



MEDIOBANCA GROUP

2018 Remuneration policy

27 October 2018



MEDIOBANCA

EXECUTIVE SUMMARY

FY18 – BUSINESS ACHIEVEMENTS AND REMUNERATION HIGHLIGHTS

All gateways met

- ◆ Capital and liquidity ratios enhanced as defined in the Risk Appetite Framework
- ◆ Positive Group Gross Operating Profit

FY 2017/18 results

Record results by revenues, GOP and net profit driven by enhanced distribution and strong commercial push

Pay for performance

- ◆ Last FY performance approach confirmed
- ◆ Increase of bonus pools for Compass and CheBanca! due to growth and performance

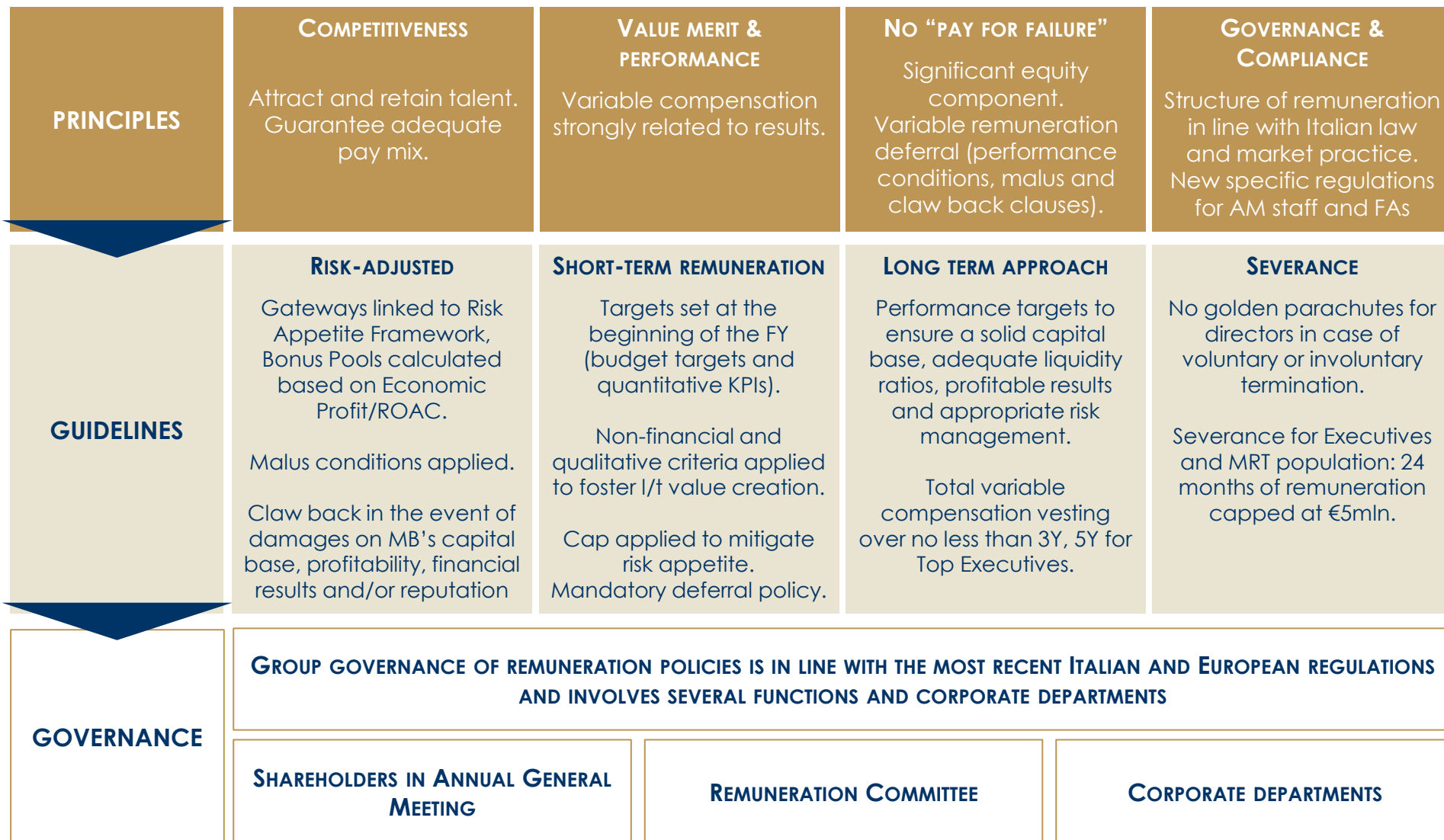
CEO and General Manager

Scorecard KPIs achieved, variable compensation awarded

Remuneration Policies aligned to the latest European and Italian sets of rules

- ◆ Group aligned Remuneration Policy to the latest European and Italian legislation/provisions. In particular with reference to:
 - ◆ Governance, metrics and remuneration processes reinforcement
 - ◆ CEO and GM evaluation criteria, framework for Financial Advisors, Compliance breach policies
 - ◆ Variable remuneration capped at 200% of fixed remuneration
 - ◆ Severance: established at 24 months of remuneration capped at € 5mln gross
 - ◆ 5-year deferral period for 60% of variable remuneration for Executive Directors and Top Executives

REMUNERATION: PRINCIPLES AND GOVERNANCE



REMUNERATION GOVERNANCE

SHAREHOLDERS IN ANNUAL GENERAL MEETING	REMUNERATION COMMITTEE	CORPORATE DEPARTMENTS INVOLVED
<p>The responsibilities of the Shareholders in the Annual General Meeting include:</p> <ul style="list-style-type: none"> ◆ setting, at each BoD renewal, the annual fixed pay for members of the board of directors ◆ approving the remuneration policies and compensation schemes based on financial instruments for group directors, staff and collaborators ◆ approving the criteria for determining the compensation to be awarded in the event of early termination of the employment relationship or term of office ◆ setting variable remuneration for employees and advisors of the Group at 200% of fixed remuneration, following Board of Directors proposal or any other limit set by the regulations. 	<p>Consultative role regarding General Manager, Executive Directors and staff remuneration and retention policies. Activities include:</p> <ul style="list-style-type: none"> ◆ reviews and assesses remuneration proposals and guidelines put forward by the CEO ◆ serves in an advisory capacity for decisions regarding the criteria to be used for compensation payable to all identified staff ◆ regularly reviews (through benchmarks & market practice analysis, regulatory framework and Bank of Italy recommendations) the adequacy, congruity, adherence and application of remunerations policies ◆ verifies performance achievements involving all relevant company units in devising and checking the remuneration and incentive policies and practices 	<p>GROUP HR process owner, governs and controls units to verify the Group's earnings and financial data</p> <p>Audit reviews data and- monitors process adherence</p> <p>Accounting provides data for determining the business areas' performances based on results</p> <p>Compliance evaluates compliance of policy with legal and regulatory frameworks</p> <p>Risk Management contributes to establishing metrics to calculate risk adjusted performance</p>



REMUNERATION COMMITTEE

COMPOSITION

4 non-executive members of which 75% independent
(due to the resignation of César Alierta in March 2018, members decreased from 5 to 4 and independence from 80% to 75%)

Member	Position	Independent
M. Carfagna	Chairman	X ^{1,2}
V. Hortefeux	Member	X ^{1,2}
A. Lupoi	Member	X ^{1,2}
A. Pecci	Member	

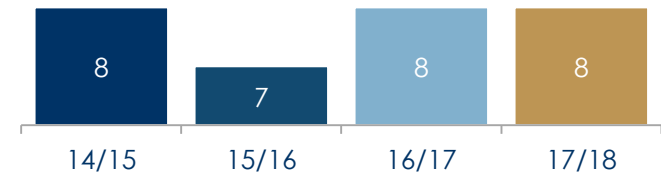
FY18 MAIN TOPICS

- ◆ Definition of scorecards for CEO and GM, with financial and non financial criteria evaluation
- ◆ Analysis of regulatory framework with main focus on employees working in asset management and as financial advisors in the Group
- ◆ Analysis of benchmarks and market practice
- ◆ Review of the current internal compensation processes and procedures
- ◆ Review of the new Remuneration Policy to be approved by the Board of Directors and by shareholders (AGM)

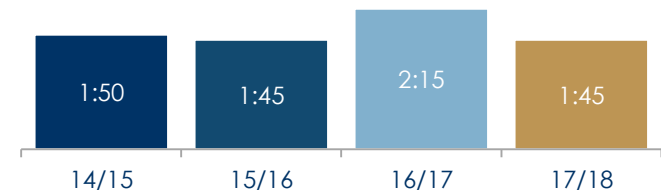
ACTIVITY

Effectiveness of Rem Co with meetings number, duration and attendance confirmed in the last 4Y

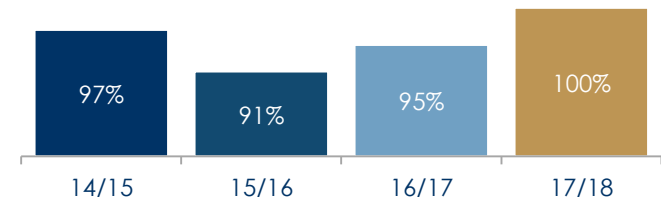
Meetings



Duration (h:m)



Attendance



REMUNERATION STRUCTURE

The **remuneration structure** is aligned both to the **latest European and Italian legislation/provisions¹** and with **global best practices**.
An **adequate balance between fixed and variable** remuneration is **crucial to avoid risk and short-term behaviour**.

All variable remuneration is subject to performance conditions in the performance evaluation horizon, ex post malus condition (Group performance, compliance breaches, responsibility for financial losses or reputational damages) **and claw back clauses** (in case of fraud or willful misconduct)

Employee category	Fixed Compensation		Variable compensation		
	Base	Pension plan contribution	Short Term Incentive		Long Term Incentive
	Cash	Cash	Cash	Shares	
Executive Directors	100%	100%	50%	50%	Existing but currently not adopted
Non Executive directors	100%				
Chairman	100%	100%			
All Executives (material risk takers)	100%	100%	50%	50%	

- ◆ **Executive directors** variable remuneration
 - ◆ accrues only if aligned with established gateways
 - ◆ variable remuneration is distributed 50% in cash and 50% in equity (performance shares)
- ◆ **Executives** variable remuneration is paid inter alia in the form of equity instruments (performance shares scheme)

The Group's identified staff (or MRT - Material Risk Takers Executives) as at 30 June 2018 represents 1,86% of the total Group staff and are as follows: 88 resources qualified as identified staff, including Executives, Senior Management, Manager of business units and other resources with managerial responsibilities.

- ◆ In accordance with the European Directive CRD IV, **Mediobanca has set a cap on variable remuneration for all employees at 200% of fixed pay** to:
 - ◆ maintain adequate flexibility and minimize fixed costs
 - ◆ align interests and encourage the achievement of sustainable results
 - ◆ attract and retain talent in an aggressive market context
 - ◆ reward performance and link individual performance to the results of the bank
- ◆ Employee bonus pool determination and distribution is governed by "gateways".
- ◆ Individual allocation is based on documented quantitative and qualitative performance evaluation, with particular attention to aspects of compliance.
- ◆ Guaranteed bonuses permitted only for the first year of particularly talented new hires

Note 1)
 ◆ European Directive CRD IV came into force on 1 January 2014
 ◆ European Commission Regulation of 4 March 2014, establishing the procedure for identified staff, based on qualitative and quantitative criteria
 ◆ Bank of Italy provisions regarding compensation policies and practices, November 2014
 ◆ EBA Guidelines on Remuneration Policies 21 December 2015, into force on 1 January 2017



VARIABLE REMUNERATION SETTLEMENT

Employee category	Instrument	STI Variable compensation settlement					Total	
		up front	1Y	2Y	3Y	4Y		5Y
Executive Directors & Top Executives (material risk takers)	Cash	20%	12%			6%	12%	50%
	Equity			20%	12%	12%	6%	50%
Central Functions	Cash	100%						100%
	Equity	-						-

Executive directors variable remuneration settlement

- ◆ 2-year holding period for up-front equity components
- ◆ 5-year deferral period for 60% of remuneration

Top executives (material risk takers) variable remuneration settlement: 60% of the variable component is deferred over a 5-year time horizon (as for the Executive Directors)

All variable remuneration awarded is subject to certain and further Group performance conditions, malus and clawback clauses during the deferral period and before granting

Other Executives (material risk takers) variable remuneration settlement: a substantial part of the variable component, up to 60%, is deferred over a three-year time horizon and paid inter alia in the form of equity instruments (performance shares schemes)

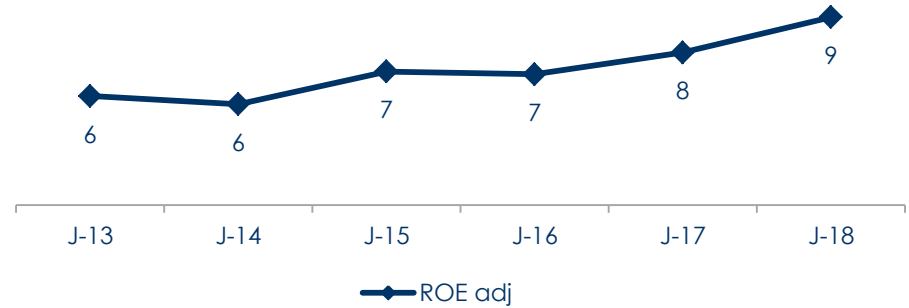
Performance share plan (reserved to employees)

- ◆ at least 3-year deferred period (vesting plus holding)
- ◆ all variable remuneration is subject to performance conditions, ex post malus condition and clawback clauses

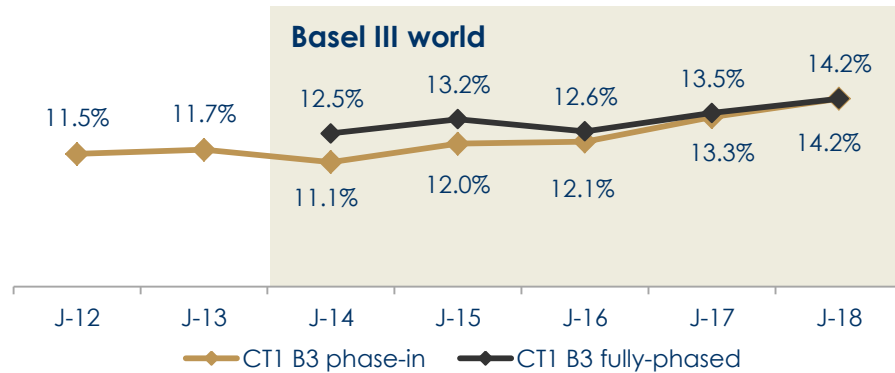
MEDIOBANCA GROUP LONG TERM VALUE CREATION FOR SHAREHOLDERS

- ◆ Mediobanca has achieved growth even in a tough environment
 - ◆ acquisitions to boost growth: Cairn Capital, RAM AI, Barclays Italian retail perimeter and 20% stake in BFI Finance
 - ◆ stable cost/income despite material investments, no need for significant restructuring
 - ◆ stable ROE over the cycle
 - ◆ distinctive and solid NPL indicators (Texas 13%)
 - ◆ solid capital ratios
 - ◆ positive market performance in the last 4Y

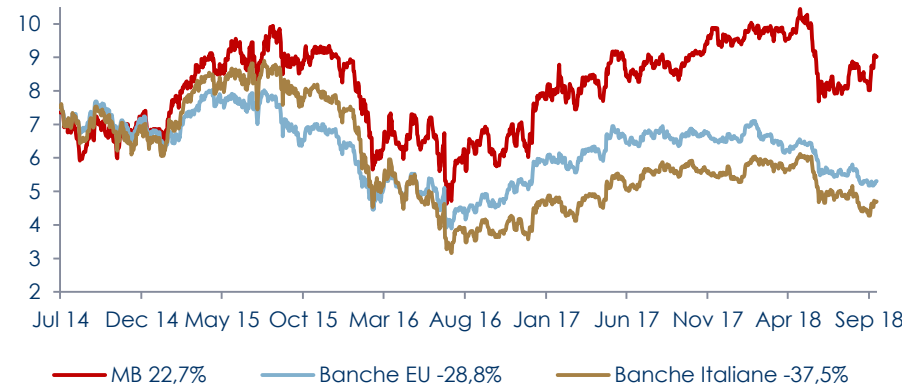
High single-digit normalized profitability¹...



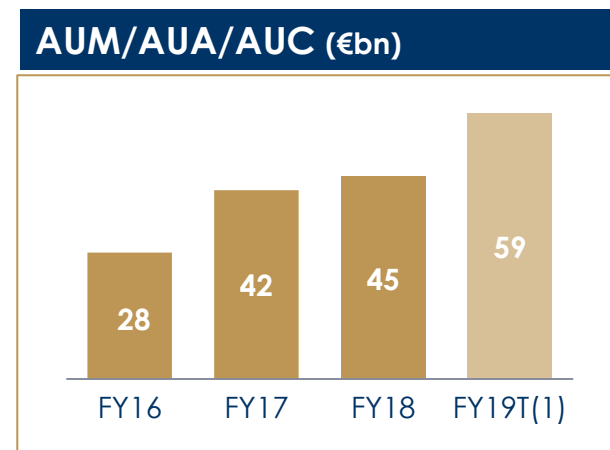
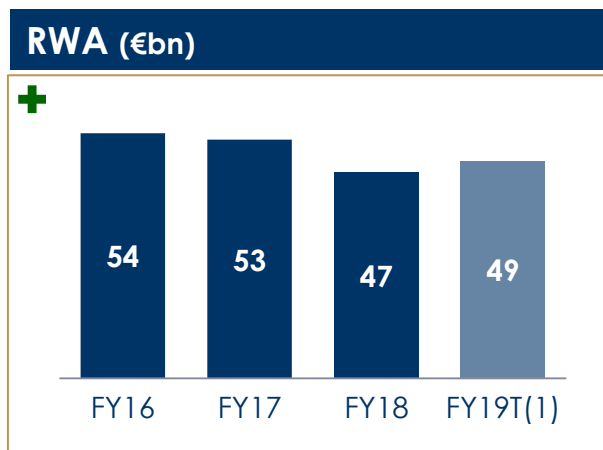
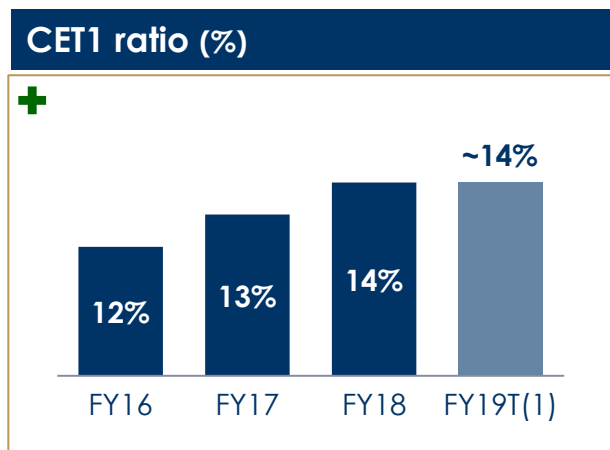
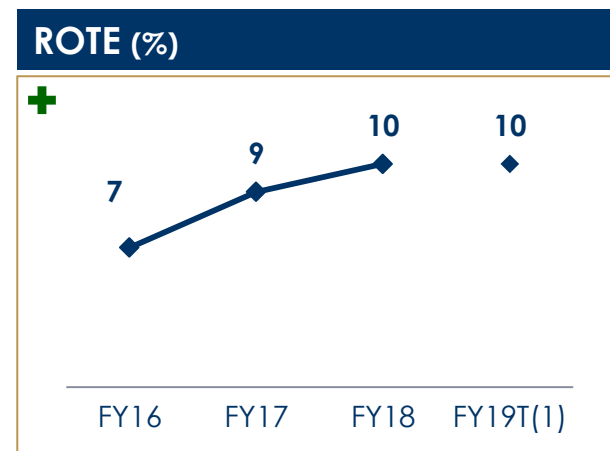
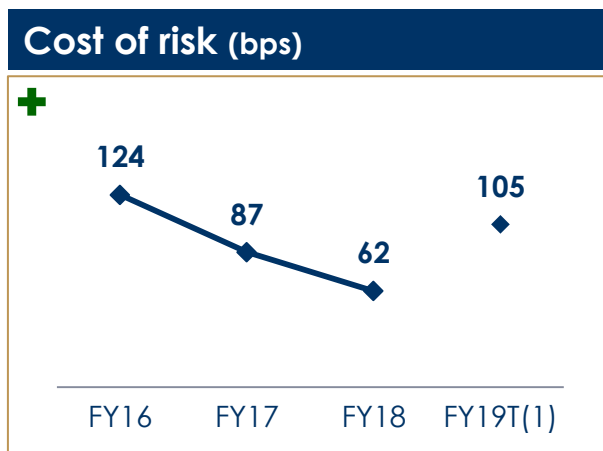
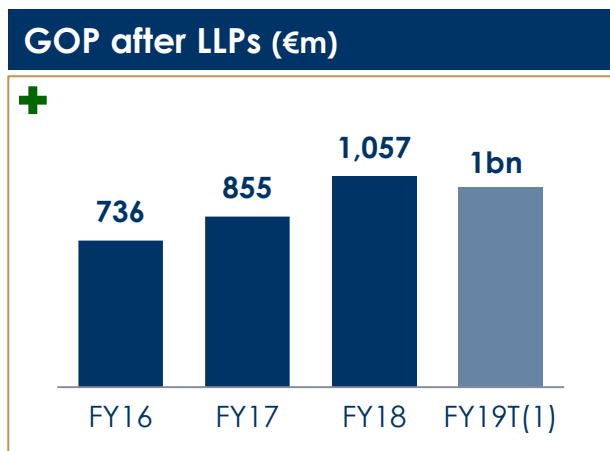
Solid capital ratios without K increases (last one in 1998) and almost €4bn returned to shareholders²...



Positive market performance since July 2014



FY18 - BUSINESS MODEL SUCCESSFULLY RESHAPING, WELL ON TRACK ON BP19 TRAJECTORY



+ ahead of BP

GATEWAYS, KEY PARAMETERS, PERFORMANCE CONDITIONS

Variable compensation is subject to gateway achievement

Gateways are based on risk adjusted metrics with a view to guaranteeing long-term, sustainable results and to preserve an adequate capital stability, a robust liquidity profile and to mitigate the Group's future risks

As a reference point to ensure the overall financial sustainability of the global bonus pool for the Group's various business divisions Economic Profit and/or ROAC are used

Risk Appetite Framework is the basis of Mediobanca gateways

Performance conditions linked to the Group's RAF and risk adjusted product performance foreseen for release of deferred compensation

CEO and GM short term incentive:

- ◆ accrues only if aligned with established gateways
- ◆ defined by a scorecard with financial and non financial criteria
- ◆ is distributed 50% in cash and 50% in equity (performance shares)

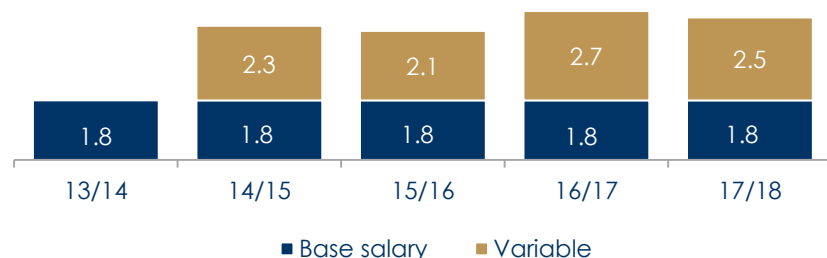
GATEWAYS (preliminary and min.conditions for any variable remuneration calculation)		PARAMETER	TARGET	ON/OFF	FY18 RESULTS
		Operating profit at Group level	>0	<input checked="" type="checkbox"/>	1.057
		Cet1 ratio	> 8,75% (ex SREP)	<input checked="" type="checkbox"/>	14,2%
		Leverage Ratio	> Risk Appetite Framework	<input checked="" type="checkbox"/>	8,8%
		AFR/ECAP	> Risk Appetite Framework	<input checked="" type="checkbox"/>	181%
		Liquidity Coverage ratio	≥ 100%	<input checked="" type="checkbox"/>	186%
		Net Stable Funding Ratio	≥ 100%	<input checked="" type="checkbox"/>	108%
		Retail funding ratio ¹	> Risk Appetite Framework	<input checked="" type="checkbox"/>	63%
SHORT TERM INCENTIVE		PARAMETER	WEIGHT	ASSESSMENT	
CEO	Gross ROAC adj. Banking activities		30%	EXCEEDED	
	CET 1 Ratio		15%	EXCEEDED	
	Wealth Management revenues		30%	ALMOST MET	
	Group ROA		25%	EXCEEDED	
	Working environment monitoring initiatives			MET	
	CSR development initiatives			MET	
GM	Gross ROAC adj. Banking activities		30%	EXCEEDED	
	Private Banking revenues		30%	ALMOST MET	
	Holding Functions profit before taxes		20%	EXCEEDED	
	Group Cost/income ratio		30%	EXCEEDED	
	Rationalization of Group's infrastructure and support units			MET	
	Rationalization of MB Private Banking (ex Banca Esperia)			MET	
LONG TERM INCENTIVE		PARAMETER	TARGET	ON/OFF	
Existing but currently not adopted		Business Plan 16-19	Key metrics	<input type="checkbox"/>	



STABLE CEO AND GM COMPENSATION ON EXCELLENT RESULTS MB GROUP GROWTH BY DIMENSION AND QUALITY IN FY19 SCORECARDS

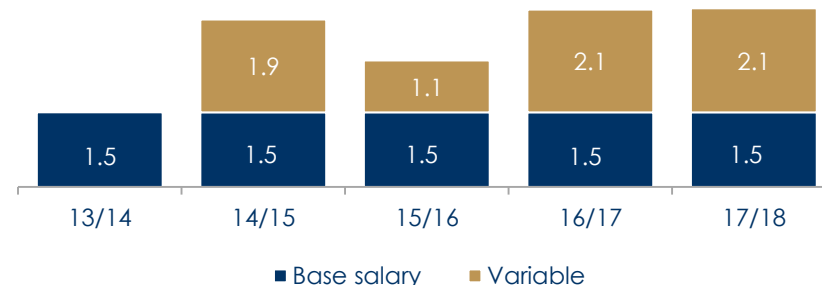
CEO compensation and scorecards

Total compensation evolution (€ m)



GM compensation and scorecards

Total compensation evolution (€ m)



CEO - FY19 Scorecards

PARAMETER	WEIGHT
RWA density	25%
Banking activities profit before taxes	25%
Group ROTE	25%
TFA growth	25%
Management development initiatives (Succession Plan)	qualitative
CSR development initiatives	qualitative

General Manager - FY19 Scorecards

PARAMETER	WEIGHT
Loans/Funding ratio	20%
Banking activities profit before taxes	30%
Banking activities cost/income ratio	20%
Private Banking Net New Money	30%
Data Quality project	qualitative
Wealth Management governance/organization development	qualitative

STOCK OWNERSHIP REQUIREMENT

CEO and GM are obliged to reinvest in Mediobanca shares and retain for their entire mandate an equivalent amount of twice fixed remuneration for the CEO and one times for GM

FY18 BONUS POOL SLIGHTLY UP ON RESULTS, PLATFORMS ENHANCEMENT AND BUSINESS MODEL EVOLUTION

◆ FY18 - all gateways met

◆ capital and liquidity ratios enhanced

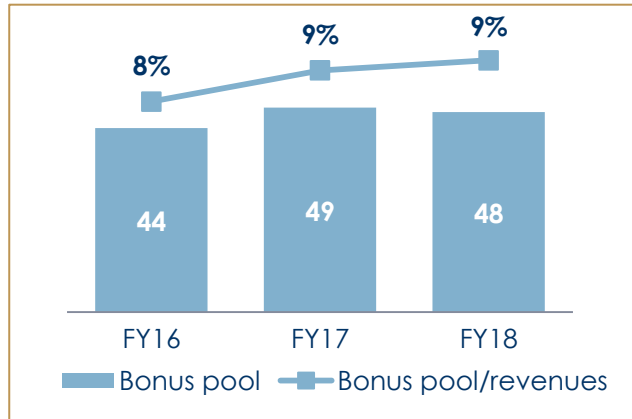
◆ positive group gross operating profit

◆ Wholesale and Compass bonus pool stable YoY both in absolute and relative terms

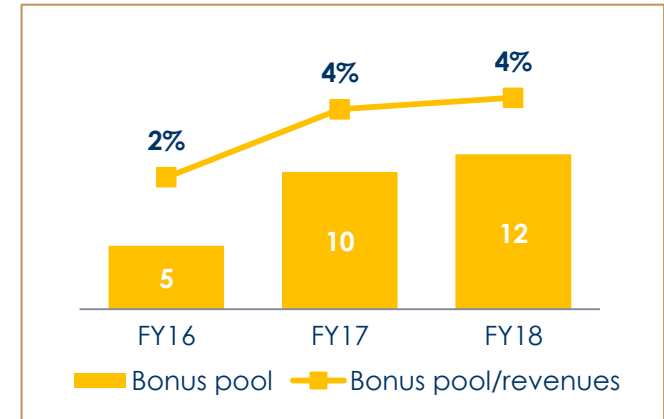
◆ CheBanca! bonus pool up on enlarged perimeter and distribution platform (FAs)

◆ Holding Functions bonus pool up due to the Group increased perimeter and regulation cost (i.e.: risk management function growth)

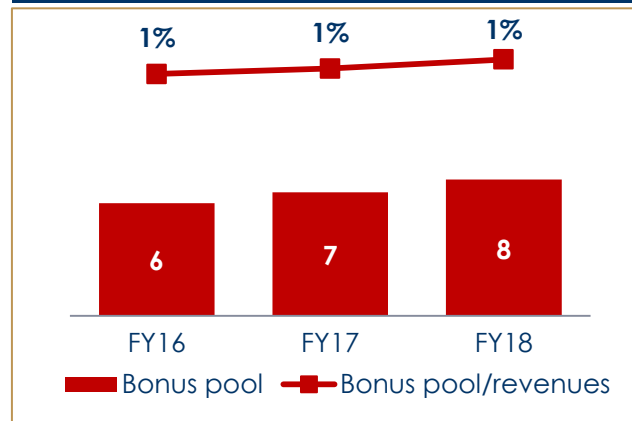
Wholesale Banking (€m)



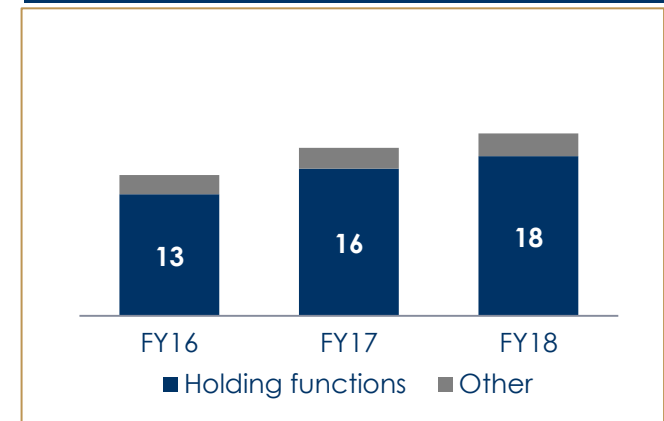
CheBanca! (€m)



Compass (€m)



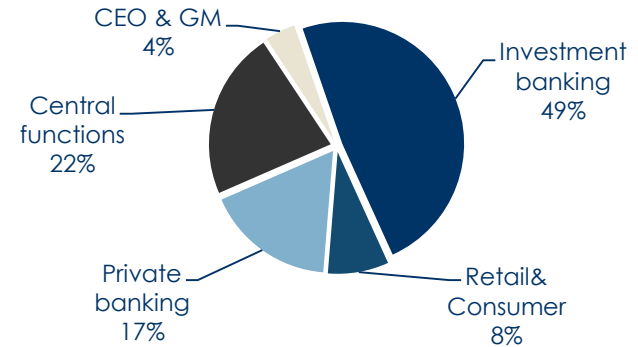
Holding Functions & other (€m)



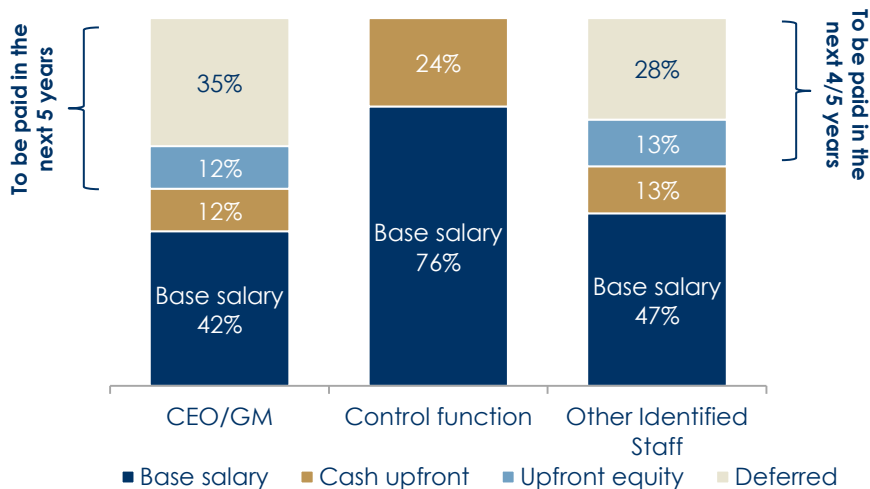
GROUP PAY MIX AND VARIABLE/FIXED REMUNERATION RATIO

- ◆ Slight increase in Group variable/fixed remuneration ratio 2018 vs. 2017 due to target achievement. Long term approach and sustainable remuneration mechanism applied in each BU:
 - ◆ WB: avg. 101% vs. 99% (Identified staff WB: 135% vs. 124 %)
 - ◆ Consumer: avg. 10% as in 2017 (Identified staff: 54% vs. 57%)
 - ◆ WM - Affluent/Premier: avg. 15% vs. 19% (Identified staff: 51% vs. 53%)
- ◆ CEO and GM FY18
 - ◆ fixed/variable ratio 138% vs. 145% in 2017
 - ◆ 60 % of variable compensation deferred
 - ◆ pay-mix: ≈40% to be paid in 5 years

Variable remuneration distribution by MB Group activity (% on total bonus pool)



FY17/18 identified staff pay mix



Variable remuneration/fixed salary by activity ¹(%)

