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.

Dear Shareholders,

As you are well aware, by Order of 30 March 2011, the Bank of Italy, in transposing into the Italian legal framework Directive 2010/76/EC (the so-called CRD 3), issued "Provisions on remuneration and incentivisation policies and practices within banks and banking groups" (hereinafter also referred to as the "Supervisory Provisions"). The so-called CRD 3 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 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 system as a whole.

Against this backdrop, in December 2013, the Bank of Italy subjected certain amendments to the Supervisory Provisions to public consultation primarily with a view to ensuring the transposition, into Italian law, of the reforms introduced by Directive 2013/36/EU (the so-called CRD 4), approved on 26 June, which was scheduled to be fully transposed into the Italian legal framework by 31 December 2013.

Although the aforesaid transposition has not yet been formalised, it must, however, be borne in mind that, when launching the related public consultation, the Bank of Italy specified that the amendments to the Supervisory Provisions would be applicable to the remuneration accrued during the financial year 2014.

As far as this motion is concerned, the most pertinent reforms entrenched in the document subjected to public consultation involve:

- the introduction of a maximum limit of 1:1 for the ratio of the variable to the fixed component of remuneration:
- the option, if provided for under the Articles of Association, of vesting the General Shareholders' Meeting with powers to raise, through a resolution passed by a qualified majority, the aforesaid ratio by up to 200% (ratio of 2:1).

The same consultation document also requires 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 a clear indication of the approved ratio, 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 Shareholder approval to determine — solely for the corporate functions and 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 the provisions set forth in the amendments to the Supervisory Provisions on the remuneration and incentivisation policies and practices within banks and banking groups, as proposed in the consultation document of December 2013.

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

- Chief Executive Officer and General Manager, key manager falling within the category of Key Management Personnel;
- the Joint General Manager function, entrusted to a key manager falling within the category of Key Management Personnel;
- the Joint General Manager of the Sales Area, entrusted to a key manager falling within the category of Key Management Personnel;
- the Governance and Corporate Risks Area, entrusted to a Central Manager in the person of a key manager falling within the category of Key Management Personnel;
- the Banking Area, entrusted to a Central Manager in the person of a key manager falling within the category of Key Management Personnel;

- ➢ the main network managers (a Sales Manager for Italy, seven Private Banking Managers, six Area Managers, all of whom fall within the category of the Bank's Key Management Personnel);
- ➢ an executive within the RM Department, filling the role of relationship manager, who does not fall within the category of Key Management Personnel and whose remuneration could be based upon a ratio between variable and fixed components of remuneration of up to 2:1, by virtue of one or more specific agreements entered into at the time of his appointment to the position (for a term expiring upon the verification of the targets for 2015).

2. Reasons underlying the motion

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

- *Key Managers (Chief Executive Officer/General Manager, Joint General Managers and Central Managers of the Banking Area and of the Governance and Corporate Risks 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 reward 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 the remuneration packages currently applied to the Key Managers listed above, many of whom already at present 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 162% and 186% of the total), and even above such threshold in one case (230%). 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 scheme if applicable thresholds are exceeded.

- on the overall, under the variable remuneration structure described above, the total amount liquidated through grants of financial instruments exceeds 60% for each Key Manager, whilst the total amount paid up-front does not in any event exceed 25%, 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 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 off-setting 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 the exodus of persons who have ensured the bank's indiscutible 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 — as required under the Bank's Remuneration Policy — 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, and 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) pursuant to mechanisms that take account of the same factors considered when drawing up the related sustainability criteria. 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 order to ensure the timely orientation of the bank's sales efforts, in line with normal practice, the aforesaid system of incentives and bonuses was presented and illustrated to its various beneficiaries in December, envisaging for many amongst 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, has borne fruit in the form of a technically competent, highly skilled managers who 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, especially 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 it currently constitutes 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 continued 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 in the past in reinforcing 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.

- *Relationship Managers*

The grounds underlying the motion to raise the ratio in question with regard to a single relationship manager have to do with the need to comply with the agreement currently underway with the same and scheduled to expire upon verification of the results for financial year 2015.

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 specific reference to capital and reserve requirements, 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)	31.12.2012	31.12.2011	31.12.2010	31.12.2009
Tier 1 capital	252,359	204,862	185,634	166,078
Tier 2 capital	24,163	31,624	39,624	39,666
Tier 3 capital	0	0	-	-
Capital for regulatory purposes	276,523	236,486	225,258	205,744
B.1 Credit risk	122,701	101,830	92,561	92,836
B.2 Market risk	6,446	7,861	9,350	13,375
B.3 Operating risk	41,576	37,655	33,759	30,006
B.4 Other prudential requirements	0	0	-	-
B.4 Total prudential requirements	170,723	147,346	135,670	136,217
Excess over prudential requirements	105,800	89,140	89,588	69,527
Non-committed capital	38.26%	37.69%	39.77%	33.79%
Capital committed to credit risk	44.4%	43.06%	41.1%	45.12%
Capital committed to market risk	2.3%	3.32%	4.2%	6.50%
Capital committed to operating risk	15.0%	15.9%	15.0%	14.6%
Risk-weighted assets	2,134,038	1,841,825	1,695,875	1,702,713
Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	11.83%	11.12%	10.95%	9.75%
Regulatory capital/Risk-weighted assets (Total capital ratio)	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 2013, the related ratios are estimated as follows:

T1R: 14.24%

TCR: 14.85%,

whilst for the year ending on 31 December 2014 — bearing in mind that a more precise estimate of T1R and TCR as at 31 December 2014, 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: 12.2%

TCR: 12.5%.

It is accordingly clear that, as per all the historical data, as well as projections for 2013 and 2014, the ratios in question exceed not only the so-called Basel 2 regulatory threshold (8%) but also the new so-called Basel 3 threshold (10.5%) which includes a further capital reserve buffer. As estimated under the new Basel 3 rules, the Capital for regulatory purposes as at 31/12/2013 is absolutely in line with the same figure as calculated under the Basel 2 rules (about +0.8%) with the result that T1R and TCR as estimated for December 2014 may also be considered in line with the same ratios as calculated under the new Basel 3 rules.

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.

Lastly, it must be pointed out that, before raising this motion, the Board of Directors appointed an independent advisor (Mercer Italia) to provide an opinion on the sustainability of the proposal and the soundness of the grounds underlying the same. The Mercer Italia's findings are set forth in its opinion issued on 10 February 2014 and attached hereto as Annex A.

Underlining that, in terms of the approval procedure, pursuant to the consultation document, save where the Articles of Association provide otherwise, 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 provided that no person to whom the Shareholder’s 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 Order dated 30 March 2011 and subsequent proposed amendments set forth in the consultation document of December 2013;
- 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 mentioned in the preceding point and the grounds underlying the motion itself;
- having regard to the Opinion issued on 10 February 2014 by the firm Mercer Italia;
- 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, as amended pursuant to the motion forming the subject-matter of the first item on the agenda, 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, Joint General Manager, Joint General Manager of the Sales Area, Central Manager responsible for the Corporate Governance and Risks Area, Central Manager responsible for the Banking Area, Sales Manager Italy, Private Banking

Managers, Area Managers, an executive level employee who fills the role of Relationship Manager;

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, 14 February 2014 THE BOARD OF DIRECTORS