if allowed by the national regulatory Authority) for personnel who carries out activities exclusively for subsidiaries that are SGR, SICAV and SICAF.
2. Both European and Italian sector-specific Regulations for Asset Management, even where the ex-ante definition of cap to variable compensation is required, allow each company to define their own limit.
3. The AVERAGE ratio of variable to fixed remuneration for the so-called High Earners in the sector of asset management within the European Union was 402% in 2017².

The Intesa Sanpaolo Group proposal is led by the following rationales:

- to underpin the international growth in the Wealth Management sector, in coherence with the Business Plan 2018-2021 objectives, including through transactions with players in foreign countries where there is no remuneration cap to be set for personnel who operates in SGR entities and, as a consequence, the pay-mix is mainly focused on variable compensation;
- to enforce retention and attraction power of highly talented professionals in foreign countries where the Group already operates³ where there are both independent competitors, that do not

¹ Eurizon Group, Fideuram Investimenti and FAMI.

² Source: “EBA Report on High Earners” published on 11 March 2019.

³ Hungary, Ireland, Luxembourg, Slovakia and UK.

have regulatory obligations on variable remuneration cap, and competitors belonging to local Banking Groups, often derogating from the cap requirement for their subsidiaries operating in the Asset Management sector;

- to sustain retention and attraction power of key resources also in the domestic market (Italy), facing a growing competitive pressure on talents due to the enlargement of sector giant presence (resulting in a raising turnover rate in the Eurizon Group in the last 3 years) and the intention stated by at least two major Italian Banking Groups of taking advantage of the waiver allowed by the recent regulatory amendment.

Shareholders are informed that the cap increase up to 4:1 would be applicable to around 240 resources, belonging to personnel operating in the Asset Management companies of the Group, out of which 5 Group Risk Takers and 29 Risk Takers identified in SGR entities⁴. It should be noted that the cap increase does not concern the Top Risk Taker of the Asset Management Division.

As regards the potential economic impact of the 4:1 cap increase, it should be pointed out that:

- mechanisms that ensure economic and financial sustainability of the bonus pool are currently in place. Indeed, the bonus pool allocated to the SGR entities is defined top-down as a percentage of Group bonus pool and, in case of bottom-up financial needs would be higher than the amount available at entity level, the individual bonuses will be proportionally reduced;
- the maximum cost increase required in case of achievement of the maximum performance target (as a wholly abstract hypothesis) by ALL eligible “Investment managers” would be equal to around 86 mln €;
- at least the 50% of variable remuneration assigned would be paid out in UCITS, as provided by the sector-specific Regulations⁵ (without any impact on Group capital levels).

Finally, it should be noted that the performance measurement mechanisms adopted as incentive drivers for Investment Management personnel (mainly based on risk-adjusted performance of managed funds) are deterministic and extremely selective with the effect that, historically, even over years of booming markets, only a limited number of employees exceeds performance targets⁶.

Distinguished Shareholders, you are therefore invited to approve the proposed increase in the variable-to-fixed remuneration cap up to a maximum of 4:1 for personnel operating exclusively in the Investment Management units belonging to Intesa Sanpaolo Group Asset Management entities, both in Italy and abroad.

19 March 2019

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

⁴ Figures at 31 December 2018.

⁵ Directive 2019/91/UE, so called “UCITS V”, and Directive 2011/61/UE, so called “AIFMD” and the *Joint Regulation* of the Bank of Italy and Consob.

⁶ It should be highlighted that, with reference to 2017, an extremely positive year for market performance, only 15% of personnel operating in Investment Management units exceeded performance targets.

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.