*This is an English courtesy translation of the original documentation prepared in Italian language.*

*Please consider that only the original version in Italian language has legal value.*

# REPORT TO THE ORDINARY SHAREHOLDERS' MEETING
# 12 April 2019

## Proposal for the definition of the ratio of fixed to variable components of remuneration up to a limit of 2:1 for the "Identified Staff" of the UBI Banca Group.

Dear Shareholders,

Directive 2013/36/EU of the European Parliament and of the Council of 26th June 2013 (“CRD IV”) introduced, as already reported, with reference to remuneration policies and practices, specific limits on the ratio of fixed to variable components of individual remuneration with, as a general criterion, a limit of 1:1 for “Identified staff” and it allows that ratio to be increased up to a maximum of 2:1 in compliance with determined conditions, subject to a prior binding approval by a qualified majority vote of the Shareholders’ Meeting.

The Bank of Italy provisions which implement that directive require the Supervisory Board to inform the European Central Bank of the relative proposal at least 60 days before the date set for the shareholders decision and, within 30 days of approval of the proposal, that same supervisory authority must be informed of the decision made by the Shareholders’ Meeting with details of the limit or limits approved for each category of staff concerned.

With the publication of the 25th update of Circular No. 285 “Supervisory Regulations for Banks”, the Bank of Italy also explained that if that limit is approved it is not necessary to submit a new resolution to a Shareholders’ Meeting in subsequent years on condition that there has been no change: to the underlying assumptions forming the basis for the approval of the increase; to the staff to which it refers; and to the amount of the limit itself. Also the remuneration policy shall give adequate information on the increase of the previously approved limit and the reasons why this not been submitted for new approval by Shareholders Meeting.

## a) The functions to which those affected by the decision belong

Given the above, a proposal is therefore submitted to your attention to set a limit on the ratio between the variable component and the fixed component of remuneration for all “Identified Personnel”, identified and periodically updated in accordance with Commission Delegated Regulation (USE) 604/2014[1], except for staff belonging to the Control Functions, the Senior Officer responsible for the preparation of financial statements and the Head of the Human Resources of the Parent on the basis of the reasons and considerations indicated below.

## b) The reasons underlying the proposal formulated

The competitiveness of the wage packets for “Identified staff”, which is indispensable for attracting key managers and roles to the Group and retaining them, is constantly monitored with regard to the applicable markets and it is based, for the principal management and professional positions, on the assessment and “weighting” of positions in accordance with standard market practices.

On the basis of external comparisons, it is considered that the fixed component of remuneration is sufficiently competitive with respect to the amounts paid by major competitors in the sector.

As concerns variable remuneration, the UBI Banca Group has adopted a prudent approach to this strategic lever and for the whole of 2018 it has allowed the limit between the variable component

[1] *Reference is made for details of the numbers of “Identified staff” for each function or category to the contents of the document on Group Incentive and Remuneration Policies for the relative year.*

and the fixed component to be potentially exceeded up to 2:1 solely for “Identified staff” of the Group working in the asset management sector, which has always been characterised by staff who are not subject to regulatory constraints on variable remuneration.
The proposal to set the ratio of variable to fixed remuneration up to 2:1 for potentially all “Identified staff” (except for the staff mentioned above) arises from the requirement to be able to render the wage packets of some highly professional staff working in determined sectors (including in particular, but not exclusively, that of investment banking) competitive, where strong competition for staff, based mainly on the ability to earn bonuses in line with the high qualitative and quantitative level of the performance produced, generates a high retention risk and considerable difficulties with attraction.
Approval of this proposal would also make it possible to avoid making changes to increase the fixed component of remuneration in wage packets, which on the one hand would inevitably increase the cost structure for management wage packets and make them less flexible and at the same time it would weaken the consistent link between short and long-term company performance and remuneration for “Identified staff”.

### c) Considerations concerning the ability of the Group to comply with supervisory regulations

In view of the above, the request to increase the ratio to 2:1 for potentially all “Identified staff” nevertheless guarantees compliance with supervisory regulations when it is considered that:

- the relationship between bonuses and meeting prudential requirements in terms of capital and liquidity is guaranteed by the link between the conditions for triggering incentive schemes (“CET1 ratio”, “NSFR”, “LCR” and “LR”) and the Group’s “risk appetite framework”;
- it does not involve a proportional increase in the financial resources allocated to variable remuneration because the bonus pool mechanism of the incentive scheme, the structure of which is determined *ex ante*, links the financial resources allocated to the overall bonus pool available *ex post* with a specific Group performance indicator which at present is the Return On Risk Adjusted Capital (RORAC);
- however the incentive scheme is not triggered for “Identified staff” if the financing condition set at Group level (RORAC) is below the trigger threshold and in any event it is not triggered for all staff in the absence of stated normalised profit;
- while at the time of submitting this proposal, it potentially regards a total of 172 staff for the financial year 2019 (0.8% of the workforce), the actual use of a ratio higher than 1:1 between variable and fixed remuneration could regard a limited number of staff, as defined in the models for the implementation of remuneration policies, the results of which, when they are final, will be submitted to the attention of the Shareholders’ Meeting in the Remuneration Report.

With regard to the above, the Supervisory Board of UBI Banca invites the Shareholders’ Meeting to approve, with a binding resolution, a proposal for the definition of up to a maximum of 2:1 for the ratio of variable remuneration to fixed remuneration potentially for all “Identified Staff”, with the exception of the “Identified staff” belonging to the Control Functions, the “Senior Officer Responsible” and the Head of Human Resources of the Parent.
In accordance with the provisions of Art. 53, paragraph 4 of the Consolidated Banking Law, personnel who are shareholders of the Bank must in any event abstain from voting on the resolution in the Shareholders’ Meeting to approve an increase in the limit that regards their remuneration.

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Dear Shareholders,

In relation to the above, the Supervisory Board therefore proposes that the Ordinary Shareholders' Meeting approves the following resolution:

*"The Shareholders' Meeting of Unione di Banche Italiane Spa,*

- *having read Bank of Italy Circular No. 285 regarding "Remuneration and incentive policies and practices";*
- *having noted the Supervisory Board's proposal regarding the definition of a ratio of up to 2:1 between the variable component and the fixed component of remuneration for "Identified Staff", with the exception of those belonging to the Control Functions, the "Senior Officer Responsible" and the Head of Human Resources of the Parent;*
- *having verified that the proposal itself does not compromise compliance with supervisory regulations and in particular those regarding requirements for own funds*

*RESOLVES*

*to grant the power to increase the ratio between variable and fixed remuneration up to a maximum of 2:1 potentially for all "Identified Staff" identified at Group level with the exception of those belonging to the Control Functions, of the "Senior Officer Responsible" and of the Head of Human Resources of the Parent and to give a mandate to the newly formed Board of Directors to submit a precise and detailed report on the actual use of that power to Shareholders' Meetings within the Remuneration Report for each financial year."*

22st January 2019

THE SUPERVISORY BOARD