



MEDIOBANCA CORPORATE GOVERNANCE

Executive summary 2019



MEDIOBANCA

EXECUTIVE SUMMARY

Mediobanca Group, since its foundation in the 1950s, **has grown and developed and today is:**

- ◆ **The leading Italian investment bank**, with operations in lending, advisory and capital market services, with offices in Frankfurt, London, Madrid, New York and Paris;
- ◆ **A top player in consumer credit** in Italy;
- ◆ **A fast-growing wealth manager** serving Affluent & Premier Italian clients through CheBanca!, and Private & HNWI clients through MB Private Banking in Italy and CMB in the Principality of Monaco.

Key financial information¹

Revenues:	€2,5 bn	CET1:	14,1%
Net profit:	€823 mln	Moody's rating:	Baa1
ROTE adj:	10%	S&P rating:	BBB
C/I ratio:	46%	Fitch rating:	BBB
Total assets:	€78 bn	DPS:	€0,47
Loan book:	€44 bn	Stated payout:	50%
TFA:	€68mld	Loan/funding ratio:	86%
No. of staff:	4.805	Market cap. ² :	€8,8 bn

Along with its outstanding financial performance and capital strength, MB's **corporate governance and shareholders' structure has evolved over the years. Recently significant efforts have been made to improve Mediobanca's corporate governance**, including increasing the presence of institutional investor shareholders, and aligning our BoD with the best market practice.

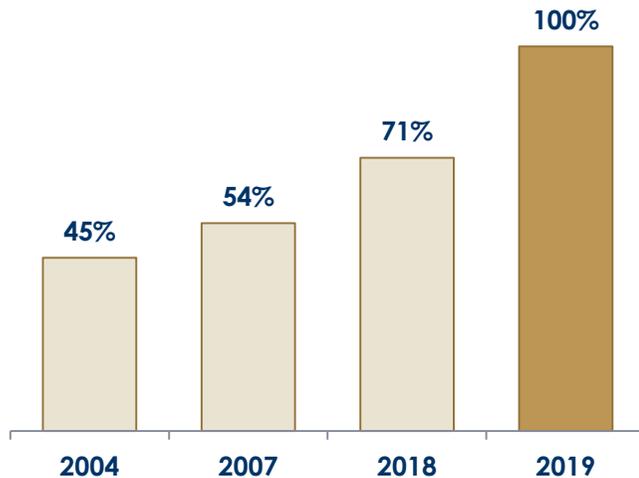
Positive results include the SREP Pillar 2 requirement being confirmed for 2019 at the already low 2018 levels (CET1: 1,25%). The supervisory authority's requirement is compliance with a minimum CET1 ratio as low as 8,25%, which testifies to our:

- ◆ Sound risk appetite/approach
- ◆ Strong asset quality/liquidity indicators
- ◆ Business model sustainability
- ◆ Governance enhancements

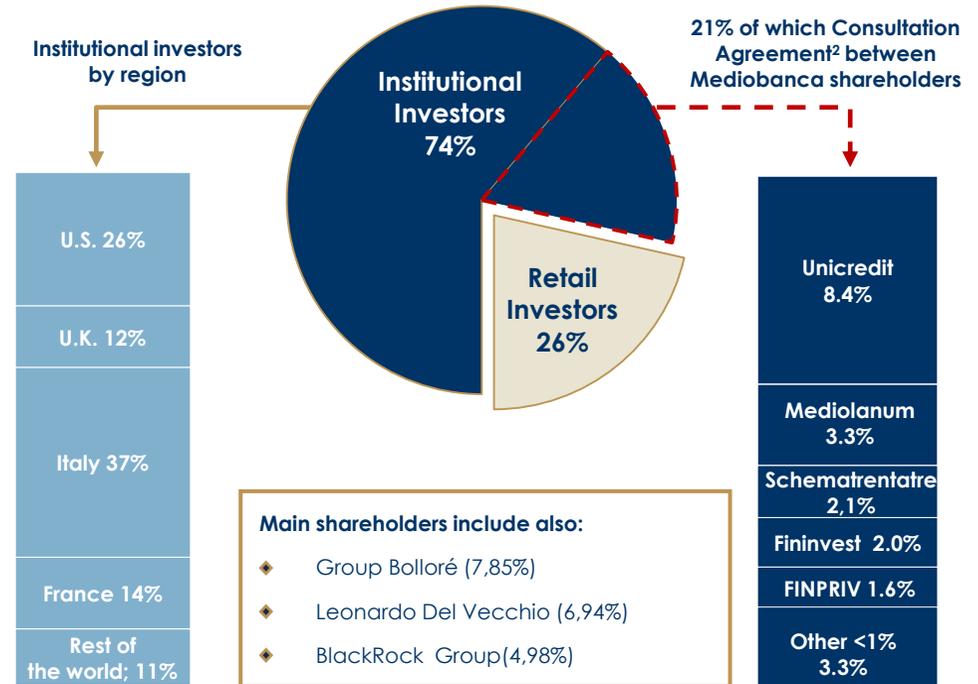
One of the main changes includes having set up a CSR Board Committee, in addition to the existing Group Sustainability management Committee.

WELL-DIVERSIFIED SHAREHOLDER BASE

MB free float up (now 100%)



Mediobanca shareholders' structure¹



- ◆ **Historical syndicated pact expired at end-2018.** With the new consultation agreement, gathering 21% of capital (lasting 3Y, with no restrictions on shares) **MB free float has become now 100%.**
- ◆ **Institutional investors account for 74%,** stably split by geographical region: U.S. (26%), France (14%), U.K. (12%) and Italy (37%)
- ◆ **Stable retail investor presence (26%)**

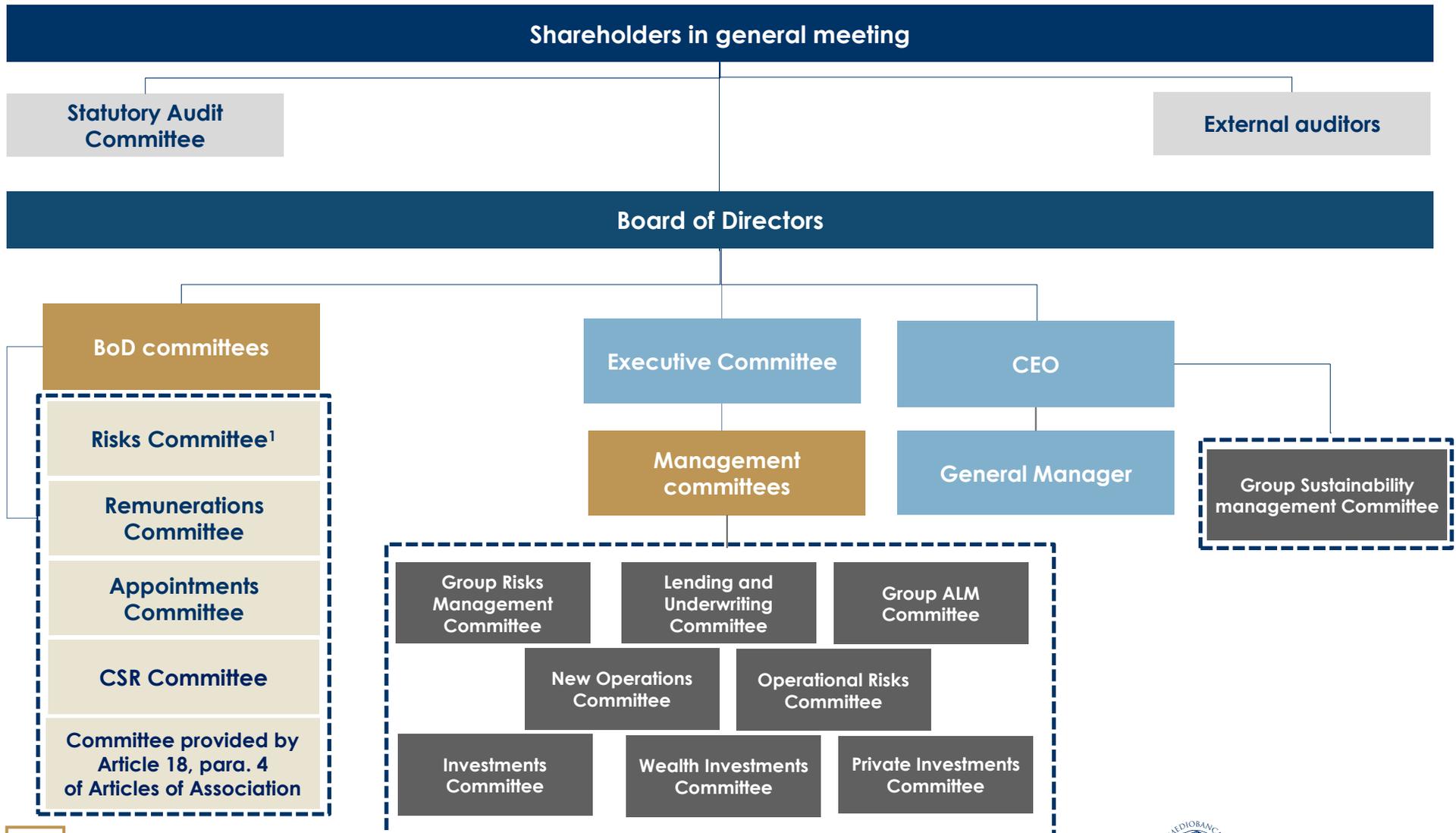
1) Source: Nasdaq Shareholder Analysis August 2019

2) No provision made for commitments either in terms of lock-up or voting rights over shares syndicated. The agreement governs the means by which shareholders meet to share reflections and considerations regarding the Group's performance, in accordance with the principle of parity of information versus the market

CORPORATE GOVERNANCE MODEL: DESCRIPTION

- ◆ **Mediobanca has adopted a traditional corporate governance model** based on a BoD and a Statutory Audit Committee, both of which are appointed by shareholders in AGM¹. Within this model, our corporate governance system provides for a **clear separation of roles** and responsibilities of the governing bodies, as set out in the Articles of Association:
 - ◆ **Strategic supervision** is assigned to the Board of Directors, which decides on the Bank's strategic policies and verifies their continued implementation
 - ◆ **Management of operations** are handled by the Executive Committee and the Chief Executive Officer, who are responsible for implementing strategic policies and managing the company
 - ◆ The **Statutory Audit Committee** is responsible for supervising control activities.
- ◆ **The Articles of Association** now in force **provide for three members of the Banking Group's senior management to be included in the Board of Directors**, and a system based on powers for the Executive Committee and the CEO in the day-to-day management of the company.
- ◆ **This model enables us to look after our shareholders' interests, whilst also empowering our management.**
- ◆ **BoD Committees** - the Board of Directors has established **five committees** :
 - ◆ **Risks Committee:** reports on the internal control system, risk management, and the financial reporting structure, and acts also as the Related Parties Committee
 - ◆ **Remuneration Committee:** reports on the setting of the compensation for senior positions and on the staff remuneration, loyalty and incentive policies,
 - ◆ **Appointments Committee:** supports the Board in the process of appointing directors (e.g. in cases where new members are co-opted), and in the processes of Board evaluation and succession planning for senior management positions,
 - ◆ **CSR Committee:** responsible for preliminary analysis of sustainability items to be submitted to the BoD.
 - ◆ **Committee instituted pursuant to art. 18 of Articles of Association:** adopts resolutions in respect of decisions to be taken in general meetings of the investee listed companies, with reference to the appointments to be made to their governing bodies, in which the Bank holds at least 10% of share capital and for which the investment represents >5% of the Group's consolidated regulatory capital.
- ◆ **Management committees** – business and technical committees (Group Risks Management Committee, Lending and Underwriting Committee, Group ALM Committee, Investment Committee, New Operations Committee, Operational Risks Committee, Group Private Investment Committee, Group Wealth Investment Committee), made up by Group managers, are established to manage and support the executive committee in the day-to-day management of the Bank.
- ◆ **The Group Sustainability management Committee**, made up of key people within Mediobanca and a Group Sustainability Unit **reporting directly to the CEO.**

CORPORATE GOVERNANCE STRUCTURE (SEPTEMBER 2019)



1) Acts also as the Related Parties Committee



THE CURRENT BOARD OF DIRECTORS ...

Director	Post	Independent	Committees					
			Executive	Risks/Related Parties	Remunerations	Appointments	CSR	Committee instituted pursuant to Article 18, par. 4 of Articles of Association
Renato Pagliaro	Chairman ¹						X	
Maurizia Angelo Comneno	Deputy Chairman	X ³	X					
Alberto Pecci	Deputy Chairman				X			
Alberto Nagel	CEO		Chairman					Chairman
Francesco Saverio Vinci	General Manager		X					Chairman
Marie Bolloré		X ³					X	X
Maurizio Carfagna		X ^{2,3}		X	Chairman			
Maurizio Costa		X ^{2,3}					Chairman	
Angela Gamba		X ^{2,3,4}		X				X
Valérie Hortefeux		X ^{2,3}		X	X			
Maximo Ibarra ⁵		X ^{2,3}						X
Alberto Lupoi		X ^{2,3,4}			X		X	
Elisabetta Magistretti		X ^{2,3}		Chairman			X	X
Vittorio Pignatti-Morano ⁵		X ^{2,3}		X				
Gabriele Villa		X ³	X					

- ◆ **The current BoD (appointed by the 2017 AGM of Shareholders and due to expire with the AGM approving financial statements as at 30.6.2020), reflects the changes inspired by national and international best practice, and complies with the ECB and Bank of Italy rules as well as the outcome of the self-assessment process.**
- ◆ **The BoD shows a strong presence of independent directors² (based on stricter criteria), with stable female representation and minority member representation doubled**

1) Non-executive
 2) Independent as defined by Article 19 of the Articles of Association
 3) Independent as defined by Article 148, para. 3 of the Italian Finance Act
 4) Members appointed from the minority list
 5) Members appointed by shareholders at the AGM held on 27 October 2018 (previously co-opted by the Board of Directors at a meeting held on 20 September 2018).

... IS A FURTHER STEP...

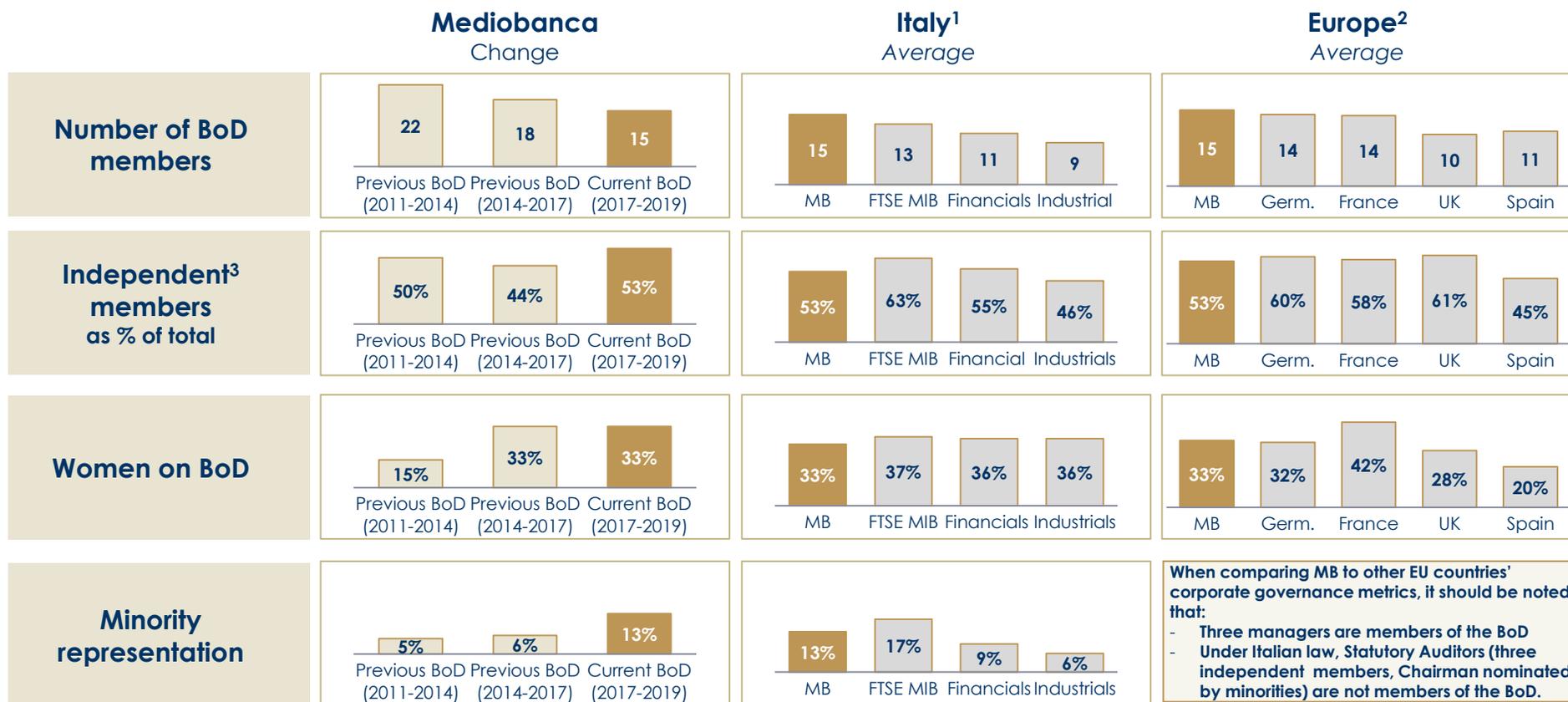
Main features of the BoD (renewed in 2017)

- ◆ **Smaller** in size (reduction of size from 18 to 15)
- ◆ **Increase** in Directors' **independence** (up to 53%)
- ◆ **Two directors** (rather than one) **appointed from minority list**
- ◆ **Enhanced** blend of **capabilities**
- ◆ **Good international profile**
- ◆ Balanced distribution of seniority in terms of age/tenure
- ◆ **Continuity ensured** by at least nine Directors being reappointed in order to maintain focus on initiatives already up and running
- ◆ **CEO continuity:** in office since 2008
- ◆ **To limit the risk of conflicts of interest**, the outgoing Board of Directors also recommended that no Directors:
 - ◆ Perform executive duties for banks, insurances or asset management companies in competition with Mediobanca Group's activities;
 - ◆ Be an advisory board member of any banks, insurances or asset management companies in competition with Mediobanca Group's activities;
 - ◆ Be directly or indirectly a relevant shareholder (i.e. with interests of over 10%) in any banks, insurances or asset management companies in competition with Mediobanca Group's activities.

Independence criteria (Article of Association, Article 19)

- ◆ A non-executive Director does not qualify as independent if they:
 - ◆ Hold, directly or indirectly, including through subsidiaries, fiduciaries or other intermediaries, a shareholding of over 2% in the company or is a significant representative of the group to which the company belongs;
 - ◆ Are, or have been in the three preceding financial years, a significant representative of the company or of one of its strategically relevant subsidiaries;
 - ◆ Have or have had in the past three financial years, directly or indirectly, a significant commercial, financial or professional relationship with the group;
 - ◆ Receive or have received in the past three financial years, significant additional remuneration from the group compared to their fixed emolument as non-executive director;
 - ◆ Have been a Director for more than nine of the last twelve years;
 - ◆ Are partner or director of a company or entity forming part of the network of the company retained by the issuer as its external auditor;
 - ◆ Are a close relative of a person in one or other of the situations listed under the points above.

... TOWARDS NATIONAL AND EUROPEAN BEST PRACTICE



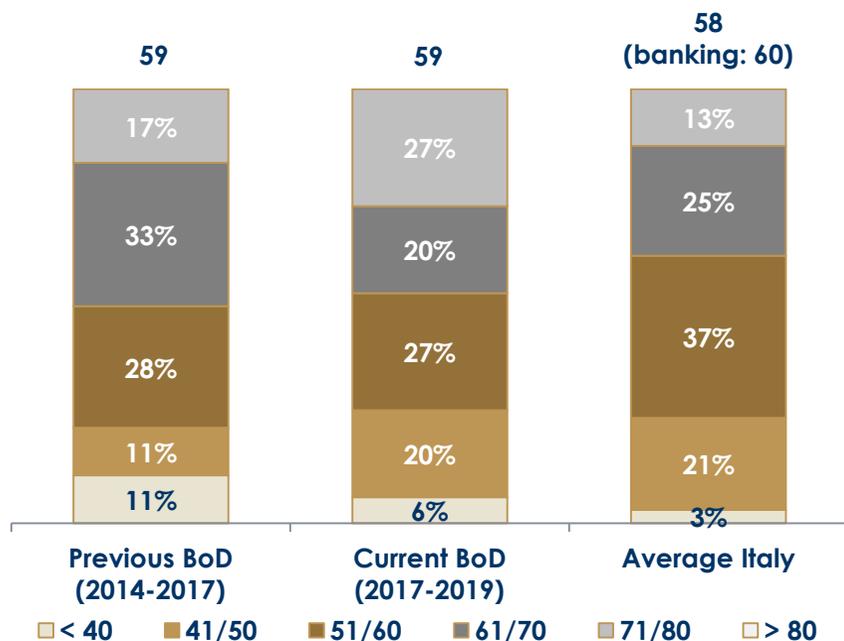
- ◆ **MB's BoD continues to stand out for members' independence, number of BoD members and gender diversity**
- ◆ **Even with significant differences between European countries the MB BoD reflects outstanding indicators in terms of gender diversity, independence and number of members**

1. Source: Consob Report on corporate governance 2018
 2. Source: Spencer Stuart Board Index 2018
 3. As defined by Article 19 of the Articles of Association providing for a single definition of independence, in line with the requirements of the Code of Conduct for listed companies operated by Borsa Italiana.

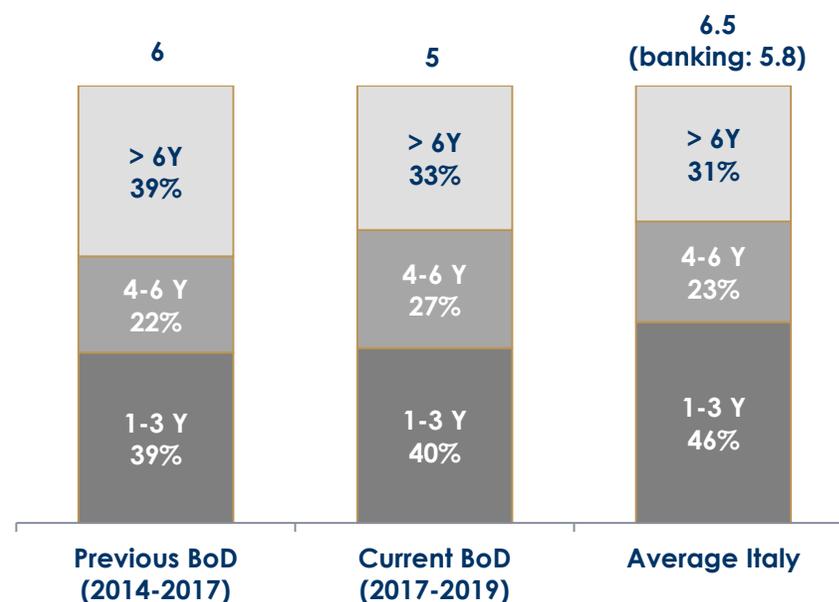


... TOWARDS NATIONAL AND EUROPEAN BEST PRACTICE (CONT.)

BoD average age and age distribution (%)



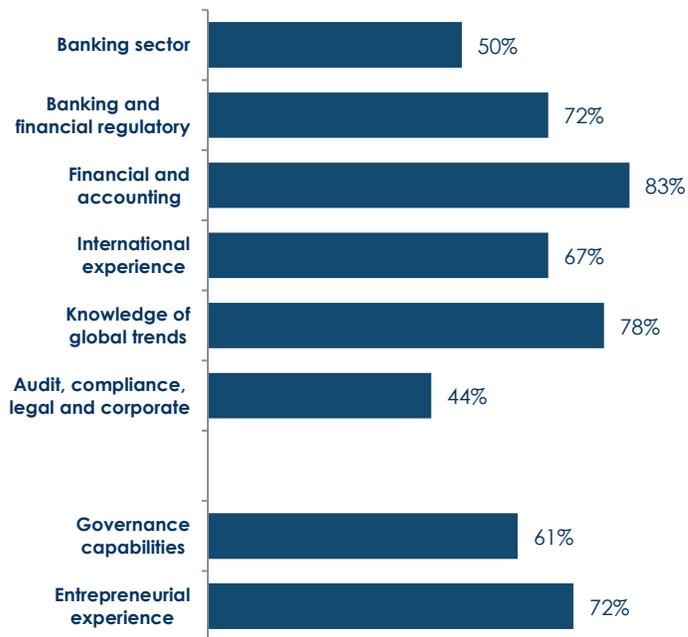
BoD average tenure and tenure distribution (%)



- ◆ **BOD average age down to 59 in line with the Italian (58) and EU average** (Germany 58, France 59, Spain 60 and U.K. 59). **Age distribution in line with the Italian average** rebalanced by a reduction of the age distribution tails (<40 and >60)
- ◆ **BOD average tenure down to five years**, almost in line with the Italian average, due to the newly-appointed members.

CURRENT BoD CAPABILITIES SIGNIFICANTLY ENHANCED

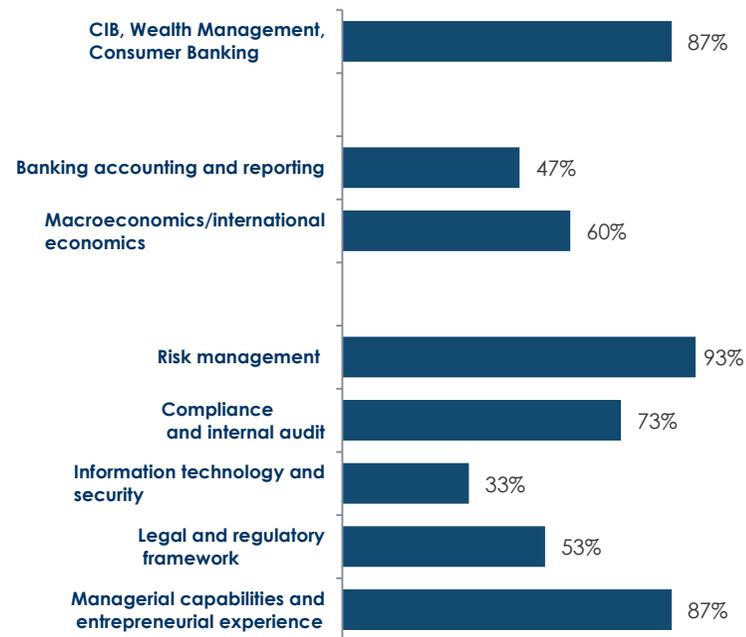
Previous BoD capabilities



**Banking skills:
increased and specific**

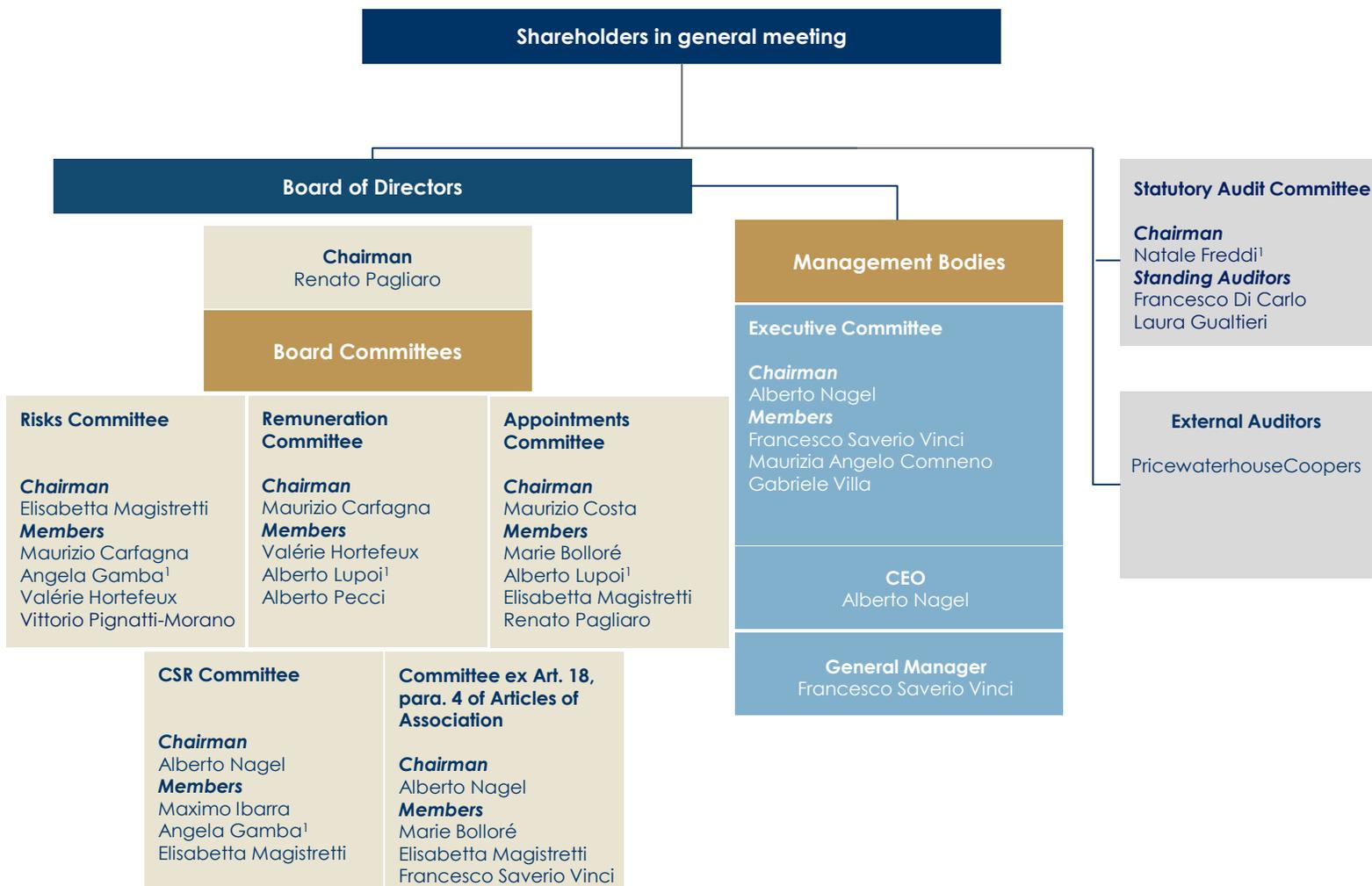
**Risk and security:
increased and specialized**

Current BoD capabilities¹



- ◆ **The ECB, among other things, lays down rules on the skills the Board Members must possess as well as their fitness to hold the office** (including time/resources availability and absence of conflicts of interest).
- ◆ Even if not directly comparable, **the skills reflected by the new BoD have evolved to reflect increased banking experience, risk management and control knowledge and culture.**
- ◆ **One specific request refers to information technology and security**, which, due to the technological developments in the banking industry, **has proved to be a main driver in preventing breaches and fraud**

CORPORATE GOVERNANCE STRUCTURE (DETAILS)

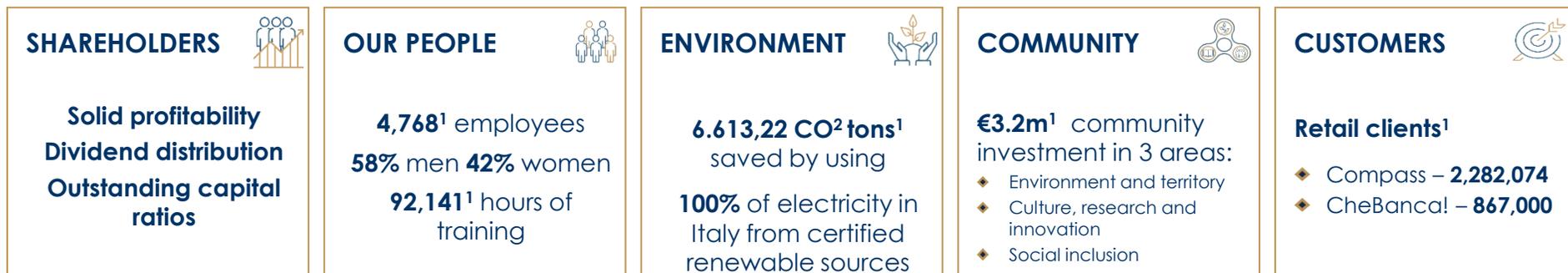


GROUP CSR : FROM COMPLIANCE TO STRATEGY

CSR: shaping the Mediobanca Group's already sustainable approach to business to include competence, best practice and corporate culture...



... to satisfy all the stakeholders with our acknowledged ethical approach



BOARD ASSESSMENT PROCESS

Annex 1



BOARD OF DIRECTORS – ASSESSMENT PROCESS

Stages in Board assessment process



- ◆ In FY 2018-19 **the Board of Directors carried out a self-assessment process on the role, size, composition and functioning** of the Board itself and its various committees
- ◆ The assessment was performed with the help of an external consultant and **taking due account of the EBA guidelines on internal governance, the EBA/ESMA guidance on qualifications for Directors, and the ECB fit and proper person guide.**

BoD – SELF-ASSESSMENT RESULTS

Largely positive assessment of the composition and functioning of the Board and the Committees (adequacy and self-assessment) which confirms the effectiveness of the work done

Composition (in terms of size, capabilities, background, diversity also in terms of gender, and number of independent members) considered to be adequate

Flow of information ahead of the meetings, documentation on risks facing company and risk controls, and segmentation of budget and closing data by business line, **all held to be satisfactory**

Board members were appreciative of the ways in which the Chairman informs, directs and stimulates the discussions in the Board meetings **and of the leadership shown by him**

Board members were **satisfied** at the **work done by the Board** in terms of **the number and duration, level of debate and minutes of the meetings and the induction and training programme.**

The **participation** of the **heads of the control units** and the Group's **main business areas in Board and induction meetings was appreciated**

Board members were satisfied at the increased focus put on senior management succession issues and visibility over key function holder development schemes

The Executive, Appointments, Remunerations and Risks Committee were felt to be excellent in terms of role, functioning, composition and size

The Board self-assessment process, extended also to the other banks in the Group, revealed a largely positive assessment of the role of the Board.

Areas for improvement

More space for sustainability issues in the Board's agenda;

Step up the involvement of Group senior management in Board and induction meetings;

Increased level of detail in minute-taking, and hoped livelier debate;

Regular reporting to the Appointments Committee and the Board on the composition of the governing bodies of the most important Group companies;

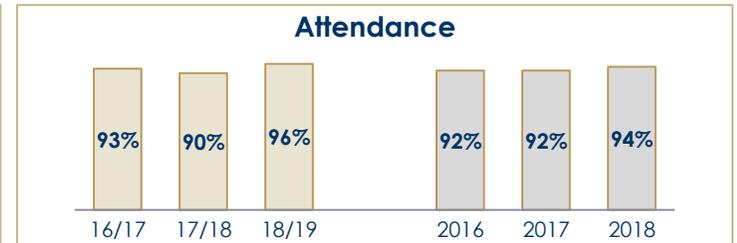
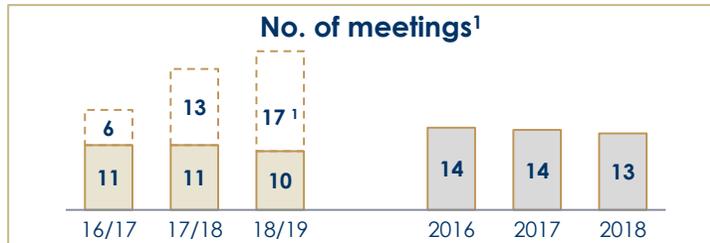
Comment on the rationale for the main decisions taken by the delegated bodies in Board meetings.

BOD AND BOARD COMMITTEES: STATISTICS

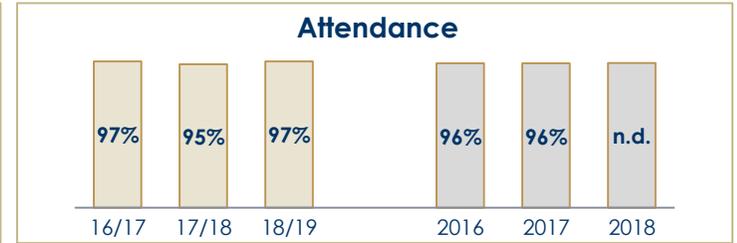
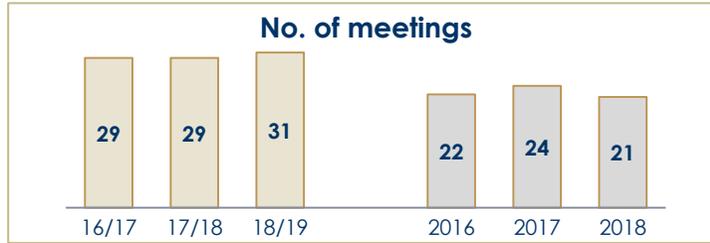
Annex 2

BoD STATISTICS (FY 18/19)

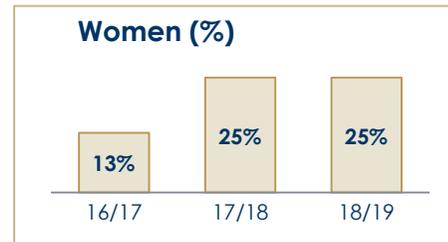
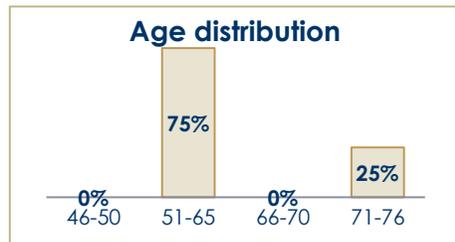
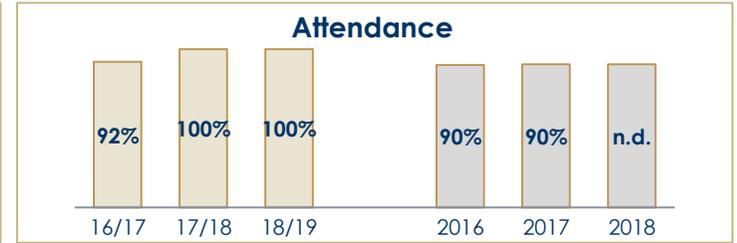
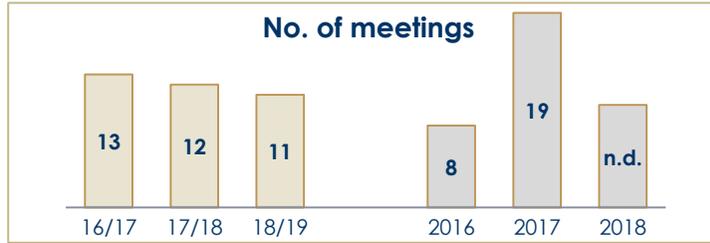
BoD



Statutory Audit Committee



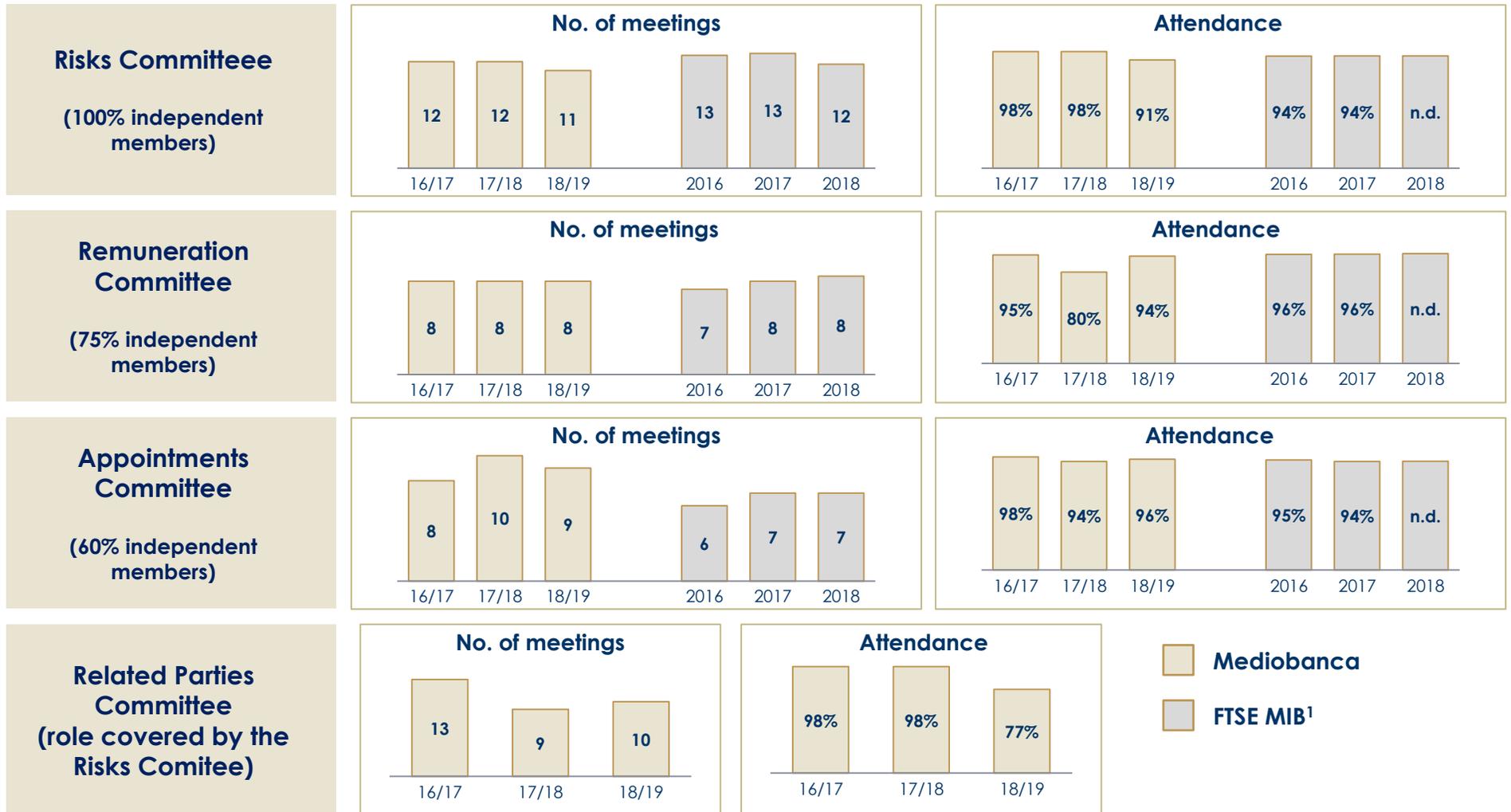
Executive Committee



Mediobanca
 FTSE MIB²

1) Including BoD induction and training sessions sessions (dashed boxes); 4 induction sessions destined to newly appointed members are also included.
 2) Source: Assonime, *La Corporate Governance in Italia 2018*, Consob Report on corporate governance 2018

BOD STATISTICS (FY 18/19)



1) Source: Assonime, *La Corporate Governance in Italia 2018*, Consob Report on corporate governance 2018



CORPORATE GOVERNANCE CODES AND POLICIES

Annex 3

CORPORATE GOVERNANCE – CODES AND POLICIES

Code of Ethics

Our Code of Ethics contains references and guidance which complement the legal requirements and self-regulation obligations, with a view to ensuring that behaviour is consistent and compliant with the Group's mission and its fundamental values.

It defines ethical principles and conduct rules regarding several principles

- ◆ Fairness and honesty
- ◆ Impartiality
- ◆ Professionalism and valorization of staff
- ◆ Confidentiality
- ◆ Conflicts of interest
- ◆ Transparency and completeness of information
- ◆ Health and safety
- ◆ Environment

Code of Conduct

The Code of Conduct is the document which, along with the Code of Ethics, sets out the fundamental principles on which the Bank's reputation is based, and contains the values which underlie its everyday operations. It constitutes the benchmark for regulating relations inside and outside the Bank in ethical terms, describing the standard of conduct required of all its staff and collaborators

The core values are

- ◆ Proper conduct
- ◆ Confidentiality
- ◆ Professionalism
- ◆ Independence

Regulations on Internal Dealing

The regulations in respect of internal dealing (the "Regulations") have been approved by the Board of Directors of Mediobanca and adopted pursuant to the new EU regulations on this subject (Regulation (EU) 596/2014, Commission Delegated Regulation (EU) no. 522 issued on 17 December 2015, Implementing Regulation EU no. 523 issued in March 2016). The Regulations are intended to govern, with binding effect, behavioural and reporting requirements in respect of transactions executed, *inter alia* through intermediaries, by persons defined as "Relevant Persons"¹ and by persons or entities closely related to such Relevant Persons, involving shares in Mediobanca and bonds issued by the company and derivative financial instruments or other financial instruments linked to them

Related Party Transaction Regulation

These Regulations provide the instructions with which Mediobanca must comply to ensure the transparency, proper conduct, objectivity and impartiality of transactions with related parties, executed directly or via subsidiaries.

Sustainability

The Sustainability Policy contributes to the strengthening and implementation of the values of ethics, integrity and responsibility as a form of respect towards people, the environment and society as a whole. The Mediobanca Group is convinced that fair, transparent and responsible conduct increases and protects its reputation, credibility and consensus over time, all of which are prerequisites to deliver sustainable growth for the business with a view to creating and protecting value for all its own stakeholders.

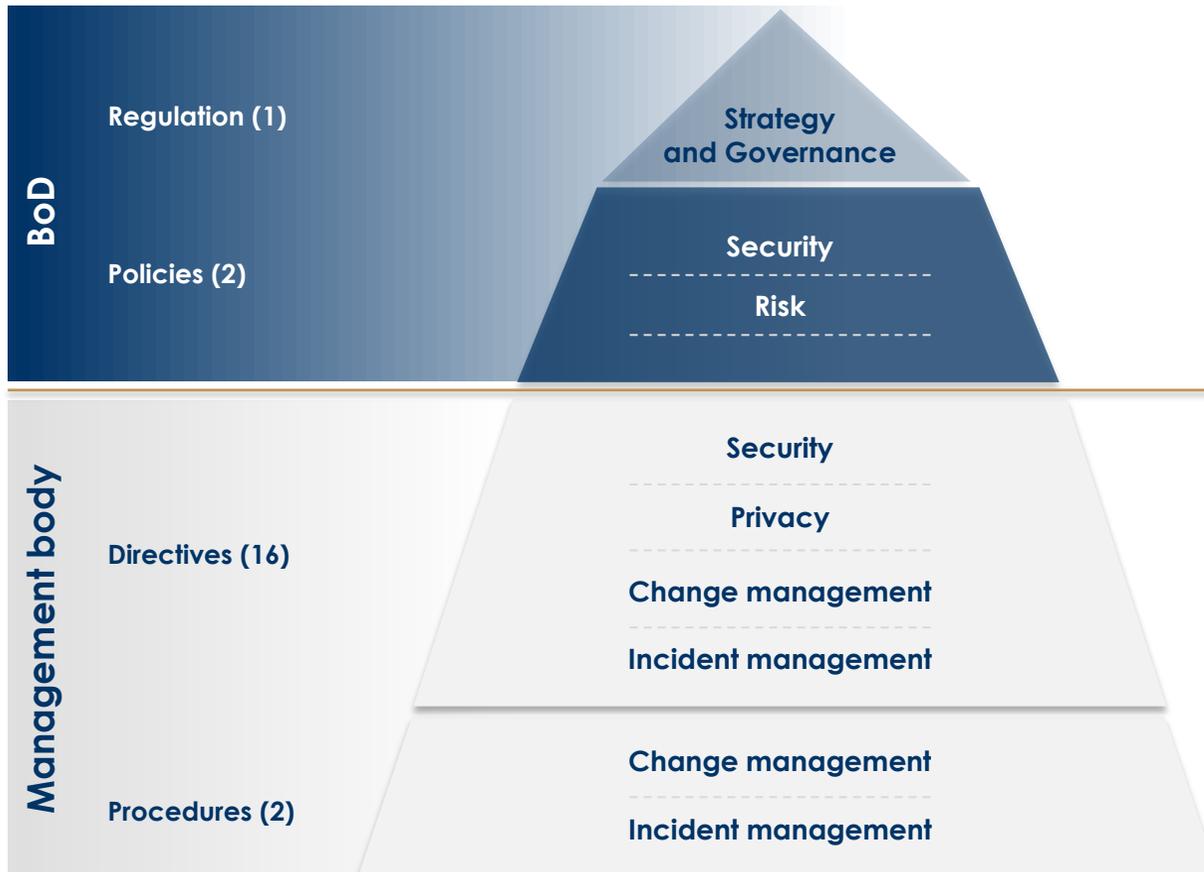
GROUP IT GOVERNANCE

Annex 4



GROUP IT GOVERNANCE MODEL

The Mediobanca Group considers the protection of its information assets a key principle that guarantees the operation of its processes in order to achieve strategic objectives and regulatory compliance. The IT risk management process is a foundational element and the main guideline to ensure that the organizational, procedural and technological protection measures are appropriate and commensurate with the value of the information and resources to be protected



The Group IT Regulations describes:

- ✓ The governance model for Group IT;
- ✓ The respective roles and areas of responsibility of the governing bodies and business units involved;
- ✓ The lifecycle of the IT regulations of the Group;
- ✓ References to standards, best practices and internal and external regulations which the governance of Group Information Systems is based on.

Mediobanca oversees the Group Information Systems in the interest of the Group companies themselves, with the aim of promoting the adequacy of services provided in support of the business, with a view to obtaining advantageous synergies and cost savings.

Management of technology infrastructure is centralized at Mediobanca Innovation Services, while management of the applications' lifestyle is assigned to the Group companies themselves.

MEDIOBANCA GROUP DATA SECURITY

Data security

The Mediobanca BoD has approved a Policy on information security and IT risk management, to ensure confidentiality, integrity and availability of data and information. A dedicated internal unit has also been set up to manage IT risks and protect the Bank from security incidents, taking into account the developments in cyber crime, regulatory changes and Mediobanca's business. This unit performs, *inter alia*, security and risk awareness initiatives, IT risk quantitative analysis, vulnerability assessments and penetration tests.

Data protection policy

Mediobanca has adopted a data protection policy setting out the principal measures identified by Mediobanca to ensure compliance with the general principles contained in the GDPR, with reference in particular to (i) lawfulness of processing, (ii) rights of interested party; (iii) processing register and assessment of the impact on data protection; (iv) processing security; and (v) management of data breach events

Rights of individuals to control their own data

On data subject rights, Mediobanca's new privacy policy and related implementing internal documentation will address the following issues: (i) information rights; (ii) access and correction rights; (iii) new deletion rights (right to be forgotten); (iv) new data portability rights; (v) processing objection and restriction rights; (vi) new right not to be subject to decisions based solely on automated data processing, including profiling, which produces legal effects or similarly affects the person; and (vii) new breach notification rights.

Audits

The Group Audit Unit, based on a risk-driven approach, carries out regular assessments of privacy (e.g. checks on client documentation and networks' activities, operational audits of Group central processes, monitoring of compliance unit) and data security (e.g. VAPT on corporate websites, assessments of Strong Customer Authentication).

Data breach response plan

On data breaches, Mediobanca's new privacy policy and implementing internal documentation will: (i) clearly identify a security breach that triggers reporting requirements and how it differs from potential security incidents; (ii) identify the short reporting timeframes that may apply when a security breach occurs. For example, a data processor must notify its data controller of a data breach "without undue delay," and a data controller must notify the relevant supervisory authority of a data breach within 72 hours; and (iii) identify the potential exceptions to reporting a security breach.

Employee training

Mediobanca has set up an education programme which provides for an online training course on data protection and security awareness for each new recruit (including a final test) and regular refresher courses, in addition to any initiatives that may be undertaken upon relevant changes to the applicable regulations. In this connection, the training course will be updated based on the provisions of the GDPR and distributed to existing employees.