



## **REPORT TO SHAREHOLDERS AT THE ANNUAL GENERAL MEETING TO BE HELD ON 28 OCTOBER 2019 TO UPDATE THE PERFORMANCE SHARE SCHEME FOR GROUP STAFF**

Dear shareholders,

As in previous years, the staff remuneration and incentivization policies submitted to your approval include performance shares among the incentivization instruments provided for. The previous scheme, approved at the annual general meeting held on 28 October 2015, needs to be updated in order to incorporate certain changes that have been made to the regulations, in particular the Bank of Italy's Supervisory Instructions on remuneration and incentivization policies and practices, issued on 23 October 2018. The maximum number of shares established by shareholders at the annual general meeting held on 28 October 2015 and the scheme's expiry date are unchanged, the latter coinciding with the expiry date set by shareholders at the same 2015 AGM for the Board's authorization to increase the company's share capital in connection with the scheme.

As well as revising the data on use of the performances shares and the number of shares outstanding, the main change refers to the time horizon over which the instruments may be distributed.

### **1. Recipients**

The recipients of the performance share scheme are staff who, under the regulations in force and the remunerations policies approved by yourselves, receive a share of their variable remuneration in the form of equity instruments. These include employees who fall within the definition of the Mediobanca Group's identified staff, identified on a regular basis by the appointed bodies based on the criteria set by the regulations in force at the time and formalized in the Remuneration policies. Additional staff members considered relevant in organizational terms to the achievement of the Group's strategic objectives may also be recipients of the performance share scheme.

Recipients of the performance share scheme may include the following members of the Board of Directors: the Chairman Renato Pagliaro;<sup>1</sup> the Chief Executive Officer of Mediobanca, Alberto Nagel; and the General Manager, Francesco Saverio Vinci.

Persons with management duties who have regular access to inside information and who may take management decisions which can impact on the performance and future prospects of the issuer of the shares referred to under Article 152-sexies, para. 1, letter c)-c.2, in addition to the directors who are members of the Group's senior management listed above, include the "Strategic management" identified by the Board of Directors in the resolution in force at the time. At the date of this resolution there are a total of eight such strategic management members: the heads of the three control units, the head of company financial reporting, the head of Group HR & Organization, the head of the Consumer Banking

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1) The Chairman only receives a fixed salary. However, provision is made in the Remuneration policies for the Board of Directors to consider the possibility, after consulting with the Remunerations Committee and up to the limits provided by the regulations in force, of paying the Chairman a variable component, to be awarded in accordance with the rules of the policies themselves, including in the form of performance shares. To date the Board has never adopted a resolution of this kind.



division and the Wealth Management/Affluent-Premier business lines, and the two co-heads of the Corporate and Investment Banking division.

There are no categories of staff for which different treatment is provided in the performance share scheme, which is the same for all recipients.

## 2. Rationale for adopting the scheme

The scheme enables Mediobanca to:

- ◆ Align itself with the regulatory requirements regarding the payment of a share of the variable remuneration in the form of equity instruments, over a long-term time horizon, subject to performance conditions, i.e. to the sustainability of positive results delivered over time;
- ◆ Ensure that the interests of the Bank's management are aligned with those of its shareholders with reference to value creation in the medium/long term.

## 3. Governance

The Board of Directors approves the proposals of the Remunerations Committee and the Chief Executive Officer regarding:

- ◆ The total quantity of shares to be issued for each award cycle, in accordance with the criteria and methods established in the Remunerations policies in force at the time;
- ◆ The award of performance shares to directors who are members of the Group's senior management;
- ◆ The scheme's regulations, which set down the rules by which it operates in practice.

The Chief Executive Officer is responsible for operating the scheme, with the assistance of Group HR, to establish the quantities to be awarded to the individual recipients.

## 4. Means of award

Under the terms of the scheme, Mediobanca shares are granted to people linked to the Group (employees, collaborators, staff employed under agency contracts, etc.) as the equity component of the variable remuneration awarded to them based on the results of the performance evaluation process, both short-term (i.e. in relation to the annual budget – the short-term incentive plan) and long-term (the long-term incentive plan, usually awarded when the strategic plan is approved).



The performance shares assigned as the upfront equity component are subject to a holding period of no less than one year before they are actually awarded, provided the beneficiary remains part of the Group.<sup>2</sup>

The performance shares assigned as the deferred equity component are:

- ◆ Assigned as part of the overall vesting period for all deferred components over a time horizon of at least three years, provided the beneficiary is still linked to the Group<sup>3</sup> and that the additional performance conditions identified by the remuneration policies in force at the time have been regarding the sustainability of the results achieved, the company's capital solidity and liquidity conditions continuing to be met, and the proper conduct of the individual beneficiary;
- ◆ Subject to a subsequent holding period of no less than one year prior to their actual award, provided the beneficiary still works for Mediobanca.<sup>4</sup>

Deferring the awards over time in this way acts as an incentive to recipients, consistent with their role and business activity, to conduct themselves at all times in such a way as to ensure that Mediobanca retains a solid capital base, substantial liquidity, control of all risks and profitable results, thus ensuring that the remuneration systems are sustainable over the long term.

The remuneration policies in force at the time set out in detail the performance evaluation period and the specific vesting and holding periods applicable to the performance shares with reference to the provisions of this resolution. The Board of Directors may also identify additional performance indications on the occasion of each individual award cycle. For Group company staff members the Chief Executive Officer of Mediobanca, after consulting with the CEOs of the Group companies themselves, may identify one or more specific economic indicators.

As provided by the remuneration policies, Mediobanca reserves the right to take measures to claw back variable remuneration already paid in the event of damage emerging to the integrity of its capital, profitability and earnings/financial or reputational situation which is attributable to the conduct of individual staff members, regardless of whether such behaviour constitutes instances of wilful misconduct or fraud. Such measures are also provided for cases which involve breach of the obligations set under Article 26 of the Italian Banking Act (Company representatives – Professional qualifications, fit and proper person requisites, and independence of company representatives), or, when the person concerned is an interested party, Article 53, paras 4ff (Regulatory supervision), or the obligations in respect of remuneration and incentivization.

The Chief Executive Officer may also use performance shares in defining remuneration packages in connection with the recruitment of key staff, including outside of the annual and/or long-term award cycle and with specific deferral mechanisms as provided under the terms of this resolution. The governing bodies may also award shares in relation to compensation agreements entered into in connection with early termination of the working relationship, to ensure these are correlated to the performance achieved and the risks taken

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2) By "remaining part of the Group" what is meant here is that the co-operation arrangement between the recipient and the company is ongoing, whether such arrangement takes the form of permanent employment or some other contractual agreement, not in a period of notice being served for resignation/withdrawal/termination from the contract, whether voluntary or due to dismissal/withdrawal on the part of the company. For Directors of Group companies not linked to the Group by means of an employment contract, when their term of office comes to an end or is not renewed, their rights continue to apply without prejudice to the provisions of any individual specific agreements and provided their term of office has not come to an end due to compliance breaches attributable to them.

3) See previous note.

4) See note 2.



by the individual concerned and the Bank, in accordance with the regulatory requirements and the aims set by the Remuneration policies in force at the time.

The entitlement to receive shares is retained if the beneficiary retires or in the event of permanent disability and/or illness making them unable to continue working. Such entitlement is lost, however, in cases where the working arrangement, whether based on an employment contract or other form of agreement, ends due to resignation, dismissal and/or withdrawal. The governing bodies (Board of Directors, Remunerations Committee, CEO of Mediobanca) are responsible for handling any exceptions, under the powers attributed to them respectively, in particular in cases where the working relationship is ended by mutual consent as defined in the remuneration policies in force at the time. The foregoing is without prejudice to decisions taken, if any, by a third party authorized to do so (such as the judicial and/or arbitration and/or conciliation authorities) and to regulations, if any, providing more favourable treatment issued by the applicable local legislations.

## **5. Characteristics of instruments awarded**

The scheme provides for the award of ordinary Mediobanca shares. The shares are delivered after the dividend, if any, has been paid and in compliance with the Group regulations in force at the time on internal dealing and personal trading in financial instruments by management with strategic duties. The shares are awarded personally, without prejudice to succession rights. The shares, once received, subject to the performance conditions and after the holding period has ended, may be traded immediately up to the limits set by the law and regulations in force (e.g. on market abuse). The performance share scheme makes no provision for restrictions on voting rights or property rights in relation to the ordinary Mediobanca shares awarded.

## **6. Funding**

The maximum number of shares that may be awarded under the terms of this scheme is 20 million, from the capital increase approved on 28 October 2015, reserved to Mediobanca Group staff members by or before 28 October 2020, pursuant to Article 2349 of the Italian Civil Code. Of thus, at present a total of 5,140,540 are still available for future distributions; 6,676,384 have been allocated but not yet awarded as they are still covered by vesting/holding periods. Treasury shares held by the Bank which are freely available and not earmarked for some other purpose may also be used for the performance share scheme.

The remaining shares for use in the scheme currently represent 0.57% of the company's share capital fully diluted. The impact on the stock market value and possible dilutive effects on the Bank's share capital are not considered to be material, given that the awards take place over several years.

## **7. Changes and amendments to the scheme**

No particular procedures have been set in place to revise the Mediobanca performance share scheme, other than those entailed by the powers vested in the governing bodies.

If extraordinary events with significant impact on the Group's earnings/financial performance take place, the performance share scheme may be revised and/or abolished at Board of



Directors' discretion after consulting with the Remunerations Committee. In the event of extraordinary transactions taking place which involve the Bank's share capital, the allocation of performance shares not yet available will be amended accordingly.

## 8. Accounting and tax issues

Under the accounting policies adopted, the performance shares awarded are booked to the profit and loss account based on a notional cost split over several financial years in view of the benefit received and the vesting period. The notional cost is equal to the value of the shares at the time of the award, adjusted to reflect the probabilistic elements connected with the scheme (e.g. possibility of beneficiaries resigning, actuarial parameters, etc.). The total expense for Mediobanca in the event of all 20 million shares being awarded was originally €158m, to be split across the entire vesting period. At present the expense is €45m, based on the shares outstanding and the current stock market price. It is not possible to state the actual total cost, as the number of shares to be awarded is up to the governing bodies based on the regular award cycles. The performance shares shall be subject to taxation and social security contributions in line with the regulations in force in the country of residence for tax purposes of each individual beneficiary.

## 9. Other information

The performance share scheme:

- ◆ Makes no provision for the award of other financial instruments, only ordinary Mediobanca shares traded on regulated markets;
- ◆ is not influenced by tax or accounting issues. It will take into account the taxation and social security regime in force at the time in the individual beneficiaries' country of residence.

No provision is made under the terms of the performance share scheme for shares awarded to be bought back.

No provision is made for support from the Special Fund to incentivize investment by employees in the companies for which they work instituted under Article 4, para. 112, of Italian law 350/03.

It should be noted that no individual persons control Mediobanca.

The Board of Directors, having received the favourable opinion of the Remunerations Committee on 11 September 2019, on 19 September 2019 approved the revised version of the scheme resolution to be submitted to shareholders in annual general meeting. The market price of the ordinary Mediobanca shares on the two dates referred to above was €9.57 and €9.69 respectively. The awards for the performance share scheme will be notified to the market pursuant to and within the meaning of the regulatory provisions currently in force.



MEDIOBANCA

Dear shareholders,

You are invited to approve the proposal included on the agenda and, accordingly, to adopt the following resolution:

“The shareholders of Mediobanca, gathered in ordinary general meeting, having heard the Board of Directors’ proposal,

HEREBY RESOLVE

- ◆ To approve the revised version of the performance share scheme for selected Mediobanca Group staff on the terms and by the methods illustrated above;
- ◆ To confer on the Board of Directors, the Chairman and the Chief Executive Officer, jointly and severally, all suitable powers to:
  - a) Enact this resolution and adopt any other measures that should become necessary to implement the resolution approved;
  - b) Make such amendments and/or additions to this resolution (that do not alter the substance hereof) that should prove necessary to bring it into line with any legal or regulatory provisions or guidance issued by the regulatory and/or supervisory authorities that come into force in the meantime.

Milan, 19 September 2019

The Board of Directors