



## **Ordinary business**

### **Report by Statutory Audit Committee under Italian Legislative Decree 39/10 on point 5 on the agenda**

#### **Engagement of auditor of financial statements for period from 30 June 2022 – 30 June 2030 and establishment of remuneration**

Dear shareholders,

The engagement of PriceWaterhouseCoopers S.p.A. as external auditors of Mediobanca expires with approval of the financial statements for the year ended 30 June 2021.

Under the regulations in force, namely Regulation (EU) 537/2014 (the "Regulation") transposed into Italian legislation as Italian Legislative Decree 135/16, this appointment is no longer renewable, hence a new mandate must be issued by shareholders gathered in general meeting based on a justified proposal made by the Statutory Audit Committee in its capacity as Internal Control and Audit Committee as defined by Article 19 of Italian Legislative Decree 135/16, and following a specific selection procedure to be carried out in accordance with the criteria and by the means stipulated in Article 16 of the Regulation.

Given that the Regulation has introduced, among other things, a prohibition on the audit firm appointed from providing a series of services to the company from as early as the financial year preceding the start of the audit mandate,<sup>1</sup> (the "cooling-in period" rule), it has been provided in the Group's internal regulations that the engagement to audit the company's accounts shall be made under a resolution to be adopted by shareholders at the annual general meeting held to approve the financial statements for the financial year prior to the one in which the mandate expires, thus allowing the timing requirements and restrictions necessary to ensure the audit firm's independence to be managed efficiently.

Accordingly, the Statutory Audit Committee has carried out a formal selection procedure to choose between the leading audit firms, so that the recommendation required under Article 16(3)(c) of the Regulation can be made to shareholders gathered in ordinary general meeting who are invited to adopt a resolution approving the engagement of the firm to audit the company's financial statements for the years ending 30 June 2022-30.

Also in accordance with the provisions of the Regulation, as the appointment involves the engagement of auditors for a public interest entity (PIE), the recommendation made by the Statutory Audit Committee and submitted to your approval includes two alternatives and a preference, with reasons given for it.

#### **Selection procedure**

Mediobanca has organized the selection procedure in accordance with the criteria stipulated in Article 16(3) of the Regulation.

---

<sup>1</sup> "[...] designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems [...]".



The documentation for the competitive procedure (the "Request for Tenders"), drawn up jointly by the Head of Company Financial Reporting and Group Corporate Affairs and submitted to the Statutory Audit Committee, reflects the general criteria set by Consob. To ensure that the proposals submitted by the candidates (the "Proposals") are such as to guarantee the quality and reliability of the audit, they were required to be divided into the following areas:

- "Characteristics of the candidates and information on their independence";
- "Technical and professional information";
- "Financial terms".

The Request for Tenders also governs the criteria identified in accordance with Article 16 of the Regulation to be used in assessing the proposals received.

The Request for Tenders, addressed to the four market leader audit firms (BDO, Deloitte, EY and KPMG), regards the following services:<sup>2</sup>

#### Audit services

- I. Audit to confirm that the accounts are kept regularly
- II. Audit of statutory financial statements of Mediobanca S.p.A. including the non-Italian branch offices
- III. Audit of the Mediobanca Group's consolidated financial statements
- IV. Limited audit of consolidated interim accounts
- V. Limited audit of financial statements at 31 December and 31 March to establish the profit for the period for purposes of calculating regulatory capital
- VI. Expression of opinion regarding the consistency of the Annual Statement on Corporate Governance and the Review of Operations.

#### Non-Audit Services

- I. Checks related to signing off tax returns
- II. Checks on calculation of payment to be made to national guarantee scheme
- III. Limited assurance for the Group's annual consolidated non-financial statement (CNFS).

The procedure was launched in May 2020 and was co-ordinated by the Head of Company Financial Reporting, with whom the Statutory Audit Committee has liaised on an ongoing basis in order to monitor the process throughout all the main phases. Since receiving the Proposals, the Statutory Audit Committee, the Head of Company Financial Reporting and the head of Group Governance and Treasury have met separately with representatives of the candidates.

---

<sup>2</sup> Plus other services (e.g. release of comfort letters which do not require the approval of shareholders in general meeting).



## Assessment criteria

The analysis and assessment of the Proposals received was based in the information provided by the candidates and the criteria set in the competition documents.

The Statutory Audit Committee ascertained in particular that the companies submitting the Proposals met certain key requisites, as follows:

- Direct geographical coverage of all countries where the Mediobanca Group has operations;
- Specific professional experience in the sectors in which the Group operates, as demonstrated by other audit engagements performed for comparable institutions;
- An adequate level of independence in earnings terms relative to the income which they would earn if Mediobanca and its Group companies were to engage them.

Information on possible situations of incompatibility with the engagement being granted have also been assessed, with reference in particular to consultancy engagements considered to be incompatible or considered as such by the Statutory Audit Committee under the external and internal regulations in force on the subject (services prohibited under Article 5(1) of the Regulation).<sup>3</sup>

The Committee then reviewed the Proposals, assessing the following areas, grouping them by macro-categories, and then assigning a score up to a maximum of:

- “Characteristics of the candidate and information on their independence”: 40 points;  
(the companies were invited to submit information with regard in particular to: international footprint, main engagements performed in the last three years for companies operating in the banking and financial sector in Italy and Europe, collaborations with supervisory bodies, presence of representatives in institutional organizations, staff training policies, IT tools used to support activities, internal quality control procedures, any fines or court and/or administrative penalties handed down, means of organizing work in their own networks, description of policies adopted to protect independence, list of mandates for the Mediobanca Group, plus a commitment to withdraw from any contracts that could compromise their independence and in particular the degree of economic independence relative to the Proposal)
- “Technical and professional information”: 40 points;  
(with regard in particular to information on the team that would be deployed, degree of knowledge of the Mediobanca Group and audit strategies, with reference also to the technical instruments to be used)

---

<sup>3</sup> The ban on providing prohibited services includes the period of time from the start of the financial year covered by the audit and the date on which the audit report is issued. With regard to the financial year prior to the start of the engagement, the audit firm (including its network) is not allowed to provide the company, its EU-based parent companies or subsidiaries, under the terms of the “cooling-in” period rule (cf. Article 5(1) of the Regulation), with “designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems”.



- “Financial terms”: 20 points.

Only the Proposals submitted by companies that were assessed to be adequate with reference to the “Characteristics of the candidates and information on their independence” were admitted to assessment on the other two points.

## **Assessment of the Proposals**

After analysis of the Proposals received, and taking into account the criteria described in the previous section, the Statutory Audit Committee and the Head of Company Financial Reporting jointly carried out the assessments described below, consulting also with the heads of the Group Corporate Affairs and Group Audit Units.

Despite considering the quality level of the Proposals submitted by all the companies to be high, the Statutory Audit Committee decided nonetheless to admit only two of them to subsequent analysis of the “Characteristics of the candidates and information on their independence” as presented by each of the two companies concerned in their Proposals.

First of all, it was decided to limit review of the Proposals submitted by the audit firms which demonstrated the most extensive experience with clients of the size and characteristics comparable to those of the Mediobanca Group and the ones with the most extensive international networks, thus ruling out BDO.

Next, it was decided to exclude KPMG, despite the high level of professionalism demonstrated by its team, the characteristics of the company itself, and its experience with comparable players, on the grounds that the numerous engagements it already has with Mediobanca are such that, if they were to cease suddenly, could generate operational risk for the Group.

The Proposals received from Deloitte and EY were then subjected to qualitative and quantitative review at the Committee meetings held on 11, 23 and 29 June 2020.

As stated in the Request of Tenders, the characteristics of the candidate and their independence were considered to be decisive, along with the professional and technical contents of the Proposals, including in terms of hours worked and staff deployed to the audit activities, in particular as follows:

- The estimated number of hours required to complete the work covered by the Proposal, and the grounds on which the number has been calculated, considering the fact that the hours worked must be related to the size of the Group and the audit risk, assessed on the basis of the composition and quality of the main earnings and balance-sheet items;
- The structure of the professional team, which must not only perform the audits in practice but must also ensure an appropriate level of supervision and leadership.

With reference to the number of hours estimated to perform the engagement and the proposed tariffs, the two Proposals were as follows:



# MEDIOBANCA

- EY S.p.A.: 8,290<sup>4</sup> hours for a fee of €565,250, split as follows:
- Deloitte S.p.A.<sup>5</sup>: 10,420 hours for a fee of €887,000.

The fee requested by EY is lower than the one currently received by PriceWaterhouseCoopers S.p.A., the external auditors currently engaged by the Bank, for the same services (€623,000), whereas the fee requested by Deloitte is significantly higher. The difference in the amount is attributable to the differing degrees of knowledge of the Group and the fact that EY S.p.A. has already been engaged to audit certain Mediobanca Group companies of relevance for purposes of drawing up the consolidated accounts.

The audit teams described in the two Proposals were also reviewed with the aim of collecting information on the professionals involved, including through meetings; in both cases the level of professionalism shown by the team members was high.

To summarize, then, the Committee found the quality level of both the Proposals submitted to be high, and ascertained that:

- Both the companies are leading audit firms registered as auditors in the list instituted by the Italian ministry for the economy and finance;
- The Proposals submitted contain a specific statement to the effect that the candidates possess the requisites in terms of independence stipulated by the legal provisions in force, and a commitment to withdraw from all engagements that would threaten such independence as from the start of the period of engagement for Mediobanca;
- The audit methods illustrates, considering the number of hours and professionals anticipated, were in both cases adequate for the breadth and complexity of the engagement;
- Both the audit firms concerned appear to have organizations and technical and professional adequacy that are able to manage the complexity of the engagement.

The Committee then made a quantitative assessment of the Proposals submitted, which was approved at a meeting held on 29 June 2020. The assessment contained the final scores shown below (grouped by macro-categories):

	Maximum score	Assigned score	
		Deloitte	EY
<b>Characteristics of the candidate and information on their independence</b>	<b>40</b>	<b>36</b>	<b>37</b>
<b>Technical and professional information</b>	<b>40</b>	<b>38</b>	<b>38</b>
<b>Financial terms</b>	<b>20</b>	<b>14</b>	<b>19</b>
<b>Total</b>	<b>100</b>	<b>88</b>	<b>94</b>

<sup>4</sup> Includes 900 hours not counted in the fee calculated on the price per hour, as the work would be performed by separate centres of excellence.

<sup>5</sup> The number of hours and the overall fee have been adjusted from the Proposal to exclude a component relating to an additional service not included in the list of Audit Services and Non-Audit Services referred to above.



# MEDIOBANCA

In view of the foregoing, the Statutory Audit Committee hereby submits, pursuant to Article 16(2) of the Regulation, the two Proposals for the mandate to audit the financial statements of Mediobanca for the 2022-30 nine-year period made by Deloitte S.p.A. and EY S.p.A. respectively, to the attention of the shareholders of Mediobanca in annual general meeting, the financial components of which Proposals are as described above, and also hereby expresses its unanimous preference for the Proposal made by EY S.p.A., on the grounds that it obtained a higher score in the assessment process.

The key aspects of the Proposal submitted by EY S.p.A. which distinguished it from the other and account for the preference being given to it are as follows:

- Team containing a mixture of professionals of high level, who have acquired significant experience at financial institutions comparable to the Mediobanca Group, and in some cases at the Group itself;
- Knowledge acquired as the Group's former auditors (including in private banking, having audited the former Banca Esperia which has since been merged into Mediobanca) and as the current secondary auditors of Compass, SelmaBipiemme, Mediobanca SGR and Mediobanca Management Company SA (in Luxembourg);
- Given the high degree of knowledge of much of the Group already, a much lower total number of hours' work needed to perform the services covered by the Request for Tenders in a Proposal already adjudged to be adequate, allowing for a saving in terms of the overall fee payable;
- Audit engagements already granted for the coming years by banks most comparable in terms of size and characteristics to those of the Mediobanca Group.

The Statutory Audit Committee hereby declares that the preference expressed above has not been influenced by third parties and that none of the clauses of the kind referred to in Article 16(6) of the Regulation have been applied.

It should also be noted, finally, that any adjustments to the fees specified in the engagement that become necessary as a result of objective changes to circumstances, such as changes to the Group structure or in the scope of the engagement, must be approved by the Board of Directors subject to prior consultation with the Statutory Audit Committee. If the adjustments are not in line with the criteria specified in the engagement granted, the approval of shareholders gathered in general meeting will be necessary.

Accordingly, the Statutory Audit Committee invites you to adopt the resolutions regarding engagement of the Group's auditors for the period from 30 June 2022 to 30 June 2030 and to establish their compensation.



## Resolutions submitted to the approval of shareholders in ordinary Annual General Meeting

Dear shareholders,

In view of the foregoing, you are invited to approve our proposal to appoint audit firm EY S.p.A. to audit the financial statements of Mediobanca for the 2022-30 period based on the contents, terms – including the criteria for revising the fees – and methods illustrated above, for an annual fee (net of ISTAT increases for inflation, out-of-pocket expenses, VAT and supervisory contributions) of €565,250 made up as follows:

- ◆ €181,250 to audit Mediobanca's statutory accounts and other activities corresponding 3,000 man hours;
- ◆ €91,000 to audit the Mediobanca Group's consolidated accounts, equivalent to 1,400 man hours;
- ◆ €12,100 to check that the Review of Operations – plus certain specific items of information included in the Statement on Corporate Governance and Ownership Structure – are consistent with the statutory and consolidated accounts and compliant with the legal requirements, equivalent to 160 man hours;
- ◆ €18,600 to check that the company's books have been kept properly and that operations have been correctly recorded in the accounts, equivalent to 260 man hours;
- ◆ €103,400 for the limited audit of the interim consolidated accounts and financial statements in order to determine the profit for the period for purposes of calculating regulatory capital, equivalent to 1,360 man hours;
- ◆ €68,400 for the limited audit of the quarterly financial statements for the period ending 31 March, in order to determine the profit for the period for purposes of calculating regulatory capital, equivalent to 900 man hours;
- ◆ €38,800 to audit the accounts of the London, Madrid, Paris and Frankfurt branch office accounts, equivalent to 530 man hours;
- ◆ €36,600 in respect of the consolidated non-financial statement, equivalent to 480 man hours;
- ◆ €15,100 for audits in connection with signing off tax returns and for audits in connection with the national guarantee fund, equivalent to 200 man hours.

If the above proposal does not obtain the majority of votes required for approval, the proposal submitted by Deloitte S.p.A. for the same mandate, involving annual fees of €887,000 equivalent to 10,420 man hours, will be put to the vote.

Milan, 10 September 2020

Statutory Audit Committee