Report of the Board of Directors to the General Shareholders' Meeting

Structure of remuneration and incentivisation systems: motion to raise the ratio of the variable to fixed component of remuneration to 2:1.

Shareholders,

The Bank of Italy by issuing the 7th update of Circular Letter No. 285 "Supervisory Provisions for Banks" transposed into the Italian legal framework Directive 2013/36/EU (the so-called CRD IV) on remuneration and incentivisation policies and practices, amended the supervisory provisions on remuneration and incentivisation practices within banks and banking groups, in accordance with Article 23 of Law No. 262 of 28 December 2005, and with the aim of accounting for the application procedures and market developments. In line with the previous Directive 2010/76/EU (CRD III), the so-called CRD IV Directive sets forth specific principles and requirements that banks must comply with so as to ensure that: remuneration systems are properly designed and implemented; potential conflicts of interest are effectively managed; the remuneration system takes due account of current and prospective risks, the degree of capitalisation, as well as liquidity levels of each intermediary; transparency towards the market is maximised; and oversight by regulatory authorities is reinforced.

The objective of the regulation is to promote — in the interest of all stakeholders — the implementation of remuneration systems that are in line with long-term corporate values, objectives and strategies, linked to corporate performance but appropriately adjusted to reflect all risks, commensurate with the capital and liquidity levels required to cover ongoing business operations, and in any event, designed to avoid distorted incentives that could lead to regulatory violations and excessive risk-taking by individual banks and within the financial system as a whole.

As far as this motion is concerned, relevant provisions on remuneration and incentivisation policies and practices are as follows:

- a maximum limit of 1:1 for the ratio of the variable to fixed component of remuneration, to be exclusively applied to Key Personnel;
- vesting the General Shareholders' Meeting with powers to raise the aforesaid ratio, provided certain conditions are complied with and, in any case, up to a maximum ratio of 2:1.

The aforementioned provisions also require the Board of Directors to forward the related motion to the Bank of Italy, at least 60 days before the date scheduled for Shareholders' approval of the resolution, and to subsequently file the resulting resolution, with indication of the approved ratio/s for each personnel category, with the Bank of Italy within no more than 30 days following its passage.

Accordingly, the Board of Directors submits for your approval the motion to raise the ratio of the variable to fixed component of remuneration, for a limited number of persons as specified below, in light of the reasons and considerations set forth in the following paragraphs.

1. Corporate functions discharged by the persons concerned

The motion seeks Shareholders' approval to determine — solely for the corporate persons specified below — the ratio of the variable to fixed component of remuneration by up to a maximum of 200% (ratio 2:1) in accordance with Bank of Italy's Circular Letter No. 285, Part 1, Title IV, Chapter 2 of 17 December 2013.

The motion has been raised with regard to the following corporate persons:

1. Top Managers (Chief Executive Officer/General Manager, Deputy General Wealth Manager Markets and Products, Deputy General Manager Commercial Networks, Alternative and Support Channels (3 key personnel)
2. Heads of the Asset Management Area, Private Relationship Manager Area, Alternative and Support Channels Area, Wealth Management Area (4 managers);
3. Main Network Managers (two Sales Managers, ten Area Managers, one Head of Business Development Top Wealth Advisor/Top Private Banker and one Head of Recruiting).

2. Reasons underlying the motion

The reasons underlying the motion submitted for Shareholders' approval in respect of various categories of persons, may be summarised as follows:

- ***Employed personnel (Top Managers, Heads of Asset Management Area, Private Relationship Manager Area, Alternative and Support Channels Area, Wealth Management Area)***

Banca Generali's remuneration policy is aimed at ensuring the best possible alignment of the interests of the Banking Group's Shareholders and management, especially in a long-term perspective, through careful risk management and the consistent pursuit of long-term strategies. In fact, a well-balanced system of remuneration and incentives for the bank's directors and management is key to boosting competitiveness and ensuring high-levels of corporate governance over time. It must also be borne in mind that the overall remuneration system — in particular for persons discharging key corporate functions — is a tool to attract to and retain in the company highly qualified professionals endowed with the specialist skill set necessary to meet the company's requirements.

The motion to apply to the Managers listed above a higher ratio than 1:1 of the variable to fixed component of remuneration, and in particular, to raise the said ratio up to 2:1 — the highest ratio contemplated by the Bank of Italy — is based on the following grounds:

- the vast majority of Banca Generali's operations — which are carried out through networks of financial advisors and relationship managers — are concentrated in specific sectors such as private banking and asset management. As a result of its strategic positioning, Banca Generali is called upon to face not only traditional competitors (mainly network banks) but also major international competitors (primarily foreign private banks) that, thanks to a well-consolidated presence in Italy, have earned significant shares of the Italian market, as well as major Italian banks with international ambitions. In this competitive context and in light of the brilliant results obtained in recent years in the private banking sector, which is expected to continue to grow at the same rapid pace observed in the past, it is clearly in Banca Generali's interest to offer remuneration packages that enable the bank not only to retain key resources who are primarily responsible for the significant growth achieved so far by the bank, but also to attract new managerial talent in a niche labour market featuring a shortage of the specialist skills required to effectively meet current and future challenges;

- the current remuneration package (for the Top Management, as well as for all other bank personnel) focuses on sustainability, especially through policies prioritising growth that is sustainable over time, and enhancing the potential of the Group's personnel by rewarding individual contributions to the organisation's success, including through appropriate remuneration, whilst discouraging conduct leading to excess risk-taking. Therefore, the remuneration policies are aimed at adequately rewarding sustainable performance and are also based on the following principles:
    - internal fairness, as remuneration must be commensurate with the role filled, taking due account of the burden of responsibility, and the competence and skills with which related duties are discharged;
    - competitiveness, as the assigned remuneration must be in line with remuneration levels prevailing on reference markets; towards this end, trends in remuneration levels prevailing in the industry of reference are monitored constantly through general and industry-specific surveys of remuneration practices;
- moreover, approval of the motion would have the following effects:
    - *for the Top Management:* it would not impact the applicable remuneration packages, which, in relation *inter alia* to the granting of Long Term Incentive Plans, entry plans/agreements, and/or stability pacts, may lead to amounts that exceed the threshold of 1:1 of the variable to fixed components of remuneration, reaching values that in some cases may be closer to the 2:1 threshold. However, it must be pointed out that a very significant portion of overall variable remuneration is primarily linked to the attainment of company's medium-to-long term targets under the Long Term Incentive Plan, whereas the variable component of the short-term remuneration is linked to the attainment of economic and financial performance as indicated in the budget for the year of reference, through the application of the Management by Objectives mechanism, and is paid in cash and in shares;
    - *for the other Managers:* it would both ensure the respect of the contractual agreements entered into upon recruitment and would not impact the remuneration package which may envisage, *inter alia*, the granting of Long Term Incentive Plans, entry plans/agreements and/or stability pacts. It should be noted that, should the aforementioned Long Term Incentive Plans be applied, a significant portion of variable remuneration received by those managers would be linked to the attainment of medium-to-long term targets,

and paid in form of stock grants, whereas the variable component of the short-term remuneration would remain linked to the attainment of economic and financial performance as indicated in the budget for the year of reference, through the application of the Management by Objectives mechanism, and would be paid in cash and in shares;

- the remuneration package is made up of both **variable and fixed components** of remuneration. The weight of the fixed component has been determined so as to impact overall remuneration and attract and retain talent, as well as provide adequate remuneration for job responsibilities even in the absence of additional bonuses or other incentives in light of substandard performance, thus discouraging risk-taking in excess of the company's risk appetite, with a view to attaining short and medium-to-long-term results;
- the competitiveness of the remuneration package of Key Managers is constantly monitored, taking due account of trends recorded on reference markets, applying the methods most commonly used on the reference market. Even on the basis of these external comparisons, the fixed component of remuneration has been found to be reasonably competitive in light of the remuneration packages offered by the company's main competitors on the reference market. This consideration leads to the following crucial conclusions:
    - a direct cut to the percentage of variable remuneration aimed solely at ensuring compliance with the recommended ratio of 1:1 of the variable to fixed component of remuneration without any form of offsetting whatsoever would, at present, lead to a drastic drop in the competitiveness and therefore the attractiveness of the remuneration packages offered to the company's Top Management, giving rise to a serious risk of loosing persons who have ensured the bank's indisputable success in recent years;
    - in order to maintain an adequate level of retention of key managers, whilst also complying with the recommended ratio of 1:1 of the variable to fixed component of remuneration, it would be necessary to "re-balance" the remuneration package on the overall, with a steep increase in the fixed component of remuneration. Such a course would obviously entail the risk of losing flexibility and incurring higher costs linked to the managers' remuneration packages, whilst at the time undermining the coherent link between short, and especially, long-term corporate performance and management remuneration, in a business climate featuring steady economic and revenue growth;
    - keeping the remuneration packages does not have any bearing whatsoever on compliance with prudential rules, with specific reference to own funds, as highlighted below.

- ***Main network managers (Sales Managers, Area Managers, Head of Business Development Top Wealth Advisor/Top Private Banker and Head of Recruiting)***

The remuneration of network managers listed above is entirely variable, insofar as they serve the company as self-employed outside collaborators (agency contracts). Despite its variable nature, however, the remuneration of these managers is broken down into a recurrent component representing the stable and ordinary portion of remuneration, and a non-recurrent component designed to serve as an incentive, and equivalent, for the most part, to the variable component of remuneration.

It must also be pointed out that even in the case of these managers, the distinction between the two components of remuneration is established in advance, taking due account of the Bank's situation in terms of assets, revenues and liquidity, together with the terms and conditions (so-called "gates") regulating entitlement to incentives and bonuses and barring access to some or all of the same, if left unmet. The portion of remuneration represented by the incentive is not subject to any guaranteed minimum amount, and may, in fact, be deferred and even recovered by the company (malus or claw-back systems). Moreover, incentivising mechanisms are structured so as not to give rise to conflicts with the best interests of customers, with a view to ensuring that customers are treated with the utmost correctness and propriety, and, consequently avoid any and all related legal and reputational risks for the Bank. These mechanisms are therefore structured both to protect the bank's assets against capital stability risks, and to promote the propriety and correctness of operations so as to better serve the customer's interests. Furthermore, in case managers remarkably achieve all objectives, the aforesaid system of incentives and bonuses may determine for them a ratio in excess of 1:1 of the variable to fixed component of remuneration. The remuneration structure, on the whole, is fruit of the steady growth underway in the financial advice and private banking sectors, with Banca Generali as one of the main players, with top levels of per-capita productivity in terms of net inflows, both total inflows and inflows from managed and insurance products.

It must be pointed out that these performance levels have been achieved as a result of not only specific strategic and sales policies implemented by the Bank, but also through the careful selection and training of network managers which, over time, have borne fruit in the form of a technically competent, highly skilled managers. The latter have contributed heavily to the achievement of particularly satisfying results, in terms of both the coordinated networks' sales productivity and the recruitment of experienced professionals coming from other companies, whilst constantly enforcing compliance with applicable ethical standards by all network managers, also with a view to ensuring that all advice provided and all the products and services placed by each of them are always in the best interests of customers. It should also be noted that the network managers in question are now so closely knit and familiar with the company that they currently constitute the best guarantee for the long-term sustainability of the results attained in recent years. Against this backdrop, cutting the non-recurrent component of remuneration with a view to ensuring the recommended ratio of no more than 1:1 of the variable to fixed component of remuneration would inevitably give rise to a high degree of instability, as at least some network managers would leave the company to join competitors ready and willing to offer very high percentages of recurrent remuneration, in a bid to cut staff selection and training costs by attracting fully trained stafff with significant managerial and professional experience. This would deprive the Bank of precious resources discharging crucial management, coordination and control functions in respect of the sales networks, and, consequently jeopardise the attainment of corporate objectives, considering the low number of talented network managers in this sector. Lastly, account must also be taken of the fact that, given their undisputed leadership in coordinating the resources entrusted to them, network managers who leave the company may also take along with them other persons, thereby bringing to naught the results of the bank's considerable investments made in the past to reinforce its sales networks (recruiting, training, office space, IT equipment, etc.). Faced with these obvious risks, the Bank could find itself compelled to raise the recurrent component of remuneration to the detriment of the variable component, thus increasing overhead costs and reducing the effectiveness of sales efforts, with obvious impacts on the profit and loss statement and the ability to continue to invest in products, technology and training.

3. Repercussions on the Bank's ability to continue to comply with prudential rules

With regard to the repercussions on the Bank's ability to continue to comply with all prudential rules with special reference to own funds, the historical trends of the main reference ratios until 2016, estimated closing figures for 2017 and expected figures for 2018, referred to budget data, are illustrated in the table below.

HISTORICAL TRENDS OF Tier1 ratio/ T1R and
Total Capital ratio/ TCR

(€ thousand)	31.12.2016	31.12.2016	31.12.2015	31.12.2014	31.12.2013
			Basel 3		
	Full application	Phase-in	Phase-in	Phase-in	Phase-in
Common Equity Tier 1 capital (CET1)	427,060	419,073	384,178	311,670	300,674
Additional Tier 1 capital (AT1)	0	0	0	0	0
Tier 2 capital (Tier 2)	43,000	43,854	43,698	50,921	12,753
Total Own Funds	470,060	462,927	427,876	362,591	313,427
Credit and counterparty risk	132,469	132,469	148,306	144,493	115,319
Market risk	2,681	2,681	2,505	3,558	5,950
Operating risk	65,863	65,863	64,254	56,615	47,840
Total absorbed capital	201,012	201,012	215,064	204,666	169,109
Excess over absorbed capital	269,048	261,915	212,812	214,173	214,173
Non-committed capital	57.24%	56.58%	49.74%	59.07%	68.33%
Capital committed for credit risk	28.2%	28.6%	34.7%	39.9%	36.8%
Capital committed for market risk	0.6%	0.6%	0.6%	1.0%	1.9%
Capital committed for operating risk	14.0%	14.2%	15.0%	15.6%	15.3%
Risk-weighted assets	2,512,654	2,512,654	2,688,303	2,558,325	2,113,863
Tier 1 / Risk-weighted assets (Tier 1 capital ratio)	17.0%	16.7%	14.3%	12.2%	14.2%
Total Own Funds / Risk-weighted assets (Total capital ratio)	18.7%	18.4%	15.9%	14.2%	14.8%

In terms of projected figures, on the basis of the data for the year ended on 31 December 2017, the related ratios are estimated as follows (preliminary figures):

T1R: 18.5%

TCR: 20.2%

For the year ending on 31 December 2018, the projected figures calculated in defining the RAF — during its meeting called to approve the budget — call for ratios higher than:

T1R: 16.5% (equal to the CET1 Ratio)

TCR: 18.0%.

All the historical data and the projections exceed the regulatory thresholds (i.e., 6% for T1R and 8% for TCR), even including the capital conservation buffer and the binding ratio set forth in this regard in the SREP letter (i.e., 8.1% for T1R and 10.4% for TCR, soon to be updated).

A more precise estimate of T1R and TCR at 31/12/2018 will be included in the ICAAP report to be sent to the Bank of Italy by the end of April 2018, however the above figures confirm the sustainability of current remuneration policies.

The foregoing considerations confirm the overall sustainability of the motion, insofar as the altered limit of the ratio of the variable to fixed component of remuneration would not compromise compliance with prudential rules, and in particular, regulations pertaining to own funds.

Underlining that, in terms of the approval procedure, the aforesaid Bank of Italy's provisions, save where the Articles of Association provide otherwise, establish that the motion is to be deemed approved by the ordinary General Shareholders' Meeting, if:

(i) the General Shareholders' Meeting is constituted with a structural quorum of at least one half of the share capital, and the motion is approved with the favourable vote of at least 2/3 of the share capital represented at the General Shareholders' Meeting;

(ii) the motion is approved with the favourable vote of at least 3/4 of the share capital represented at the General Shareholders' Meeting, regardless of the share capital represented thereat;

and that no person to whom the Shareholders' resolution refers can exercise any voting rights he or she may directly or indirectly hold in the Bank, the General Shareholders' Meeting is invited to pass resolutions on the motion.

An outline draft of the resolution that the General Shareholders' Meeting is invited to pass by way of approval of the aforesaid proposal is provided below:

"The Shareholders' Meeting of Banca Generali S.p.A., held in ordinary session, at the offices of Assicurazioni Generali S.p.A. in Trieste,

- having regard to the Bank of Italy's Circular Letter No. 285, Chapter 2, Title IV, Part I, of 17 December 2013 concerning "Remuneration and Incetivisation Policies and practices";
- having regard to the text of the motion raised by the Board of Directors with regard to increasing, in respect of specific persons, to 2:1 the ratio of the variable to fixed component of remuneration, as set forth in the Board of Directors' Report;
- having acknowledged the persons identified in the Report, as mentioned in the preceding point, and the grounds underlying the motion itself;
- having determined that the motion itself does not compromise compliance with prudential rules, and in particular, regulations pertaining own funds requirements;
- having considered that Article 13 of the Articles of Association makes provision for the setting of a higher ratio;
- having heard the favourable opinion of the Board of Statutory Auditors,

resolves

1) to establish the maximum extent of the ratio of the variable to fixed component of remuneration at 2:1 for the following corporate functions and persons:
   - Members of the Top Management (Chief Executive Officer/General Manager, Deputy General Manager Wealth Management Markets and Products, Deputy General Manager Commercial Networks, Alternative and Support Channels)
   - Heads of the Asset Management Area, Private RM Area, Alternative and Support Channels Area, Wealth Management Area;
   - Main Network Managers (Sales Managers, Area Managers, Head of Business Development Top Wealth Advisor/Top Private Banker, and Head of Recruiting).

2) to entrust the Board of Directors with the implementation of the approved resolution, including with the power to delegate to any of the Board's members all concrete steps to be taken to ensure such implementation."

Milan, 9 February 2018 THE BOARD OF DIRECTORS