



## Report on remuneration



# Report on remuneration

**Intesa Sanpaolo S.p.A.** Registered office: Piazza San Carlo, 156 10121 Torino Secondary registered office: Via Monte di Pietà, 8 20121 Milano Share capital 8,731,984,115.92 Euro Registration number on the Torino Company Register and Fiscal Code 00799960158 VAT number 10810700152 Included in the National Register of Banks No. 5361 ABI Code 3069.2 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund Parent Company of "Intesa Sanpaolo" banking group, included in the National Register of Banking Groups.

*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.*

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Report on Remuneration  
20 March 2018





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# Introduction

The issue of remuneration of listed companies and financial intermediaries has been gaining growing attention by international bodies and regulators, aiming to guide issuers and intermediaries towards the adoption of remuneration systems that are consistent with the principles - intensified following the economic and financial crisis - governing the process for drawing up and approving the remuneration policies, their remuneration structure and their transparency.

In particular, according to these principles, remuneration systems must take into account current and future risks and the level of capitalisation of each intermediary, and guarantee remuneration based on results actually achieved.

In accordance with European Community regulations and with effect from 2011, the Italian Authorities defined a set of key rules on these matters.

The Bank of Italy, with regulation dated 30 March 2011, defined balanced rules for banks' remuneration policies, systems and practices with reference to their design and control, to compensation structures and disclosure obligations. The Supervisory Authority further intensified the monitoring of this last issue, including remuneration systems and practices among the information to be disclosed under Pillar 3, pursuant to Circular no. 285 of 17 December 2013.

Moreover, ISVAP (now IVASS), with Regulation no. 39 of 9 June 2011, dictated the principles regarding the decision-making processes, structure and disclosure obligations of the remuneration policies of insurance companies. Having the consultation relating to the update of such Regulation come to an end on 17 October 2017, the outcome thereof is currently being awaited.

Furthermore, with reference to the asset management sector, the new provisions of the Joint Bank of Italy/Consob Regulation<sup>1</sup> issued on 27 April 2017 incorporated into the Italian system the rules on remuneration and incentive policies and practices set out in Directive 2014/91/EU (so-called "UCITS V Directive") and are also applicable to banking group managers to varying degrees according to whether or not the asset management company is classed as significant (net assets managed in excess of 5 billion euro).

In its resolution no. 18049 of 23 December 2011, Consob regulated implementation of the provisions contained in Article 123-ter of the Consolidated Law on Finance, which require issuers to draw up and publicly disclose a report on remuneration.

Important updates have been introduced on self-governance level as well. After being initially modified (March 2010) in the remuneration part, the Corporate Governance Code has been subject to a complete review that resulted in a new edition published on December 2011.

In fact, the Bank of Italy subsequently revisited the topic of remuneration policies with two communications dated 2 March 2012 and 13 March 2013, highlighting in general the opportunity for banks to define a strategy that is consistent with the objective of preserving, with a view to the future, the balance of the company's position, as well as maintaining the conditions of capital adequacy and prudent management of liquidity risk.

In 2014, the European Commission issued Delegated Regulation (EU) No. 604/2014 containing new Regulatory Technical Standards (RTS) relating to suitable qualitative and quantitative criteria for the identification of categories of personnel whose professional activities have a material impact on the institution's risk profile (so-called "Risk Takers") intended to supplement Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 (CRD IV), effective from June 2014.

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<sup>1</sup> Issued pursuant to Article 6, paragraph 2-bis of Legislative Decree no. 58 of 25 February 1998 (Consolidated Law on Finance - CLF).

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Subsequently, the Bank of Italy updated and published the “Provisions regarding remuneration and incentive policies”, Title IV – Chapter 2, Circular 285 of 17 December 2013 in the Official Gazette of the Italian Republic on 2 December 2014.

Finally, in December 2015, the EBA, based on the provisions contained in CRD IV, published the update of the "Guidelines on sound remuneration policies", drawn up by its predecessor CEBS, defining in detail the rules relating to the remuneration structure, remuneration policies and the related governance and implementation processes.

The Bank of Italy stated its intention to adapt the aforesaid Guidelines and issue the ensuing new Provisions on remuneration.

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Art. 123-  
ter (1),  
CLF

This Report has been prepared in accordance with the aforementioned Article 123-ter of the Consolidated Law on Finance, and also takes into account the obligations of disclosure to the shareholders' meeting, in accordance with the supervisory provisions issued by the Bank of Italy.

Moreover, Intesa Sanpaolo has always extensively focused its attention on remuneration matters, on relative regulation compliance and on maximum transparency to the market. The Report gathers into a single, well-organised and structured document all the qualitative and quantitative information, until 2011 separately disclosed by topic in the Report on Corporate Governance and Ownership Structures, in the Supervisory Board report submitted to the Meeting - pursuant to Article 153 of the Consolidated Law on Finance - and in the financial statements.

Art. 123-  
ter (2),  
CLF

This Report, available in the “Governance” section of the website [www.group.intesasanpaolo.com](http://www.group.intesasanpaolo.com), is divided into two Sections. The first regards the remuneration policies adopted by the Bank with respect to its corporate bodies, the corporate bodies of its subsidiaries and the employees and other staff of the Group - with a particular focus on the General Managers, Key Managers and the so-called Risk Takers of the Group - and the procedures for adoption and implementation of these policies. The second section, subdivided into four parts, provides quantitative, analytical and aggregate information.

6.C.8.

With a view to disclosing information in accordance with the regulatory obligations, the document illustrates the levels of compliance with the remuneration provisions envisaged by Article 6 of the Corporate Governance Code. In this respect, for more immediate interpretation, specific margin notes citing the relevant Principles and Criteria have been provided alongside the text, together with the indications provided in Articles 123-bis and 123-ter of the Consolidated Law on Finance.

The Appendix to this document contains specific check lists that indicate, on one side, the Principles and Criteria of the Code applied and the provisions of Articles 123-bis and 123-ter and, on the other side, the relative implementation (with any amendments), with reference also to the page of this Report in which the matter is discussed.

These check lists should be read together with the clarifying notes and details provided in the Report as regards application of the individual provisions.

Information contained in this Report, unless otherwise stated, refers to the position as at 20 March 2018, the date of its approval by the Board of Directors.

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Art. 123-  
ter (6),  
CLF

This Report shall be subject to the binding resolution of the Shareholders' Meeting, called up pursuant to Article 2364-bis, second paragraph, of the Civil Code, as expressly laid down by the Bank of Italy in Circular 285/2013, First Part, Title IV - “Remuneration and incentive policies and practices”.

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# Section I – Proposal for adoption of the 2018 Remuneration Policies

## 1. Procedures for adoption and implementation of the remuneration policies

Art. 123-ter (3), (a) and (b) CLF

### 1.1. *The role of corporate bodies*

#### 1.1.a *The Shareholders' Meeting*

The Articles of Association require the Shareholders' Meeting to approve the Board Members' and personnel's remuneration policies, as well as the plans based on financial instruments.

In this context, it shall approve the criteria for determining the severance payments to be granted in the event of early termination of the employment agreement or early termination of office, including the limits set for such payments as provided by the regulations currently in force and shall also determine, with the qualified majority threshold defined by the supervisory regulations in force, a ratio between the variable and fixed individual remuneration of the personnel above the ratio of 1:1, but in any case not exceeding the maximum established by the same regulations.

#### 1.1.b *The Board of Directors*

The Board of Directors may determine, in addition to the fixed remuneration determined by the Shareholders' Meeting, the remuneration of the Board Members to whom the Board itself assigns further special duties in compliance with the Articles of Association, including the office of Managing Director.

Furthermore, the Board of Directors is responsible for determining the remuneration of the General Manager and of the Manager responsible for preparing the Company's financial reports, pursuant to Article 154-bis of Legislative Decree 58 of 24 February 1998, as well as of all other Group Top Risk Takers and the higher-level personnel from the corporate control functions, in accordance with the provisions of the legislation currently in force.

Finally, the Board of Directors is responsible for the drafting of the remuneration and incentive policy to be submitted to the Shareholders' Meeting and the definition of the remuneration and incentive systems for persons for whom the supervisory regulations require that this task be performed by the body with strategic supervision functions, including the identification of parameters used to evaluate performance objectives and the definition of the variable remuneration deriving from the application of said systems.

### 1.2. *The Chief Operating Officer and the Corporate Control Functions*

As mentioned above, the Shareholders' Meeting is responsible for approving remuneration policies for employees upon proposal of the Board of Directors and with the involvement of the Remuneration Committee.

The Chief Operating Officer is responsible for drawing up the aforementioned remuneration policies, that undergo the relative approval procedure, involving the following, to the extent of their responsibilities, as envisaged by the Regulations:

- the Chief Risk Officer Governance Area, in order to ensure consistency of the remuneration policies and resulting incentive systems with the Group's Risk Appetite Framework (RAF);
- the Planning and Active Value Management Head Office Departments and the Budget and Control Head Office Department in order to ensure consistency of the remuneration policies and resultant incentive systems with:
  - o the strategic short-and medium-long term objectives of the Companies and of the Group;
  - o the level of capitalisation and liquidity of the Companies and of the Group;
- The Chief Compliance Officer Governance Area, in order to verify compliance of the remuneration policies and resulting incentive systems with rules, regulations, codes of ethics and standards of conduct applicable to the Group.

6.P.2.

On an annual basis, the Chief Audit Officer, in accordance with the guidelines of the Supervisory Authority, verifies the compliance of the remuneration implementation procedures to the relevant policies, informing the Board of Directors and the Shareholders' Meeting on the results of the

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verifications conducted (see the subsequent section IV “Internal auditing department assessment of the remuneration system”).

*1.3. Criteria used to assess the performance targets at the basis of assignment of variable components*

Identification of parameters used to evaluate performance objectives, on which incentives granting to management, Group Risk Takers and, more in general, all personnel of the Group is based, is carried out by the competent functions, considering most significant economic and financial indicators for achievement of the budget objectives, periodically monitored through internal reporting tools and available at the consolidated level as well as at division and/or business unit.

The process used to identify these parameters involves corporate control functions (risk management, compliance), in order to ensure full compliance with the Group’s RAF and with regulatory provisions in force from time to time.

This allows the selection of a complex mix of qualitative and quantitative parameters – anyway transparent, objective and measurable (see 4.3) – allowing a 360-degree evaluation of company’s performances in terms of profitability, risks taken, capitalisation and liquidity.

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## 2. Remuneration of the members of the Board of Directors

### 2.1. Remuneration of Board Members

The Bank's Articles of Association envisage that the members of the Board of Directors be entitled, in addition to the reimbursement of expenses incurred due to their office, to a remuneration for the services rendered, which is determined by the Shareholders' Meeting in a fixed amount for the entire period of their office.

The Shareholders' Meeting also determines the additional remuneration for the office of Chairman and Deputy Chairperson.

The Shareholders' Meeting held on 27 April 2016 set for the entire three-year period:

- i) at 100,000 euro the fixed gross annual remuneration of each member of the Board of Directors who is not also a member of the Management Control Committee;
- ii) at 800,000 euro the additional fixed gross annual remuneration of the Chairman of the Board of Directors;
- iii) at 150,000 euro the additional annual remuneration of the Deputy Chairperson.

6.C.4.

It is noted, however, that, as laid down in the Supervisory Provisions on remuneration, the amount of the remuneration paid to the Chairman is not higher, but rather lower than the fixed remuneration paid to the Managing Director and CEO.

### 2.2. Remuneration of the Management Control Committee members

Pursuant to the Articles of Association, the Shareholders' Meeting has the duty to determine, at the time of the appointment of the Management Control Committee and for the entire term of office, specific remuneration for the Board Members of said Committee, consisting of an equal amount for each Member, but with a special addition for the Chairman.

Without prejudice to the reimbursement of any expenses incurred due to their office, therefore, the Shareholders' Meeting held on 27 April 2016 set at 200,000 euro the specific remuneration of each member of the Management Control Committee, without any attendance fees for the actual participation in the meetings of the Committee, and at 50,000 euro the additional remuneration for the Chairman of the Committee.

### 2.3. Remuneration of the members of the Board Committees

In terms of the activities that the Board Members are called upon to carry out as members of the additional Committees established within the Board, the Articles of Association assign to the Board of Directors the task of determining the remuneration for these Members in a fixed amount, in line with the remuneration policies approved by the Shareholders' Meeting.

The Board of Directors supplemented the remuneration for the position of Board Member with an attendance fee amounting to 2,000 euro in relation to the actual participation of the members in the activities of the Committees, with a further annual gross fixed remuneration of 50,000 euro for the Chairmen of such Committees.

### 2.4. Remuneration of the Managing Director and CEO

Pursuant to the Articles of Association, the Managing Director and General Manager is entitled to receive a fixed and variable remuneration determined by the Board of Directors in line with the remuneration policies approved by the Shareholders' Meeting.

The Board of Directors, upon the proposal of the Remuneration Committee, set the remuneration of the Managing Director at 500,000 euro. This amount is in addition to the amount of 100,000 euro due as a Board Member.

The Managing Director, in his/her capacity as General Manager, is also entitled, as from 1 March 2016, to receive the gross annual remuneration, set at 2,000,000 euro by the Supervisory Board, as well as to participate in the short- and long-term incentive system and the supplementary pension scheme, and to receive the additional fringe benefits for the position determined by the Board of Directors in accordance with the Remuneration and Incentive Scheme Policies for employees.

### 2.5. Insurance policy for Board Members and General Managers

In line with the best practice on international financial markets and taking into account the nature, size and operational complexity of the Bank and the Group, following the resolution passed by the

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Shareholders' Meeting on 3 May 2007, it was decided to take out - and subsequently to renew within the limits set by the above resolution and in line with the best market standards - an insurance policy to cover the administrative liability of the Bank's Board Members as well as all board members and general managers in the subsidiaries and associates (D&O – Directors' and Officers' Liability Insurance).

The Shareholders' Meeting of 27 April 2016 confirmed the continuation of such insurance cover, which serves the Bank and the Group's best interests, representing a necessary component of the remuneration policies.

The terms of the D&O policy for 2017 were as follows:

- Effective date: from 31 December 2016 until 31 December 2017
- Limit: 200,000,000.00 euro, for each loss at annual aggregate level
- Annual premium: approximately 1,650,000.00 euro
- Exclusion from insurance coverage in case of wilful misconduct or gross negligence.

#### *2.6. Termination of office; employee termination indemnities*

The Members of the Board of Directors, with the exception of the Managing Director who is also General Manager, are not Bank employees.

Art. 123-  
bis (1), (i)  
CLF

No agreements exist obliging the Bank to pay Board Members an indemnity in the event of their resignation or termination of their office following a public takeover bid.

The criteria and maximum limits for determining the indemnities payable under the provisions of the personnel remuneration policies shall apply to the Managing Director and General Manager, in the event of early termination of the employment agreement or early termination of office (see 4.9).

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### 3. Remuneration policy for the corporate bodies of subsidiaries

Remuneration for members of the corporate bodies of Group companies is defined by Intesa Sanpaolo in its capacity as majority shareholder and entity responsible for management and coordination activities, pursuant to the relative statutory and banking regulations.

The remuneration policy for corporate bodies, therefore, complies with the following principles, applied uniformly at Group level, in accordance with the regulatory context of the various countries in which Intesa Sanpaolo operates through its subsidiaries.

Members of the management and supervisory boards of companies of the Intesa Sanpaolo Group receive remuneration according to their assigned duties and responsibilities.

To ensure uniformity in accordance with Group standards, specific determination of the remuneration of directors is carried out by considering parameters such as the capital and economic size and organisational complexity of the company in question, as well as other objective and qualitative elements, such as the nature of the business carried out by the subsidiary and its operating risk profile.

Similar criteria apply to the determination of remuneration of directors appointed to special offices, pursuant to Article 2389 of the Italian Civil Code and similar provisions in force in foreign countries.

Variable remuneration amounts, bonuses linked to results, profit-sharing clauses or options to buy shares at predetermined prices are not normally envisaged. Exemptions from this principle are envisaged only on an exceptional and justified basis, in accordance with the Group remuneration Policies and the relative supervisory regulations in force.

In general, there are no differences in the remuneration of directors who are Group employees, professionals, independent, etc. The remuneration of Group employees who are appointed as directors in subsidiaries is paid through the company with which an employment agreement is in place.

Remuneration of members of the board of statutory auditors of Italian subsidiaries is determined upon appointment for the entire term of office, pursuant to Article 2402 of the Italian Civil Code, with a fixed yearly amount.

The amount paid to statutory auditors is determined through a uniform calculation method at Group level that takes into account objective parameters, namely capital and revenues of the company, in order to identify a specific remuneration amount.

Members of the corporate bodies normally have the right to reimbursement of the expenses incurred as a result of their office.

Finally, an insurance policy is signed for board members and general managers of subsidiaries (so-called "D&O policy").

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## 4. Remuneration policy for employees and staff not bound by an employment agreement

Art. 123-ter (3), (a) CLF

This chapter deals with the 2018 remuneration policy for all personnel for the purposes of approval with binding vote by the Shareholders' Meeting, as provided for by the Bank of Italy for the one-tier corporate governance system.

6.P.4.

### 4.1. Objectives of the remuneration policies

6.P.2. The remuneration policies of the Intesa Sanpaolo Group are based on the following principles:

- a) alignment of the conduct of management and employees with the interests of shareholders, the medium and long-term strategies and the company objectives, as part of the set of rules aimed at accurate monitoring of the current and future corporate risks and maintenance of an adequate level of liquidity and capitalisation;
- b) merit, to guarantee better matching with actual performance and the managerial quality identified, through:
  - remuneration flexibility via the variable component linked to the results achieved;
  - focus on key staff members demonstrating high management quality, to whom competitive salary brackets, compared with the reference market, are reserved;
  - differentiation of the best performances to which variable bonus levels significantly in excess of the average are to be assigned;
- c) equity, in order to promote proper conduct and standardise treatment in terms of remuneration, through:
  - the correlation between the person's fixed remuneration and the level of responsibility managed, measured through the adoption of a Global Banding System<sup>2</sup>, certified by a leading consultancy firm;
  - differentiation of salary brackets and the ratio of the variable component to the total remuneration according to professional categories, with the Banding bracket being equal;
- d) external competitiveness of total annual remuneration by relevant professional category, with the Banding bracket being equal, with respect to the levels in the large European banking groups, obtained through periodic specialist surveys, in order to attract and retain the best management and professional resources on the market;
- e) sustainability, to limit expense deriving from application of the policy to values compatible with medium- and long-term strategies and annual targets, by means of:
  - mechanisms to adjust allocations to the overall incentive provisions according to the company's profitability and the results achieved;
  - selective reviews of fixed remuneration;
  - use of objective parameters when reviewing pay;
  - determination of appropriate caps regarding both total incentives and the amount of individual bonuses;
- f) compliance with the international, European and national legal and regulatory provisions and the consequent focus on Key Managers, Group Risk Takers and Corporate Control Functions.

6.P.1.

6.P.1.

### 4.2. Segmentation of personnel

The remuneration policy guidelines of the Intesa Sanpaolo Group have always been based on the principle of segmentation, according to the role and contribution provided.

The segmentation rationale was subsequently used by the Regulator with reference to the type and content of operational risk assumed by personnel.

In 2014, the European Commission arranged the issue of the Regulatory Technical Standards (RTS) relating to qualitative and quantitative criteria for the identification of categories of personnel whose professional activities have a material impact on the institution's risk profile (so-called "Risk Takers"), intended to supplement the CRD IV, effective as from June 2014. These RTS are supplemented by the 2015 EBA Guidelines, providing for the application of further criteria reflecting other organisation-specific risk levels (so-called additional criteria).

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<sup>2</sup> The Global Banding System adopted by the Intesa Sanpaolo Group is based on the grouping in homogeneous categories of managerial positions that are similar by levels of complexity/responsibility managed, measured using the international IPE (International Position Evaluation) methodology.



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The Intesa Sanpaolo Group applied the aforesaid provisions at Group-level, through the self-assessment process instructed, addressed and coordinated by the Parent Company, and submitted to the Board of Directors of Intesa Sanpaolo the list of personnel who has a material impact on the Group's risk profile.

The RTS application led to the identification of around 359<sup>3</sup> Group Risk Takers, on the basis of the following criteria:

- qualitative criteria, which relate to the role, the decision-making power and managerial responsibilities of members of the personnel and are aimed at identifying top management members, risk takers and the personnel engaged in control functions;
- quantitative criteria, which relate to the thresholds associated with the level of total gross remuneration attributed to a member of the personnel, in absolute or relative terms, and to the parameters that enable to place the personnel in the same remuneration range as the one applicable to top management and risk takers. However, institutions are entitled to determine that, based on objective conditions and in accordance with specific restrictions laid down in the Regulation, certain personnel members, identified only on the basis of quantitative criteria, have no actual significant impact in terms of risks.

As part of the identification of key personnel, additional Group-specific criteria have been defined by identifying as business units having a substantial impact on the Group's risk profile those that deal with asset management and the Regional Governance Centres of the Banca dei Territori Division.

Following the application of the abovementioned criteria, three clusters were identified:

- "Group Risk Takers";
- Other managers;
- Remaining Personnel.

Within the scope of the first cluster ("Group Risk Takers"), the Supervisory Provisions on remuneration identify a further cluster represented by the so-called "Top Risk Takers" comprising, in the current organisational context:

- Managing Director and CEO;
- Heads of the Divisions and of Capital Light Bank;
- Chief Operating Officer, Chief IT, Digital & Innovation Officer, Chief Cost Management Officer, Chief Financial Officer, Chief Lending Officer, Chief Governance Officer, Chief Risk Officer, Chief Compliance Officer, Chief Institutional Affairs & External Communication Officer and Chief Audit Officer;
- the Heads of the Head Office Departments that report directly to the Managing Director;
- Head of the Administration and Tax Head Office Department as the Manager responsible for preparing the Company's financial reports.

The Group Risk Takers identified through qualitative criteria are:

1. the members of the Board of Directors of Intesa Sanpaolo;
2. the Heads of Intesa Sanpaolo Corporate Control Functions and their direct reports;
3. the Heads and the Risk Managers of the Relevant Business Units, i.e. those to which internal capital was distributed under Article 73 of Directive 2013/36/EU, representing at least 2% of the institution's internal capital distribution - and their direct reports;
4. the Heads, identified by role, of the Legal Affairs Head Office Department - Group General Counsel, of the Administration and Tax Head Office Department and Tax Sub-Department, of the Planning and Active Value Management Head Office Department, of the Management Control Head Office Department, of the Treasury Head Office Department, of the Research Head Office Department, of the Chief Operating Officer and of the Performance Systems, Remuneration and Labour Cost Sub-Department, of the ICT Head Office Department, of the Corporate Affairs and Advisory Head Office Department;
5. the roles that manage risk categories other than credit and market risk or have the power to approve or prohibit the introduction of new products which, at the time of defining the scope, are identified within the Group as members, with voting right, of the Group Financial Risk Committee, of the Group Credit Strategies and Risk Analysis sessions of the Steering

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<sup>3</sup> Figure as at 1/01/2018. According to the information contained in the EBA Guidelines of December 2015, the 2018 Group Risk Taker classification will include the persons identified as such in the year for a period longer than three months.

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Committee, of the Operational Risk session of the Group Control Coordination and Operational Risk Committee and the Heads of the structures involved in the prior risk assessment (so-called "clearing") of new products, services and activities, as identified in the reference internal regulations;

6. the roles that have the power to grant credit above the amount of 30 million euro - calculated with reference to the limit defined by the Regulations (0.5% of Common Equity Tier 1 capital) and applying it to the Group methodology expressed in Risk Weighted Assets (RWA) - and the members, with voting right, of the Group Credit Committee, Banca IMI Credit Committee and Mediocredito Italiano Credit Committee;
7. the roles, within the Parent Company and Banca IMI, which were tasked with managing a trading portfolio with a VaR equal to or greater than the limits referred to in Regulation (EU) 604/2014.

As a result of the application of the above-mentioned qualitative criteria, approximately 238<sup>4</sup> Group Risk Takers have been identified.

The application of the quantitative criterion resulted in the identification as Group Risk Takers of the roles falling within the scope in terms of remuneration attributed to them with the exception of those which, despite carrying out their activities in a relevant business unit, are not considered to have a significant impact on the institution's risk profile on the basis of objective criteria and those that have no material impact on the institution's risk profile insofar as they carry out their activities in an operational unit classified as not material (following the application of this criterion, about 44<sup>5</sup> Group Risk Takers were identified).

Furthermore, 77 roles deemed significant within the Asset Management Division and the Regional Governance Centres of the Banca dei Territori Division have been identified.

The second segment (Other Managers) includes the remaining department heads not included amongst Group Risk Takers.

The third segment (Remaining Personnel) includes all the other employees of the Group whose remuneration is predominantly defined by the contractual provisions in effect from time to time in the countries in which the Group operates.

#### *4.3. The correlation between remuneration, risk and performance*

The correlation between remuneration, risk and performance is ensured for all employees through:

- 6.C.1.a) – the use of a balanced pay mix, as the fixed component is sufficiently high to allow the variable portion, which is never guaranteed, to decline significantly, even down to zero, upon occurrence of the conditions specified below;
- the application of the principle of selectivity, which differentiates the best performances and, in return, assigns significantly higher-than-average bonuses;
- 6.P.2.  
6.C.1.d) – the introduction, on the basis of the "financial sustainability principle", of a structured mechanism for funding the variable component (bonus pool), which correlates the amount to be allocated to incentives for all company segments to the performance of a Group parameter, currently identified as Gross Income;
- the use of a solidarity mechanism between Group and Division/Business Unit results, according to which the amount of total bonuses paid to the employees of each Business Unit depends in part on the Group's overall performance (reflected in the size of the bonus pool) and in part on the performance of the specific Organisational Unit, measured in terms of the degree of expected contribution to the Group's Gross Income;
- the observance of the access conditions provided for in international and national regulations, namely:
  - o at Group level, the achievement of capital adequacy and liquidity levels and, in any event, compliance with the limits envisaged by the Supervisory Review and Evaluation Process (SREP);

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<sup>4</sup> Figure as at 1/01/2018. According to the information contained in the EBA Guidelines of December 2015, the 2018 Group Risk Taker classification will include the persons identified as such in the year for a period longer than three months.

<sup>5</sup> Figure as at 1/01/2018. According to the information contained in the EBA Guidelines of December 2015, the 2018 Group Risk Taker classification will include the persons identified as such in the year for a period longer than three months.

- at individual level, the propriety of conduct (absence of disciplinary measures resulting in one or more days of suspension);
- the measurement of performance from multiple perspectives, both quantitative (profitability, revenue development, productivity, cost of risk/sustainability) - including, among the latter, also Corporate Social Responsibility, CSR, and/or Environmental, Social and Governance, ESG indicators) and qualitative (strategic actions or projects and managerial qualities), as well as extending to different scopes (Group/Department/Individual). The following are some examples of indicators for performance drivers:
  - profitability: Operating income/Risk Weighted Assets, Portfolio Mix (assets under management vs. assets under administration), Revenues/Assets;
  - revenue development: increase in Operating income, Asset management, Net inflows (private banking);
  - productivity: Cost / Income, Operating Costs, Costs / Asset Under Management;
  - cost of risk/sustainability<sup>6</sup>: NPL Ratio, Concentration Risk, Maintaining Liquidity Coverage Ratio target levels;
- the use of an additional mechanism that measures the residual risk level of each Business Unit (Q-Factor) and that acts as a possible de-multiplier of the bonus achieved in the event of failure to reach the target.

6.P.2.  
6.C.1.d)

For the Manager responsible for preparing the Company's financial reports, the Heads and higher-level personnel of the Corporate Control Functions, assuming application of conditions set out above and the "malus condition" described below, determination of the incentive accrued is strictly defined with reference to the specific qualitative and quantitative indicators of the respective functions, in accordance with the Supervisory Provisions.

6.C.3.

In particular, with regard to the Chief Risk Officer, the Chief Compliance Officer, the Head of the Anti-Money Laundering Head Office Department, the Chief Audit Officer and the higher-level personnel of these departments, these indicators measure the activity regarding the various types of risk (market, credit, interest rate, liquidity, operational, country, conduct and compliance, as well as money laundering and terrorism financing). The performance is measured both in quantitative terms (e.g. number of single name checks, number of validated models) and qualitative terms (e.g. development of the control culture, Integrated assurance between the Control Functions, strengthening of the compliance model to monitor the conduct risk).

6.C.3

#### 4.4. Remuneration components

Employee remuneration is broken down into the following:

- a) fixed component;
- b) variable component.

##### 4.4.1 Fixed remuneration

The fixed component is defined based on the contractual agreement, the role held, the responsibilities assigned, and the specific experience and expertise acquired by the employee.

The following are considered fixed components of remuneration:

- allowances tied to the role held, envisaged for the Managers belonging to the Corporate Control Functions (within Italy) and for the heads of commercial roles within the scope of the Banca dei Territori Division local network;
- allowances paid to expatriate personnel in order to cover for any differences in cost, quality of life and/or remuneration levels of the target reference market;
- allowances and/or fees deriving from offices held in corporate bodies, provided that these are not reversed to the companies to which they belong;
- any benefits designed to increase employee motivation and loyalty of the resources and assigned on a non-discretionary basis.

The benefits paid to Group employees may be of a contractual nature (e.g., supplementary pension, health benefits, etc.) or the result of remuneration policy decisions (e.g., company car) and, therefore, have different treatment with respect to different categories of personnel.

<sup>6</sup> CSR/ESG indicators under review at the time of preparation of this document.

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As regards the allowances envisaged for Managers belonging to the Corporate Control Functions (within Italy), the rationale behind their introduction lies in the need to ensure that this role is provided with an adequate level in terms of total target remuneration, whose ratio between variable remuneration and fixed remuneration was limited to 33% in Circular 285, a limit which is not found in similar regulations issued by other European Union countries<sup>7</sup>. This allowance takes the form of fixed remuneration as it is given on a non-discretionary basis and regulated as follows:

- it is assigned to the Managers of the Corporate Control Functions in Italy belonging to predefined Banding brackets;
- it is uniquely defined in % of the annual gross remuneration and differentiated according to the respective Banding bracket;
- it is communicated to stakeholders by means of an individual letter;
- it is paid as long as the person continues to hold the role identified as Manager belonging to the Corporate Control Functions and the predefined Banding brackets;
- it is not tied to any kind of performance indicator;
- it is approved by the Board of Directors on proposal of the Remuneration Committee.

As regards the heads of Network commercial roles, their allowance is defined in order to allow, at the same time, the provision of adequate remuneration commensurate with the roles envisaged under the current service model of the Banca dei Territori Division, as well as the remuneration flexibility which has become necessary in view of the turnover rates of the employees called upon to hold them. This allowance takes the form of fixed remuneration as it is given on a non-discretionary basis and regulated as follows:

- it is assigned to the heads of commercial roles;
- it is defined univocally in a predetermined amount having regard to the fixed target remuneration level for the role;
- it is communicated to stakeholders by means of an individual letter;
- it is paid as long as the person continues to hold the role in question;
- it is not tied to any kind of performance indicator;
- it is approved by the Board of Directors on proposal of the Remuneration Committee.

The allowances paid to expatriate personnel are aimed at ensuring the equity of the net remuneration treatment between the amount received in the country of origin and in the target country, so as to cover for any differences in cost, quality of life and/or remuneration levels of the target reference market. This allowance takes the form of fixed remuneration as it is given on a non-discretionary basis and regulated as follows:

- it is assigned to all expatriate personnel, in the event of a negative differential between the target country and the country of origin;
- it is defined on the basis of predefined and country-specific parameters, provided by a specialist consulting firm;
- it is communicated to stakeholders by means of an individual letter;
- it is paid as long as the person continues to be resident in the country in question;
- it is not tied to any kind of performance indicator.

#### *4.4.2 Variable remuneration*

The variable component is linked to employee's performance and aligned to the results actually achieved and the risks prudentially assumed, and consists of:

- short-term variable component, paid through:
  - the annual incentive systems (see paragraph 4.6);
  - the Broad-based Short-Term Plan (PVR, see paragraph 4.7);
- long-term variable component, paid through:
  - the Performance-based Option Plan (POP) targeted at the Top Management, Risk Takers and Key Managers<sup>8</sup> (see paragraph 4.8.2);

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<sup>7</sup> Unlike what occurs in Italy, the application of the 33% limit to the ratio between variable remuneration and fixed remuneration to personnel belonging to the Corporate Control Functions operating in international subsidiary banks of the Intesa Sanpaolo Group does not represent a critical issue with respect to the safeguarding of adequate levels of total remuneration of such personnel, since the remuneration practices in place in those countries constitute remuneration levels below the limit introduced.

<sup>8</sup> Italy Perimeter.

- the LECOIP 2.0 targeted at Middle Managers (not included in the POP) and the Remaining Personnel<sup>9</sup> (see paragraph 4.8.3);
- any variable short- and long-term components, tied to the period of employment in the company (stability, non-competition, one-off retention and similar agreements) or extraordinary agreements (see paragraph 4.10).

The distinction of the variable remuneration in a short-term and a long-term component allows both to enhance the performance targets on the basis of an annual accrual period and to consider the long-term strategic targets defined in the Business Plan.

Remuneration may not be paid in forms, instruments or methods aimed at avoiding provisions of law.

#### 4.5. The remuneration pay mix

##### 4.5.1 General criteria

For the purposes of this Report, the term “pay mix” refers to the weight of the fixed and variable components expressed as a percentage of total remuneration, as described above.

6.C.1.a)

In accordance with the regulatory guidelines, the Intesa Sanpaolo Group traditionally adopts a pay mix that is appropriately balanced between the aforementioned components, in order to:

- allow flexible management of labour costs, as the variable portion may significantly decline, even down to zero, depending on the performance actually achieved during the year in question;
- discourage behaviour focused on the achievement of short-term results, particularly if these involve taking on greater risk.

6.C.1.c)

In order to achieve the above objectives, it is standard Group practice to establish ex ante limitations in terms of balanced maximums for variable remuneration, through the definition of specific caps on the increase of bonuses in relation to any over-performance.

6.C.1.b)

The aforesaid cap to the variable remuneration was determined:

- at 100% of fixed remuneration for roles not included amongst Corporate Control Functions, save as otherwise specified in paragraph 4.5.2;
- at 33% of fixed remuneration for roles included amongst Corporate Control Functions.

The calculation of the variable remuneration takes into account:

- the short-term component relating to the Incentive System or the PVR;
- the long-term component assigned through the long-term incentive plans, i.e. POP or LECOIP 2.0; the latter have an impact on the pro-rata variable remuneration for the entire accrual period;
- any variable short- and long-term components, tied to the period of employment in the company (stability, non-competition, one-off retention and similar agreements) or extraordinary agreements (see paragraph 4.10).

However, in terms of cap compliance between fixed and variable remuneration (1:1), appropriate pay mix differentiations were identified with reference to the various professional or business segments, in line with the results obtained by means of specific benchmark analyses related to the leading European global banks that also ensure compliance with the internal equity principle, given the use of common benchmarks for each cluster.

The adequacy of the amounts is further verified in comparison to market practices, with ongoing participation in national and international remuneration surveys; for management roles and other particular business positions, the comparison is based on specific peer groups, in order to evaluate the competitive alignment with the most appropriate reference market.

6.P.1.

In relation to market data, the Intesa Sanpaolo Group aims to align the overall remuneration with median values, notwithstanding the possibility to make the appropriate differentiations for particularly critical positions and/or resources with high management skills.

<sup>9</sup> Italy Perimeter.

In terms of guidelines, the ratio of the variable component to the overall remuneration is periodically revised for the various categories of personnel according to the performance of the business, human resources management and development strategies and the law in force at the time.

In general, remuneration of personnel is subject to periodic review, in order to verify constant alignment with developments in the internal situation and in the market, also taking into account the results of the performance evaluation process. In these cases, under the annual budget allocations (based on the overall economic compatibility), measures aimed at adjusting the total pay of personnel, through tools defined by the Group management policies and in accordance with the powers in terms of personnel effective from time to time, may be envisaged.

The appropriateness of total pay is also evaluated in cases of assignment of tasks or changes in organisational position, in order to verify consistency with the required skills and assigned responsibilities in the new position.

All decisions regarding remuneration are to be taken in accordance with the Group's Remuneration Policies, in collaboration with the Chief Operating Officer and in compliance with international and national regulations.

#### *4.5.2 Increase in the variable remuneration-to-fixed remuneration cap for Group Risk Takers not included among Corporate Control Functions and for staff belonging to specific and limited professional categories and business segments*

The maximum limit laid down in the general criteria (1:1) is increased to 2:1, as permitted by CRD IV and the Bank of Italy, with prior binding approval by qualified majority of the Shareholders' Meeting for Group Risk Takers not included amongst Corporate Control Functions. Furthermore, in compliance with the external competition principle, the maximum limit is increased to 2:1 for staff belonging to specific and limited high-profitability professional categories and business segments:

- Asset Management managers in the Asset Management, Insurance and Private Banking Divisions;
- the so-called "Investment Banking" (Structures: Global Markets and Corporate & Strategic Finance) and the heads of units of the Financial Institutions Department;
- resources belonging to the Money Market and Payments, Portfolio Management, Foreign and Decentralised Treasury and MLT Finance Sub-Departments in the Treasury Department, insofar as those professional profiles are similar to those of the Investment Banking;
- Private Bankers.

In line with the revenue growth drivers envisaged in the 2018 - 2021 Business Plan, the increase to 2:1 of the variable-to-fixed remuneration cap is also extended to the commercial chain of the Asset Management Division dedicated to the non-captive market and to the Heads of the Insurance Division business units who oversee the development and management of insurance products.

In the current business environment, Intesa Sanpaolo has established itself both in Europe and in Italy. The Group achieved the targets set by the 2014-2017 Strategic Plan, recording better performances than its main European competitors, maintaining high levels of capitalisation and liquidity, above regulatory requirements, even in the adverse scenario of the stress test.

Furthermore, Intesa Sanpaolo has just launched the new ambitious 2018-2021 strategic plan.

Based on these considerations, Intesa Sanpaolo confirms, as already requested and approved, the opportunity to raise the cap to 2:1 of the variable remuneration for the entire population of Group Risk Takers not belonging to the Corporate Control Functions, where this does not conflict with national regulation.

To support the results over time, it is appropriate to offer those who have a major direct involvement in the Bank's management (i.e. the Group Risk Takers) the opportunity to gain competitive bonuses, in line with the level of performance achieved.

Raising the cap on variable remuneration thus allows for supporting the Group's attractiveness and capacity of retention through suitably competitive salaries, given that most of the players that are the

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Bank's competitors have already requested and obtained the 2:1 cap. Out of 12<sup>10</sup> companies operating in the financial sector at EU level, 10<sup>11</sup> banks have already approved the increase in the variable remuneration cap to 2 times the fixed remuneration for Group Risk Takers.

The increase in the maximum limit of the variable remuneration ensures, in any event, compliance with prudential standards given that:

- it does not lead to a proportional increase in the resources allocated to the variable remuneration, since the ex-ante funding mechanism of the Incentive System correlates the resources allocated to the overall bonus pool to a specific Group indicator, currently identified in Gross Income;
- having checked the activation conditions required by the Regulator and individual access conditions:
  - o the bonus allocation is precluded to at least 10% of the entire category of Group Risk Takers in the event whereby the funding condition envisaged at Group level exceeds the Access threshold but is below the set target (see 4.6);
  - o the incentive system is not activated for Top Risk Takers if the funding condition envisaged at Group level is below the Access threshold;
  - o the incentive system is not activated for Top Risk Takers or for the remaining Group Risk Takers or for the Managers of the Division in the event whereby the funding condition envisaged at the structure level is below the access threshold.
- the strong correlation between bonus pay out and prudential requirements in terms of capital and liquidity is guaranteed at multiple levels through the links between the Incentive System and the Risk Appetite Framework (RAF), that are:
  - o compliance with the CET1 and NSFR limits set by the RAF as preliminary conditions to access the System (and with Malus Condition in the settlement of bonus deferred portions);
  - o compliance with the LCR limits set by the RAF as preliminary conditions to access the System for Top Risk Takers (and with Malus Condition in the settlement of bonus deferred portions);
  - o KPIs are drilled down from the budget targets and the budgeting process starts from the assumption of the general and specific limits envisaged in the RAF as not negotiable boundaries.

The total number of Group resources to which the cap increase is applied stands at approximately 2,400.

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<sup>10</sup> Commerzbank, Deutsche Bank, UniCredit, SoGen, Credit Agricole, BNP, BBVA, Santander, Lloyds, Barclays, ING and Nordea.

<sup>11</sup> Deutsche Bank, UniCredit, SoGen, Credit Agricole, BNP, BBVA, Santander, Lloyds, Barclays and ING.

#### 4.6. Annual incentive systems for Group personnel

##### 4.6.a Conditions to activate annual incentive systems

All of the Group's personnel incentive systems are subject to three conditions:

1. minimum activation conditions required by the Regulator at Group level (4.6.b);
2. funding conditions envisaged by the bonus funding mechanism at Group and department level (4.6.c);
3. individual access condition (4.6.d).

##### 4.6.b Minimum activation conditions required by the Regulator

6.C.1. a)  
6.C.1. d) The minimum conditions required by the Regulator are based on the principles of financial sustainability of the remuneration variable component and therefore represent an assessment of the "quality" of income results achieved and the consistency with the limits envisaged in the Risk Assessment Framework (RAF).

In the Intesa Sanpaolo Group these conditions are as follows:

1. Common Equity Tier Ratio (CET1) at least equal to the limit envisaged in the RAF;
2. Net Stable Funding Ratio (NSFR) at least equal to the limit envisaged in the RAF;
3. No loss or positive Gross Income, net of any contribution of profits from the buyback of Bank's own liabilities, from the fair value measurement of Bank's liabilities and from income components arising from accounting policies following changes to the internal model on core deposits.

6.C.1.c) Non-achievement of even only one of the above conditions shall result in non-activation of the annual incentive systems for the Group personnel. Group Top Risk Takers are subject to a further condition represented by the Liquidity Coverage Ratio (LCR), the level of which must be at least equal to the limit envisaged in the RAF.

##### 4.6.c Group's bonus funding mechanism and configuration by department

All the annual incentive systems for Group personnel are funded by a structured bonus pool mechanism (see 4.3) that requires the implementation of funding conditions at both the Group and department level.

6.C.1. a)  
6.C.1. b)  
6.C.1. d) The Group's bonus pool is activated if, and only if, having verified the conditions under the above point, Gross Income exceeds the minimum Access threshold, and it gradually increases as the thresholds are exceeded, up to a predefined maximum (cap).

In the specific case where Gross Income does not exceed the Access threshold but the conditions 1 and 2 under the above point exist, a limited portion of the Group's bonus pool is available, both in relative and absolute terms - the so-called "buffer" - with the aim of ensuring transparent, regulated and ex-ante governance, in line with the requirements of the prudential regulations, by way of priority, of any positive performance of units that opposes the performance of the rest of the Group, which is a likely scenario given the many types of business and the various countries in which Intesa Sanpaolo operates. More specifically, having positively verified the conditions relating to the CET1 and NSFR referred to in the previous paragraph:

1. "Buffer 1" (limited by amount and, in any event, significantly lower than the Bonus Pool) is made available if Gross Income does not exceed the access threshold but remains positive, net of any contribution of profits from the buyback of Bank's own liabilities, from the fair value measurement of Bank's liabilities and from income components arising from accounting policies following changes to the internal model on core deposits.

This Buffer is allocated to the Divisions with positive Gross Income, in order to reward:

- i. primarily, in the units in line with the budget: the best performers at every organisational level with the exception of the Top Risk Takers;
  - ii. secondarily, for the units not in line with the budget: solely the employees not identified as Risk Takers or as management;
2. "Buffer 2" (with a significantly lower impact than Buffer 1) is made available in the event of loss or negative Gross Income, net of any contribution of profits from the buyback of Bank's own liabilities, from the fair value measurement of Bank's liabilities and from income components arising from accounting policies following changes to the internal model on core deposits.

This Buffer is allocated to the Divisions whose Gross Income is positive and exceeds the Access threshold and only rewards the employees not identified as Risk Takers or management.

The portion of Gross Income to be allocated to funding the Group's bonus pool is determined in advance, on an annual basis, according to an historical analysis and budget forecasts.

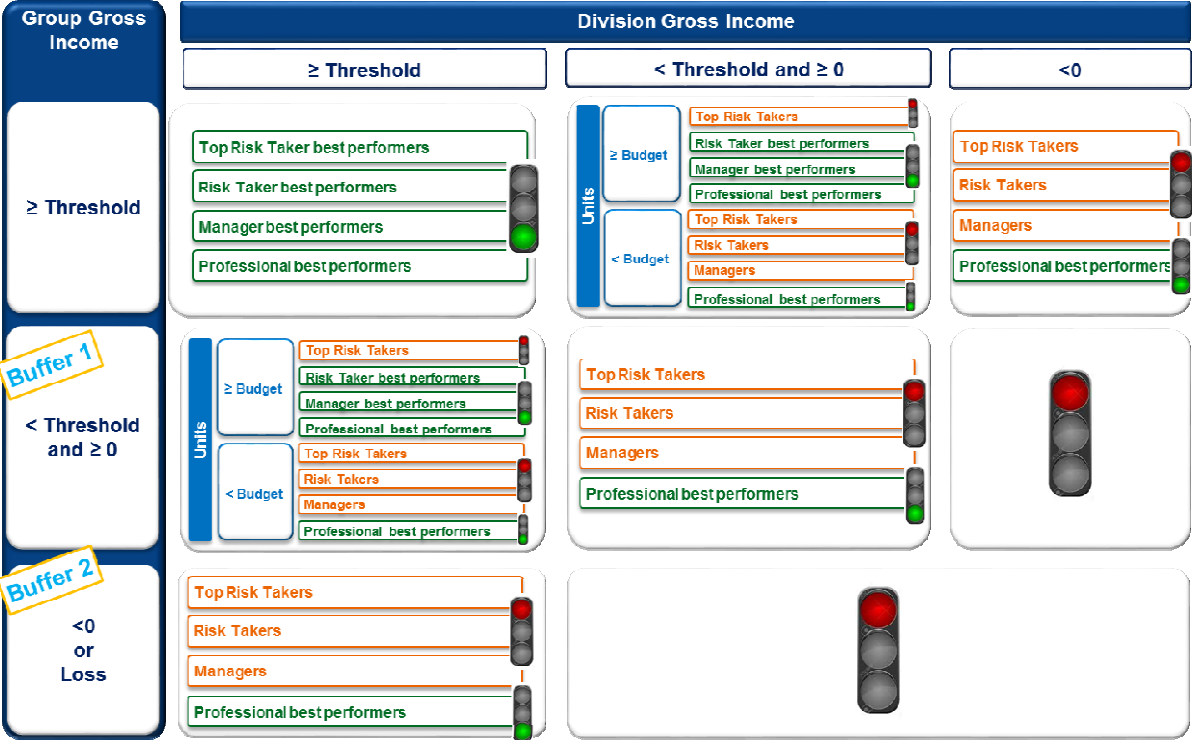


The allocation of the Group's bonus pool by department is correlated to size (relative weight of the department's target bonus on the Group's total bonus) and adjusted according to the degree of contribution during the year concerned (the department's Gross Income compared to the access threshold).

The financial sustainability principle is also adopted at the Division level. Accordingly, only the Divisions that exceed their Access threshold receive the predefined pool (once the Group's minimum threshold has been reached). The bonus pool of a Division that has not exceeded its Access threshold (the "additional" bonus pool) may be allocated to the Divisions that have exceeded their Access thresholds, except for any amounts allocated to fund the Division buffers, defined in accordance with the provisions laid down at Group level, where the regulations required for Divisions on the matter of eligible recipients apply to the individual units as identified in the organisational charts and recipients of a multi-prospect performance evaluation<sup>12</sup>.

Below is a summary representation of the clusters of employees eligible for the annual incentive systems according to Group, Division and unit results.

Figure 1



4.6.d Individual access condition

In each department, after verifying the conditions pursuant to the two paragraphs above, payment of the individual bonus is proportional to the level of achievement of the individual performance objectives and, in any case, subject to the verification of the so-called individual compliance breaches:

- disciplinary measures involving suspension from service and pay for a period equal to or greater than one day, including as a result of serious findings received from the Bank's control functions;
- in case of breaches specifically sanctioned by the Supervisory Authorities of the obligations as per Article 26 of the Consolidated Law on Banking regarding the requirements of professionalism, integrity and independence or Article 53, paragraph 4, of the Consolidated Law on Banking and following on the matter of transactions with related parties and of the obligations regarding

6.C.1. a)  
6.C.1. c)  
6.C.1. d)

<sup>12</sup> As described in paragraph 4.3

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remuneration and incentives referred to in CRD IV, if involving a penalty of an amount equal to or greater than 30,000 euro.

#### 4.6.e Risk Takers

The variable component of the remuneration for Risk Takers is regulated by specific guidelines laid down in the Supervisory Provisions on remuneration:

- at least 60% must be subject to deferred payment systems for not less than 5 years, if it represents a particularly significant amount and, in any event, for executive board members, the general manager, co-general managers, deputy general managers and other similar roles, heads of the main business lines (and those with a higher risk profile, e.g. investment banking), corporate functions or geographical areas, as well as those who report directly to bodies with strategic supervisory, management and control duties;
- said component must be reduced to 40% and the deferral period to 3 years for the remaining Risk Takers;
- a significant portion of at least 50% must be adequately balanced among shares, instruments linked to shares or, for unlisted banks, equivalent instruments and, where appropriate, innovative and non-innovative capital instruments up to 50% of Tier 1 capital and that adequately reflect the bank's credit quality on an on-going basis; this percentage is applied, in the same proportion, to the deferred variable component as well as to the non-deferred (upfront) component;
- a specific retention mechanism (of at least 2 years for the upfront component, shorter for the deferred component) must be envisaged for the financial instruments pursuant to the previous point;
- it must be subject to the appropriate ex-post (malus or clawback) adjustment mechanisms to reflect, among other things, the levels of performance net of the risks actually taken or ensuing, up to significant reduction or elimination in the event of results that are substantially lower than forecasts or negative.

Said Provisions also coincide with the provisions of the Joint Regulation<sup>13</sup> concerning Risk Takers belonging to significant asset management companies with the exception of the provision relating to shares or instruments associated therewith. Indeed, for said cluster of employees the allocation of units or shares of UCITS or AIFs managed as a liquidation instrument for a portion of the annual variable remuneration is envisaged.

In compliance with such provision, at Group level:

- the UCI basket to be allocated to the Top Risk Taker Head of the Asset Management Division was defined (see below)
- the principles of selection of the UCI baskets to be allocated to the remaining Risk Takers were identified at Group level in terms of representing:
  - the overall investment strategies of the asset management company;
  - the main asset classes covered by the asset management company.

In accordance with the said principles, each Group Risk Taker shall be allocated units of the fund representing the asset management company (where applicable) and the main funds managed.

The Intesa Sanpaolo Group has defined the following in application of the foregoing:

#### **Deferred payment of variable remuneration:**

The deferred portions are differentiated by cluster of Risk Taker and amount of the variable remuneration:

- 60% for Top Risk Takers not belonging to the Corporate Control Functions and for those who, among the Risk Takers, accrue a bonus in excess of 100% of the fixed remuneration;
- 40% for Top Risk Takers belonging to the Corporate Control Functions and for all the remaining Risk Takers.

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<sup>13</sup> Bank of Italy - Consob: second supplement to the Joint Regulation (27 April 2017).

### Payment of variable remuneration through financial instruments:

The assignment of financial instruments<sup>14</sup> of the Intesa Sanpaolo Group, where it does not conflict with the local regulation<sup>15</sup>, is envisaged for all Risk Taker categories, except for Top Risk Takers not included amongst Corporate Control Functions and the Head of the Asset Management Division that accrue a bonus above 100% of the fixed remuneration, with respect to:

- 50% of the upfront remuneration;
- 50% of the deferred remuneration.

Top Risk Takers not belonging to the Corporate Control Functions that accrue a bonus:

- above 100% of the fixed remuneration and up to 150% are assigned financial instruments with regard to:
  - 55% of the upfront remuneration;
  - 55% of the deferred remuneration;
- above 150% of the fixed remuneration are assigned financial instruments with regard to:
  - 60% of the upfront remuneration;
  - 60% of the deferred remuneration.

As laid down by the sector regulations<sup>16</sup>, for the Top Risk Taker Head of the Asset Management Division, the financial instruments are comprised of a specific UCI basket representing the Asset Classes managed by the asset management company. Said UCI basket comprises:

- 50% of the Eurizon Fund – Dynamic Asset Allocation Subfund;
- 50% of a balanced basket representing the UCIs Equity, Fixed Income & FX and Global Strategies & Total Return managed.

### Deferral period:

For Top Risk Takers not belonging to the Corporate Control Functions, the deferral period is equal to 5 years, with payment of 60% of the bonus by instalments as follows:

- in the event of a bonus up to 100% of the fixed remuneration:
  - 20% in the year following that of accrual of the upfront component;
  - 40% in the 4 years following the year of allocation of the first deferred instalment, in equal amounts of 10%;
- in the event of bonus in excess of 100% of the fixed remuneration and up to 150% thereof:
  - 17% in the year following that of accrual of the upfront component;
  - 33% in the 3 years following the year of allocation of the first deferred instalment, in equal amounts of 11%;
  - 10% in the fourth year following the year of allocation of the first deferred instalment;
- in the event of a bonus in excess of 150% of the fixed remuneration:
  - 14% in the year following that of accrual of the upfront component;
  - 36% in the 3 years following the year of allocation of the first deferred instalment, in equal amounts of 12%;
  - 10% in the fourth year following the year of allocation of the first deferred instalment.

For Risk Takers who accrue a bonus in excess of 100% of the fixed remuneration, the deferral period is equal to 5 years, with payment of 60% of the bonus by instalments as follows:

- 20% in the year following that of accrual of the upfront component;
- 40% in the 4 years following the year of allocation of the first deferred instalment, in equal amounts of 10%.

For Top Risk Takers belonging to the Corporate Control Functions and for Risk Takers who accrue a bonus not in excess of 100% of the fixed remuneration, the deferral period is equal to 3 years, with payment of 40% of the bonus by instalments as follows:

- 20% in the year following that of accrual of the upfront component;
- 20% in the 2 years following the year of allocation of the first deferred instalment, in equal amounts of 10%.

<sup>14</sup> Or a UCI basket representing the overall portfolios managed by the asset management company.

<sup>15</sup> Since 2017, in Slovenia the Regulator has requested the allocation of Certificates representing the Local Bank

<sup>16</sup> Bank of Italy - Consob: second supplement to the Joint Regulation (27 April 2017).

**Breakdown of deferred portions:**

The breakdown of the deferred portion for Top Risk Takers not belonging to the Corporate Control Functions and for those who, among the Risk Takers, accrue a bonus in excess of 100% of the fixed remuneration is as follows:

- 1st deferred portion: 100% cash;
- 2nd deferred portion: 100% financial instruments;
- 3rd deferred portion: 100% financial instruments;
- 4th deferred portion: 100% financial instruments;
- 5th deferred portion: 100% cash.

The breakdown of the deferred portion for Top Risk Takers belonging to the Corporate Control Functions and for all the remaining Risk Takers is as follows:

- 1st deferred portion: 50% cash and 50% financial instruments;
- 2nd deferred portion: 100% financial instruments;
- 3rd deferred portion: 100% cash.

An appreciation on the deferred component in cash is recognised in line with market interest rates, as laid down by the Supervisory Provisions on remuneration.

**Retention period:**

The following holding period is envisaged for the assigned financial instruments:

- 2 years for the upfront component;
- 1 year for those assigned as the deferred portion to Top Risk Takers;
- 6 months for those assigned as the deferred portion to those who, among the Risk Takers (not included among Top Risk Takers), accrue a bonus in excess of 100% of the fixed remuneration;
- 1 year for those assigned as the deferred portion to all remaining Risk Takers not included in the previous categories.

**Relevant Bonus:**

The threshold for identification of a "Relevant Bonus" is set at 80,000 euro.

Bonuses equal to or below that threshold are paid entirely in cash and upfront, inasmuch as the amounts that would result from the application of the deferral mechanisms, payment in shares and holding period would be quite insignificant in both absolute and relative terms with respect to total remuneration collected, to such an extent as to result in effective invalidation of the principle that inspires the mechanism (correlation between the amount of a bonus and assumption of risks).

In the specific case where the bonus below 80,000 euro is greater than 100% of the fixed remuneration, the payout will be 60% as upfront cash and 40% in a single tranche, once again in cash, with 2 years of vesting, subject to malus condition and clawback mechanisms (see below).

Below is a summary of the bonus accrual and payout methods.

Figure 2 – Top Risk Takers not belonging to the Corporate Control Functions:

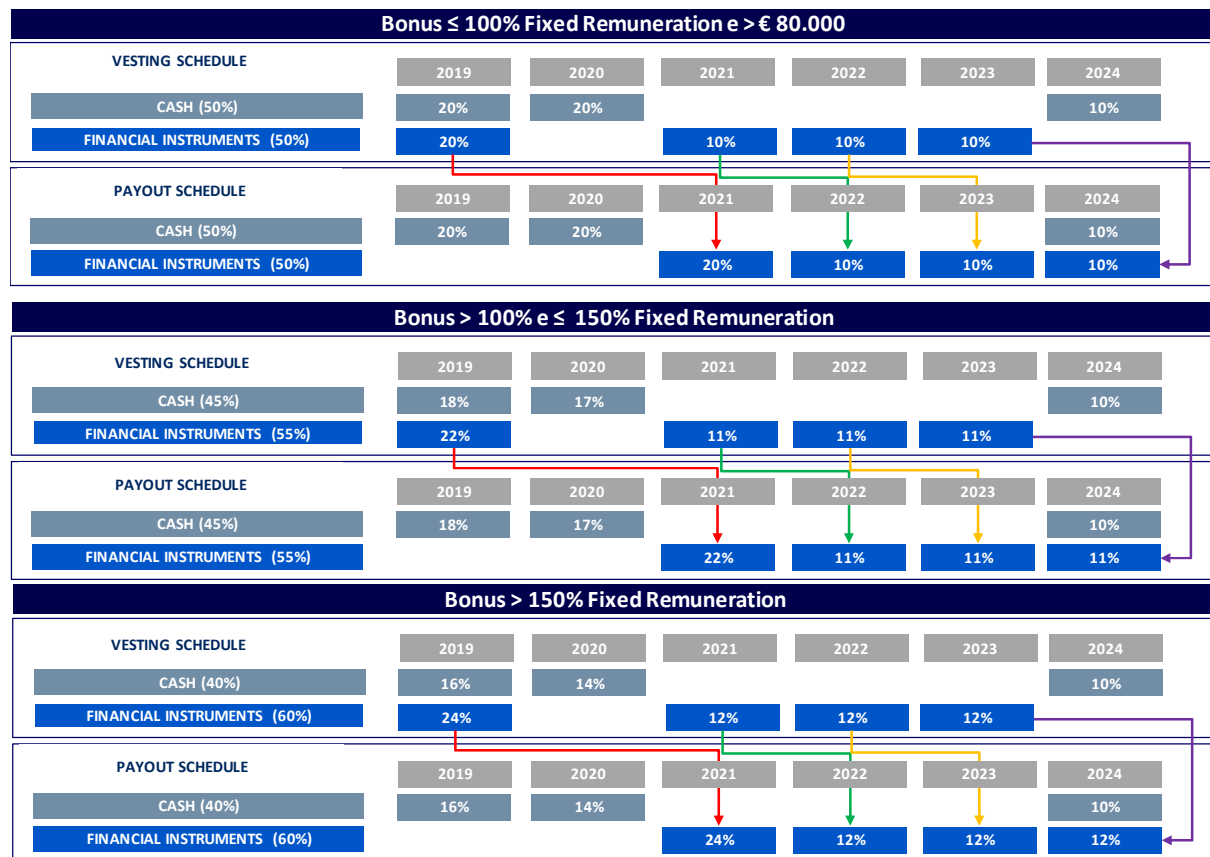


Figure 3 – other Risk Takers that accrue a bonus in excess of 100% of the fixed remuneration and of an amount higher than 80,000 euro

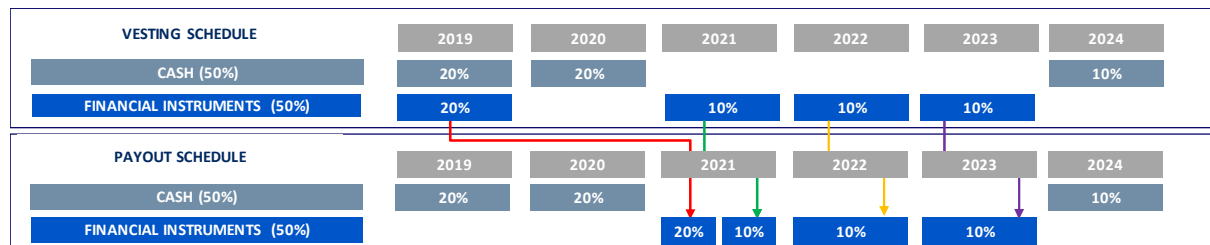
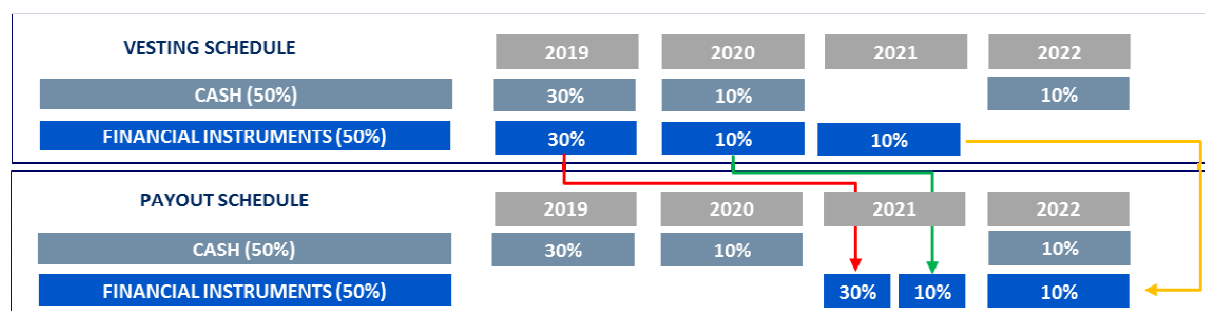


Figure 4 – Top Risk Takers belonging to the Corporate Control Functions and other Risk Takers that accrue a bonus not in excess of 100% of the fixed remuneration and of an amount higher than 80,000 euro



### Variable remuneration payment conditions:

The deferred portion is subject to the individual remaining with the Group at the end of the deferral period or at the deadlines envisaged for actual delivery of the financial instruments, save as provided in paragraph 4.9, as well as to the "malus condition" mechanism described below and to the non-existence of negative events directly attributable to the individual's behaviour, in carrying out their activities, that jeopardises the sustainability of results over time.

### Calculating the total incentive payable:

The total amount due (sum of the upfront and deferred components) to Top Risk Takers is granted on the basis of the individual performance scorecards built around the criteria illustrated above (see paragraph 4.3), assigned to each manager.

In particular:

- The Top Risk Takers not belonging to the Corporate Control Functions may receive the maximum bonus that can be allocated upon the achievement of the maximum score of the individual performance scorecard, equal to 130%;
- the maximum score of the individual performance scorecard for Top Risk Takers and the Senior Heads belonging to the Corporate Control Functions is equal to 110%.

The evaluation of the performance of the Group Top Risk Takers and of the Senior Heads belonging to the Corporate Control Functions falls within the remit of the Board of Directors which, upon the proposal of the Remuneration Committee, defines any bonus resulting from this evaluation, to be paid in the manner envisaged for this cluster in terms of deferral, assignment of financial instruments, breakdown of deferred portions, retention period, malus condition and clawback mechanisms.

For Group Risk Takers not included in the Top Risk Takers category, the amount of any bonus granted is defined annually according to the position achieved in the "internal ranking" of their business unit/department.

Such ranking is obtained by ordering the scores of the results of the individual performance scorecards, constructed according to the criteria illustrated above (see paragraph 4.3), assigned to each manager.

6.C.1. a)  
6.C.1. b)

Those who place in the top range of the ranking (equivalent to 20% of managers) receive the maximum bonus that can be granted through the Incentive System (as described in paragraph 4.5).

In the event whereby the budget is reached and/or exceeded, the remaining Group Risk Takers (equivalent to 80% of managers), divided into three ranges of bonus, receive a bonus that is a function of the share of the bonus pool assigned to their business unit/department according to the funding mechanism described above, after deducting the total bonus attributable to the best performers (i.e., managers who place in the top range).

In the event whereby the budget is not reached but the threshold is exceeded, those placed in the lower range do not receive any bonus (equivalent to at least 10% of the Group Risk Takers).

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The individual incentive calculation mechanism described above allows the application of the principles of selectivity, merit and differentiation of performance.

**Malus condition on the deferred portion of variable remuneration:**

Payment of the deferred portion of variable remuneration is subject to:

- assessment of the individual access condition (see paragraph 4.6.d);
- application of the ex post correction mechanism.

Assessment of the individual access condition (individual compliance breach), is a necessary condition but not sufficient for payment of the deferred portion.

6.C.1.c)

Each deferred portion is, indeed, subject to an ex-post adjustment mechanism - the so-called malus condition - according to which the relative amount recognised and the number of financial instruments assigned, if any, may be reduced, even to zero, in the year in which the deferred portion is paid, in relation to the level of achievement of the minimum conditions set by the Regulator (see 4.6.b), namely:

6.P.2.  
6.C.1. d)  
6.C.2

1. Common Equity Tier Ratio (CET1) at least equal to the limit envisaged in the RAF;
2. Net Stable Funding Ratio (NSFR) at least equal to the limit envisaged in the RAF;
3. No loss or positive Gross Income, net of any contribution of profits from the buyback of Bank's own liabilities, from the fair value measurement of Bank's liabilities and from income components arising from accounting policies following changes to the internal model on core deposits.

In particular, if either condition 1 or 2 does not occur individually, the deferred portion is brought down to zero; if condition 3 is not met, the deferred portion is reduced by 50%.

6.C.1. c)

For Top Risk Takers, in parallel with the provisions for activation of the Incentive System, a fourth condition – in addition to the three mentioned above – is also envisaged, relating to verification of the Liquidity Coverage Ratio (LCR) compared to the RAF limits. For this cluster, if either condition 1 or 2 does not occur individually, the deferred portion is brought down to zero; if condition 3 or the specific one relating to the LCR is not met, the deferred portion is reduced by 50%.

**4.6.f Incentive System for Risk Takers of Banks at a "non-contingent" loss**

Within the framework of the annual incentive systems, a specific and selective annual incentive system is envisaged for the Risk Takers belonging to the Group Banks at a "non-contingent" loss.

In line with the provisions for incentive systems for Group personnel (see paragraph 4.6.b), this annual incentive system is subject to activation conditions which guarantee capital adequacy and liquidity at Group level.

The system is targeted at Risk Takers specifically appointed to recover/contain the loss from the first year of appointment and up to a maximum of three consecutive years and, starting from the second year of improvement in results, to any other Risk Takers.

Furthermore, for the purposes of determining the incentive due, the performance of the Bank at a loss is measured in terms of year-on-year improvement.

With reference to any other Risk Takers, the maximum incentive to be accrued does not exceed 50% of the theoretical premium.

All rules defined for the Annual Incentive System of the Group Risk Takers are also envisaged (see paragraph 4.6.e).

**4.6.g Other Managers**

The remaining managerial cluster is subject to an incentive system that is consistent with the provisions envisaged for Group Risk Takers. In fact, bonuses are determined according to the results achieved with respect to the targets set out in the individual performance scorecards, the structure of which is entirely analogous to that applied to Group Risk Takers.

Accordingly, the individual incentive calculation mechanism also implements the principles of selectivity, merit and differentiation of performance of this cluster as well.

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Any "Relevant Bonuses" recognised to this cluster insofar as they are above the threshold of 80,000 euro (see paragraph 4.6.e), if of an amount above 100% of the fixed remuneration, will be paid in the manner envisaged for non-Top Risk Takers, namely:

**Deferred payment of variable remuneration:**

6.C.1. e) The deferred portion is equal to 40%.

**Payment of variable remuneration through financial instruments:**

6.C.2. Assignment of financial instruments of the Intesa Sanpaolo Group regarding:

- 50% of the upfront remuneration;
- 50% of the deferred remuneration.

**Deferral period:**

6.C.1. e) The deferral period is equal to 3 years, with payment of 40% of the bonus by instalments as follows:

- 20% in the year following that of accrual of the upfront component;
- 20% in the 2 years following the year of allocation of the first deferred instalment, in equal amounts of 10%.

**Breakdown of deferred portions:**

6.C.2. The breakdown is as follows:

- 1st deferred portion: 50% cash and 50% financial instruments;
- 2nd deferred portion: 100% financial instruments;
- 3rd deferred portion: 100% cash.

An appreciation on the deferred component in cash is recognised in line with market interest rates, as laid down by the Supervisory Provisions on remuneration.

**Retention period:**

6.C.2. The following holding period is envisaged for the assigned financial instruments:

- 2 years for the upfront component;
- 1 year for the deferred portion.

In specific cases where the bonus accrued:

- represents a "relevant bonus" and is below 100% of the fixed remuneration;
  - does not qualify as a "relevant bonus" but is above 100% of the fixed remuneration;
- 60% thereof will be paid as upfront in cash and 40% in a single tranche, once again in cash, with 2 years of vesting, subject to malus condition and clawback mechanisms (see below).

**4.6.h Specific professional business categories**

The Group personnel classification identifies the professional business categories that are recipients of specific incentive systems drawn up in accordance with the abovementioned principles, guidelines and rules envisaged for management.

In an effort to build fair and motivating bonuses, studies were conducted on internal practices and their alignment with specific market benchmarks.

The incentive systems adopted call for bonus-award mechanisms that are differentiated by business area with the aim of implementing measures consistent with the specific corporate professional qualities, recognising individual merit and rewarding teamwork. In any event, payment of the individual bonus is subject to assessment of the individual compliance breach (see paragraph 4.6.d).

The amount of bonuses paid is correlated to the performance of both the Division/Business Unit and the Group as a whole (financial sustainability and solidarity mechanisms).

The rationale underlying the incentive systems introduced and applied by the company can be summarised as follows:

- private banking: the assignment of individual bonuses is related to the measurement of quantitative and qualitative performance, both at individual and team level. The parameters used for determining incentives refer to the typical revenues of the business under examination (e.g. improvement in net interest income), to the increase in assets, including in terms of customer loyalty and quality/risk monitoring indicators (taking account of the compliance guidelines), duly combined with customer satisfaction and service quality indicators;



- investment banking e asset management: for Banca IMI's Global Markets and Corporate & Strategic Finance Business Unit and the professional treasury categories of Asset Management managers (Eurizon Capital, some subsidiaries of Banca Fideuram) bonuses are awarded primarily to reward individual merit, also considering qualitative and behavioural elements, within the limits of team spirit, rewarding outstanding performance with incentives comparable to the target levels of reference markets;
- Credit and Team Plan Structures of the NPL Plan: in line with the Three-year structural reduction Plan of the NPL stock required from the Group by the Authority (and in addition to what was agreed each year with the trade unions in terms of PVR - see paragraph below), the allocation of individual bonuses was envisaged, differentiated by type of contribution to the Plan, according to the reference Division/Business Unit KPIs;
- Insurance: consistently with the challenging targets set by the Division, for the Accidents and Litigation and Operations Structures of Intesa Sanpaolo Assicura, Operations and Organisation Area of Intesa Sanpaolo Vita, Technical Management and Actuarial Analysis and Organisation, IT and Support Services of Fideuram Vita, the allocation of individual bonuses was envisaged on the basis of Team KPIs;
- Protection Specialists and personnel of the commercial network of Banca dei Territori Division: consistently and in support of the development of the non-life business of the 2018-2021 Business Plan (and in addition to what was agreed each year with the trade unions in terms of PVR) the allocation of individual bonuses was envisaged, differentiated by role and according to the achievement of (qualitative and quantitative) KPIs of reference Area / Branch;
- international subsidiary banks: without prejudice to the use of adequate qualitative-quantitative indicators and compliance with the general Group policy, incentives are awarded on the basis of the procedures and local regulations in force from time to time in each country.

Said systems, in line with the Group incentive policies, are subject to specific formalisation and approval.

Any "Relevant Bonuses" recognised to this cluster insofar as they are above the threshold of 80,000 euro (see paragraph 4.6.e), if of an amount above 100% of the fixed remuneration, will be paid in the manner envisaged for Group non-Top Risk Takers, namely:

**Deferred payment of variable remuneration:**

The deferred portion is equal to 40%.

6.C.1. e)

**Payment of variable remuneration through financial instruments:**

Assignment of financial instruments of the Intesa Sanpaolo Group regarding:

6.C.2.

- 50% of the upfront remuneration;
- 50% of the deferred remuneration.

**Deferral period:**

The deferral period is equal to 3 years, with payment of 40% of the bonus by instalments as follows:

6.C.1. e)

- 20% in the year following that of accrual of the upfront component;
- 20% in the 2 years following the year of allocation of the first deferred instalment, in equal amounts of 10%.

**Breakdown of deferred portions:**

The breakdown is as follows:

6.C.2.

- 1st deferred portion: 50% cash and 50% financial instruments;
- 2nd deferred portion: 100% financial instruments;
- 3rd deferred portion: 100% cash.

An appreciation on the deferred component in cash is recognised in line with market interest rates, as laid down by the Supervisory Provisions on remuneration.

**Retention period:**

The following holding period is envisaged for the assigned financial instruments:

6.C.2.

- 2 years for the upfront component;
- 1 year for the deferred portion.

In specific cases where the bonus accrued:

- represents a "relevant bonus" and is below 100% of the fixed remuneration;

- 
- does not qualify as a “relevant bonus” but is above 100% of the fixed remuneration; 60% of this bonus will be paid as upfront in cash and 40% in a single tranche, once again in cash, with 2 years of vesting, subject to malus condition and clawback mechanisms (see below).

#### **4.7. Broad-based Short-Term Plan – PVR (“Premio Variabile di Risultato”)**

Within the framework of the Intesa Sanpaolo Group II level National Collective Bargaining Agreement, a Broad-based Short-Term Plan (hereinafter, PVR), targeted at professionals of the business retail segment and belonging to all governance and control areas, was introduced.

The PVR<sup>17</sup> is a productivity bonus envisaged by the national collective bargaining agreement - CCNL - for Credit Sector.

Intesa Sanpaolo's decision to adopt the PVR was mainly determined by the possibility of linking the target amount of this bonus to seniority levels and/or organisational role performed to replace the traditional reference to the contractual framework.

##### **4.7.1 Purposes**

The purposes of the PVR are as follows:

- share the results achieved by the Group with all beneficiaries;
- link more directly the productivity and profitability at Group and Division level to the variable remuneration of each resource, also according to role played and seniority attained;
- contribute to support internal equity, with mechanisms for payment of higher bonuses for lower remuneration;
- reward individual merit and performance in a distinctive manner.

##### **4.7.2 Structure**

Given the purposes referred to above and in the manner described below, the PVR is a bonus that consists of one or more cumulative portions:

- Base Bonus;
- Additional Bonus;
- Excellence Bonus.

The PVR, in the Base Bonus component, is intended for all personnel belonging to Professional Areas and Middle Managers, employed with an open-ended contract (including skilled labour apprenticeship contracts) at companies that apply the national collective bargaining agreement - CCNL - for Credit Sector of the Intesa Sanpaolo Group, with the exclusion of those who hold a managerial role.

The PVR, in the Additional Bonus and Excellence Bonus components, is intended for all personnel belonging to Professional Areas and Middle Managers, employed with an open-ended contract, with the exception of those managers or employees included in specific professional categories (private banking, asset management, treasury, investment banking, CLB) for which there are specific incentive systems comprising - where applicable - even the Base Bonus component.

##### **4.7.2.a Base Bonus**

The Base Bonus is aimed, firstly, at rewarding all Group employees for their collective contribution to achieving the Results envisaged in the Business Plan as well as at supporting, also for internal equity purposes, the lower remuneration. Given its "participatory" nature, the Base Bonus is independent of the contractual agreement and the professional role held/seniority accrued.

##### **4.7.2.b Additional Bonus**

The Additional Bonus is designed to recognise the contribution provided "by role" to the results of the relevant department and to contribute to greater internal equity in terms of total remuneration. In particular, the Additional Bonus is differentiated by professional role or seniority and professional category cluster in order to enhance the specific contribution to department results, taking into account the external reference remuneration market.

The table value of the Additional Bonus is reduced, proportionally, for specific parameters related to the annual gross remuneration and/or performance.

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<sup>17</sup> As defined by Article 52 of the national collective bargaining agreement applied to middle managers and for personnel belonging to professional areas employed by credit, financial and instrumental companies.

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#### *4.7.2.c Excellence Bonus*

The Excellence Bonus is intended to reward individual merit and distinctive contribution made to the team's results, with different modalities for general employees and the professional roles of the Banca dei Territori Network.

For general employees, the individual allocation of the Excellence Bonus is at the Direct Head's discretion, with priority given to the highest levels of professional evaluation, within the limits of the bonus pool allocated and in line with the guidelines defined by the Chief Operating Officer, according to the available financial resources, the relevant remuneration markets, also having regard to the principle of internal equity.

For the professional roles of the Areas and Branches of the Banca dei Territori network, the Excellence Bonus is intended to reward the work of the best teams and enhance distinctive behaviour, with a focus on achieving sustainable performance over the medium to long term in terms of profitability, extensibility, credit quality, sustainable growth, quality of service, customer satisfaction, joint responsibility and multichannel drive.

Service quality is measured through:

1. The Operational Excellence KPI, which aims to measure synthetically compliance with the relevant rules on the exercise of banking and intermediation activities, management of conflicts of interest, transparency towards customers and regulations for consumer protection;
2. The Service Excellence and Net Promoter Score KPI, which aims to measure synthetically the quality of the service provided in terms of efficiency;
3. The Credit Excellence KPI, which measures the level of optimisation of the time taken to meet customer credit requirements and their proper management.

The Excellence Bonus is subject to the achievement of a minimum performance summary score, subject to verification of the expected levels of Operational Excellence and Credit Excellence KPIs. The amount of the Excellence Bonus depends on the level of performance reached and is distributed by result range.

#### *4.7.3 Minimum activation conditions*

The PVR, as provided for the Incentive Systems for Group personnel, is subject to three conditions:

- Minimum activation conditions at Group level;
- funding condition;
- individual access condition.

##### *4.7.3.a Minimum activation conditions at Group level*

The minimum activation conditions of the PVR, in line with the Regulator's requirements, are based on the principles of financial sustainability of the remuneration variable component and therefore represent an assessment of the "quality" of income results achieved and the consistency with the limits envisaged by the Supervisory Review and Evaluation Process (SREP).

These conditions are as follows:

- Positive Group Gross Income, net of any contribution of profits from the buyback of Bank's own liabilities, from the fair value measurement of Bank's liabilities and from income components arising from accounting policies following changes to the internal model on core deposits;
- Group Common Equity Tier Ratio (CET1) at least equal to the limit envisaged by the SREP;
- Group Net Stable Funding Ratio (NSFR) equal to or above 100%.

Non-achievement of even only one of the above conditions results in non-activation of one or more components of the PVR.

##### *4.7.3.b Funding conditions*

The PVR bonus pool has a three-fold structure, insofar as it is intended to specifically fund the three bonus components that make up the bonus. The PVR, as the Group Incentive Systems, is financed by a structured bonus pool mechanism, aimed at ensuring its economic and financial sustainability, determined each year ex ante.

Said mechanism requires the implementation of the funding conditions in proportion to the achievement of the Group Gross Income both at Group and structure level, as negotiated each year with the trade unions.

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#### *4.7.3.c Individual access condition*

Within the scope of each structure, once the Group minimum activation conditions, Group funding condition and structure funding condition have been met, the payment of one or more PVR portions (base bonus, additional bonus and excellence bonus) is, in any event, subject to verification of the so-called individual compliance breach: the absence of disciplinary measures involving suspension from service and pay for a period equal to or greater than one day, including as a result of serious findings received from the Bank's control functions.

Furthermore, once the aforesaid conditions have been met, in line with the Regulator's requirements, the excellence bonus will not be payable in the event of:

- evaluation below "in line with the role's expectations", for general employees;
- failure to reach the minimum summary result of the performances or of the Operational Excellence and Credit Excellence KPIs, for the professional roles of the Areas and Branches of the Banca dei Territori network.

#### *4.7.4 Advance payment of the 2018 Broad-based Short-Term Plan (PVR)*

For 2018, as an exception, an advance payment of the basic component of the PVR is envisaged (2018 PVR Advance).

Each individual employee is entitled to receive this advance in cash or in ordinary shares of Intesa Sanpaolo, with the obligation, in the event of the share option, to contribute them to the LECOIP 2.0 long-term incentive plan (see paragraph 4.8.2).

The 2018 PVR Advance is subject to the following conditions:

- minimum activation conditions at Group level;
- individual access condition;
- verification condition.

#### *4.7.4.a Minimum activation conditions at Group level*

The minimum activation conditions of the 2018 PVR Advance, having been checked at the time of allocation on the basis of the data relating to the previous quarter, are set out as follows:

- Common Equity Tier Ratio (CET1) at least equal to the limit envisaged by the SREP;
- Net Stable Funding Ratio (NSFR) equal to or above 100%;
- Positive Group Gross Income, net of any contribution of profits from the buyback of Bank's own liabilities, from the fair value measurement of Bank's liabilities and from income components arising from accounting policies following changes to the internal model on core deposits.

Non-achievement of even only one of the above conditions results in non-activation of the advance of the basic PVR component.

#### *4.7.4.b Individual access condition*

The allocation of the 2018 PVR Advance is in any event subject to the verification of the individual compliance breach: absence of any disciplinary measures involving suspension from service and pay for a period equal to or greater than one day, including as a result of serious findings received from the Bank's control functions.

#### *4.7.4.c Verification conditions*

The bonus allocated by way of advance of the PVR is subject to verification conditions relating to the year 2018 differentiated according to the choice (cash or shares) made by the employee.

In the event whereby the 2018 PVR Advance was allocated in cash, the conditions are set out as follows:

- Common Equity Tier Ratio (CET1) at least equal to the limit envisaged by the SREP;
- Net Stable Funding Ratio (NSFR) equal to or above 100%;
- Positive Group Gross Income, net of any contribution of profits from the buyback of Bank's own liabilities, from the fair value measurement of Bank's liabilities and from income components arising from accounting policies following changes to the internal model on core deposits;
- Productivity KPI<sup>18</sup>.

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<sup>18</sup> Indicator measuring increases in productivity, profitability, quality, efficiency and innovation in line with Article 1, paragraphs 182-190, of Law 208/2015 and Interministerial Decree of 25 March 2016.

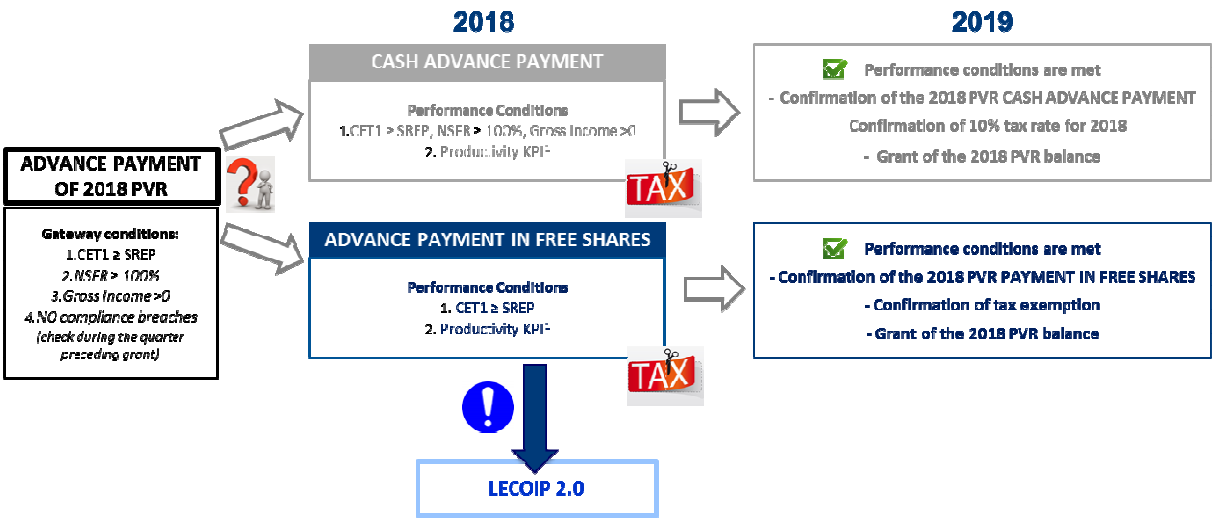
On the other hand, in the event whereby the 2018 PVR advance was allocated in shares, the verification conditions are simplified compared to the allocation in cash, given the absence of any impact on the Group's liquidity; such conditions are set out as follows:

- Common Equity Tier Ratio (CET1) at least equal to the limit envisaged by the SREP;
- Productivity KPI.

The failure to satisfy the aforementioned conditions as at 31 December 2018 (with the exception of the productivity KPI) entails the forfeiture of the 2018 PVR Advance, whose amount will then be subsequently deducted from the 2019 PVR or, in the absence of any 2019 PVR allocation, from the pro rata salary.

Finally, in the event of failure to meet the productivity KPI at 31 December 2018, the employee must subsequently return the difference between what was applied consistently with the tax incentives provided for by Article 1, paragraphs 182-190, of Law 208/2015 and the Interministerial Decree of 25 March 2016 and ordinary taxation, in other words the bonus allocated in cash or the normal value of the shares allocated must be subject to IRPEF and additional tax according to the ordinary rules.

Figure 5



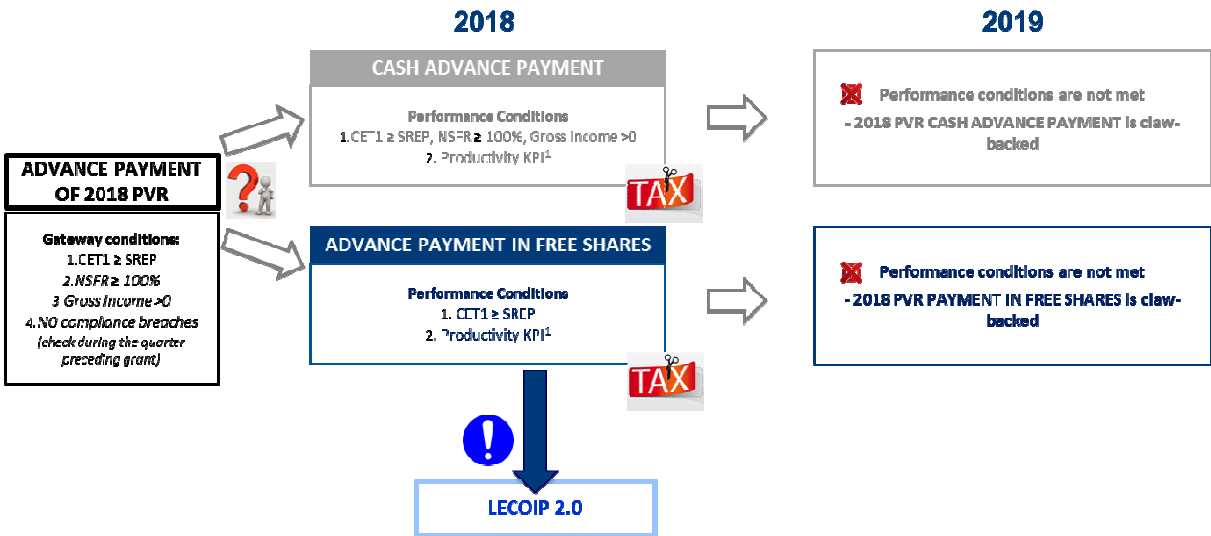
**TAX**

As required by law 208/2015 (Stability Law), having verified performance condition 2 the following applies:

- 10% tax rate for performance award in cash
- Tax exemption for performance award in shares

(1) KPIs that measure increases of productivity, profitability, quality, efficiency and innovation

Figure 6



[1] KPIs that measure increases of productivity, profitability, quality, efficiency and innovation

4.8 Long-Term Incentive Plans

The Intesa Sanpaolo Group continuously searches for new ways to motivate and retain its employees, whose involvement and development, at every level of the organization, are key factors to achieve results.

Pursuant to principles of inclusiveness and cohesion of the employee body, the Group believes that employee shareholding favours identification (sense of ownership), alignment with medium/long term objectives and constitutes a beneficial form of sharing the value created over time.

All of this is even more important as the 2018-2021 Business Plan is being launched, as its implementation depends on the involvement and contribution of all employees of Intesa Sanpaolo Group.

The Intesa Sanpaolo Group has met all the objectives of the 2014-2017 Business Plan, which were focused on inclusion and retention, through the LECOIP Investment Plan. The LECOIP was offered to the whole employee population.

It has different features for each employee cluster, but it essentially works according to similar mechanisms for all participants.

Now the framework has changed both regulatory-wise and from a business point of view:

- As far as regulations are concerned, the 2015 EBA Guidelines and the 285/2013 Bank of Italy Circular clearly distinguish between retention plans and performance-based plans, and they require deferrals at the end of the performance accrual period for incentives awarded to employees identified as Risk Takers;
- As for business, the new Business Plan will be more challenging and ambitious than the previous one, it will therefore require a closer alignment of Top Management, Risk Taker and Key Managers to its objectives.

For the above-mentioned reasons, differently from the approach that supported the 2014-2017 Business Plan, in the current context it has been considered appropriate to clearly differentiate between objectives, and consequently long-term incentive instruments, to be assigned to:

- Top Management, Risk Takers and Key Managers;
- Managers (not Risk Takers) and the remaining personnel.

Top Managers, Risk Takers and Key Managers have a direct impact on the Group's results, so it has been deemed necessary to target them with an instrument explicitly linked to the achievement of the Business Plan's objectives. This instrument has a risk/return profile that reflects the recipient's role, as well as the Business Plan's challenges and ambition level. A performance-based Long-Term Incentive Plan, which uses an option vehicle called "POP" (Performance-based Option Plan) has been devised for this population.

However, considering the Group's inclusive organizational culture and the success achieved by the innovative LECOIP Plan launched in 2014, which saw an exceptional voluntary participation of 79% of the eligible population besides a strong engagement of Trade Unions, the Group believes that a retention plan in continuity with the LECOIP is suitable to support the motivation of Managers (excluding Top Managers, Risk Takers and Key Managers) and Professionals, with the aim of continuing to strengthen their identification and spirit of belonging. Therefore, Managers (excluding Top Managers, Risk Takers and Key Managers) and Professionals will be targeted by a retention plan called "LECOIP 2.0" which makes the most of current market conditions - which are more favourable than in 2014 - and enhances the experience gained.

#### 4.8.1 The POP Plan

The POP Plan is aimed at:

- enhancing the alignment with the long-term objectives of the 2018-2021 Business Plan;
- guaranteeing a close link between the Bank's performance over time and the long-term variable remuneration of Top Management, Risk Takers and Key Managers;
- rewarding Top Management, Risk Takers and Key Managers only in case of value creation for shareholders.

Key Features of the POP Plan (1/2)	
Topic	Features
<b>Beneficiaries</b>	Top Management, Risk Takers and Key Managers in Italy (approximately 350 people overall).
<b>Financial Instrument</b>	Performance Call Option (POP Options).
<b>POP Plan Operating Model</b>	Intesa Sanpaolo (ISP) grants a certain number of call options with underlying ISP ordinary shares. On the due date, physical delivery of the underlying will take place if the option is in the money, gateway conditions are met and performance objectives are reached.
<b>Methodology for the calculation of value at grant</b>	Fair value at grant in accordance with the Group's Risk Management Policies.
<b>Initial Grant</b>	Differentiated according to the organizational level Up to 200% of Fixed Remuneration for the entire period (50% of the Fixed Remuneration on an annual basis) for staff not belonging to the Corporate Control Functions.
<b>Gateway conditions 2018 – 2021</b>	1. Group-level gates: <ul style="list-style-type: none"> <li>• CET1 <math>\geq</math> SREP</li> <li>• NSFR <math>\geq</math> 100%</li> <li>• No Loss or Positive Gross Income</li> <li>• Only for Top Management LCR <math>\geq</math> 100%</li> </ul> 2. Individual Compliance breaches.
<b>Link with Performance Conditions</b>	<ul style="list-style-type: none"> <li>• 2021 NPL (Non-Performing Loans) Ratio: 6%</li> <li>• 2021 OI/RWA (Operating Income / Risk Weighted Assets): 6.77%</li> </ul> Staff belonging to the Corporate Control Functions has specific performance conditions.
<b>Performance Accrual Period</b>	In line with the 2018-2021 Business Plan time horizon.
<b>Strike Price</b>	Average market price of the month preceding grant.
<b>Exercise Price</b>	Average price of the last 2018-2021 Business Plan year. If this average is higher than the strike price, the POP Option is "in the money".

Key Features of the POP Plan (2/2)	
Topic	Features
<b>Exercise Day</b>	"Automatic" exercise on a pre-set date: if the option is in the money on the date set as Exercise Day, each right is automatically valued, without any decision or intervention on the employee's side, therefore excluding any possibility of arbitrage.
<b>Payout Schedule</b>	Settlement is in ISP shares. Shares are delivered starting from 2022 in 5 years for the Top Management not belonging to the Corporate Control Functions and in 3 years for Top Management belonging to the Corporate Control Functions, other Risk Takers and Key Managers.
<b>Malus conditions</b>	Malus conditions may reduce accrued deferred shares not yet vested up to complete forfeiture of the deferrals. They are symmetrical to the Gateway Conditions.
<b>Individual Compliance Breach and Clawback</b>	In line with the provisions of the Group's Remuneration Policies.
<b>The POP in Case of Extraordinary Events</b>	<ul style="list-style-type: none"> <li>• Eligibility to participate to the POP Plan is lost in case of resignation, termination for cause, consensual termination of the employment relationship and similar situations</li> <li>• In case the beneficiary reaches the retirement age, signs up to the pre-retirement solidarity fund "Fondo di Solidarietà" or in case of death a prorated payment will take place at the natural end of the Plan</li> <li>• In case of change of control, depending on the change of control being considered hostile or not by the Board of Directors: <ul style="list-style-type: none"> <li>• Accelerated pro-rata cash settlement in case of a successful hostile takeover</li> <li>• Settlement at the original end of the Plan in shares of the new entity in case of a change of control considered non-hostile</li> </ul> </li> </ul>
<b>Settlement</b>	The Plan is settled physically on the Exercise Day (physical delivery) with delivery of shares for a value equal to the net balance of the value of the POP Options. In order to fulfil settlement obligation, the Group will be able to transfer to a Counterparty (a leading Financial Institution) the obligation to deliver the shares underlying the POP options to beneficiaries by stipulating a novation agreement under the Italian Civil Law (the "Accollo liberatorio").
<b>Dilution</b>	No impact
<b>Cost</b>	Approximately €130 million

#### 4.8.2 The LECOIP 2.0 Plan

The LECOIP 2.0 Plan, in continuity with the same principles of inclusivity and cohesion that inspired the Bank for 2014-2017 LECOIP, approved by the Ordinary Meeting in 2014, is aimed at:

- enhancing the alignment of all employees with the long-term objectives of the 2018-2021 Business Plan.
- enabling the sharing of the value created over time, at every level of the organization, because of the achievement of the above-mentioned objectives.
- fostering the identification (ownership) and the spirit of belonging to Intesa Sanpaolo Group.

Key Features of the LECOIP 2.0 Plan (1/2)			
Topic	Features		
<b>Beneficiaries</b>	Approximately 69,000 employees in Italy belonging to either of the following categories: <ol style="list-style-type: none"> <li>1. Managers (excluding Top Managers, Risk Takers and Key Managers)</li> <li>2. Professionals</li> </ol>		
<b>Financial Instrument</b>	<table border="0"> <tr> <td>Manager LECOIP 2.0 Certificates issued by a main Financial Arranger</td> <td>Professional LECOIP 2.0 Certificates issued by a main Financial Arranger</td> </tr> </table>	Manager LECOIP 2.0 Certificates issued by a main Financial Arranger	Professional LECOIP 2.0 Certificates issued by a main Financial Arranger
Manager LECOIP 2.0 Certificates issued by a main Financial Arranger	Professional LECOIP 2.0 Certificates issued by a main Financial Arranger		



Key Features of the LECOIP 2.0 Plan (1/2)	
Topic	Features
<b>Participation Model</b>	<p><b>Manager</b> Each beneficiary receives the right to participate to the LECOIP 2.0 Plan. Participation means receiving LECOIP 2.0 Manager Certificates. They have the following features:</p> <ul style="list-style-type: none"> <li>i. They ensure a base level return protected from share price volatility (Protected Capital) equal to 75% of the Initially Assigned Capital</li> <li>ii. Appreciation is calculated on a larger shares base (<b>8 times larger</b>) than the Initially Assigned Capital</li> </ul> <p><b>Professional</b> Each beneficiary is granted the right to receive an advance payment of the 2018 PVR and is given the option to receive the payment in cash or, alternatively, in shares (Free Shares). Those who elect Free Shares are obliged to allocate them towards LECOIP 2.0 Professional Certificates. In this case:</p> <ul style="list-style-type: none"> <li>i. They receive a higher Protected Capital (from share price volatility) than the capital initially allocated (the Free Shares)</li> <li>ii. Appreciation is calculated on a shares base <b>eight times larger</b> than the Protected Capital</li> </ul>
<b>Value of the Initially Assigned Capital</b>	<ul style="list-style-type: none"> <li>• Differentiated by seniority and professional family (i.e. Investment Banking, Asset Management, Governance Functions ...)</li> <li>• Equal to the value of the sum of Free and Matching Shares, which participants receive exclusively instrumental to the purpose of signing the Certificates</li> <li>• For Managers and highly remunerated professional families (i.e. Investment Banking, Asset Management, Treasury ...): up to 100% of fixed remuneration for the entire period (25% of fixed remuneration on annual basis)</li> <li>• For remaining Staff: to be negotiated with Trade Unions</li> </ul>
<b>Trigger Events 2018 - 2021</b>	<ul style="list-style-type: none"> <li>• CET1 <math>\geq</math> SREP</li> <li>• NSFR <math>\geq</math> 100%</li> </ul> <p>Protected Capital (except for Free Shares) is subject to:</p> <ul style="list-style-type: none"> <li>• CET1 <math>\geq</math> SREP</li> </ul>
<b>Appreciation model</b>	Asian floored: appreciation is calculated on the basis of monthly observations, where each observation is the difference between share price at the time of the observation and share price at grant (any negative differences are calculated as nil and therefore do not result in a decrease in the total net value accrued up to that moment).
<b>Vesting Period</b>	In line with 2018-2021 Business Plan time horizon.
<b>Payout Scheme</b>	Upfront cash pay-out in 2022 (employees may also elect pay-out in ISP shares). If value at grant is higher than € 80,000, 40% of the amount to be paid is deferred in cash.
<b>Individual Compliance Breach and Clawback</b>	In line with the provisions of the Group's Remuneration policies.
<b>LECOIP 2.0 in case of extraordinary events</b>	<ul style="list-style-type: none"> <li>• Forfeiture of any rights connected with the LECOIP 2.0 in case of resignation, termination for cause, dismissal, consensual termination and similar situations</li> <li>• Prorated payment at the natural end of the Plan in case the beneficiary reaches retirement age, signs up to the pre-retirement solidarity fund "Fondo di Solidarietà" or in case of death</li> <li>• Prorated payment before the natural end of the Plan in case of change of control</li> </ul>
<b>Source of Shares serving the Plan (assuming 100% take up)</b>	<ul style="list-style-type: none"> <li>• Share capital increase (inclusive of share premium), as allowed by section 2349, paragraph 1 of the Italian Civil Code, for a maximum amount of € 400 million, with the free issue of Intesa Sanpaolo ordinary shares</li> <li>• Share capital increase (inclusive of share premium and net of a discount) as allowed by Article 2441, paragraph 8 of the Italian Civil Code, for a maximum amount of € 1,200 million, with the issue of discounted Intesa Sanpaolo ordinary shares excluding option rights for Group employees.</li> </ul>
<b>CET1</b>	+€ 1,200 million, equal to +45 b.p. (assuming a 100% take up)
<b>Dilution (assuming 100% take up)</b>	3.5% (assuming price per ISP share of € 3), up to a maximum of 4.4% (assuming stress scenario price per ISP share of € 2.4).
<b>Cost</b>	€ 570 million

#### 4.9. Termination of the employment agreement

The termination of the employment agreement involving personnel with state pension or seniority pension rights and/or A.G.O. pension treatment does not result in loss of the right to payment of the entitled amounts, even deferred.

6.C.1. f)

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In all other cases, the Bank has the right to award any amounts, depending on the specific situations, upon termination of the employment agreement, also through consensual retrenchment agreements providing termination payments.

In any case, in compliance with the principles contained in the Group's Code of Ethics, the Intesa Sanpaolo Group does not enter into individual agreements with its managers and employees in advance (i.e. prior to termination of the employment agreement) that govern compensation to be granted in the event of early termination of the employment agreement.

In recent years, the Bank has signed specific agreements with the trade unions with regard to the "solidarity fund", applied to employees of all levels, including executives, which also govern the treatment of sums payable to personnel upon termination of the employment agreement in the event of extraordinary transactions and/or company reorganisations.

#### *4.9.1 Criteria and maximum limits for the determination of severance payments in the event of termination of the employment agreement*

According to the Supervisory Provisions on remuneration, the severance payment agreed in view of or upon early termination of the employment agreement or early termination of office for the amount exceeding the provisions of the National Collective Bargaining Agreement concerning payments related to the indemnity for failed notice constitutes the so-called golden parachutes, including any compensation paid according to the non-competition agreement.

In the Intesa Sanpaolo Group, the principles for the definition of these payments - inspired to both the correlation between severance pay and ongoing performance criteria and the control of potential litigations – are:

- regulatory capital adequacy requirements maintenance;
- no reward for failure;
- unobjectability of individual behaviour (consistency with compliance breaches' criteria);
- alignment with international and domestic best practices.

Pursuant to these criteria and the Supervisory Provisions on remuneration, when negotiating this kind of remunerations, the Group defined that those payments:

- are equal, as a maximum amount, to 24 months of fixed remuneration; the adoption of this limit can lead to a maximum disbursement of 5.2 million euro<sup>19</sup>;
- are paid according to the methods set for short-term variable remuneration, for each cluster, except for the payment related to the indemnity for failed notice.

As provided for by the EBA Guidelines of December 2015, the payments set for early termination of the employment relationship or for early termination of the office are subject to the aforesaid Regulations only in cases where this would not be contrary to the provisions of law relating to the early termination of the employment relationship in a single country, or to the provisions laid down by the authority or as otherwise specifically represented and agreed upon with the Bank of Italy.

Said Provisions are also consistent with the provisions laid down by the Joint Regulation<sup>20</sup> save as the provision entailing the allocation of units or shares of UCITS or AIFs in lieu of the shares, as a remuneration payment method in cases of termination of the employment agreement as regards Risk Takers belonging to significant asset management companies.

It should be noted that the definition of said maximum limit adopted by the Group falls well below the provisions of the sector's National Collective Bargaining Agreement (which allows to issue up to a maximum of 39 monthly payments, including the indemnity for failed notice) and national practices (36 monthly payments, of which up to 24 in excess of the indemnity for failed notice), discounting, de facto and ex ante, the assumption that the early termination of the employment relationship should not

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<sup>19</sup> Pursuant to the Provisions, such limits do not include the indemnity for failed notice in accordance with the National Collective Bargaining Agreement (CCNL); the fixed remuneration includes the gross annual remuneration and any role allowance and/or remuneration received for the office and not paid.

<sup>20</sup> Bank of Italy - Consob: second supplement to the Joint Regulation (27 April 2017).

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represent a rewarding element, which translates into the containment of the sums payable on that account, in line with the application of the "no reward for failure" principle.

The specific determination of the remuneration for the Group Top Risk Takers is subject to assessment and approval, for the amount exceeding the indemnity for failed notice, by the Board of Directors, which establishes, within the maximum limit approved by the Shareholders' Meeting, the amount deemed adequate taking into account the overall assessment of the work of the person in different roles held over time and paying particular attention to the capital, liquidity and profitability levels of the Group<sup>21</sup> and to any individual sanctions imposed by the Supervisory Authority<sup>22</sup>. In terms of process, the Board of Directors bases its assessments on the proposal made by the Remuneration Committee, based on an inquiry conducted by the Chief Operating Officer, with the opinion of the Chief Compliance Officer on the compliance of the proposal to the regulatory provisions in force from time to time and on its consistency with the remuneration and incentive policies.

Similarly to what is provided for the Top Risk Takers, with regard to the remaining cluster, including the Group Risk Takers, the Chief Operating Officer provides for a symmetrical process by determining the adequate amount payable as severance pay, for the portion in excess of the payment related to the duration of the notice period, within the scope of the maximum limit approved by the Shareholders' Meeting, taking into consideration the overall evaluation of the individual's work in the different roles held over time and having particular regard to the levels of capitalisation, liquidity and profitability of the Group, and the presence or absence of individual sanctions imposed by the Supervisory Authority (as described above).

In addition, with regard to the remaining cluster, the Chief Operating Officer, with the support of the Planning and Active Value Management Head Office Department, ensures, through a process of verification every six months, that the total compensation paid by way of severance in accordance with the terms defined in this paragraph, and net of the amount due as indemnity for failed notice, may not cause prejudice to the level of capitalisation of the Group, i.e. they do not have an impact on the level of the Common Equity Tier Ratio (CET1) such as to imply - due to their payment - a reduction of this level below the threshold provided for by RAF for this indicator.

As regards the payment methods, finally, these are differentiated by personnel category.

In particular, the severance payment agreed in view of or upon early termination of the employment relationship, for the amount exceeding the provisions of the National Collective Bargaining Agreement as payment related to the indemnity for failed notice, is granted as follows:

1. Top Risk Takers not belonging to the Corporate Control Functions:
  - 40% upfront at the time of terminating the employment agreement, of which:
    - 20% in cash;
    - 20% in shares, subject to a two-year holding period;
  - 60% deferred, of which:
    - 20% in cash in the year following the one of termination of the employment agreement;
    - 30% in shares, in equal amounts, in the second, third and fourth years following the one of termination of the employment agreement, subject to a 1-year holding period;

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<sup>21</sup> Reference is made, specifically, to the conditions to activate incentive systems (see paragraph 4.6.b):

1. Common Equity Tier Ratio (CET1) at least equal to the limit envisaged in the Risk Appetite Framework (RAF);
2. Net Stable Funding Ratio (NSFR) at least equal to the limit envisaged in the RAF;
3. No loss or positive Gross Income, net of any contribution of profits from the buyback of Bank's own liabilities, from the fair value measurement of Bank's liabilities and from income components arising from accounting policies following changes to the internal model on core deposits.

For the Top Risk Takers reference is made to a further condition represented by the Liquidity Coverage Ratio (LCR), the level of which must be at least equal to the limit envisaged in the RAF.

<sup>22</sup> As stated in paragraph 4.6.d "Breaches specifically sanctioned by the Supervisory Authorities of the obligations as per Article 26 of the Consolidated Law on Banking regarding the requirements of professionalism, integrity and independence or Article 53, paragraph 4, of Consolidated Law on Banking and following on the matter of related-party transactions and of the obligations regarding remuneration and incentives referred to in CRD4, if involving a penalty of an amount equal to or greater than 30,000 euro".

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- 10% in cash, five years following the one of termination of the employment agreement.

As laid down by the sector regulations<sup>23</sup>, for the Top Risk Taker Head of the Asset Management Division, the financial instruments are comprised of a specific UCI basket representing the Asset Classes managed by the asset management company.

Said UCI basket comprises:

- 50% of the Eurizon Fund – Dynamic Asset Allocation Subfund;
- 50% of a balanced basket representing the UCIs Equity, Fixed Income & FX and Global Strategies & Total Return managed.

2. For Top Risk Takers belonging to the Corporate Control Functions and for all the remaining Risk Takers (as identified at the time of terminating the employment agreement):

- 60% upfront at the time of terminating the employment agreement, of which:
  - 30% in cash;
  - 30% in shares, subject to a two-year holding period;
- 40% deferred, of which:
  - 10% in cash and 10% in financial instruments in the year following the one of termination of the employment agreement;
  - 10% in shares in the second year following the one of termination of the employment agreement, subject to a 1-year holding period;
  - 10% in cash in the third year following the one of termination of the employment agreement.

As regards Risk Takers belonging to significant asset management companies, the allocation of financial instruments is replaced by the allocation of units of the fund representing the respective asset management company (where applicable) and the main funds managed.

For all remaining clusters, 60% of the severance payment exceeding the provisions of the national collective bargaining agreement as payment related to the duration of the notice period - if higher than 80,000 euro - is paid out upfront in cash and the remaining 40% is paid out always in cash after a two-year deferral.

Each deferred portion of said severance payment agreed in view of or upon early termination of the employment relationship reflects the provisions laid down in the Incentive System, indeed, subject to an ex-post adjustment mechanism – the so-called malus conditions – according to which the relative amount recognised and the number of financial instruments assigned, if any, may be reduced, even to zero, in the year to which the deferred portion refers, in relation to the level of achievement of the activation conditions at Group level (see paragraph 4.6.b), namely:

1. Common Equity Tier Ratio (CET1) at least equal to the limit envisaged in the RAF;
2. Net Stable Funding Ratio (NSFR) at least equal to the limit envisaged in the RAF;
3. no loss and positive Gross Income, net of any contribution of profits from the buyback of Bank's own liabilities, from the fair value measurement of Bank's liabilities and from income components arising from accounting policies following changes to the internal model on core deposits.

In particular, if either condition 1 or 2 does not occur individually, the deferred portion is brought down to zero; if condition 3 is not met, the deferred portion is reduced by 50%.

For the Group Top Risk Takers, in parallel with the provisions for activation of the Incentive System, a fourth condition – in addition to the three mentioned above – is also envisaged, relating to verification of the LCR compared to the RAF limits. For this cluster, if either condition 1 or 2 does not occur individually, the deferred portion is brought down to zero; if condition 3 or the specific one relating to the LCR is not met, the deferred portion is reduced by 50%.

Severance payments awarded, net of the payment related to the indemnity for failed notice, for values below 80,000 euro are granted entirely in cash and paid upfront, regardless of the cluster concerned.

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<sup>23</sup> Bank of Italy - Consob: second supplement to the Joint Regulation (27 April 2017).

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#### *4.10. Guaranteed bonuses*

The assignment of guaranteed bonuses is NOT envisaged, with the sole exception of limited cases of recently hired employees, without prejudice to thorough assessment and analysis of market practice, solely for the first year.

#### *4.11. Clawback mechanisms*

The company reserves the right to activate clawback mechanisms, namely the return of bonuses already paid as required by regulations, as part of the disciplinary initiatives and provisions envisaged for fraudulent behaviour or gross negligence by personnel, also taking into account the relative legal, contribution and fiscal profiles.

#### *4.12. Prohibition of hedging strategies*

It is expressly prohibited for individual employees to undertake personal hedging or insurance strategies on the remuneration or other aspects that may alter or undermine the effects of the alignment with company risk inherent in the remuneration mechanisms described. Remuneration may not be paid in forms, instruments or methods aimed at avoiding provisions of law.

#### *4.13. Discretionary pension benefits*

Discretionary pension benefits, when recognised, are assigned to beneficiaries in accordance with the regulations in force and, therefore:

- in the case of resources who are not entitled to receive a pension, shall be invested in Intesa Sanpaolo shares or other related instruments, held by the bank for a period of at least five years and subject to ex-post adjustment mechanisms related to the Group's performance net of risk;
- in the case of resources entitled to a pension, shall be invested in Intesa Sanpaolo shares or other related instruments and held by the bank for a period of at least five years.

6.C.1. f)

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## 5. Remuneration policy for special categories governed by the agency contract

The Intesa Sanpaolo Group provides for the agency contract for the financial advisors of the Private Banking and Banca dei Territori business Divisions.

As regards the Group Private Banking Division, the remuneration policy relating to the financial advisors, the category governed by the agency contract and currently identified in Banca Fideuram and its subsidiary Sanpaolo Invest SIM, is defined within the framework of chapter 4, which describes the Remuneration Policies of the Intesa Sanpaolo Group, and fully represented in the remuneration and incentive policies of the financial advisors' networks of the Fideuram Group for 2018, to which reference is made for further details.

The remuneration of financial advisors (hereinafter also referred to as "Private Advisors<sup>24</sup>"), due to the very nature of their employment as freelancers operating under agency contracts, is entirely variable and is composed primarily of commissions. Pursuant to the provisions laid down by the Supervisory Provisions on the remuneration of special categories, including financial advisors, commissions are broken down into:

- a "non-recurring" component, the portion of the remuneration that has an incentive value, specifying that the commission does not in itself have any incentive value;
- a recurring component, the portion of remuneration other than the non-recurring portion, representing the most stable and ordinary portion of remuneration.

With regard to the "non-recurring" remuneration, pursuant to the Provisions this component:

- must be aligned to operational risk indicators that promote proper conduct and a connection with the legal and reputational risks that may involve the Bank, and that also foster compliance with regulations and protect and retain customers;
- must be linked, in determining the bonus pool, to thresholds relating to the capital and liquidity conditions of the Group and the Bank;
- must be adjusted ex post by adequate malus conditions;
- must be paid according to the most stringent rules laid down for key personnel (deferral, allocation by way of cash / financial instruments, malus, clawback).

In accordance with the foregoing and in line with the provisions of the Intesa Sanpaolo Group Remuneration Policies:

- the following were identified as Group Risk Takers<sup>25</sup>:
  - 9 Area Managers of the Fideuram Group, considering the guidelines issued by the Bank of Italy in Circular no. 285/2013;
  - the 19 Financial Advisors and Financial Consultants who, during 2017, received a total remuneration greater than or equal to 750,000 euro, in accordance with Article 4 of European Commission Delegated Regulation (EU) No. 604/2014 (RTS);
- Paragraph 4.6.e shall apply to the Financial Advisors identified as Group Risk Takers.

Within the framework of the provisions of the Group's incentive systems, the system targeted at the remaining financial advisors provides for activation conditions and considers adequate qualitative indicators, linked to the achievement of business objectives defined in support of business growth, sustainability and profitability targets, as well as to principles of fairness in customer relations.

In particular, the incentive system of the Fideuram Group is subject to the following minimum Group activation conditions:

1. Common Equity Tier Ratio (CET1) of the Intesa Sanpaolo Group at least equal to the limit envisaged in the RAF;
2. Net Stable Funding Ratio (NSFR) of the Intesa Sanpaolo Group at least equal to the limit envisaged in the RAF.

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<sup>24</sup> Each Private Advisor is a freelancer, not subject to an employment agreement, in possession of an agency mandate conferred by Fideuram or Sanpaolo Invest SIM to carry out out-of-branch services with customers, with reference to banking, financial and insurance products and services. The Private Advisor mandate is formalised with the signing of an Agency Contract which refers to the Collective Bargaining Agreement governing the agency and commercial representation contract of the commerce sector.

<sup>25</sup> As at 1/01/2018. According to the information contained in the EBA Guidelines of December 2015, the 2018 Group Risk Taker classification will include the persons identified as such in the year for a period longer than three months.

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Having verified the above conditions, the funding conditions<sup>26</sup> envisaged by the mechanisms of the incentive system of the Financial Advisors' Networks of the Fideuram Group and the individual access conditions are activated, according to the further conditions below, defined in accordance with the rules of the Intesa Sanpaolo Group:

- If the Gross Income (Loss) of the Fideuram Group exceeds the access threshold, in relation to the total budget, the incentive system is activated for all Financial Advisors of the Fideuram Group Networks;
- If the Gross Income (Loss) of the Fideuram Group does not exceed the access threshold, in relation to the total budget, the incentive system is activated only for Financial Advisors not identified as Group Risk Takers.

If the Group activation conditions are not met, or if the Gross Income (Loss) of the Fideuram Group is negative, the incentive system is not activated.

The possibility of introducing a Long-Term Incentive Plan aimed at financial advisors of the Fideuram Group is being studied with the aim of supporting the growth of results in terms of financial assets, as outlined in the 2018-2021 Business Plan. With regards to the Group's Banca dei Territori Division, the personnel belonging to the Network may carry out their work pursuant to an employment contract or a "mixed" contract, as defined by the Trade Union Agreement of 1 February 2017. In particular, this agreement provides for the experimentation of an innovative way of carrying out the work activity which allows the Network personnel to simultaneously activate a part-time open-ended employment contract and a concurrent, contextual and distinct self-employment contract as Financial Advisor.

The two employment relationships are independent of one another and are subject to the specific legal and contractual regulations applicable to them.

In particular, with reference to the employment contract, the provisions laid down in paragraph 4.7 describing the PVR, shall apply.

On the other hand, with reference to the self-employment contract, the remuneration is represented by the commissions deriving from the activity carried out as a financial advisor, in respect of transactions concluded out of branch and customers/assets acquired. These commissions are entirely classified, therefore, as "recurring remuneration" (as permitted by the Supervisory Provisions since the personnel in question do not belong to the Group Risk Takers cluster).

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<sup>26</sup> The Incentive Plan is funded during the year and bottom up by the total gross income generated by the Fideuram Group with effect on the assistance/management of its customers (so-called Pay-In).





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## Section II – 2017 Remuneration policies disclosure

### Introduction

Section II of the Report aims to describe the implementation of the Remuneration Policies for 2017, approved by the Shareholders' Meeting on 27 April 2017, as required by both the European regulations on public disclosure obligations (Article 450 of (EU) Regulation No. 575/2013 of 26 June 2013 (Capital Requirements Regulation, CRR), then reflected in Bank of Italy Circular 285 of 17 December 2013), and by Consob resolution 18049 of 23 December 2011.

Section II is divided into topics.

The first part ("2017 Remuneration Policies") is descriptive and aims at showing:

- the structural components of the remuneration of the Board Members, the Managing Director and General Manager and the members of the Management Control Committee;
- the 2017 incentive system based on financial instruments, for Group Risk Takers who accrue a bonus in excess of the "materiality threshold" (of 80,000 euro) and the Managers or Professionals that are not Risk Takers, who accrue "relevant bonuses" (i.e. of an amount of over 80,000 euro and 100% of the fixed remuneration), established within the 2017 remuneration and incentive policies of Intesa Sanpaolo approved by the Board of Directors on 14 March 2017 and submitted for binding resolution by the Shareholders' Meeting on 27 April 2017;
- The 2017 incentive system for the Managing Director in the capacity of General Manager and Chief Executive Officer;
- Employee Investment Plan – 2014-2017 LECOIP.

The second and third parts concern quantitative aspects and provide disclosures on:

- remuneration data for 2017, represented as required by Consob Resolution of 23 December 2011, concerning Board Members, the General Manager and the other Key Managers;
- data referring to 2017, represented as required by the Bank of Italy in Circular 285/2013 (Chapter 2, Section VI, Paragraph 1), concerning the fixed and variable component of personnel expenses divided by business segments and the remuneration of those falling within the Group "Key Personnel" category as at 31 December 2017.

The fourth part ("Internal auditing department assessment of the Incentive System") provides a report of the analysis of operational practices with respect to the Policies resolved by the Boards.

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# PART I – General information

## Description of remuneration items and consistency with the relevant policy

Art. 123-ter (3), (a)  
(4), (a)  
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The remuneration of Board Members other than the Managing Director and General Manager is determined as a fixed amount, including the remuneration for the office of Chairman and Deputy Chairperson of the Board of Directors and of Chairman of the Management Control Committee and of the members of the Board Committees, in line with the resolutions adopted by the Shareholders' Meeting on 27 April 2016, and to the extent applicable, by the Board of Directors.

The remuneration related to the attendance fees for participation in Committees other than the Management Control Committee is indicated separately.

The remuneration of the Managing Director and General Manager and the other Key Managers, in accordance with the policies approved by the Shareholders' Meeting on 27 April 2017, consists of:

- a) a **fixed component**, including the gross remuneration amount defined individually based on the contractual agreement, the role held, the responsibilities assigned, and the specific experience and expertise acquired by the manager, including any indemnity;
- b) a **short-term variable component**, linked to performance and aligned to the short and long-term results actually achieved by the Bank and by the Group overall, as resulting from application of the incentive systems approved by the relative corporate bodies in accordance with the remuneration policies in force; the short-term variable component is assigned through the annual financial instrument-based incentive plan also targeted to the<sup>27</sup> Group Risk Takers, as laid down in the Supervisory Provisions on remuneration;
- c) a **long-term variable component**, introduced in 2014 at the launch of 2014-2017 Business Plan through the Leveraged Employee Co-Investment Plans ("LECOIP Plans"), based on instruments associated with Intesa Sanpaolo shares, and assigned, as provided by the Plans, also to the Group Risk Takers and to the remaining personnel;
- d) a component resulting from valuation of **benefits**, including the amount paid by the company into the manager's supplementary pension fund and the premiums (taxable) paid by the Bank for the relative insurance coverage; the statements do not include any other benefits granted to said personnel (for example, a company car) that are not taxable, also due to specific conditions under company policy (for example, if a monetary contribution by the manager is required).

6.C.2.

No prior agreements are envisaged to govern benefits or in terms of severance payments to be paid upon termination of the employment agreement to Board Members, the General Manager and other Key Managers, to which the provisions in the previous paragraphs 2.6 and 4.9 of Section I apply.

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<sup>27</sup> They are also awarded to those who, among the Managers or Professionals that are not Risk Takers, accrue "relevant bonuses" (i.e., of an amount above 80,000 euro and 100% of the fixed remuneration).

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## The 2017 incentive system based on financial instruments

The access conditions for the 2017 Incentive system based on financial instruments for Group Risk Takers who accrue a bonus in excess of the “materiality threshold” (of 80,000 euro) and the Managers or Professionals that are not Risk Takers, who accrue “relevant bonuses” (i.e. of an amount of more than 80,000 and 100% of the fixed remuneration), which also apply for all the other incentive systems for Group personnel, have been confirmed as follows:

- Common Equity Tier Ratio at least equal to the limit envisaged in the RAF;
- Net Stable Funding Ratio (NSFR) at least equal to the limit envisaged in the RAF;
- No loss or positive Gross Income, net of any contribution of profits from the buyback of Bank's own liabilities, from the fair value measurement of Bank's liabilities and from income components arising from accounting policies following changes to the internal model on core deposits.

Non-achievement of even only one of the above conditions shall result in non-activation of the incentive systems for the Group personnel. Top Risk Takers are subject to a further condition represented by the Liquidity Coverage Ratio (LCR), the level of which must be at least equal to the limit envisaged in the RAF.

In line with this approach, the same indicators are part of the Malus Conditions, to be verified in the years following payment of the deferred portion of the premiums:

1. Common Equity Tier Ratio at least equal to the limit envisaged in the RAF;
2. Net Stable Funding Ratio (NSFR) at least equal to the limit envisaged in the RAF;
3. Liquidity Coverage Ratio (LCR) at least equal to the limit envisaged in the RAF;
4. No loss or positive Gross Income, net of any contribution of profits from the buyback of Bank's own liabilities, from the fair value measurement of Bank's liabilities and from income components arising from accounting policies following changes to the internal model on core deposits.

In particular, if either condition 1 or 2 or 3 does not occur individually, the deferred portion is reduced by 1/3; if condition 4 is not met, the deferred portion is brought down to zero.

6.C.1. c)

Consequently, and in compliance with the principle that activation of the incentive system must be consistent and compatible with the distribution of dividends, the variable component of the remuneration<sup>28</sup> for the Group Risk Takers is equal to a maximum of twice the fixed remuneration (reduced to a third for the Corporate Control Functions), in line with the provisions for those belonging to specific professional segments (Asset Management, Private Banking, Investment Banking, Industry Leader, and Treasury). This variable component is based on the achievement of the targets assigned in the individual performance scorecards, where the KPIs are identified for the implementation of the strategic drivers of Revenue Growth, Profitability, Productivity and Cost of Risk/Sustainability, broken down into the Division and Group targets and the targets relating to the qualitative assessment.

For the Manager responsible for preparing the Company's financial reports, Heads and higher-level personnel of Corporate Control Functions, the incentive accrued is strictly determined in compliance with the Supervisory Provisions, with reference to qualitative and quantitative indicators specific to the functions concerned<sup>29</sup>.

Use is also made of an additional mechanism to adjust the bonus accrued, that measures the residual risk level of each business unit (Q-Factor) and that acts as a possible de-multiplier of the bonus achieved in the event of failure to reach the target: in particular, in the case that said Q-Factor has a "high" rating, the previously identified variable remuneration is reduced by 10%; if the rating is "very high", the reduction in the variable compensation is equal to 20%.

The bonus payable to each Group Risk Taker, with the exception of Top Risk Takers and Senior Heads of the Corporate Control Functions, whose responsibility is established by the Board of

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<sup>28</sup> As approved by the Shareholders' Meeting of 27 April 2017.

<sup>29</sup> In the particular case of the Manager responsible for preparing the Company's financial reports, such indicators are related, for example, to the definition of tax compliance check procedures in relation to the new regulations, to the definition of the new structure of the accounting and supervisory system and to some specific projects. With regard to the Chief Risk Officer, the Head of the Internal Validation and Controls Head Office Department, the Group Risk Manager, the Chief Compliance Officer, the Head of the Anti-Money Laundering Head Office Department, the Head of the Internal Auditing Head Office Department and the higher-level personnel of these departments, these indicators measure the activity regarding the various types of risk (market, credit, rate, liquidity, terrorism financing). Performance is measured both in quantitative terms (e.g., number of adequate single name checks) and qualitative terms (e.g. development of a culture of controls, Integrated assurance among the Control Functions, efficient management of the programme of adaptation to the Risk Data Aggregation and Risk Reporting standards).

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Directors, is defined based on the position reached in the “internal ranking” of their Business Unit/department.

The bonuses, calculated as described above, for all the Group Risk Takers categories – except for the Top Risk Takers not belonging to the Corporate Control Functions who accrue a bonus above 100% of the fixed remuneration – will be paid 50% in cash and 50% in shares<sup>30</sup>.

On the other hand, for the Top Risk Takers who accrue a bonus of over 100% of the fixed remuneration and up to 150% of that remuneration, 55% of the bonus awarded is assigned as shares; whereas, for the Top Risk Takers who accrue a bonus of over 150% and up to 200% of the fixed remuneration, 60% of the bonus awarded is assigned as shares.

The deferral amounts, as illustrated in further detail below (PART III – Aggregate quantitative information pursuant to the supervisory provisions of the Bank of Italy), are differentiated by Group Risk Taker clusters and by amount of the variable remuneration:

- 60% for Top Risk Takers not belonging to the Corporate Control Functions and for those who, among the Group Risk Takers, accrue a bonus in excess of 100% of the fixed remuneration;
- 40% for Top Risk Takers belonging to the Corporate Control Functions and for all the remaining Group Risk Takers.

The payment of such deferred portion will be subject to verification, each year, of the above-mentioned Malus Conditions.

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<sup>30</sup> For the Risk Takers belonging to significant asset management companies, the portion in Intesa Sanpaolo shares is replaced by the assignment of units in the fund representing the asset management company (where present) and the main funds managed, as required by the industry-sector regulations (Joint Bank of Italy – Consob Regulation); for the Risk Takers of VUB Banka with a local contract, the portion in shares is replaced by the assignment of units of Certificates of the subsidiary in compliance with local regulations.

## The 2017 incentive system for the Managing Director as General Manager and Chief Executive Officer

Having positively verified the access conditions and the Group bonus funding for the 2017 Incentive system, as well as the Q-Factor, the Board of Directors, in the meeting held on 6 March 2018 and on proposal by the Remuneration Committee, awarded the Managing Director, in the capacity of General Manager and CEO, a bonus of 3.846 million euro for the achievement of an overall performance of 117%<sup>31</sup> of the target.

A breakdown is provided below of the level of achievement of the individual targets assigned to the CEO for the year 2017:

		KPIs		
Strategic Driver		KPI	weight %	performance level
Group KPIs	Profitability	Distributable profit (mld)	20%	in line with target
		Operating Income in relation to RWAs	10%	above target
		Operating Income - Increase (year/year)	10%	in line with target
	Productivity	Cost / Income	10%	in line with target
	Cost of risk / sustainability	NPL Ratio Gross	20%	above target
% Group KPIs			70%	
Qualitative evaluation	Strategic Actios related to the 2014-2017 Plan	Significant initiatives submitted to the Board of Directors for the development and sustainable growth of the Group, with particular attention to internationalization, digitalisation and diversification of revenue sources	15%	much higher than target
	Managerial Skills	Organizational and corporate simplification	15%	much higher than target
% Qualitative evaluation			30%	
% Total			100%	

According to the payment scheme established by the 2017 Remuneration Policies, the bonus accrued will be paid 45% in cash and 55% in shares, taking into account the holding periods established by the regulations for the component in shares, as detailed below:

Payout €/000	2018	2019	2020	2021	2022	2023
cash	692	654				385
shares (equivalent value)			846	423	423	423

<sup>31</sup> The performance scale used has minimum, target and maximum levels of 80%, 100% and 130% respectively.

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## Employee investment plan – 2014-2017 LECOIP (Leveraged Employee Co-Investment Plan)

The LECOIP Plans were launched in 2014, through an Employee Share Ownership Plan that gave employees the possibility of investing in shares received in long-term financial instruments, the LECOIP Certificates, with duration aligned with the 2014 – 2017 Business Plan, which at maturity:

- guarantee a "protected capital" (higher than the value corresponding to the amount of shares invested);
- participate in the share value increase on a larger number of shares.

Essentially in line with the segmentation of personnel referred to in paragraph 4.2 and with its guiding principles, the LECOIP Plans were differentiated by cluster (Group Risk Takers, Other Managers - Executives, Remaining Personnel - Middle Managers and Professional Areas).

The Group Risk Takers and the Key Managers, in particular, were recipients of specific categories of LECOIP Certificates that have trigger events that can reduce, down to nil, the protection ensured or the participation in the share value increase.

In particular, the trigger events in the LECOIP Certificates for the Group Risk Takers include, in one or more years of duration of the Plan:

1. maintenance or non-maintenance of the capital adequacy levels laid down in the RAF, measured both in terms of Common Equity Tier 1 Ratio (CET1) and AFR Core/Economic Capital;
2. maintenance or non-maintenance of adequate liquidity levels laid down in Intesa Sanpaolo's Risk Appetite Framework, measured in terms of Net Stable Funding Ratio (NSFR);
3. no loss - both at Group level and at the level of the competent Division - and positive Gross Income (net of any contribution of profits from the buyback of the Bank's own liabilities, from the fair value measurement of Bank liabilities and from income components arising from accounting policies following changes to the internal model on core deposits);
4. value distribution or non-distribution to shareholders (this meaning the distribution of dividends and/or reserves and/or the buyback of own shares).

The trigger events envisaged in the Executive LECOIP Certificate are built according to proportional application compared to those provided for Group Risk Takers and include, in one or more years of duration of the Plan:

1. maintenance or non-maintenance of the capital adequacy levels laid down in the RAF, measured in terms of Common Equity Tier 1 Ratio (CET1);
2. maintenance or non-maintenance of adequate liquidity levels laid down in Intesa Sanpaolo's Risk Appetite Framework, measured in terms of Net Stable Funding Ratio (NSFR).

During the Plan Period (2014-2017), the above-mentioned triggers were positively verified and, accordingly, no reduction will be made in the protection ensured and the amount of the participation in the appreciation of the value of the ISP shares.

The LECOIP Certificates provide for participation in the increase in the value of the shares over a period of 40 months, from December 2014 (allocation) to April 2018 (expiry of the Certificates). The value of the Certificates at maturity is not yet known at the time of writing of this document and will therefore be disclosed in the 2019 Report on Remuneration – Section II – 2018 Remuneration Policies.

# PART II – QUANTITATIVE ANALYTICAL TABLES

## Remuneration

Table No. 1: Remuneration paid to members of administration and control bodies, to General Managers, and to other Key Managers

(thousands of euro)

Surname and Name	Office	Office held since	End of office	Fixed Remuneration	Remuneration for participation in committees	Attendance fees	Non-equity variable remuneration		Non-monetary benefits	Other remuneration	Total	Fair value of equity remuneration	Indemnity for end of office or termination of the employment agreement
							Bonuses and other incentives (x)	Profit-sharing					
Bazoli Giovanni	President Emeritus (*)	01/01/2017	31/12/2017	-							-		
Gros-Pietro Gian Maria	Chairman of the Board of Directors	01/01/2017	31/12/2017	800							800		
	Member of the Board of Directors	01/01/2017	31/12/2017	100							100		
	Member of the Nominations Committee	01/01/2017	31/12/2017			6					6		
Colombo Paolo Andrea	Deputy Chairperson of the Board of Directors	01/01/2017	31/12/2017	150							150		
	Member of the Board of Directors	01/01/2017	31/12/2017	100							100		
	Chairman of the Remuneration Committee	01/01/2017	31/12/2017	50		44					94		
	Member of the Nominations Committee	01/01/2017	31/12/2017			6					6		
Carbonato Gianfranco	Member of the Board of Directors	01/01/2017	31/12/2017	100							100		
	Chairman of the Nominations Committee	01/01/2017	31/12/2017	50		6					56		
Locatelli Rossella	Member of the Board of Directors	01/01/2017	31/12/2017	100							100		
	Chairman of the Risk Committee	01/01/2017	31/12/2017	50		74					124		
	Member of the Committee for transactions with related parties	01/01/2017	31/12/2017			30					30		

Surname and Name	Office	Office held since	End of office	Fixed Remuneration	Remuneration for participation in committees	Non-equity variable remuneration			Non-monetary benefits	Other remuneration	Total	Fair value of equity remuneration	Indemnity for end of office or termination of the employment agreement
						Attendance fees	Bonuses and other incentives (x)	Profit-sharing					
Costa Giovanni	Member of the Board of Directors	01/01/2017	31/12/2017	100			25 (**)			125			
	Member of the Nominations Committee	01/01/2017	31/12/2017			6				6			
	Member of the Remuneration Committee	01/01/2017	31/12/2017			44				44			
Mangiagalli Marco	Member of the Board of Directors and of the Management Control Committee	01/01/2017	31/12/2017	200						200			
	Chairman of the Management Control Committee	01/01/2017	31/12/2017	50						50			
Gaffeo Edoardo	Member of the Board of Directors and of the Management Control Committee	01/01/2017	31/12/2017	200						200			
Motta Milena Teresa	Member of the Board of Directors and of the Management Control Committee	01/01/2017	31/12/2017	200						200			
Pisani Alberto Maria	Member of the Board of Directors and of the Management Control Committee	01/01/2017	31/12/2017	200						200			
Zoppo Maria Cristina	Member of the Board of Directors and of the Management Control Committee	01/01/2017	31/12/2017	200						200			
Pomodoro Livia	Member of the Board of Directors	01/01/2017	31/12/2017	100						100			
	Member of the Nominations Committee	01/01/2017	31/12/2017			6				6			



Surname and Name	Office	Office held since	End of office	Fixed Remuneration	Remuneration for participation in committees	Attendance fees	Non-equity variable remuneration		Non-monetary benefits	Other remuneration	Total	Fair value of equity remuneration	Indemnity for end of office or termination of the employment agreement
							Bonuses and other incentives (x)	Profit-sharing					
Gorno Tempini Giovanni	Member of the Board of Directors	01/01/2017	31/12/2017	100							100		
	Member of the Remuneration Committee	01/01/2017	31/12/2017			42					42		
	Member of the Committee for transactions with related parties	01/01/2017	31/12/2017			28					28		
Gallo Giorgina	Member of the Board of Directors	01/01/2017	31/12/2017	100							100		
	Member of the Remuneration Committee	01/01/2017	31/12/2017			44					44		
	Member of the Committee for transactions with related parties	01/01/2017	31/12/2017			30					30		
Cornelli Francesca	Member of the Board of Directors	01/01/2017	31/12/2017	100							100		
	Member of the Risk Committee	01/01/2017	31/12/2017			72					72		
Mazzarella Maria	Member of the Board of Directors	01/01/2017	31/12/2017	100							100		
	Member of the Committee for transactions with related parties	01/01/2017	31/12/2017			30					30		
Zamboni Daniele	Member of the Board of Directors	01/01/2017	31/12/2017	100							100		
	Chairman of the Committee for transactions with related parties	01/01/2017	31/12/2017	50		30					80		
	Member of the Risk Committee	01/01/2017	31/12/2017			74					74		

Surname and Name	Office	Office held since	End of office	Fixed Remuneration	Remuneration for participation in committees	Non-equity variable remuneration			Non-monetary benefits	Other remuneration	Total	Fair value of equity remuneration	Indemnity for end of office or termination of the employment agreement
						Attendance fees	Bonuses and other incentives (x)	Profit-sharing					
Ceruti Franco	Member of the Board of Directors	01/01/2017	31/12/2017	100							100		
	Member of the Risk Committee	01/01/2017	31/12/2017			74					74		
	a) BANCA PROSSIMA S.p.A. – Director	01/01/2017	31/12/2017	15							15		
	a) INTESA SANPAOLO ASSICURA S.p.A. - Director	01/01/2017	31/12/2017	5							5		
	a) INTESA SANPAOLO EXPO Institutional Contact S.r.l. – Director	01/01/2017	26/06/2017	2							2		
	a) INTESA SANPAOLO EXPO Institutional Contact S.r.l. – Chairman and Director	27/06/2017	31/12/2017	67							67		
	a) INTESA SANPAOLO PRIVATE BANKING S.p.A. – Director	01/01/2017	31/12/2017	15							15		
	a) MEDIOCREDITO ITALIANO S.p.A. – Director	01/01/2017	31/12/2017	30							30		
Corbella Silvano	Chairman of the Surveillance Board	01/01/2017	31/12/2017	10 b)							10 b)		
	Full Member of the Surveillance Board	01/01/2017	31/12/2017	25 b)							25 b)		
Dalla Sega Franco	Full Member of the Surveillance Board	01/01/2017	31/12/2017	25 b)							25 b)		
	a) BANCOMAT S.p.A. – Chairman	23/06/2017	31/12/2017	26							26		
Venero Paolo	Full Member of the Surveillance Board	01/01/2017	31/12/2017	25 b)							25 b)		

Surname and Name	Office	Office held since	End of office	Fixed Remuneration	Remuneration for participation in committees	Attendance fees	Non-equity variable remuneration		Non-monetary benefits	Other remuneration	Total	Fair value of equity remuneration	Indemnity for end of office or termination of the employment agreement	
							Bonuses and other incentives (x)	Profit-sharing						
Messina Carlo	General Manager	01/01/2017	31/12/2017	2,000				1,275		59	119 c)	3,453	1,418	
	Managing Director and Chief Executive Officer	01/01/2017	31/12/2017	500								500		
	Member of the Board of Directors/ Executive Board Member	01/01/2017	31/12/2017	100								100		
Picca Bruno	Member of the Board of Directors	01/01/2017	31/12/2017	100								100		
	Member of the Remuneration Committee	01/01/2017	31/12/2017			44						44		
	Member of the Risk Committee	01/01/2017	31/12/2017			74						74		
	a) INTESA SANPAOLO GROUP SERVICES S.c.p.A. – Director	01/01/2017	31/12/2017	25								25		
Key Managers (***)	Total remuneration in the company drawing up the financial statements			11,262 d)				5,097		517	652 e)	17,527 d)	5,708	4,350 f)
	Total remuneration and attendance fees in subsidiaries and associates			1,552 g)				651		166	92 e)	2,461 g)	864	

a) Remuneration/Attendance fees in subsidiaries and associates.

b) On 5 July 2016, the Board of Directors has appointed the members of the Surveillance Board under the Organisational, management and control model pursuant to Legislative Decree 231/2001.

c) Amount including the allowance paid in order to cover tax and contribution obligations linked to the time horizon of LECOIP Long-term Co-Investment Plan shares granting (119 thousand euro).

d) Additional remuneration for offices held in subsidiaries and/or associates as representatives of Intesa Sanpaolo S.p.A., which amounts to 751 thousand euro, are not comprised in this data, as it is entirely transferred or waived to the Parent Company.

e) Amount including the allowance paid in order to cover tax and contribution obligations linked to the time horizon of LECOIP Long-term Co-Investment Plan shares granting

f) Exit incentives for 3,750 thousand euro, to be paid in the 2018-2023 period partly in cash and partly in shares; non-competition agreement for 600 thousand euro, to be paid in the 2018-2023 period partly in cash and partly in shares. This remuneration was set by the Board of Directors based on the work of the persons involved, in accordance with the Group Policies.

g) Additional remuneration for offices held in subsidiaries and/or associates as representatives of Intesa Sanpaolo S.p.A., which amounts to 195 thousand euro, are not comprised in this data, as it is entirely transferred or waived to subsidiaries.

(\*) Office not remunerated.

(\*\*) Remuneration refers to the deferred amounts in relation to the position of Deputy Chairman of the Management Board in 2014, 2015, 2016.

(\*\*\*) Remuneration refers to 19 Key Managers, 4 of which had ended their employment relationship as at 31/12/2017.

(x) The amounts shown refer to the portions of the incentives awarded for previous years (deferred amounts of the 2015 Incentive System and upfront portion of the 2016 incentive system) based on the 2016 results and the upfront portion in cash for the 2017 performance (see table 3B for details).

*Table No. 2: Stock options granted to members of the Management Board, General Managers and other Key Managers*

A	B	Options held at the beginning of the year				Options awarded during the year						Options awarded during the year			Options expired during the year	Options held at end of the year	Options for the year
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15) = (2) + (5) - (11) - (14)	(16)
Name and Surname	Office	Plan	Number of options	Exercise price	Possible exercise period (from - to)	Number of options	Exercise price	Possible exercise period (from - to)	Fair Value at the awarding date	Awarding date	Market share price of the shares underlying the award of options	Number of options	Exercise price	Market share price of the shares underlying the exercise date	Number of options	Number of options	Fair value

Table No. 3A: Incentive plans based on financial instruments other than stock options, in favour of Managing Director and CEO and other Key Managers

(thousands of euro)

A Surname and Name	B Office	(1) Plan	Financial instruments awarded in previous years and not vested during the year		Financial instruments awarded during the year					Financial instruments vested during the year and not granted	Financial instruments vested during the year and granted	Financial in- struments for the year		
			(2) Number and type of fi- nancial in- struments	(3) Vesting pe- riod	(4) Number and type of fi- nancial in- struments	(5) Fair value at award date	(6) Vesting period	(7) Award date	(8) Market price at award date	(9) Number and type of financial instruments	(10) Number and type of fi- nancial in- struments	(11) Value at vesting date	(12) Fair value	
Messina Carlo	Managing Director and Chief Executive Officer	Incentive 2012	-	-							-	75,815	195	195
		Incentive 2013	-	-							-	-	-	-
	General Manager	Incentive 2014	61,092	Nov, 2018/ Nov, 2019							-	91,638	245	245
		Incentive 2015	248,183	May, 2018/ Nov, 2020							-	-	-	-
		Incentive 2016	313,170	May, 2019/ May, 2022							-	-	-	-
		Incentive 2017			(*)	2,115	May,2018/ May,2023	(*)	(*)					846
LECOIP Plans 2014-2018	266,667 (x)	Dec. 2014/Apr. 2018											132	
Key Managers (**) (Remuneration awarded by Intesa Sanpaolo)		Incentive 2012	-	-							-	291,459	751	751
		Incentive 2013	-	-							-	-	-	-
		Incentive 2014	246,715	Nov, 2018/ Nov, 2019							-	451,346	1,204	1,204
		Incentive 2015	1,159,331	May, 2018/ Nov, 2020							-	-	-	-
		Incentive 2016	1,288,768	May, 2019/ May, 2022							-	-	-	-
		Incentive 2017			(*)	7,348	May,2018/ May, 2023	(*)	(*)			-	-	-
LECOIP Plans 2014-2018	1,475,286 (x)	Dec, 2014/ Apr, 2018								-	-	-	729	

A Surname and Name	B Office	Financial instruments awarded in previous years and not vested during the year		Financial instruments awarded during the year						Financial instruments vested during the year and not granted	Financial instruments vested during the year and granted	Financial in- struments for the year	
		(1) Plan	(2) Number and type of fi- nancial in- struments	(3) Vesting pe- riod	(4) Number and type of fi- nancial in- struments	(5) Fair value at award date	(6) Vesting period	(7) Award date	(8) Market price at award date	(9) Number and type of financial instruments	(10) Number and type of fi- nancial in- struments	(11) Value at vesting date	(12) Fair value
Key Managers (**) (Remuneration awarded by subsidiaries)	Incentive 2012		-	-						-	35,380	91	91
	Incentive 2013									-	-	-	-
	Incentive 2014		39,259	Nov, 2018/ Nov, 2019						-	90,641	241	241
	Incentive 2015		185,275	May, 2018/ Nov, 2020						-	-	-	-
	Incentive 2016		136,595	May, 2019/ May, 2022						-	-	-	-
	Incentive 2017				(*)	1,090 <sup>1</sup>	May,2018/ May,2023	(*)	(*)	-	-	-	436 <sup>2</sup>
	LECOIP Plans 2014-2018		193,925 (x)	Dec, 2014/ Apr, 2018									

(x) The number indicated represents the number of ISP share underlying the "protected capital".

(\*) The figures on granted shares with respect to the incentive based on 2017 results will be available following the resolutions of the Ordinary Shareholders' Meeting called on 27 April 2018.

(\*\*) Remuneration refers to 19 Key Managers, 4 of which had ended their employment relationship as at 31/12/2017.

1) Of which 596 thousand euro assigned as UCI units (instead of shares) to the Head of the Asset Management Division as required by the industry-sector regulations (Joint Bank of Italy – Consob Regulation)

2) Of which 238 thousand euro assigned as UCI units (instead of shares) to the Head of the Asset Management Division as required by the industry-sector regulations (Joint Bank of Italy – Consob Regulation)

N.B.: The figures indicated refer to the remuneration assigned by Intesa Sanpaolo or, where indicated, by subsidiaries; the granting of variable remuneration by associates is not envisaged.

Table No. 3B: Monetary incentive plans in favour of Managing Director and CEO and other Key Managers

(thousands of euro)

A Surname and Name	B Office	(1) Plan	(2) Bonus of the year			(3) Bonus from previous years			(4) Other bonuses
			(A)	(B)	(C)	(A)	(B)	(C)	
			Payable / Paid	Deferred	Deferral period	No longer payable	Payable / Paid	Still deferred	
Costa Giovanni (*)	Deputy Chairperson of Management Board Management Board Member/ Executive Board Member	Incentive 2012				-	-	-	
		Incentive 2013				-	-	-	
		Incentive 2014				-	10	10	
		Incentive 2015				-	10	20	
		Incentive 2016				-	5	8	
		Incentive 2017				-	-	-	
Messina Carlo	Managing Director and Chief Executive Officer General Manager	Incentive 2012				-	-	-	
		Incentive 2013				-	-	-	
		Incentive 2014				-	-	95	
		Incentive 2015				-	245	122	
		Incentive 2016				-	338	508	
		Incentive 2017				692	1,038	May. 2018/ May. 2023	

A Surname and Name	B Office	(1) Plan	(2) Bonus for the year			(3) Bonus for previous years			(4) Other bonuses
			(A)	(B)	(C)	(A)	(B)	(C)	
			Payable/ Paid	Deferred	Deferral period	No longer payable	Payable/ Paid	Still deferred	
Key Managers (**) (Remuneration awarded by Intesa Sanpaolo)		Incentive 2012				-	-	-	
		Incentive 2013				-	-	-	
		Incentive 2014				-	-	333	
		Incentive 2015				-	1,143	434	
		Incentive 2016				-	1,544	2,015	
		Incentive 2017		2,410	3,402	May. 2018/ May. 2023			
	Key Managers (**) (Remuneration awarded by subsidiaries)		Incentive 2012				-	-	-
		Incentive 2013				-	-	-	
		Incentive 2014				-	-	41	
		Incentive 2015				-	183	91	
		Incentive 2016				-	148	221	
		Incentive 2017		321	481	May. 2018/ May. 2023			

(\*) Remuneration refers to the deferred portions of the bonus received as the Deputy Chairperson of the Management Board in the years 2014, 2015 and 2016

(\*\*) Remuneration refers to 19 Key Managers, 4 of which had ended their employment relationship as at 31/12/2017.



## Equity

Table No. 1: Equity investments of Members of Board of Directors

Surname and Name	Office	Subsidiary	Number of shares held at the end of prior year (-)	Number of shares purchased	Number of shares sold	Number of shares held at the end of current year (-)
Colombo Paolo Andrea	Deputy Chairperson of the Board of Directors	Intesa Sanpaolo non-convertible savings shares	10,000 (a)	---	---	10,000 (a)
		Intesa Sanpaolo ord. shares	294	---	---	294
		Intesa Sanpaolo ord. shares	19,047 (b)	---	---	19,047 (b)
Messina Carlo	Managing Director and Chief Executive Officer	Intesa Sanpaolo ord. shares	693,408	167,453 (*)	---	860,861
Ceruti Franco	Member of the Board of Directors	Intesa Sanpaolo ord. shares	100,000	31,383 (**)	---	131,383
Mangiagalli Marco	Member of the Board of Directors	Intesa Sanpaolo ord. shares	3,720	---	---	3,720
Motta Milena Teresa	Member of the Board of Directors	Intesa Sanpaolo ord. shares	20,000 (c)	---	---	20,000 (c)
Zamboni Daniele	Member of the Board of Directors	Intesa Sanpaolo ord. shares	20,000	---	---	20,000
Picca Bruno	Member of the Board of Directors	Intesa Sanpaolo ord. shares	139,913	57,721 (***)	---	197,634

(-) Or start / end date of the office, if different from the reference period specified

(a) 50% shares owned by spouse

(b) shares held indirectly

(c) shares owned by spouse

(\*) of which 61,092 shares deriving from the 2014 Incentive System, as the upfront portion in shares and 75,815 shares deriving from the 2012 Incentive System and 30,546 shares from the 2014 Incentive System, as deferred portions in shares.

(\*\*) of which 23,537 shares deriving from the 2014 Incentive System, as the upfront portion in shares and 7,846 shares deriving from the 2014 Incentive System, as deferred portions in shares in relation to the employment agreement existing at that time.

(\*\*\*) of which 20,546 shares deriving from the 2014 Incentive System, as the upfront portion in shares and 30,326 shares deriving from the 2012 Incentive System and 6,849 shares from the 2014 Incentive System, as deferred portions in shares in relation to the employment agreement existing at that time.

*Table No. 2: Equity investments of other Key Managers*

Number of other key managers	Subsidiary	Number of shares held at the end of prior year (*)	Number of shares purchased	Number of shares sold	Number of shares held at the end of current year (*)
19	Intesa Sanpaolo ord. shares	2,110,147	868,821 (***)	459,442	2,519,526
(**)	Intesa Sanpaolo non-convertible savings shares	5			5

(\*) Or start / end date of the office, if different from the reference period specified.

(\*\*) Total number of other Key Managers who do not yet hold any equity investments.

(\*\*\*) Of which 868,821 shares deriving from the 2012 Incentive System and from the 2014 Incentive System.

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# PART III - AGGREGATE QUANTITATIVE INFORMATION PURSUANT TO THE SUPERVISORY PROVISIONS OF THE BANK OF ITALY

## The 2017 incentive system based on financial instruments

### Introduction

Intesa Sanpaolo Shareholders' Meeting of 27 April 2017 approved the mechanisms, principles and criteria of the staff incentive scheme contained in the Group's Report on Remuneration. The Board of Directors approved the financing of the incentive system based on financial instruments for Group Risk Takers who accrue a bonus in excess of the "materiality threshold" (of 80,000 euro) and the Managers or Professionals that are not Risk Takers, who accrue "relevant bonuses" (i.e. of an amount of over 80,000 euro and 100% of the fixed remuneration) – below also the "System" – on 4 April 2017.

The System is fully consistent with the Supervisory Provisions on remuneration, with particular reference to:

- identification of the so-called Material Risk Takers, meaning those whose decisions have a significant impact on the Bank's risk profile, to which specific remuneration rules must be applied in terms of payment of variable remuneration;
- the ratio between the variable and fixed component of the remuneration, appropriately balanced;
- the structure of the variable component of which:
  - a) at least 40% must be subject to deferred payment systems for not less than 3 years (this can be raised to 60% for not less than 5 years for executive directors, top managers and heads of the main business lines, corporate functions or geographical areas, as well as those who report directly to bodies with strategic supervisory duties);
  - b) at least 50% must be disbursed in shares or instruments linked to shares; this percentage is applied, in the same proportion, to the deferred variable component as well as to the non-deferred (upfront) component;
- a specific retention mechanism in place (of at least two years for the upfront component, shorter for the deferred component) for the financial instruments mentioned under point b).

### Recipients

The System is aimed at Risk Takers who accrue a bonus in excess of the "materiality threshold", as well as managers or professionals who receive "relevant bonuses", in accordance with the Group's 2017 Remuneration Policies.

The Group Risk Takers Cluster, identified by applying the Regulatory Technical Standards – RTS<sup>32</sup> according to the self-assessment process ordered, guided and coordinated by the Parent Company, include the Chief Executive Officer, the other Key Managers, the Senior Heads of the Corporate Control Functions and those whose professional activities have a substantial impact on the entity's risk profile.

Therefore, recipients include also Executives who have regular access to inside information and have the power to make management decisions which may affect the issuer's evolution and outlook.

### Plan rationale

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<sup>32</sup> Delegated Regulation (EU) No. 604/2014 of the European Commission of 4 March 2014, which supplements the Directive 2013/36/EU of the European Parliament and of the Council as regards the regulatory technical standards relating to suitable qualitative and quantitative criteria for the identification of categories of personnel whose professional activities have a substantial impact on the entity's risk profile.

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Incentive plans are designed, in general terms, to retain employees and support their motivation to achieve the long-term corporate goals. Where they include financial instrument-based remuneration, they also strengthen the alignment of Management conduct, Shareholders' interests and medium-/long-term results, also via the executives' direct participation in corporate risk.

In this context, these plans are an integral part of the Intesa Sanpaolo Group remuneration system for Management and other employees. In a framework of long-term sustainable development involving a strong accountability of all stakeholders, the plans operate fully in line with Intesa Sanpaolo investment in human capital development, by fostering the achievement of individual targets identified by the competent corporate functions among the indicators that best reflect Group profitability over time, also taking into account the risks assumed, the cost of capital, the liquidity and the capitalisation level required to handle the activities implemented.

The structure of the incentive mechanism is also functional for being compliant with the Supervisory Provisions in force, when these require that at least 50% of the variable component granted to Risk Takers has to be assigned in shares or related instruments.

#### Characteristics of the financial instruments to be assigned

For all the recipients identified above – except for the Top Risk Takers not belonging to the Corporate Control Functions who accrue a bonus above 100% of the fixed remuneration – the System provides for the allocation of a bonus consisting of 50% in cash and 50% in Intesa Sanpaolo ordinary shares<sup>33</sup>.

The Top Risk Takers who accrue a bonus in excess of 100% of the fixed remuneration and up to 150% thereof, shall be assigned shares with a total value of 55% of the assigned bonus, while Top Risk Takers who accrue a bonus in excess of 150% and up to 200% of fixed remuneration shall be assigned shares for a total value of 60% of the assigned bonus.

The Intesa Sanpaolo ordinary shares serving the 2017 Incentive System shall be purchased on the MTA market (mercato telematico azionario) in compliance with the delegated powers duly granted by the Shareholders' Meeting.

60% of the entire bonus (reduced to 40% for the Top Risk Takers, excluding those in the Corporate Control Functions and the Group Risk Takers who accrue a bonus of over 100% of the fixed remuneration) will be paid to the recipients in the year following the year the bonus refers to (upfront portion) according to the cash/shares ratio as above.

The remainder, or “deferred portion”, shall be paid according to amounts and schemes differentiated based on the cluster of beneficiaries (Top Risk Takers not belonging to the Corporate Control Functions, Group Risk Takers that have accrued a bonus in excess of 100% of the fixed remuneration, Top Risk Takers belonging to the Corporate Control Functions and the remaining Group Risk Takers) and allocated on a pro-rata basis in the years following that of accrual of the upfront portion:

1. For Top Risk Takers not belonging to the Corporate Control Functions, the deferral period is equal to 5 years, with payment of 60% of the bonus by instalments as follows:
  - bonuses up to 100% of the fixed remuneration shall be paid in instalments of 20% in the first year, in cash, and 10% for the following four years, the first three instalments in shares and the last in cash;
  - bonuses in excess of 100% of the fixed remuneration and up to 150% thereof shall be paid in instalments of 17% in the first year, in cash, 11% for the following three years, in shares, and 10% for the fourth year, in cash;
  - bonuses in excess of 150% of the fixed remuneration shall be paid in instalments of 14% in the first year, in cash, 12% for the following three years, in shares, and 10% for the fourth year, in cash;
2. for the Group Risk Takers, who have accrued a bonus above 100% of the fixed remuneration, the deferral period is 5 years, through payment of 60% of the bonus in instalments of 20% in the first

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<sup>33</sup> For the Risk Takers belonging to significant asset management companies, the portion in Intesa Sanpaolo shares is replaced by the assignment of units in the fund representing the asset management company (where present) and the main funds managed, as required by the industry-sector regulations (Joint Bank of Italy – Consob Regulation); for the Risk Takers of VUB Banka with a local contract, the portion in shares is replaced by the assignment of units of Certificates of the subsidiary in compliance with local regulations.

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year, in cash, 10% in the following four years, of which the first three portions in shares and the last in cash.

3. for the Top Risk Takers belonging to the Corporate Control Functions and the remaining Group Risk Takers: the deferral period is equal to 3 years, with payment of 40% of the bonus in instalments of 20% in the first year (50% in cash and 50% in shares) and 10% in the following two years, of which the first portion in shares and the second in cash.

As per the Supervisory Provisions, each portion of the bonus assigned in shares shall be subject to a retention period:

- of 2 years for the upfront portion
- of 1 year for deferred portions (reduced to 6 months for Group Risk Takers who have accrued a bonus of over 100% of the fixed remuneration).

The retention period starts from the accrual date of the bonus. The Supervisory Provisions also state that interest can be calculated, in line with market rates, on the deferred portions paid in cash.

The shares accrued over time shall be delivered only at the end of the retention period described above and, except for the cases described below, subject to continuation of employment in any company of the Group.

In light of the above, on the basis of the powers delegated by the Shareholders' Meeting, the shares to be purchased may be delivered to the recipients starting from 2020 (for the upfront portion related to the results of the financial year 2017, the first deferred portion accrued by the Top Risk Takers belonging to the Corporate Control Functions and by the remaining Group Risk Takers, as well the managers or professionals who accrue a "relevant bonus") and until 2023 (for the last tranche relating to the five-year deferral scheme).

In any event, incentives granted to Group Risk Takers lower than or equal to 80,000 euro gross are paid entirely in cash and upfront, considering that the amounts resulting from the application of the regulations in terms of deferral, pay out in shares and holding period would be quite insignificant in both absolute and relative terms with respect to total remuneration collected, would represent an invalidation of the principle that inspires the mechanism (correlation between the amount of the incentive and assumption of risks).

As by this time a traditional practice in the Group and in compliance with regulators' indications (based on which the ratio between the variable and fixed component of remuneration "must be suitably balanced, exactly determined and carefully assessed in relation to the characteristics of the intermediary and of the various categories of personnel"), the potential paid out bonus is related to the level of each recipient's fixed remuneration.

As permitted by the Provisions and approved by qualified majority of the Shareholders' Meeting on 27 April 2017, the Group Risk Takers not belonging to the Corporate Control Functions can receive a maximum variable remuneration, inclusive of the bonus assigned through the Incentive System and the analysed portion resulting from the LECOIP Co-Investment Plans<sup>34</sup>, of 200% of the fixed remuneration (around 67% of the pay mix). Considering the regulators' indications, the Heads of the Corporate Control Functions, even if they are included under Key Managers, may benefit from a variable portion of remuneration, including the portion resulting from the LECOIP Co-Investment Plans, granted by the Incentive System, with the same characteristics as that paid to the remaining Group Risk Takers, but more limited and equal to, at most, 33% of the fixed remuneration<sup>35</sup>.

The granting of incentives to recipients is funded by a structured bonus pool mechanism. In full harmony with the criteria of symmetry between bonuses paid amount and actual performance achieved, the total amount of the incentives at Group level is linked to the performance of an economic indicator, Gross Income.

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<sup>34</sup> They were approved by the Shareholders' Meeting on 8 May 2014 and represent the long-term variable component, based on instruments associated with Intesa Sanpaolo shares, introduced at the time of launch of the 2014-2017 Business Plan through the Leveraged Employee Co-Investment Plans ("LECOIP Plans").

<sup>35</sup> Including the role allowance representing a portion of fixed remuneration, assigned according to the period holding that role, paid monthly and not counted in the calculation for employee termination indemnities and supplementary pension (if the fund has a Base Salary calculation basis). Social security contributions are calculated on the amount paid.

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The activation of the bonus pool at Group and department level is based on exceeding the so-called “access threshold”, expressed ex ante as the minimum value of the relative Gross Income.

The financial sustainability principle is ensured, in accordance with the requirements of the Regulator, by three preliminary conditions:

1. Common Equity Tier Ratio (CET1) at least equal to the limit envisaged in the RAF;
2. Net Stable Funding Ratio (NSFR) at least equal to the limit envisaged in the RAF;
3. No loss or positive Gross Income, net of any contribution of profits from the buyback of Bank’s own liabilities, from the fair value measurement of Bank’s liabilities and from income components arising from accounting policies following changes to the internal model on core deposits.

Non-achievement of even only one of the above conditions shall result in non-activation of the incentive systems for the Group personnel.

Top Risk Takers are subject to a further condition represented by the Liquidity Coverage Ratio (LCR), the level of which must be at least equal to the limit envisaged in the RAF.

Once the abovementioned conditions have been exceeded, the total amount due to the recipients is defined, in compliance with the Group and Division/Business Unit bonus pools, based on the position reached by each Manager in the “internal ranking” of their specific Division/Business Unit. This ranking is obtained by ordering the scores of the results of the individual scorecards, which measure performance at several levels, both quantitative (profitability, growth, productivity, cost of risk/sustainability) and qualitative (2014-2017 Business Plan projects, strategic actions and managerial qualities).

6.P.2.  
6.C.1. d)  
6.C.2

Moreover, each deferred portion is subject to ex-post adjustment mechanisms – the “malus conditions” – according to which the relative amount to be paid out and the number of financial instruments to be assigned, if any, may be reduced, even down to zero, in the year to which the deferred portion refers, in relation to the level of achievement of the minimum conditions set by the Regulator, namely:

1. Common Equity Tier Ratio at least equal to the limit envisaged in the RAF;
2. Net Stable Funding Ratio (NSFR) at least equal to the limit envisaged in the RAF;
3. No loss or positive Gross Income, net of any contribution of profits from the buyback of Bank’s own liabilities, from the fair value measurement of Bank’s liabilities and from income components arising from accounting policies following changes to the internal model on core deposits.

6.C.1.c)

In particular, if either condition 1 or 2 does not occur individually, the deferred portion is reduced by 50%; if condition 3 is not met, the deferred portion is brought down to zero.

For Top Risk Takers, in parallel with the provisions for activation of the Incentive System, a fourth condition – in addition to the three mentioned above – is also envisaged, relating to verification of the LCR compared to the RAF limits. As regards this cluster, if either condition 1 or 2 or that relating to the LCR does not occur individually, the deferred portion is reduced by 50%; if condition 3 is not met, the deferred portion is brought down to zero.

## Quantitative information broken down by business area

At Group level<sup>36</sup>, thereby considering employees of all grades and employees of the international subsidiaries, the total variable component allocated in the financial statements to reward 2017 results, including the contractual portion (the so-called PVR) or the amount relating to the 2014-2017 LECOIP Plans, is equal to approximately 2.9% of the Group's operating income, about 0.9% of its shareholders' equity, about 0.06% of total assets and about 9.3% of the total cost of labour. These data are essentially stable compared to those of the 2016 financial year.

More specifically, the above variable component consists of 50% of sums available for the payment of the annual incentive, 20% of the sums payable as company bonuses (so-called PVR) and 30% as the 2017 portion of the 2014-2017 LECOIP Plans. As in past years, distribution of the amounts allocated in the financial statements for payment of the variable component referring to 2017 results gives priority to resources belonging to the business sectors most exposed to market variables (asset management, finance and investment banking), consistently with the results of specialised surveys of a sample of Italian and European banking groups which, due to size and composition of the business, constitute the reference benchmark for Intesa Sanpaolo.

COMPARISON OF PERCENTAGE DISTRIBUTION OF STAFF, FIXED COST AND THE VARIABLE COMPONENT/PVR FOR 2017			
	Staff	Fixed Cost 2017	Variable Component / PVR 2017
Head Office Department (including Top Management)	14%	17%	22%
Banca dei Territori	50%	59%	32%
Corporate & Investment Banking	3%	6%	17%
International Subsidiary Banks	25%	9%	11%
Private Banking	4%	6%	8%
Insurance	1%	1%	3%
Asset Management	1%	1%	5%
Capital Light Bank	2%	1%	2%

<sup>36</sup> Net of the Aggregate Set acquired from Banca Popolare di Vicenza and Veneto Banca

## Quantitative information broken down by various categories of identified staff

(thousands of euro)

Cluster (as at 31/12/2017)	No.	Percentage Ratio between Variable Remuneration and Fixed Remuneration		Total Remuneration 2017			Detail of Short-Term Variable Component for 2017				Variable deferred amount from prior years <sup>e</sup> :		Variable deferred amount and upfront shares from prior years paid and granted during 2016 <sup>f</sup>
		Theoretical	Actual <sup>a</sup>	Fixed Remuneration <sup>b</sup>	Short-term Variable Remuneration	Long-term Variable Remuneration <sup>c</sup>	Upfront Cash	Upfront Shares <sup>d</sup>	Deferred Cash	Deferred Shares <sup>d</sup>	Vested following 2017 performance	Not vested	
CEO (Messina Carlo)	1	Max 200%	161%	2,600	3,846	352	692	846	1,038	1,269	556	-	685
General Manager, other Key Managers <sup>1</sup>	15	Max 200%	160%	10,195	14,203	2,060	2,476	3,206 <sup>6</sup>	3,713	4,808 <sup>7</sup>	2,530	-	3,510
Heads of Corporate Control Functions <sup>2</sup>	6	Max 33%	33%	3,615	995	194	401	255	170	170	114	-	118
Other individuals who, individually or collectively, take on significant risk <sup>3</sup>	314 <sup>4</sup>	Max 200% <sup>8</sup> Max 33% <sup>5</sup>	74%	76,114	47,591	8,386	15,427	10,540 <sup>9</sup>	10,812	10,812 <sup>10</sup>	6,757	-	10,456

1) Excluding 4 Key Managers who are included under Heads of Corporate Control Functions. Remuneration refers to 15 Key Managers, 4 of which had ended their employment relationship as at 31 December 2017.

2) Remuneration also refers to 4 Key Managers, 4 of which still in office as at 31 December 2017.

3) Verified on the basis of the EBA Regulatory Technical Standards for the identification of Material Risk Takers.

4) Remuneration refers to 314 Group Risk Takers of which 7 outgoing during 2017 and 19 Group Risk Takers remaining in the perimeter  $\geq 3$  months but not in the role as at 31.12.2017

5) Maximum theoretical amounts differentiated based on clusters (Business/Governance roles, Corporate Control Functions or similar roles)

6) Of which 238 thousand euro assigned as UCI units (instead of shares) to the Head of the Asset Management Division as required by the industry-sector regulations (Joint Bank of Italy – Consob Regulation)

7) Of which 357 thousand euro assigned as UCI units (instead of shares) to the Head of the Asset Management Division as required by the industry-sector regulations (Joint Bank of Italy – Consob Regulation)

8) when not in conflict with local regulations

9) Of which 585 thousand euro assigned as UCI units (instead of shares) to the Group Risk Takers belonging to significant asset management companies as required by the industry-sector regulations (Joint Bank of Italy – Consob Regulation) and of which 168 thousand euro assigned as Certificates of VUB Banka (instead of shares) to the Group Risk Takers in loco, in accordance with the local regulations.

10) Of which 747 thousand euro assigned as UCI units (instead of shares) to the Group Risk Takers belonging to significant asset management companies, as required by the industry-sector regulations (Joint Bank of Italy – Consob Regulation), and of which 112 thousand euro assigned as Certificates of VUB Banka to the Group Risk Takers in loco, in accordance with the local regulations.

a) The actual ratio between variable remuneration to fixed remuneration takes into account all the short or long-term components of the remuneration.

b) The amount indicated under the column "Fixed Remuneration" also includes remuneration received as member of the Board of Directors or paid as role allowances.

c) The amount shown includes the annual component of the LECOIP Plans, of: "protected capital" at fair value, option evaluation (B&S) and the so-called Sell to cover.

d) Intesa Sanpaolo shares, unless otherwise specified

e) The amounts shown include the cash value of the stakes and the exchange value, at the time of definition of the incentive, of the shares attributed to Management in previous years as part of the 2014 and 2015 incentive plan, where such shares may actually be granted only in the following years because of the retention period and they are anyway always subject, except in specific cases, to continuation of employment.

f) The amounts indicated refer to the 2012, 2014 and 2015 Incentive Systems.



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As shown in the table above, amounts accrued during the year but assigned in prior years (2015 Incentive System for the first deferred portion paid in cash, 2014 Incentive System for the upfront portion in shares and the first deferred portion in cash and the 2012 Incentive System for the last deferred portion in shares) were paid during 2017.

In view of the overall remuneration levels for 2017, even if paid during the year only for the component relating to the fixed remuneration, there are 28 Managers - in service as at 31 December 2017 - whose remuneration is equal to at least 1 million euro. In particular:

- 1 Manager with total remuneration between 6 and 7 million euro;
- 1 Manager with total remuneration between 2.5 and 3 million euro;
- 4 Manager with total remuneration between 2 and 2.5 million euro;
- 8 Manager with total remuneration between 1.5 and 2 million euro;
- 14 Managers with total remuneration between 1 and 1.5 million euro.

In terms of the information required on employee termination indemnities defined during the year, in 2017 a total of 5 Managers, within the Group Risk Takers perimeter, terminated their employment and 4 Key Managers terminated their employment relationship on 31/12/2017. The total amount of termination indemnities payable to the above 9 Managers amounted to 5,200 thousand euro, the highest of which was 1,400 thousand euro.

11 Managers were recruited in 2017, 1 of whom under the Group Risk Takers category.

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## PART IV – INTERNAL AUDITING DEPARTMENT ASSESSMENT OF THE INCENTIVE SYSTEM

The Chief Audit Officer Structures of Intesa Sanpaolo have carried out the planned audit, aimed at analysing the operational practices followed in defining the incentive system for 2017, in accordance with the Policies and application profiles resolved by the Bodies and the relative Provisions issued by the Bank of Italy (CRD IV implementation).

The audit was broken down in order to examine the operational phases of the process: quantification and approval of the main components of the incentive system (economic requirements, certification of results achieved, determination of the bonus pool, incentives for Top Risk Takers and Heads of the Control Functions); pay out of incentives to the departments with specific reference to staff whose professional activities have a material impact on the risk profile.

As expected, the remuneration policies, the principles of the incentive system, the financing methods for the bonus pool, the activation thresholds, the rules for the identification of staff whose professional activities have a material impact on the risk profile and the objectives assigned to the Top Risk Takers were approved by the corporate bodies in 2017, each to the extent applicable.

The structure has been assessed as compliant with Regulations by the Compliance Department. The main changes introduced, applicable to 2017, included the raising of the limit of the “variable/fixed” remuneration ratio to 2:1 for all the Risk Takers not belonging to the Corporate Control Functions, in addition to the population of specific business segments, with the application of stricter criteria in terms of the balancing of cash and shares for bonuses exceeding the fixed remuneration. Other amendments related to several refinements concerning severance pay. The variable remuneration component for the remaining personnel (PVR – subject of the Level 2 Agreement with the Trade Unions) was also established for 2017.

The threshold set by the Group's bonus pool activation rules was achieved, in line with all targets, i.e. Net Income compatible with the distribution of dividends, Gross Income, RAF indicators (CET1R and NSFR), allowing the funding there of according to the pre-established application methods and policies.

The results achieved by the Top Risk Takers were quantified and approved by the competent Bodies.

Based on the findings to date, the Chief Audit Officer expressed an opinion on the adequacy of the operational practices adopted, in accordance with the policies and profiles defined, and made several suggestions for the following year aimed at ensuring better formalisation of some phases of the process.

The audit process will be completed with the checks on the correctness of the phase of actual payment of the incentives (including the deferred portion), with specific reference to the incentives paid to the staff whose professional activities have a material impact on the risk profile and the Heads of the Corporate Control Functions, in order to determine their alignment with what was approved by the corporate Bodies.

To supplement the Report on Remuneration presented on 27 April 2017, the disbursement of the incentives for the financial year 2016 (including the deferred portion), which took place in May 2017, was checked and was found to be substantially consistent with the policies and approved application profiles. In this regard, suggestions were made aimed at improving several operational controls across all the Group companies (including the international subsidiary banks), as well as the formalisation within Fideuram's policies of some specific features of the financial advisors network.

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# Appendix



**Table No. 1: “Art. 6 - Corporate Governance Code”**

<b>Principles and Criteria of the Corporate Governance Code</b>	<b>Page of Report</b>
6.P.1. The remuneration of directors and key managers shall be established in a sufficient amount to attract, retain and motivate people with the professional skills necessary to successfully manage the issuer.	pages 14, 19
6.P.2. The remuneration of executive directors and key managers shall be defined in such a way as to align their interests with pursuing the priority objective of the creation of value for the shareholders in the medium-long term. With regard to directors with managerial powers or performing, also de-facto, functions related to business management, as well as with regard to key managers, a significant part of the remuneration shall be linked to achieving specific performance objectives, possibly including non-economic objectives, identified in advance and determined consistently with the guidelines contained in the policy described in principle 6.P.4.  The remuneration of non-executive directors shall be proportionate to the commitment required from each of them, also taking into account their possible participation in one or more committees.	pages 9, 14, 16, 17, 29, 68
6.P.3. The Board of Directors shall establish among its members a remuneration committee, made up of independent directors. Alternatively, the committee can be made up of non-executive directors, the majority of which being independent ones; in this case, the chairman of the committee is selected among the independent directors. At least one committee member shall have an adequate knowledge and experience in finance or remuneration policies, to be assessed by the Board of Directors at the time of his/her appointment.	
6.P.4. The Board of Directors shall, upon proposal of the Remuneration Committee, establish a policy for the remuneration of directors and key managers.	page 14
6.P.5. In case of the end of office and/or the termination of the employment relationship with an executive director or a general manager, the issuer discloses, through a press release to the market, detailed information, following the internal process leading to the assignment or recognition of indemnities and/or other benefits.	
6.C.1. The policy for the remuneration of executive directors and other directors vested with special offices shall define guidelines on the issues and consistently with the criteria detailed below:  a) the fixed component and the variable component are properly balanced according to issuer’s strategic objectives and risk management policy, taking into account the business sector in which it operates and the nature of the business carried out;  b) upper limits for variable components shall be established;  c) the fixed component shall be sufficient to reward the director when the variable component was not delivered because of the failure to achieve the performance objectives specified by the Board of Directors;  d) the performance objectives – i.e. the economic performance and any other specific objectives to which the payment of variable components (including the objectives for the share-based compensation plans) is linked – shall be predetermined, measurable and linked to the creation of value for the shareholders in the medium-long term;	pages 16, 19, 20, 22, 23, 28  pages 19, 22, 28  pages 19, 22, 23, 29, 49, 68  pages 16, 17, 22, 23, 29, 68

- e) the payment of a significant portion of the variable component of the remuneration shall be deferred for an appropriate period of time with respect to the accrual; the amount of that portion and the length of that deferral shall be consistent with the characteristics of the issuer's business and associated risk profile; pages 24,25, 30, 31
- f) contractual arrangements shall be provided in order to permit the company to reclaim, in whole or in part, the variable components of remuneration that were awarded (or to hold deferred payments), as defined on the basis of data which subsequently proved to be manifestly misstated; pages 39, 43
- g) indemnities eventually set out by the issuer in case of early termination of directors or non-renewal shall not exceed a fixed amount or fixed number of years of annual remuneration. Termination payments shall not be paid if the termination is due to objectively inadequate results.
- 6.C.2. In preparing plans for share-based remuneration, the Board of Directors shall ensure that: pages 25, 26, 29, 30, 31, 48, 68
- a) shares, options and all other rights granted to directors to buy shares or to be remunerated on the basis of share price movements shall have an average vesting period of at least three years;
- b) the vesting referred to in paragraph a) shall be subject to predetermined and measurable performance criteria;
- c) directors shall retain a certain number of shares granted or purchased through the exercise of the rights referred to in paragraph a), until the end of their mandate.
- 6.C.3. The criteria 6.C.1 and 6.C.2 shall apply, mutatis mutandis, also to the definition – by the bodies entrusted with that task – of the remuneration of key managers. page 17
- Any incentive plan for the head of Internal Auditing and for the manager responsible for preparing the Company's financial reports shall be consistent with their role.
- 6.C.4. The remuneration of non-executive directors shall not be – other than for an insignificant portion – linked to the economic results achieved by the issuer. Non-executive directors shall not be beneficiaries of share-based compensation plans, unless it is so decided by the annual shareholders' meeting, which shall also give the relevant reasons. page 11
- 6.C.5. The remuneration committee shall:
- periodically evaluate the adequacy, overall consistency and actual application of the policy for the remuneration of directors and key managers, also on the basis of the information provided by the managing directors; it shall formulate proposals to the Board of Directors in that regard;
  - submit proposals or issues opinions to the Board of Directors for the remuneration of executive directors and other directors vested with special offices as well as for the identification of performance objectives related to the variable component of that remuneration; it shall monitor the implementation of decisions adopted by the Board of Directors and verify, in particular, the actual achievement of performance objectives.

6.C.6. No director shall participate in meetings of the remuneration committee in which proposals are formulated to the Board of Directors relating to his/her remuneration.

6.C.7. When using the services of a consultant in order to obtain information on market standards for remuneration policies, the remuneration committee shall previously verify that the consultant concerned is not in a position which might compromise its independence.

6.C.8. According to principle 6.P.5., the press release should provide:

page 8

a) adequate information on the indemnity and/or other benefits, including their amount, timing of disbursement – distinguishing both between the component immediately paid out and the one subject to deferral mechanisms and between the component received as director from the other one related to an employment relationship, if any – and “claw-back” clauses, if any, in particular with reference to:

- indemnities for the end of office or termination of the employment relationship, specifying the circumstances of its accrual (for example, expiry, revocation or settlement agreement);

- maintenance of rights related to any incentive plans, monetary or financial instruments based;

- benefits (monetary and non monetary ones) subsequent to the end of office;

- non-competition commitments, describing their main contents;

- any other payment assigned for any reason and in any form;

b) information about the compliance or non-compliance of the indemnity and/or other benefits with the remuneration policy and, in case of even a partial non-compliance with the remuneration policy, information about internal procedures applied according to Consob related party transactions’ regulation;

c) information about the application, or non-application, of any mechanism that provides restrictions or corrections to the indemnity in case of termination due to the achievement of objectively inadequate results, as well as whether requests have been formulated for the reclaim of remuneration already paid out;

d) information as whether the replacement of the ceased executive director or general manager is governed by any succession plan adopted by the company and, in any case, information about procedures that have been or will be applied for the replacement of the director or manager.

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**Table No. 2: “Art. 123-ter - Report on remuneration”**

Art. 123-ter - Report on remuneration	Page of Report
1. At least twenty-one days prior to the date of the shareholders' meeting established by article 2364, paragraph two, or the shareholders' meeting established by article 2364-bis second paragraph of the Italian Civil Code, companies with listed shares shall make a report on remuneration available to the public at the company registered office, on its internet website or in any of the other ways established by Consob regulation.	page 8
2. The report on remuneration shall be laid out in the two sections established by paragraphs 3 and 4 and is approved by the Board of Directors. In companies adopting the two-tier system, the report is approved by the supervisory board, upon proposal, limited to the section established by paragraph 4, letter b), of the management board.	page 8
3. The first section of the report on remuneration explains:	
a) the company's policy on the remuneration of the members of the management bodies, general managers and key managers with reference to at least the following year;	pages 9, 14, 48
b) the procedures used to adopt and implement this policy.	page 9
4. The second section, which is intended for the members of the management and control bodies, general managers and, in aggregate form, without prejudice to the provisions of the regulation issued in accordance with paragraph 8, for key managers:	
a) provides a suitable representation of each of the items comprising remuneration, including treatment provided for in the event of cessation of office or termination of employment, highlighting the consistency with the company's policy in terms of remuneration approved the previous year;	page 48
b) analytically illustrates the remuneration paid during the financial year of reference, for any title and in any form by the company and by subsidiaries or associates, noting any components of said remuneration that refer to activities performed in years prior to that of reference, in addition to highlighting the remuneration to be paid in one or more subsequent years in exchange for the work performed in the year of reference, potentially specifying an estimated value for components that cannot objectively be quantified in the year of reference.	page 53
5. Remuneration plans established by article 114-bis are attached to the report, or the report specifies the section of the company's website where these documents can be viewed.	page 59
6. Without prejudice to the provisions of articles 2389 and 2409-terdecies, first paragraph, letter a) of the Italian Civil Code and article 114-bis, the shareholders' meeting called in accordance with article 2364, paragraph two or article 2364-bis, paragraph two, of the Italian Civil Code, resolves in favour or against the section of the report on remuneration established by paragraph 3. This resolution is non-binding. The outcome of voting is made available to the public in accordance with article 125-quater, paragraph 2.	page 8