
Report of the Board of Directors

Ordinary Part - Item 3 on the agenda

Remuneration:

- c) Extension of the increase in the cap on the variable-to-fixed remuneration to certain categories of personnel that are part of the Corporate & Investment Banking Division of Intesa Sanpaolo and of the Network of Všeobecná Úverová Banka (VUB)

Distinguished Shareholders,

you have been called to this Ordinary Meeting to discuss and pass resolutions on the proposal to extend the increase in the cap on the variable-to-fixed remuneration to certain categories of personnel that are part of the Corporate & Investment Banking Division of Intesa Sanpaolo and of the Network of VUB, pursuant to the Supervisory Provisions on remuneration ("Remuneration and incentive policies and practices", Title IV - Chapter 2 of 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 Official Journal of the European Union on 27 June 2013, of which the latest amendment was published in the Official Gazette of the Italian Republic on 12 November 2018). This proposal is based on the reasons described below, indicates the number of staff involved and is made within a framework of economic-financial sustainability.

The increase responds to the demand for retention and attraction, and to the need to support the Corporate & Investment Banking Division's international growth as envisaged in the 2018-2021 Business Plan.

Specifically:

- the Global Relationship Managers belonging to the Global Corporate and the Financial Institutions Departments of the aforementioned Division are in charge of managing particularly relevant business both in current and prospective terms. Additionally, following the organizational evolution of the Corporate & Investment Banking Division, their role has evolved becoming increasingly international and similar to the one typical of the Investment Banking. Consequently, also the compensation arena of this cluster has become increasingly competitive and contiguous with that of Investment Banking;
- the Heads of Corporate and Financial Institutions Desks belonging to the Hubs of the International Department constitute the key resources for the international development in the markets where the Intesa Sanpaolo brand does not have the same "employer value" as that enjoyed domestically;
- the Mortgage Specialists, Personal Bankers and Senior Customer Advisors belonging to VUB Network work in a market that, as it approaches full employment, is experiencing an increase in the turnover rate of the most highly-skilled resources.

The distinguished Shareholders should note that the number of staff to whom the extension of the increase of the cap up to 2:1 would apply is approximately 610, of which:

- 61 Global Relationship Managers belonging to the Global Corporate - Italy Department and to the Financial Institutions Department of the Corporate & Investment Banking Division;
- 8 Heads of Corporate and Financial Institutions Desks belonging to the Hubs of the International

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- Department of the Corporate & Investment Banking Division¹;
 - 540 Mortgage Specialists, Personal Bankers and Senior Customer Advisors belonging to the VUB Network.

It should be noted that none of the potential new beneficiaries of the increase of the bonus cap up to 2:1 is currently identified as a Group Risk Taker.

The extension of the potential beneficiaries of the increase of the bonus cap up to twice the fixed remuneration ensures, in all cases, the compliance with the prudential regulatory requirements.

Specifically, it should be noted that:

- this increase involves a very limited number of resources (i.e. approximately 610), equal to 0.67% of the overall Group employees²;
- the strong correlation between bonus pay out and prudential requirements in terms of capital and liquidity is guaranteed through the connection at multiple levels between the Incentive Systems and the Risk Appetite Framework (RAF) of the Group. Specifically, the verification of the limits in terms of CET1 (capital condition), Liquidity Coverage Ratio (LCR), and of Net Stable Funding Ratio (NSFR – both the latter being liquidity conditions) envisaged in the Group RAF are set as preliminary access conditions (gateway conditions) to the Systems. The same limits are also envisaged as malus conditions acting on the deferred portions of the bonus accrued in the previous financial years;
- the impact in terms of the theoretical maximum additional cost in the scenario where all potential beneficiaries accrue a bonus equal to 200% of the fixed remuneration is approximately €14.2 million, an amount which is not significant compared to the Group labor cost, as it represents only 0.25% of such cost.

Anyway, in the aforementioned most prudential scenario, the impact in terms of capital is equal to a 0.003% reduction of the CET 1, given that the 2019 phased-in CET1 ratio was 13.9%, well above the SREP requirement of 8.96%.

Distinguished Shareholders, you are therefore invited to approve the proposal to extend the scope of the beneficiaries of the increase in the cap on the variable-to-fixed remuneration up to a maximum of 2:1, in the terms described above.

17 March 2020

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.

¹ Reference goes to the Hubs in New York, Dubai, Hong Kong and London.

² The number of the Intesa Sanpaolo Group employees is 91,478.