



# MEDIOBANCA GROUP

## 2017 Remuneration policy

28 October 2017



MEDIOBANCA

# EXECUTIVE SUMMARY

FY17

- ◆ All gateways met
  - ◆ Capital and liquidity ratios enhanced as defined in the Risk Appetite Framework
  - ◆ Positive Group Gross Operating Profit
- ◆ FY 2016/17 results show strong growth and enhanced business profile in terms of exposure to fee-based, capital-light, highly specialized and profitable businesses
- ◆ Regulatory Identified staff: representing approx. 1,65% of the total Group headcount and 10,4% of the total staff employed by Mediobanca S.p.A.
- ◆ CEO and General Manager: scorecard indicators 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<sup>1</sup>. In particular with reference to
  - ◆ Governance, metrics and remuneration processes reinforcement
  - ◆ 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

# GOVERNANCE OF REMUNERATION PROCESS

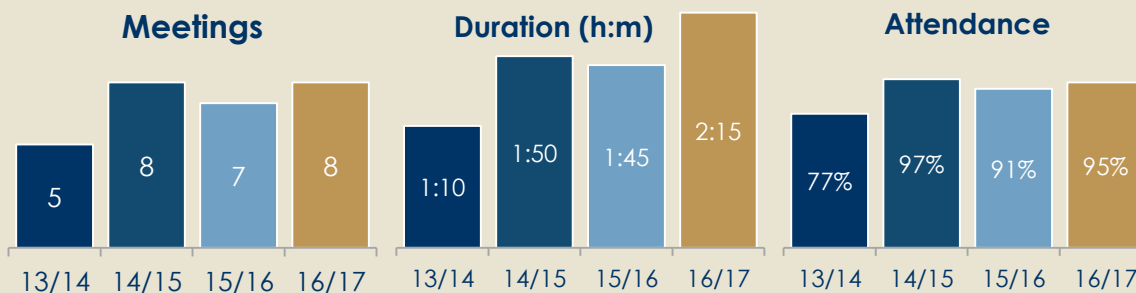


## Remuneration Committee

- Composition: 5 non-executive members of which 83% independent
- Consultative role regarding General Manager, Executive Directors<sup>3</sup> and staff remuneration and retention policies
- Activity
  - Reviews and assesses remuneration proposals and guidelines put forward by the CEO
  - Regularly reviews the adequacy, congruity, adherence and application of remunerations policies
  - Verifies performance achievements
- FY17 main topics
  - Analysis of regulatory framework with main focus on staff members working in asset management and as financial advisors in the Group
  - Analysis of benchmarks and market practice
  - Severance evaluation
  - 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)

Member	Position	Independent
V. Labérenne	Chairman	X <sup>1,2</sup>
M. Carfagna	Member	X <sup>1,2</sup>
M. Costa	Member	X <sup>1,2</sup>
E. Magistretti	Member	X <sup>1,2</sup>
A. Pecci	Member	

Increased of Rem Co meetings, duration and attendance in the last 4Y



# REMUNERATION STRUCTURE GUIDELINES ...

## Risk-adjusted mechanisms

- ◆ Risk-adjusted mechanisms in place (gateways linked to Risk Appetite Framework, Bonus Pools calculated based on Economic Profit/ROAC)
- ◆ Malus conditions applied
- ◆ Claw back in the event of damages impacting Mediobanca's capital base, profitability, financial results and/or reputation

## Short-term remuneration

- ◆ Linked to business targets set at the beginning of the fiscal year (budget targets and quantitative KPIs)
- ◆ Foresees non-financial/qualitative criteria to encourage focus on long-term value creation
- ◆ Cap applied to mitigate risk appetite
- ◆ Mandatory deferral policy

## Remuneration Structure

## Mandatory deferral – Long term approach

- ◆ Robust performance targets established to ensure a solid capital base, adequate liquidity ratios, profitable results and appropriate risk management
- ◆ Total variable compensation vesting over no less than three years. Five year plan enforced for Top Executives
- ◆ Two year holding period for upfront component of performance shares and one further year of holding post vesting of deferred shares

## Severance

- ◆ No golden parachutes or special treatment provided for directors in the event of voluntary or involuntary termination.
- ◆ Severance for Executive Directors and MRT population established as 24 months of remuneration capped at € 5mln

## ...WITH THE EXISTING PRINCIPLES OF REMUNERATION ...

### Competitiveness

- ◆ Attract and retain talent
- ◆ Guarantee an adequate pay mix

### Value merit & performance

- ◆ Variable compensation based on documented, sustained performance
- ◆ Strong link between results and remuneration

### Avoid “pay for failure” Long term approach

- ◆ Deferral integral part of variable remuneration subject to performance conditions, malus and claw back clauses
- ◆ Significant equity component in order to align incentives to long term value generation

### Governance & Compliance

- ◆ Structure of remuneration broadly in line with the Italian law, Corporate Governance Code and best market practices (both national and international players)
- ◆ Specific regulations on the remuneration of staff members working in asset management and financial advisors employed as part of the Wealth Management division.

**NEW !**

# ... IMPLEMENTED THROUGH A BALANCED MIX OF FIXED AND VARIABLE REMUNERATION (SHORT AND LONG TERM PERFORMANCE INCENTIVES)

The remuneration structure is in line with global best practices, adopting an adequate balance between fixed and variable remuneration in order to mitigate risk and discourage short-term behaviour

## Executive directors

- ◆ fixed remuneration reflects technical, professional and managerial competencies
- ◆ variable remuneration
  - ◆ Annual Bonus
    - ◆ accrues only if aligned with established gateways
    - ◆ variable remuneration is distributed 50% in cash and 50% in equity (performance shares)
    - ◆ 2-year holding period for up-front equity components
    - ◆ 5-year deferral period for 60% of remuneration

## Executives

- ◆ A substantial part of the variable component, up to 60%, is deferred over three years and paid inter alia in the form of equity instruments (performance shares)
- ◆ For Executives Directors and Top Executives, 60% of variable compensation is deferred over five years

## Performance share plan (only employees)

- ◆ 3-year vesting period
- ◆ At least a 1 year holding period post vesting
- ◆ All variable remuneration is subject to performance conditions, malus and clawback clauses

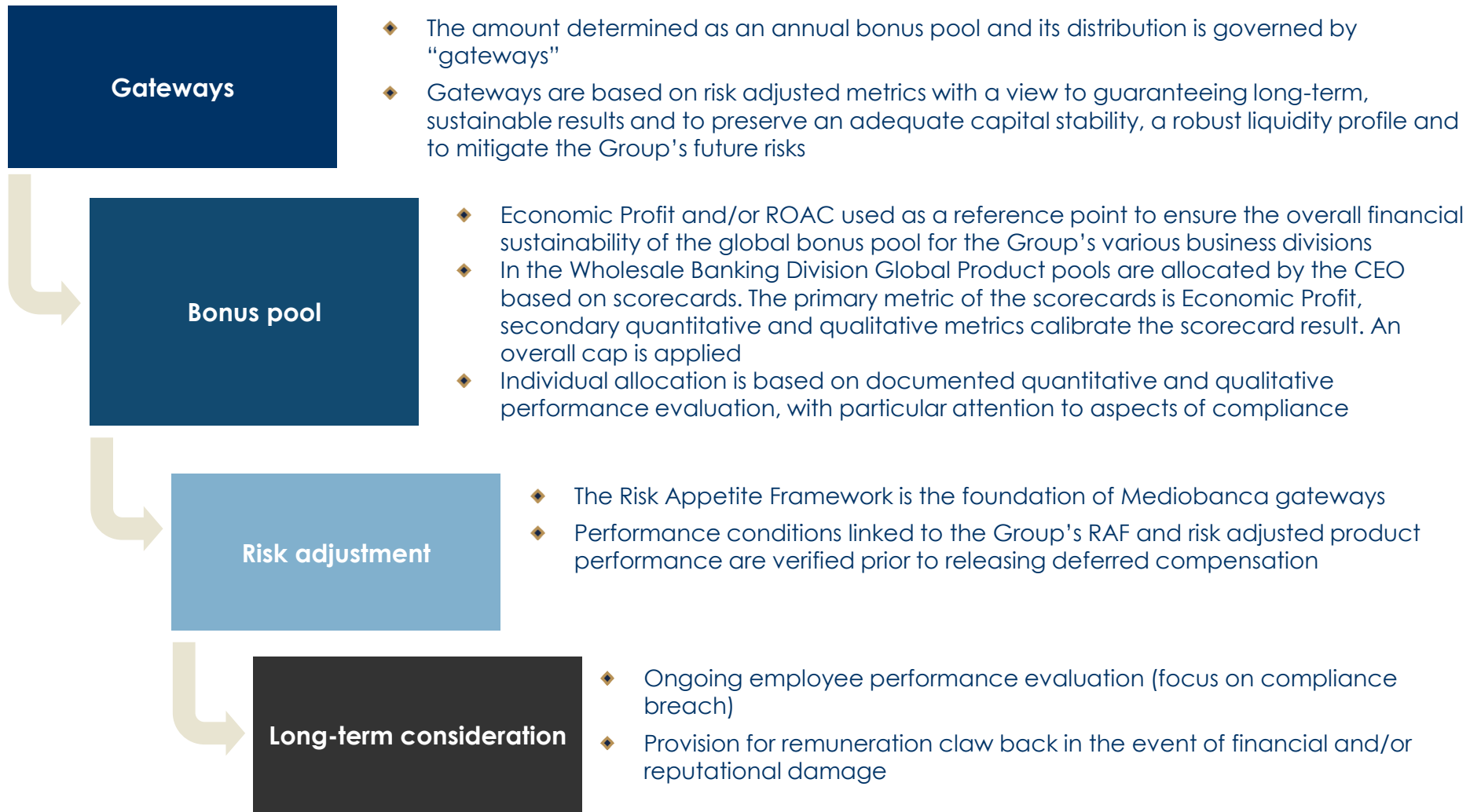
BoD remuneration structure	Composition
Executive directors	Fixed+STI+LTI
Non executive directors	Fixed
Chairman	Fixed

Short Term incentive	Parameters
Operating profit at Group level	>0
Risk Appetite Framework main indicators > regulatory requirements	Cet1 ratio, LR, AFR/ECAP, LCR, NSFR, Retail funding ratio
Scorecards	Quantitative and qualitative individual targets

Long Term incentive	Parameters
Existing but currently not adopted	Business Plan key targets

Settlement	
Cash/equity	50%/50%
Deferred	40%-60% over 3/5Y
Shares holding period	2y for up-front shares 1y for deferred shares (post vesting)
Malus conditions	Group performance, compliance breaches, responsibility for financial losses or reputational damages to the firm
Claw back	In case of fraud or willful misconduct

# BONUS POOL AND CORRELATION BETWEEN RISK AND PERFORMANCE



# CRD IV AND EBA RULES FOR IDENTIFIED STAFF

## Identified Staff

- ◆ Adoption of criteria for those whose activities have a significant impact on the banks' risk profile ("Identified Staff") based on the provisions of the EU regulation. Mediobanca periodically assesses its MRT perimeter
- ◆ The Group's identified staff as at 30 June 2017 represents 1,65% of the total Group staff and are as follows: 79 resources qualified as identified staff, including Executives, Senior Management, Manager of business units and other resources with managerial responsibilities (92 resources including non executive directors)

## Cap Variable Remuneration

- ◆ In accordance with the European Directive CRD IV, Mediobanca has set a cap on variable remuneration for all employees at 200% of fixed pay
- ◆ The sustainability of this approach is warranted by
  - ◆ Caps on product scorecards and hence on bonus pools even in the case of extraordinary performance
  - ◆ Individual variable remuneration cap
- ◆ The rationale of applying the 2:1 Cap is based on sound grounds
  - ◆ The need to maintain adequate flexibility and to minimize fixed costs
  - ◆ A Remuneration Policy which aligns interests and encourages the achievement of sustainable results
  - ◆ The need to attract and retain talent in an aggressive market context
  - ◆ The desire to reward performance and link individual performance to the results of the bank

## Buyout, sign-on and entry bonuses

## Severance

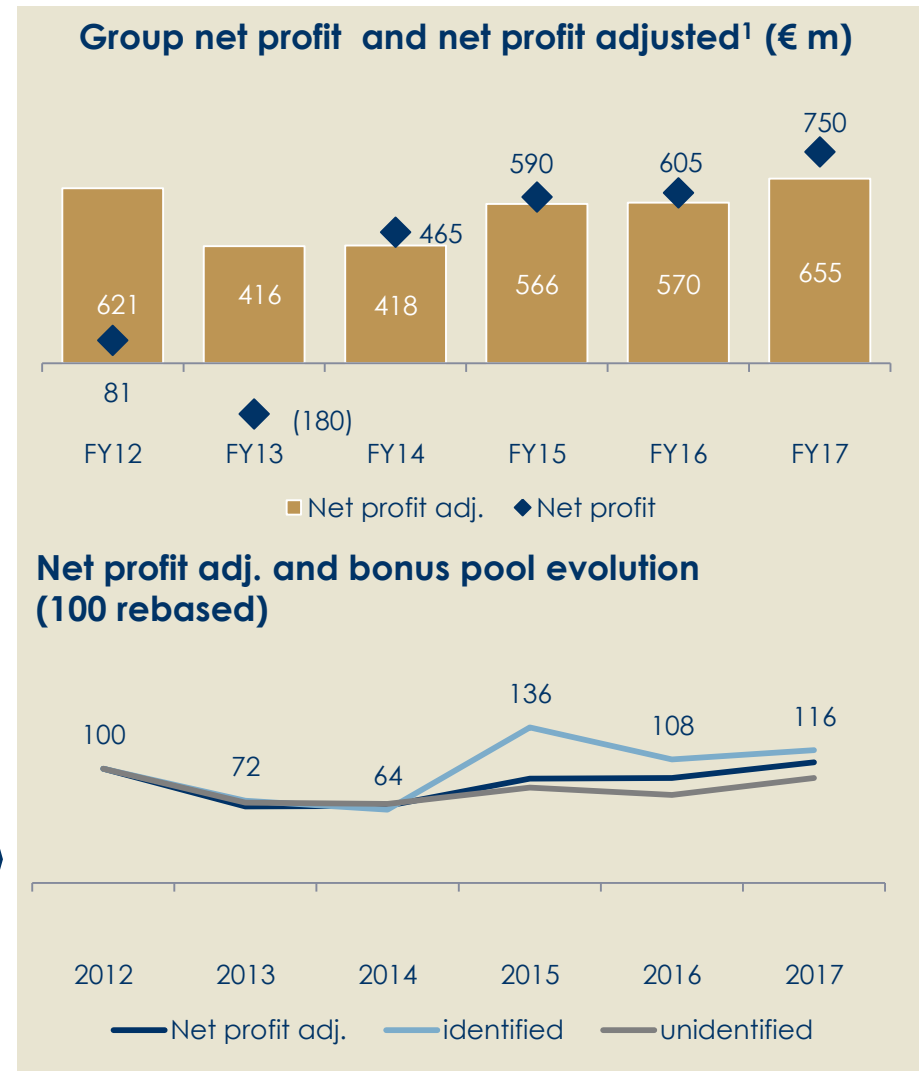
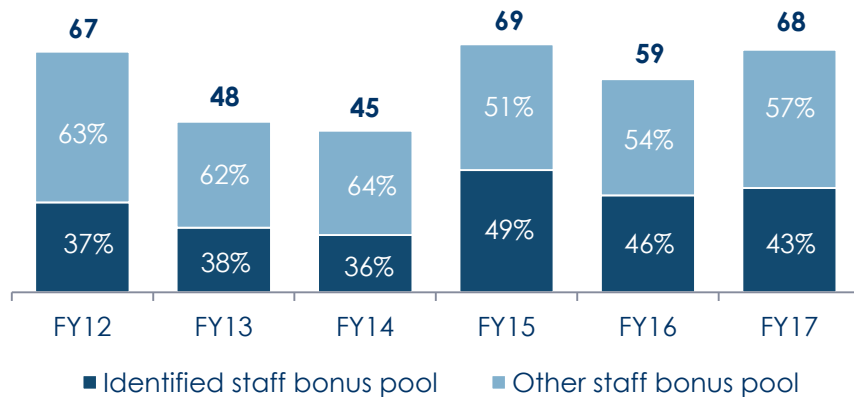
- ◆ Buyout, sign-on and entry bonuses permitted only for the first year of particularly talented new hires
- ◆ Absence of golden parachutes. No special treatment provided for Executive Directors in the event of voluntary or involuntary termination
- ◆ Severance for Executive Directors and identified staff established at 24 months of remuneration capped at € 5mln gross



# FY17 MEDIOBANCA (WB & HOLDING FUNCTION) BONUS POOL UP ON EXCELLENT BANK RESULTS AND ....

- ◆ FY17 - all gateways met
- ◆ Capital and liquidity ratios enhanced
- ◆ Positive group gross operating profit
- ◆ MB bonus pool +15% YoY due to excellent FY17 results
- ◆ After FY15 platform investments, FY17 identified staff bonus pool rebounds (+7% YoY) on pay for performance mechanism (WB net profit up 12% YoY)

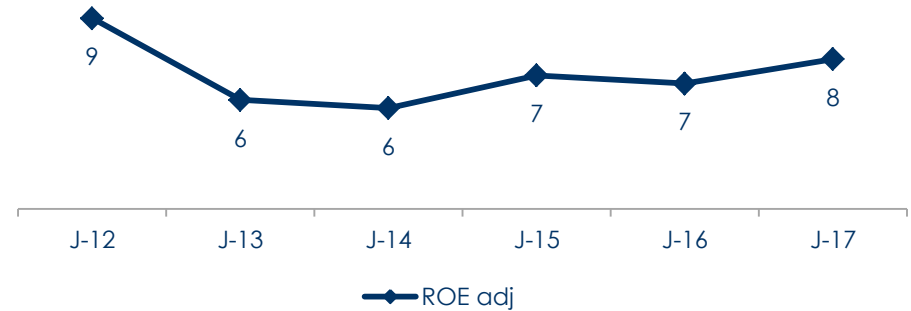
## Mediobanca (WB – HF) bonus pool evolution (€ m - cost)



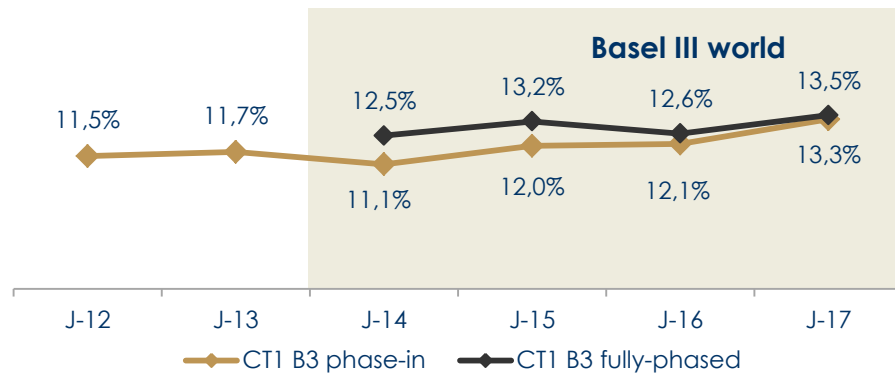
# ... LONG TERM VALUE CREATION FOR SHAREHOLDERS

- ◆ Mediobanca has achieved growth even in a tough environment
- ◆ Acquisitions to boost growth: Cairn Capital and Barclays Italian retail perimeter
- ◆ 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 3Y

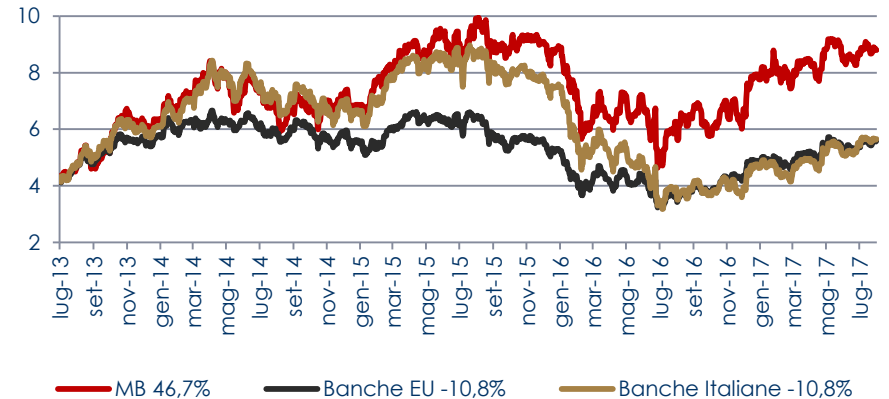
## High single-digit normalized profitability<sup>1</sup>...



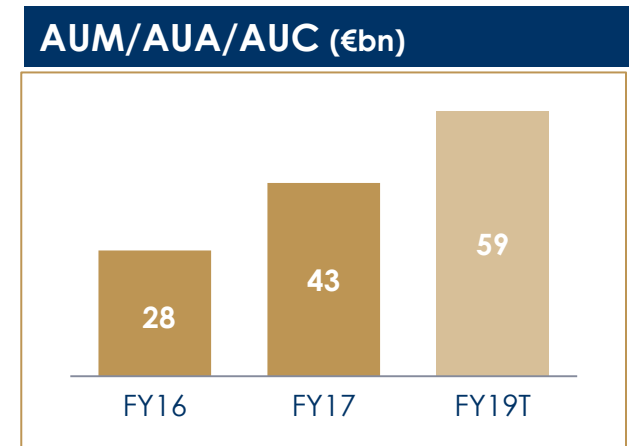
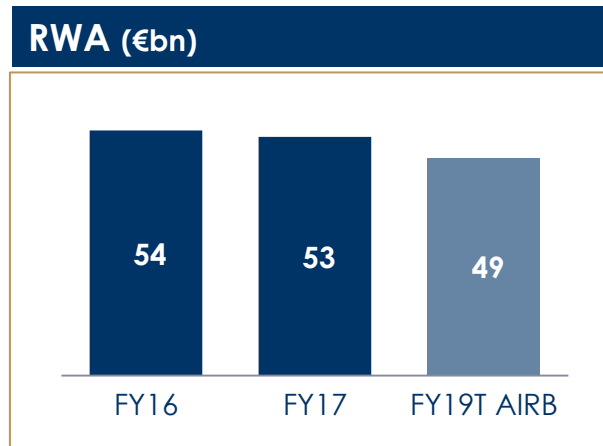
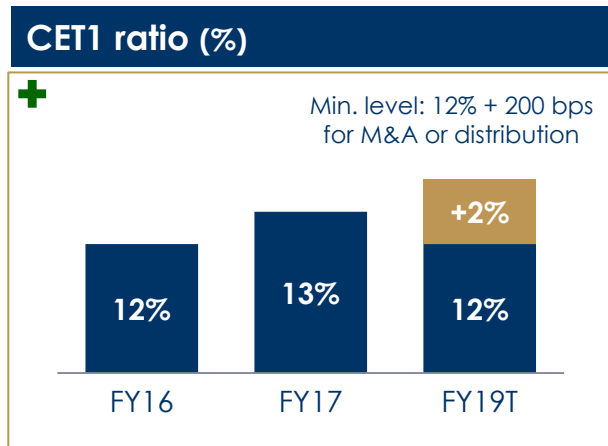
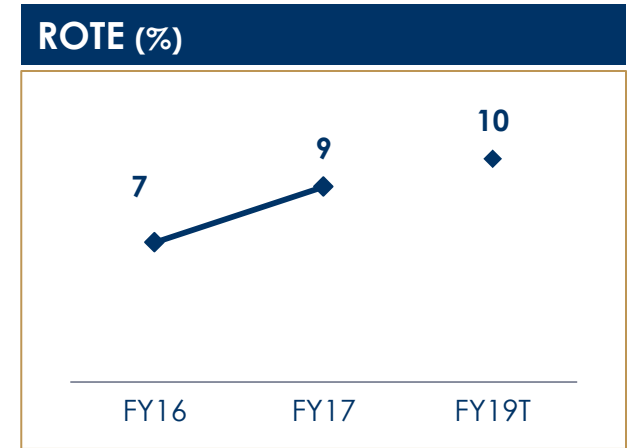
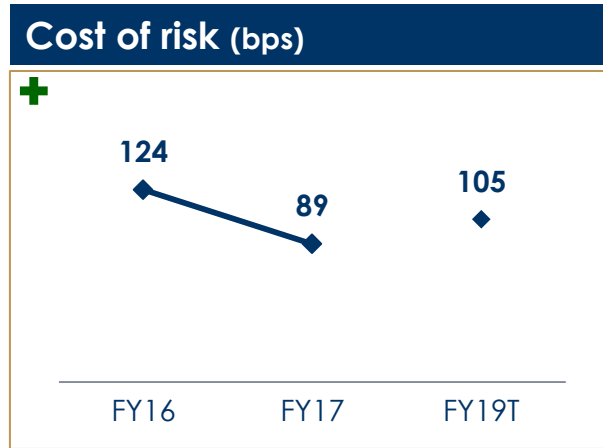
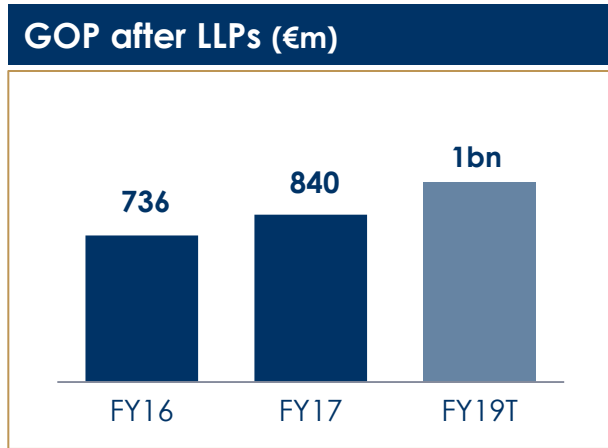
## Solid capital ratios without K increases (last one in 1998) and with more than €3bn returned to shareholders<sup>2</sup>...



## Positive market performance since July 2013



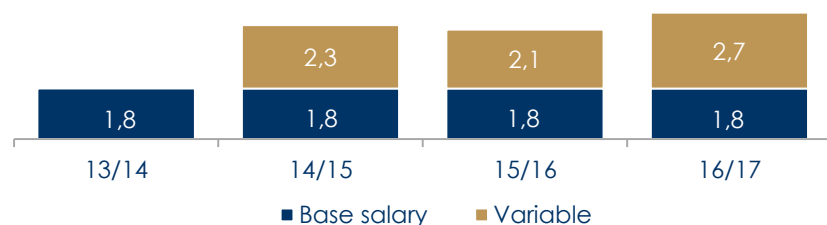
# FY17 - BUSINESS MODEL SUCCESSFULLY RESHAPING, WELL ON BP TRAJECTORY - CET1 & COR AHEAD



# SUCCESSFUL ENLARGEMENT OF THE GROUP PERIMETER AND EXCELLENT RESULTS FOSTER CEO AND GM COMPENSATION

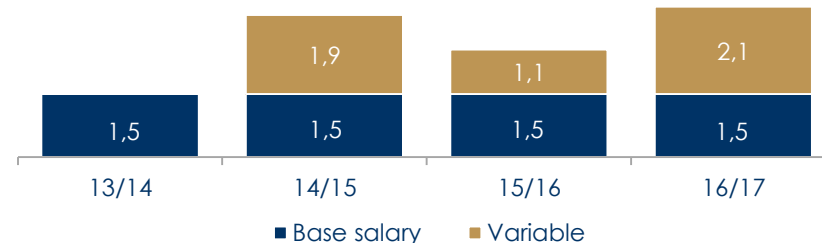
## CEO compensation and scorecards

Total compensation evolution (€ m)



## GM compensation and scorecards

Total compensation evolution (€ m)



## CEO - FY17 Scorecards

Quantitative goals	Weight	Assessment
Gross ROAC adj. Banking activities	35%	Below Almost met Met More than met Exceeded
CET 1 Ratio	30%	Below Almost met Met More than met Exceeded
Group Texas ratio	20%	Below Almost met Met More than met Exceeded
Gross ROAC adj. CIB	15%	Below Almost met Met More than met Exceeded

## General Manager - FY17 Scorecards

Quantitative goals	Weight	Assessment
Gross ROAC adj. Banking activities	40%	Below Almost met Met More than met Exceeded
Group Texas ratio	30%	Below Almost met Met More than met Exceeded
Group Administrative Costs	30%	Below Almost met Met More than met Exceeded

Qualitative goals	Assessment
Succession plan update	Below Met More than met
Wealth Management development	Below Met More than met

Qualitative goals	Assessment
Rationalization of Group's infrastructure and support units	Below Met More than met
Optimization of capital allocation in Capital Markets	Below Met More than met
Management of mid corporate initiatives	Below Met More than met

### CEO - FY18 Scorecards: Quantitative KPIs

Gross ROAC adj. Banking activities (optimize the return on and capital absorbed by the core business); Wealth Management division revenues (with focus on growing the division); Group return on assets – ROA (with a view to maximizing profitability) and CET 1 ratio (to preserve capital adequacy).

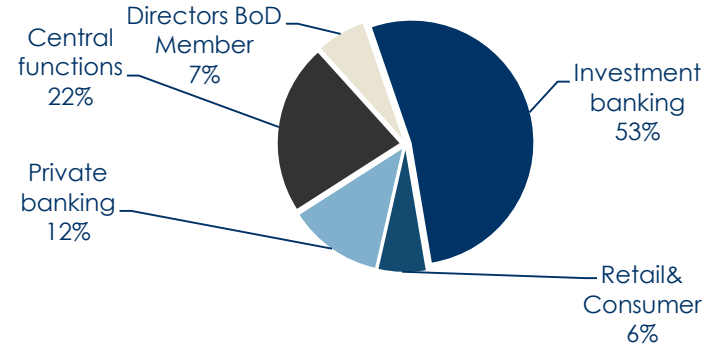
### GM - FY18 Scorecards: Quantitative KPIs

Gross ROAC adj. Banking activities (as for the CEO); Private Banking business line revenues (with focus on growing private banking activities); Pre-tax result of Holding Functions division (with a view to optimizing the holding functions' activities) and Group cost/income ratio (to ensure growth in costs which is consistent with the trend in revenues).

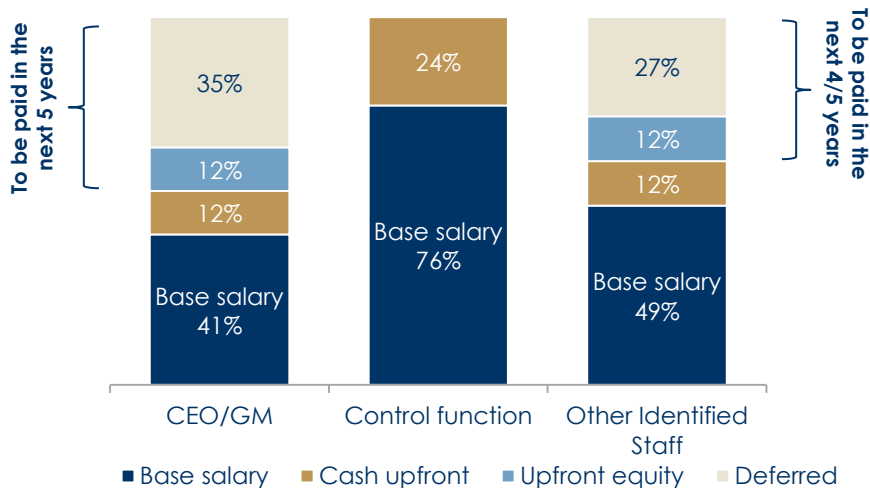
# GROUP PAY MIX AND VARIABLE/FIXED REMUNERATION RATIO

- ◆ Increase in Group variable/fixed remuneration ratio 2017 vs. 2016, due to targets achievement. Long term approach and sustainable remuneration mechanism applied in each BU:
- ◆ WB & HF: avg. 75% vs. 66% (Identified staff WB: 124% vs. 108%)
- ◆ Consumer: avg. 10% vs. 9% (Identified staff: 57% vs. 44%)
- ◆ WM - Affluent/Premier: avg. 19% vs. 11% (Identified staff: 53% vs. 43%)
- ◆ CEO and GM FY17
  - ◆ 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)



## FY16/17 identified staff pay mix



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

