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

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

Shareholders,

As you are well aware, on 18 November 2014, the Bank of Italy issued the 7th update of Circular Letter No. 285 "Supervisory Provisions for Banks", effective 3 December 2014, transposing into the Italian legal framework Directive 2013/36/EU (the so-called CRD IV) on remuneration and incentivisation policies and practices, thus amending 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 regulations 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:

- introducing a maximum limit of 1:1 for the ratio of the variable to the 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 it is submitted to the General Shareholders' Meeting, 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 between the variable and fixed components 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 between the variable and fixed components of remuneration by up to a maximum of 200% (ratio 2:1) in accordance with Bank of Italy's Circular Letter No. 285, Chapter 2, Title IV, Part I, of 17 December 2013.

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

- Chief Executive Officer and General Manager;
- the Joint General Manager, if appointed;
- the Joint General Manager – Commercial Area;
- the Head of the Banking Area;
- the main network managers (i.e., two Sales Managers, eight Private Banking Managers, and six Area Managers).

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:

- *Key Managers (Chief Executive Officer/General Manager, Joint General Manager, Joint General Manager Commercial Area, and Central Manager Banking Area)*

Banca Generali's remuneration policies have always been 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 employees and executives 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 Key Managers listed above a higher ratio than 1:1 between the variable and fixed components 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, private bankers 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 Key Managers, 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;

- approval of the motion would enable management to leave unaltered, except for one case, the remuneration packages currently applied to the Key Managers listed above, many of whom already receive remuneration on the basis of ratio between the variable and fixed components of remuneration in excess of 1:1 and in fact closer to 2:1 (between 178% and 190% of the total), and even above such threshold in one case (230%), which will call for the application of a cap to bring the ratio within the approved limits. In such regard, it must be pointed out that a very significant portion of overall variable remuneration (between 64% and 81%) is linked to the attainment of primarily medium-to-long term targets under the Long Term Incentive Plan, and liquidated in form of stock grants, whilst variable remuneration linked to the attainment of short-term targets is regulated under the Management by Objectives mechanism based on economic and financial performance as compared to the expectations budgeted for the financial year of reference, and is entirely liquidated in cash, subject to a deferred payment system if applicable thresholds are exceeded;
- on the overall, under the variable remuneration structure described above, the maximum deferment period covers a total of 52 months, during the last 24 of which a stock retention mechanism is applicable to no less than 37.5% of overall variable remuneration, and both up-front and deferred payments are subject to rules imposing gates, as well as the application of malus and claw-back mechanisms;
- 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 capabilities, with a view to meeting short and medium-to-long-term targets;
- the competitiveness of the remuneration package of Key Managers is constantly monitored, taking due account of trends recorded on reference markets, using the HAY point-factor job evaluation method. Even on the basis of these outside 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 between the variable and fixed components 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 Key Managers, giving rise to a serious risk of exodus of 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 between the variable and fixed components 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;
- leaving current remuneration packages unaltered would not have any bearing whatsoever on compliance with prudential rules, with specific reference to capital and reserve requirements, as highlighted below.

- *Main network managers (Sales Managers, Private Banking Managers and Area Managers)*

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). At the same time, 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.

The system of incentives and bonuses currently applicable to these managers is therefore already 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 envisage for them a ratio in excess of 1:1 between the variable and fixed components 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 and local market realities that they currently constitute the best guarantee for the long-term sustainability of the results attained in recent years. Against this backdrop, cutting the variable component of remuneration with a view to ensuring that it stands at the recommended ratio of no more than 1:1 with the fixed component 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 better income opportunities in the form of very high percentages of variable remuneration, in a bid to cut staff selection and training costs by attracting fully trained and experienced staff completely familiar with the local markets on which they operate. Any such exodus would deprive the Bank of precious resources discharging crucial management, coordination and control functions in respect of the sales networks, and, consequently jeopardise the achievement of corporate performance, considering the low number of talented network managers in this sector. Moreover, the Bank would also run the risk of losing the wealth of local knowledge and relationships with both customers and institutions, consolidated over years and crucial to optimising the productivity of sales efforts and targeted initiatives in related industries. Lastly, account must also be taken of the fact that, given their undisputed leadership and mentoring role in respect of the sales staff under their supervision, network managers who leave the company may also take along with them other persons (financial advisors and private bankers), 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, computer equipment, etc.). Faced with these obvious risks, the Bank could find itself compelled to raise the recurrent component of remuneration to make up for the cut in incentivisation, although this course of action would result in an increase in overhead costs and a reduction in the effectiveness of sales efforts, with obvious impacts on the income 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 of the motion on the Bank's ability to continue to comply with all prudential rules, including prospectively, with special reference to own funds, the historical trends of the main reference ratios are provided in the table below:

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

(€ thousand)	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009
Tier 1 capital	300,674	252,359	204,862	185,634	166,078
Tier 2 capital	12,753	24,163	31,624	39,624	39,666
Tier 3 capital	0	0	0	-	-
Capital for regulatory purposes	313,427	276,523	236,486	225,258	205,744
B.1 Credit risk	115,319	122,701	101,830	92,561	92,836
B.2 Market risk	5,950	6,446	7,861	9,350	13,375
B.3 Operating risk	47,840	41,576	37,655	33,759	30,006
B.4 Other capital requirements	0	0	0	-	-
B.4 Total capital requirements	169,109	170,723	147,346	135,670	136,217
Excess over prudential requirements	144,318	105,800	89,140	89,588	69,527
Non-committed capital	46.05%	38.26%	37.69%	39.77%	33.79%
Capital committed to credit risk	36.80%	44.40%	43.06%	41.10%	45.12%
Capital committed to market risk	1.90%	2.30%	3.32%	4.20%	6.50%
Capital committed to operating risk	15.30%	15.00%	15.90%	15.00%	14.60%
Risk-weighted assets	2,113,863	2,134,038	1,841,825	1,695,875	1,702,713
Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	14.22%	11.83%	11.12%	10.95%	9.75%
Regulatory capital/Risk-weighted assets (Total capital ratio)	14.83%	12.96%	12.84%	13.28%	12.08%

In terms of projected figures, on the basis of the provisional data for the year ended on 31 December 2014, the related ratios are estimated as follows:

T1R: 12.07%

TCR: 14.06%,

whilst for the year ending on 31 December 2015 — bearing in mind that a more precise estimate of T1R and TCR as at 31 December 2015 is to be included in the ICAAP filing — on the basis of the assumptions underlying the budget, the same ratios are projected as follows:

T1R: 11.0%

TCR: 12.5%.

It should be noted that, as per all the historical data, as well as projections for 2014 and 2015, the ratios in question exceed the regulatory threshold, even including the capital conservation buffer (10.5%).

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

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) at first calling, 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) at second and subsequent callings, the motion must be approved with the favourable vote of at least ¾ of the share capital represented at the General Shareholders' Meeting, regardless of the amount of the latter;

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, Via Trento 8,

- 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 between the variable and fixed components 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 to capital and reserves 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 between the variable and fixed components of remuneration at 2:1 for the following corporate functions and persons: Chief Executive Officer, General Manager, Joint General Manager, Joint General Manager Commercial Area, Central Manager Banking Area, Sales Managers, Private Banking Managers, Area Managers;
2) to entrust the Board of Directors with the implementation of the approved resolution, with the power to delegate to any of the Board's members all concrete steps to be taken to ensure implementation of the resolution."

Milan, 27 January 2015 THE BOARD OF DIRECTORS