



# MEDIOBANCA GROUP

## 2019 Remuneration policy

28 October 2019



MEDIOBANCA

# EXECUTIVE SUMMARY

## FY19 – 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

### Business results

- ◆ FY 2018/19: Best-ever results in last 10Y achieved in terms of revenues, GOP, ROTE and CET1
- ◆ 2016-19 business plan: strategic goals delivered

### Pay for performance

Last FY performance approach confirmed

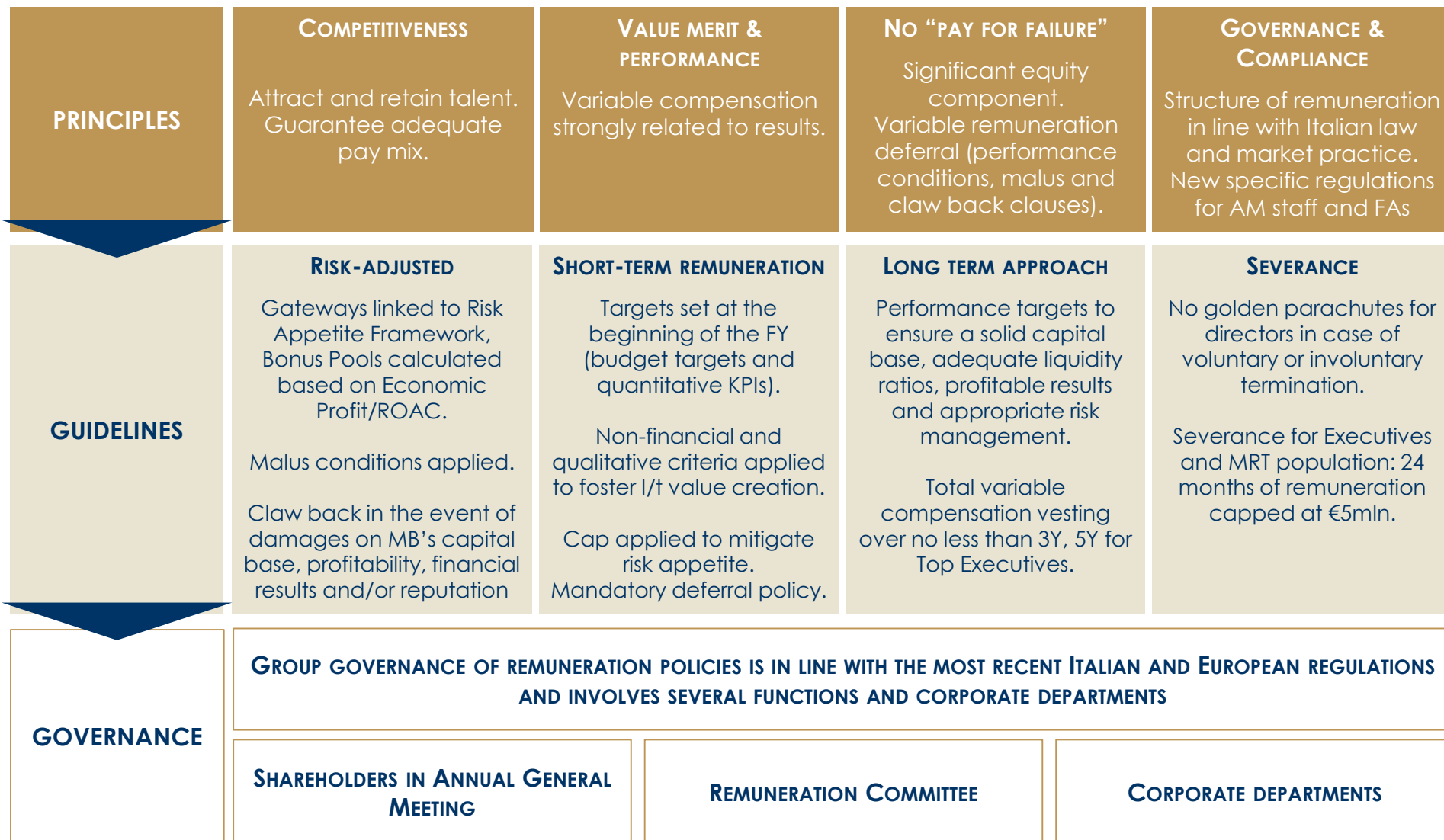
#### CEO and General Manager

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
  - ◆ Variable remuneration capped at 200% of fixed remuneration (except for Asset Management entities)
  - ◆ 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
- ◆ New Policy updated as per Bank of Italy new regulations with focus on deferrals schemes with wider equity components, stronger compliance alignment, “formula based” severance, CSR approach

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

# REMUNERATION COMMITTEE

## COMPOSITION

4 non-executive members of which 75% independent

Member	Position	Independent
M. Carfagna	Chairman	X <sup>1,2</sup>
V. Hortefeux	Member	X <sup>1,2</sup>
A. Lupoi	Member	X <sup>1,2</sup>
A. Pecci	Member	

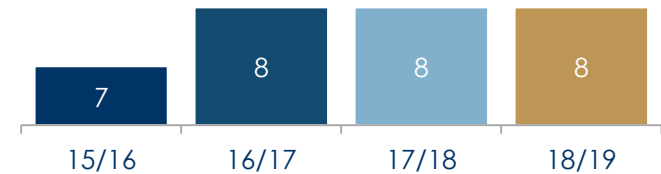
## FY19 MAIN TOPICS

- ◆ Definition of scorecards for CEO and GM, with financial and non financial criteria evaluation
- ◆ Assessment of a long-term incentive scheme for senior Group figures as part of approval of new strategic plan
- ◆ 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)

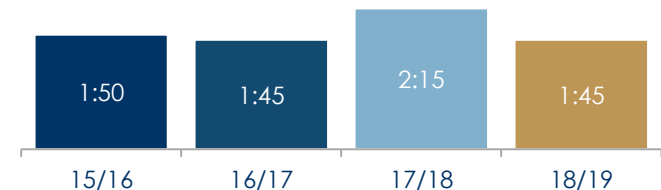
## ACTIVITY

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

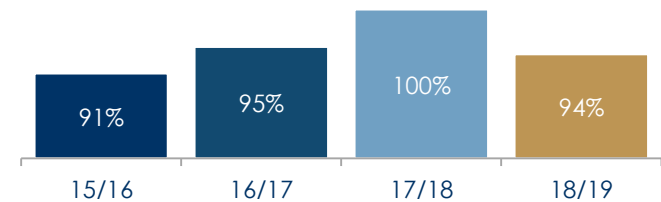
### Meetings



### Duration (h:m)



### Attendance



# ACTUAL REMUNERATION STRUCTURE

The **remuneration structure** is aligned both to the **latest European and Italian legislation/provisions<sup>1</sup>** 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 2019 represents 2,24% of the total Group staff and are as follows: 108 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, October 2018  
 ◆ EBA Guidelines on Remuneration Policies 21 December 2015, into force on 1 January 2017



# VARIABLE REMUNERATION SETTLEMENT AS AT FY 19 <sup>1</sup>

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

# POLICY UPDATED AS PER BANK OF ITALY NEW REGULATIONS IN FORCE STARTING FROM FY20

**NEW**

## **New strategic plan**

Long-term incentive scheme to be introduced in connection with the new strategic plan, for top executives

**NEW**

## **Long-term approach**

Revised deferral mechanisms for variable remuneration for identified staff, with an increase in the equity component assigned (at least 55% of the total variable component) for senior figures

## **Compliance and controls**

Details of activities performed by control units to monitor types of transactions and financial investments that could affect risk alignment of remuneration mechanisms

**NEW**

## **Severance**

Formula-based mechanism defined to calculate maximum amounts payable by way of severance

## **Competitiveness**

Exceptions to 2:1 cap on variable vs. fixed remuneration for employees working in asset management

**NEW**

## **Strengthening internal processes**

Specific policy adopted for identifying material risk takers

## **CSR**

Aspects of policy most closely related to sustainability principles highlighted

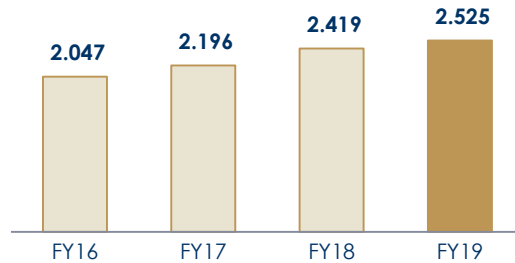
**NEW**



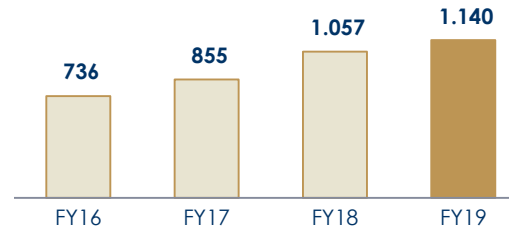
# FY19: MB GROUP ACHIEVED BEST RESULTS OF THE LAST 10Y ...

**Mediobanca**, despite the pronounced deterioration in the operating scenario which affected much of the financial year, **delivered its best 12M results for the past decade, by revenues** (€2.5bn, up 4%), **GOP** (€1.1bn, up 8%), **and net profit** (adj. €860, up 8%), **with rising indicators in terms of profitability** (ROTE 10.2%), **capitalization** (CET1 ratio 14.1%) **and shareholder remuneration** (payout ratio 50%)

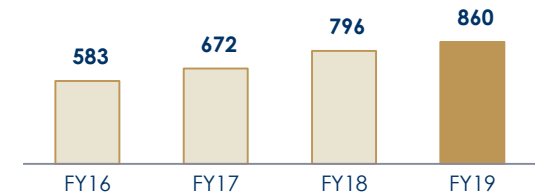
Revenues



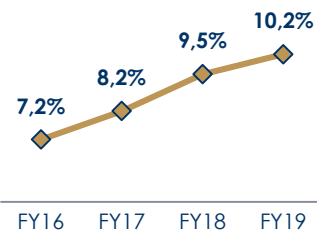
GOP



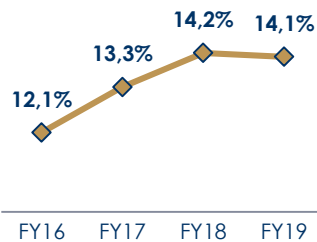
Net profit adjusted<sup>1</sup>



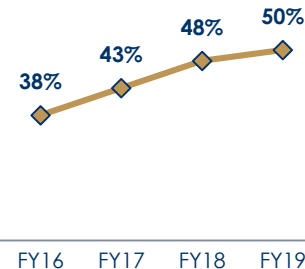
ROTE adj. growth



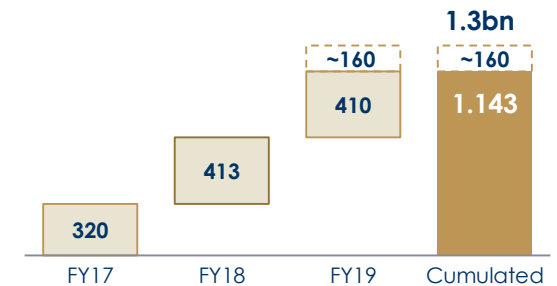
CET1 ratio growth



Payout ratio growth



€1.1bn cumulative dividend paid (€1.3bn including buy-back)



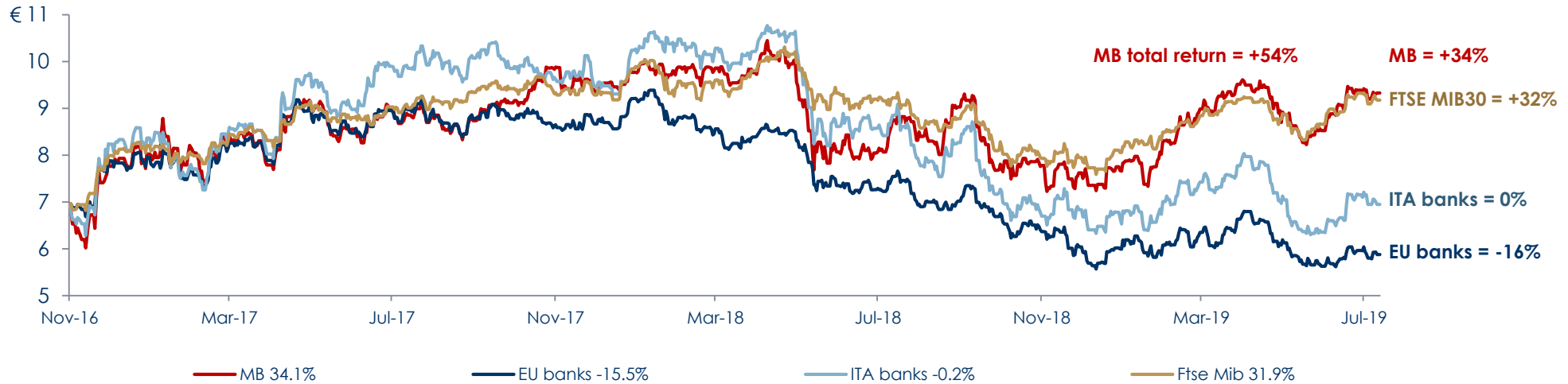
1) Calculated excluding gains (losses) on disposals of equity investments, value adjustments, and one-off gains (losses), with a normalized tax rate of 33% (25% for Private Banking).



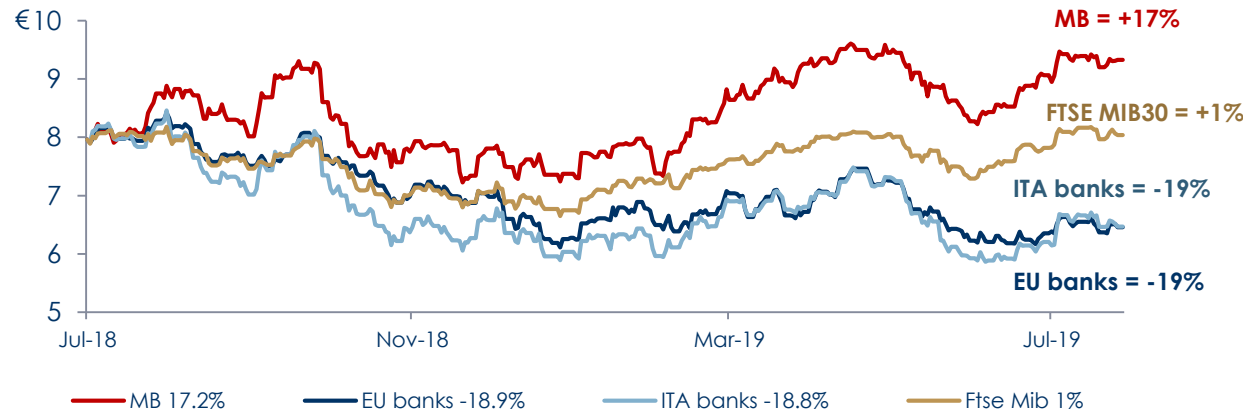


# ...AND STRONG MARKET OUT-PERFORMANCE

Mediobanca last 3Y market performance vs ITA and EU banks (from BP 16/19 announcement to today)



Mediobanca 1Y market performance vs ITA and EU banks



- ◆ MB 3Y performance (up 34%) in line with FTSE Mib and higher than ITA and EU banks (0% and down 16% respectively)
- ◆ MB total return (including reinvestment of dividends) over BP16/19 period: up 54%
- ◆ MB last year performance (up 17%) well above FTSE Mib (+1%) as well as ITA and EU banks (both down 19%)



# 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:

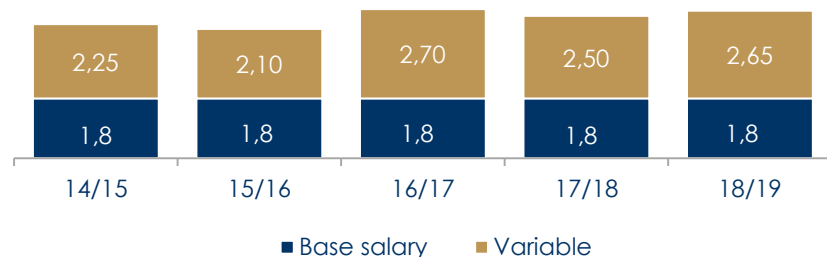
- ◆ accrues only if aligned with established gateways
- ◆ defined by a scorecard with financial and non financial criteria
- ◆ is distributed 50% in cash and 50% in equity (performance shares)

GATEWAYS (preliminary and min.conditions for any variable remuneration calculation)		PARAMETER	TARGET	ON/OFF	FY19 RESULTS
		Operating profit at Group level	>0		1.140
		Cet1 ratio	> 8,75% (ex SREP)		14,1%
		Leverage Ratio	> Risk Appetite Framework		8,4%
		AFR/ECAP	> Risk Appetite Framework		192%
		Liquidity Coverage ratio	≥ 100%		177%
		Net Stable Funding Ratio	≥ 100%		107%
SHORT TERM INCENTIVE		PARAMETER		WEIGHT	ASSESSMENT
CEO		RWA density		25%	EXCEEDED
		Banking activities profit before taxes		25%	> THAN MET
		Group ROTE		25%	> THAN MET
		TFA growth		25%	EXCEEDED
		Management development initiatives (Succession Plan)		qualitative	MET
		CSR development initiatives		qualitative	MET
GM		Loans/Funding ratio		20%	ALMOST MET
		Banking activities profit before taxes		30%	EXCEEDED
		Banking activities cost/income ratio		20%	ALMOST MET
		Private Banking Net New Money		30%	EXCEEDED
		Data Quality project		qualitative	MET
		Wealth Management governance/organization development		qualitative	MET
LONG TERM INCENTIVE Existing but currently not adopted		PARAMETER	TARGET	ON/OFF	
		Business Plan 16-19	Key metrics		

# IN THE LAST 3 FYS STABLE CEO AND GM COMPENSATION ON EXCELLENT RESULTS MB GROUP GROWTH BY DIMENSION AND QUALITY IN FY20 SCORECARDS

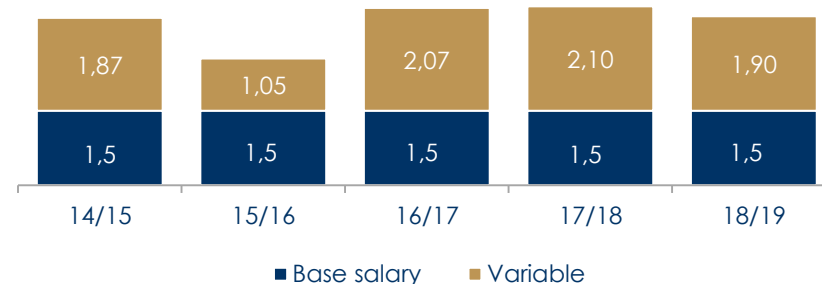
## CEO compensation and scorecards

Total compensation evolution (€ m)



## GM compensation and scorecards

Total compensation evolution (€ m)



## CEO – FY20 STI Scorecards

PARAMETER	WEIGHT
Gross ROAC adj. Banking activities	35%
RWA density	25%
Total fee revenues	20%
% of AUM/AUA/AUC on TFA	20%
CSR development initiatives	qualitative
WM, Consumer, CIB distribution platform enhancement	qualitative

## General Manager – FY20 STI Scorecards

PARAMETER	WEIGHT
Gross ROAC adj. Banking activities	35%
RWA density	20%
Banking activities cost/income ratio	20%
Wealth Management ROAC	25%
IT projects (Data Quality & IT Growth to the business)	qualitative
WM synergies (proprietary factories with distribution)	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

### NEW LONG-TERM INCENTIVE SCHEME TO BE LAUNCHED

New pay mix starting from FY 2020 to allow a long-term incentive scheme to be adopted in connection with the strategic plan (160% short-term Incentive – 40% long-term Incentive – on an annual basis)

NEW

# FY19 BONUS POOL STABLE ON RESULTS

◆ FY19 - all gateways met

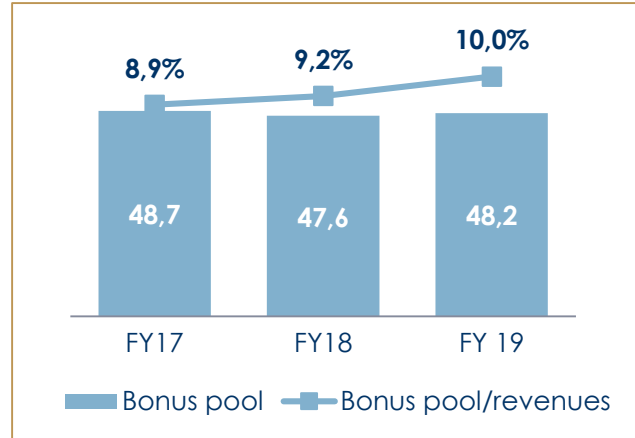
◆ capital and liquidity ratios enhanced

◆ positive group gross operating profit

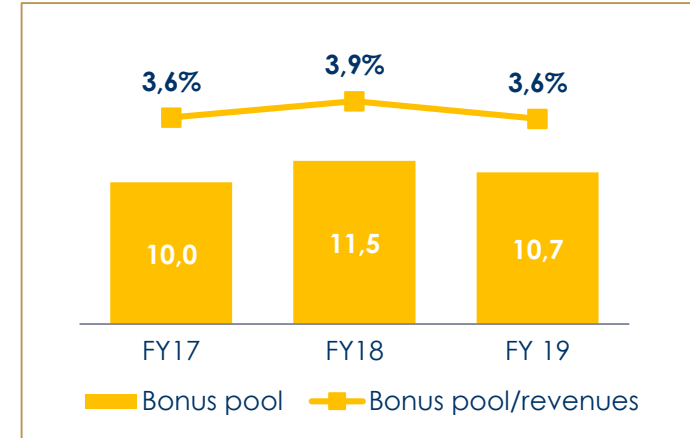
◆ Variable remuneration under control with bonus pool stable YoY in all Divisions both in absolute and relative terms

◆ Variable remuneration compliant with sustainable long term incentive policies

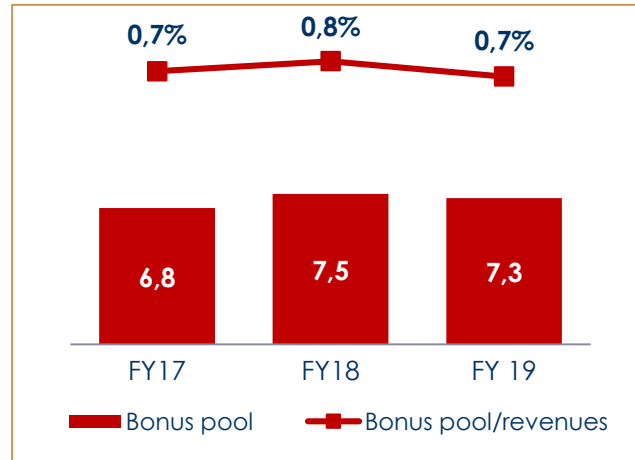
## MB Wholesale Banking (€m)



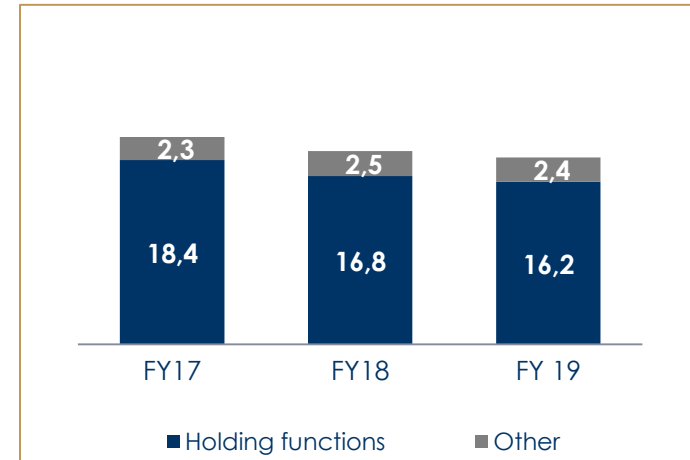
## CheBanca! (€m)



## Compass (€m)



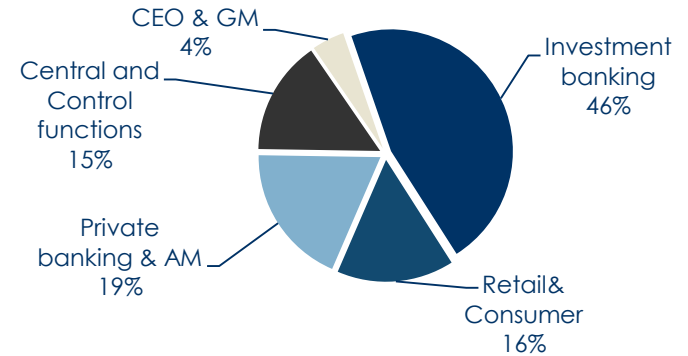
## MB Holding Functions & others (€m)



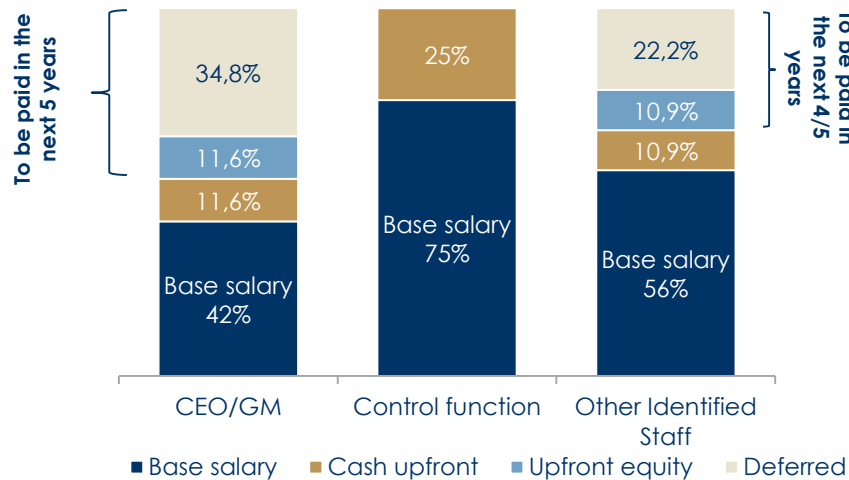
# GROUP PAY MIX AND VARIABLE/FIXED REMUNERATION RATIO

- ◆ Stable Group variable/fixed remuneration ratio 2019 vs. 2018: long term approach and sustainable remuneration mechanism applied in main BU
- ◆ WB: avg. 98% vs. 101% (Group MRT WB: 116% vs. 135 %)
- ◆ MB PB: avg. 38% vs. 44% (Group MRT MB PB: 128% vs. 174%)
- ◆ Consumer: avg. 9% vs. 10% (Group MRT Consumer 102% vs. 109%)
- ◆ WM - Affluent/Premier: avg. 13% vs. 15% (Group MRT CB! 56% vs. 48%)
- ◆ CEO and GM FY19
  - ◆ fixed/variable ratio 137% vs. 138% in 2018
  - ◆ 60 % of variable compensation deferred
  - ◆ pay-mix: ≈45% to be paid in 5 years

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



## FY18/19 identified staff pay mix



## Variable remuneration/fixed salary by activity<sup>1</sup> (%)

