



## Report on remuneration 28 October 2014

Ongoing attention paid by governing bodies of Mediobanca to issue of remuneration, including in view of new documents published by the supervisory authorities:

- European Capital Requirements Directive (CRD IV): came into force on 1 January 2014, currently being phased into regulatory frameworks of individual European nations;
- Commission Delegated Regulation issued on 4 March 2014, published in the *Official Journal of the European Union* on 6 June 2014, which establishes the methods by which staff with a significant impact on an institution's risk profile are to be identified ("Identified Staff"), based on a combination of qualitative and quantitative criteria;
- Document published in draft form on 13 December 2013 and circulated for public consultation until 12 January 2014 by the Bank of Italy on new Instructions on remuneration, incorporating provisions of CRD IV and due to replace document currently in force issued on 30 March 2011.

### Approach to remuneration based on results for 2013/14

- The governing bodies and company units governed the entire process of applying and revising the Remunerations policies. The **Remunerations committee** met on five occasions in the course of the year, to analyse developments in the regulatory framework, formulate proposals to the Board of Directors regarding the variable remuneration of directors who are members of the Group's management, and that of other staff at the proposal of the Chief Executive Officer, monitor solutions adopted by competitors and analyse market compensation benchmarks; and review new Remunerations policies to be submitted to approval of both the Board of Directors and shareholders in general meeting.
- **Immediate adoption of new criteria for identifying staff** whose activities have a significant impact on banks' risk profiles ("**Identified Staff**") based on the provisions of the EU regulation. Consequent redefinition of scope of Mediobanca staff recipients of bonus pool to whom more stringent remuneration criteria are to be applied. The Group's identified staff as at 30 June 2014 now represents 1.75% of the total Group staff, up from 1.4% at 30 June 2013.
- For FY 2013/14, despite substantial net profit at Group level and satisfactory results by Investment Banking division in particular, in view of the negative performance reported by the Wholesale Banking area as a whole, **no variable remuneration** has been paid to directors who are members of the Group's management or **to a significant proportion of the Bank's senior management**.
- The Board of Directors, with the Remunerations committee expressing a positive opinion, at the Chief Executive Officer's proposal has nonetheless decided to pay a **retention bonus**, exercising the right provided for under the Remunerations policies in force. This decision reflects the advisability of safeguarding some of the Bank's professional resources, the sustainability of future results, and rewarding outstanding individual performances in view of the difficult scenario and the performance of specific business units.
- **Substantial reduction in variable component**, with retention bonus paid to small proportion of Mediobanca S.p.A. "identified staff", **down 20% vs 2013 and 44% vs 2012**.
- At the Chief Executive Officer's proposal, the Board of Directors, with the Remunerations committee expressing a positive opinion, as established by the policies in force, has also approved payment of part or all of the deferred bonus components from previous financial years, or reduced



them to zero as the case may be, according to the various business units' results and the reasons underlying their performances.

- **WB cost of labour down 5.3% % vs 2013 and approx. 13% vs 2012;** compensation/income ratio down approx. 30%, far below sector average.

## Main changes in 2014/15 policies to be approved

The new Remunerations policies have been revised to incorporate the most recent developments in regulations as issued by the sector authorities. The main changes compared to the previous versions involve:

- with reference to performance assessment:
  - new definition of the gateways required for the bonus pool to be disbursed;
  - revised criteria for measuring and quantifying the bonus pool earmarked for the Mediobanca Wholesale Banking area, the individual divisions and business units, and the other units providing service and support activities;
  - fine-tuning of structure of area scorecards and business unit performance measurement system;
- with reference to definition of identified staff and methods of remuneration:
  - identification of new scope of "Material Risk Takers" (identified staff);
  - institution of cap on variable remuneration set at two times the fixed remuneration.

## Overview of remuneration policies

- **Governance:** the corporate governance for the remuneration policies ensures that the policies themselves are based on clear, prudent rules which promote consistency, preventing situations of conflict of interest from occurring and ensuring transparency through the appropriate disclosure. The **Remunerations Committee** is made up of non-executive Board members, at least a majority of whom qualify as independent, and **has powers of consultation and enquiry**, whereas the **Board of Directors**, in addition to determining the remuneration of the Chairman, CEO and General Manager, **establishes the criteria** for distributing the bonus pool established by the CEO who proposes the Remunerations policies and allocates it. The HR, Group Audit, Compliance and Risk Management units and Accounting & Financial Reporting/Planning & Control units support the governance activities and ensure alignment between remuneration and risks, and that the regulations are applied and the processes followed correctly.
- **The remuneration for directors who are members of the Group's senior management is decided by the Board of Directors:** for them, the variable annual component, with a cap set at twice their fixed salary, accrues only if the conditions stipulated for distribution of the bonus pool are complied with, and is commensurate with the quantitative and qualitative performance indicators contained in an individual scorecard approved annually by the Board of Directors at the Remunerations Committee's proposal. The Chairman receives only a fixed salary.
- The **upper limit** on the variable remuneration component for all staff belonging to the Mediobanca Group has been set at twice the amount of their fixed remuneration (without prejudice to the provisions in place for staff employed in the control units). The reasons behind this decision are primarily based on desire to maintain adequate operating flexibility, adopt a remuneration policy which incentivizes virtuous behaviour in achieving the business objectives and creating value, and to reward merit, based on an approach which recognizes and distinguishes between individuals' and business units' contributions to the Bank's overall results. They also take into consideration



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the presence of competitors in different sectors or geographies with a less stringent regulatory framework which could jeopardize the retention of the Bank's most talented staff.

- **Correlation between remuneration, risks and performances** is achieved via a process which:
  - has the objective of rewarding staff based on the Bank's and the Group's risk-adjusted performances, with the restriction of maintaining adequate capital stability, liquidity profile and the Group's future risks. The **Risk Appetite Framework constitutes the reference instrument for defining the gateways**
  - includes the provision of **malus conditions** for the deferred variable component, making its payment conditional upon the achievement of performance conditions relating to the Group's and possibly also the relevant business unit's capital solidity, liquidity and profitability (risk-adjusted)
  - gives value to safeguarding the Bank's reputational capital, through constant monitoring of individual (**compliance breach**)
  - includes provision for claiming back variable remuneration already paid (**clawback mechanism**) in the event of damages emerging to the integrity of its capital, profitability and earnings/financial or reputational situation, which are attributable to the conduct of individual staff members.
- The CEO allocates the bonus pool to the individual business activities on the basis of scorecards which use Economic Profit as the primary metric and other secondary quantitative and qualitative metrics with the institution of a cap. The scorecards are structured in such a way as to encourage the incentives to promote internal co-operation within the divisions.
- The Board of Directors, subject to receiving a favourable opinion from the Remunerations Committee, at the Chief Executive Officer's proposal, may in any case authorize payment of a bonus pool for retention purposes, if individual performances are considered to be decisive for the sustainability of results over time, even in the event of the gateways not being met.
- For "identified staff", a substantial proportion 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 share and performance stock option schemes**) in order to link the incentives to value creation over the long term and ensure that the company's results continue over time. For directors with executive duties, the deferral period is extended to four years. Given the full time horizon over which the variable remuneration is distributed, in cash and shares, the final tranche of the equity component is thus received in the fourth year following the award, with the economic benefit for the recipient spread across five financial years.
- The remuneration package for the Head of company financial reporting, the heads of the control units (Group Audit, Compliance, Risk Management), the head of Human Resources and the most senior staff employed in such areas is based on a majority fixed component and a smaller variable component paid annually on the basis of qualitative and efficiency criteria **to safeguard their independence from the Bank's earnings performance**.
- No special treatment is provided for directors in the event of their ceasing to work for Mediobanca. For the executive directors and management with strategic responsibilities, in the event of their ceasing to work for the Bank for any reason, only the provisions of the national collective contract apply.
- Guaranteed bonuses may be considered for particularly important profiles but only at the recruitment stage and for the first year of their employment by the company, as per the regulations in force.
- The report reflects the disclosure requirements instituted by the Bank of Italy and Consob; the relevant quantitative information is shown in the detailed tables in the attachments to the report.