Mediobanca Group

2016 Remuneration policy

MEDIOBANCA

28 October 2016

Executive Summary

FY16

- All gateways met
  - Capital and liquidity ratios enhanced as defined in the Risk Appetite Framework
  - Positive Group Gross Operating Profit
- Regulatory Identified staff: representing approx. 2% of the total Group headcount and 11% 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[1]. 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 € 5 million gross
  - 5-year deferral period for 60% of variable remuneration for Executive Directors and Top Executives

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, November 2014*
- *EBA Guidelines on Remuneration Policies 21 December 2015, into force on 1 January 2017*

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Governance of Remuneration Process

HR
process owner, governs and controls units to verify the Group's earnings and financial data

Audit
reviews data and monitors process adherence

Accounting
provides data for determining the business areas' performances based on results

Compliance
evaluates compliance of policy with legal and regulatory frameworks

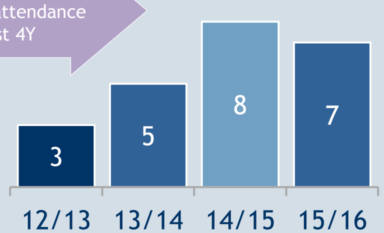
Risk Management
contributes to establishing metrics to calculate risk adjusted performance

Remuneration Committee

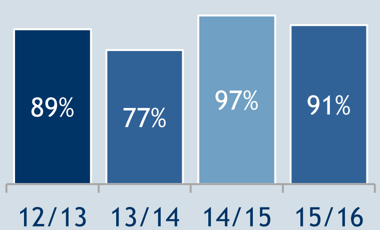
Member	Position	Independent
Vanessa Labérenne	Chairman	X[1,2]
Maurizio Carfagna	Member	X[1,2]
Maurizio Costa	Member	X[1,2]
Elisabetta Magistretti	Member	X[1,2]
Alberto Pecci	Member	

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

Meetings



Attendance



- Composition: 5 non-executive members of which 83% independent
- Consultative role regarding General Manager, Executive Directors[3] and staff remuneration and retention policies
- Activity
  - Reviews and assesses remuneration proposals and guidelines put forward by the Chief Executive Officer
  - Regularly reviews the adequacy, congruity, adherence and application of remunerations policies
  - Verifies performance achievements
- FY16 main topics
  - Analysis of new regulatory framework and Bank of Italy recommendations
  - 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)

1) *Independent as required in Code of conduct for listed companies.*
2) *Independent as required by Article 148, para. 3 of Italian Legislative Decree 58/98.*

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Remuneration Structure guidelines …

Remuneration Structure

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

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 € 5 million

…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)

… 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 fix and variable remuneration in order to avoid risk and short-term behaviour

Executive directors

- fixed remuneration reflects technical, professional and managerial capabilities
- 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 a three-year time horizon and paid inter alia in the form of equity instruments (performance shares and performance stock option schemes)
- For Top Executives, as for the Executive Directors, 60% of the variable component is deferred over a 5-year time horizon

Performance share plan (reserved to 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 14-16 key targets To be evaluated for the BP 16-18

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

Gateways

- The amount determined as an annual bonus pool and its distribution is governed by “gateways”
- 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

Bonus pool

- 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
- In the Wholesale Banking Division Global Product pools are allocated by the CEO based on scorecards. The primary metric of the scorecards is Economic Profit, secondary quantitative and qualitative metrics calibrate the scorecard result. An overall cap is foreseen
- Individual allocation is based on documented quantitative and qualitative performance evaluation, with particular attention to aspects of compliance

Risk adjustment

- The 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

Long-term consideration

- Ongoing employee performance evaluation (focus on compliance breach)
- Provision for remuneration claw back in the event of financial and/or reputational damage

CRD IV and EBA rules for Identified Staff

Identified Staff	◆ Adoption of criteria for those whose activities have a significant impact on 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 2016 represents 2% of the total Group staff and are as follows: 78 resources qualified as identified staff, including Executives, Senior Management, Manager of business units and other resources with managerial responsibilities (91 resources including non executive directors)

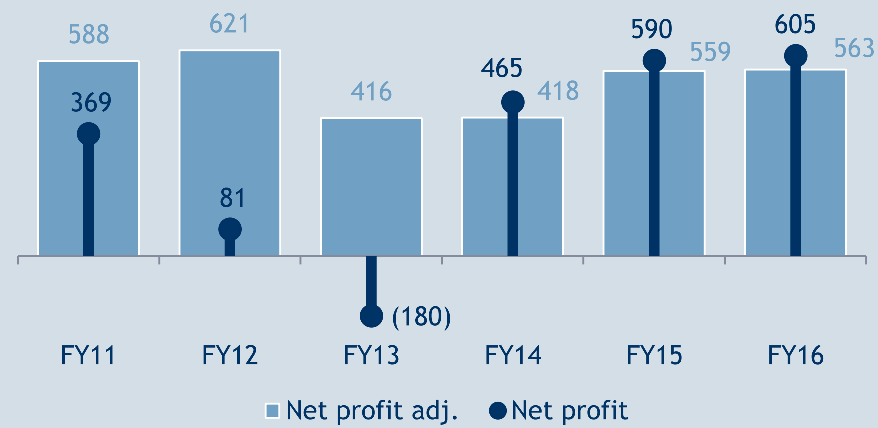
Cap Variable Remuneration	◆ In accordance with the European Directive CRD IV, Mediobanca has set a cap on variable remuneration for all employees at 200% of fixed pay
	◆ The sustainability of this approach is warranted by
	  ◆ Caps on product scorecards and hence on bonus pools even in the case of extraordinary 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

Guarantees **Severance**	◆ Guaranteed 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 € 5 million gross

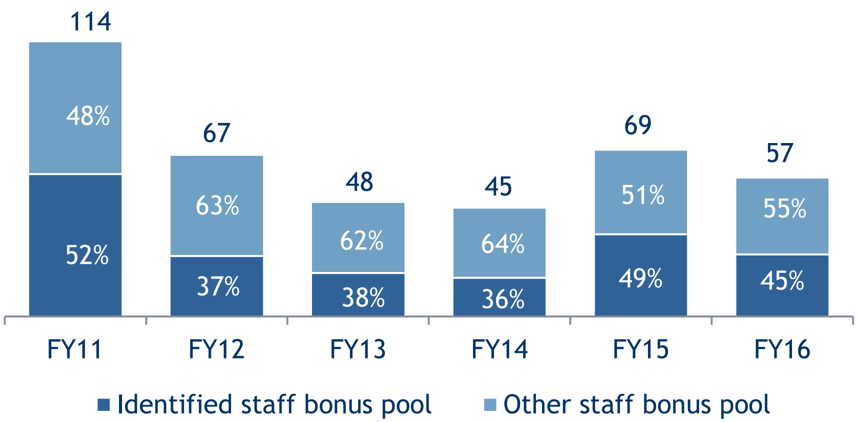
FY16 Mediobanca (WB and Corporate Centre) bonus pool aligned to Bank results and ….

- FY16 - all gateways met
  - Capital and liquidity ratios enhanced
  - Positive group gross operating profit
- MB bonus pool -17% YoY due to resilient results on client business although hammered by macros
- Identified staff bonus pool -23% YoY to strengthen pay for performance principle and retain middle management and young talents

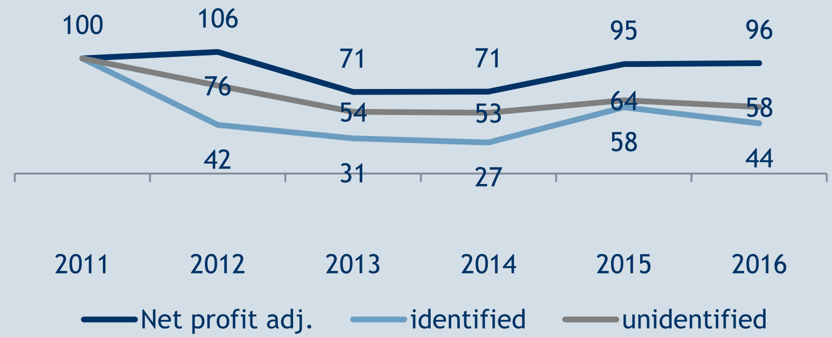
Group net profit and net profit adjusted[1] (€ m)



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



Net profit adj. and bonus pool evolution (100 rebased)



1) *Gains/losses from AFS disposals, impairments and positive/negative one-off items excluded, normalized tax rate = 33%*

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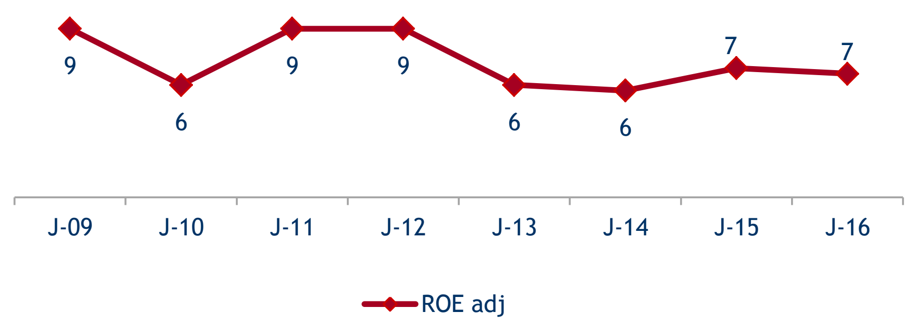
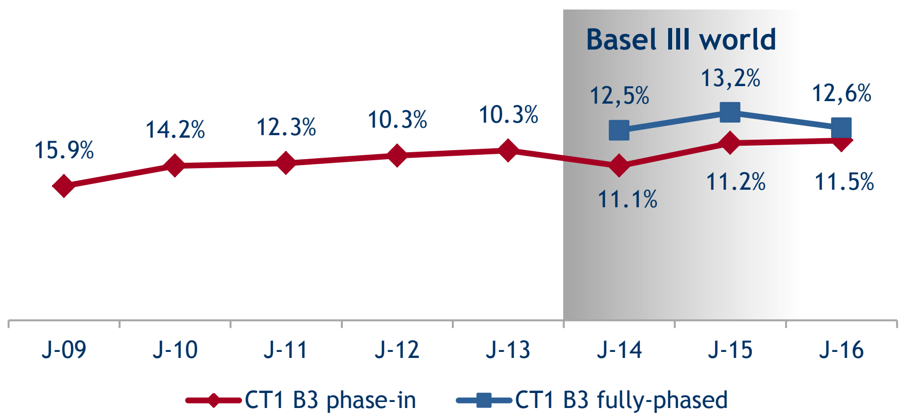
… long term value creation for Shareholders

- 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 16%)
  - Solid capital ratios
  - Positive market performance in the last 3Y

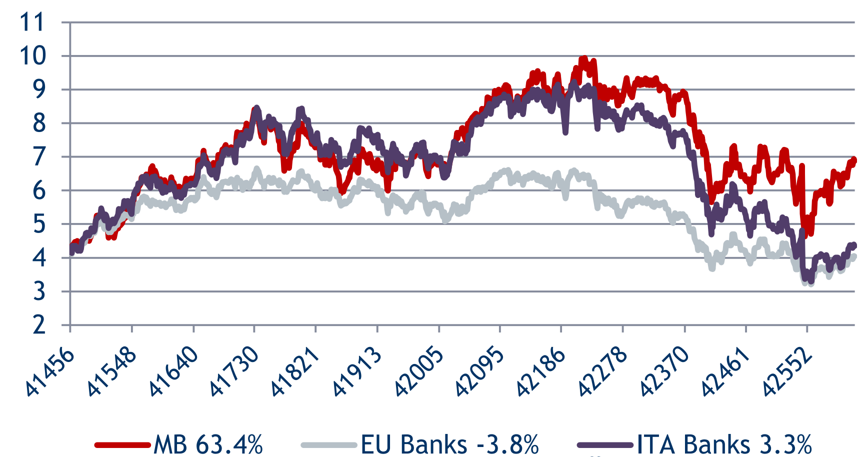
High single-digit normalized profitability[1]…



Solid capital ratios without K increases (last one in 1998) and with €3bn returned to shareholders[2]…



Positive market performance over the 3Y BP 14/16

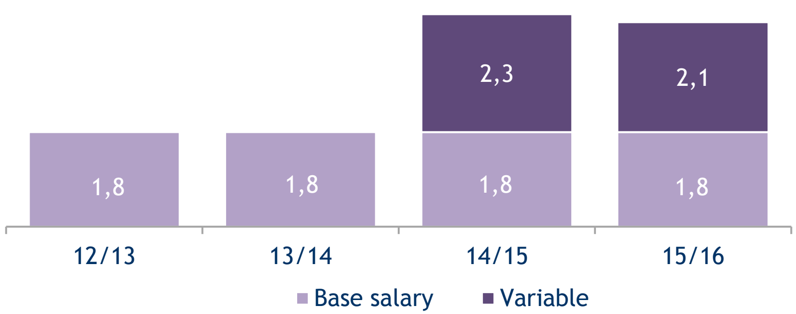


1) *Profit/losses from AFS disposals, impairments and positive one-off items excluded*
2) *Cash dividends and buy back since 2005 (including FY2016 dividend)*

CEO and General Manager variable compensation

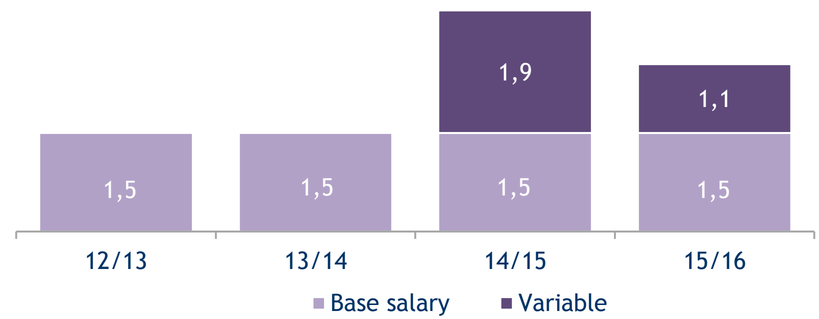
CEO compensation and scorecards

Total compensation evolution (€ m)



GM compensation and scorecards

Total compensation evolution (€ m)



CEO - FY16 Scorecards

Quantitative goals	Weight	Assessment
Gross ROAC adj. banking activities	45%	Below / Almost met / Met / More than met / Exceeded
Group revenues	30%	Below / Almost met / Met / More than met / Exceeded
Cost of risk	25%	Below / Almost met / Met / More than met / Exceeded

Qualitative goals	Assessment
Initiatives in the asset management	Below / Met / More than met
Increase of WB non-Italian operations	Below / Met / More than met
Maintenance of an adequate capital level	Below / Met / More than met

General Manager - FY16 Scorecards

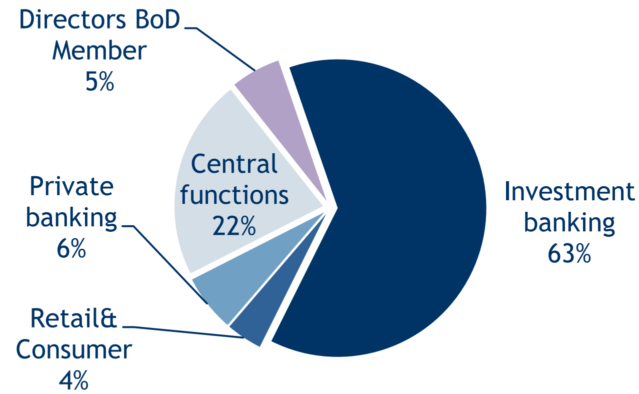
Quantitative goals	Weight	Assessment
Gross ROAC adj. banking activities	35%	Below / Almost met / Met / More than met / Exceeded
Group revenues	15%	Below / Almost met / Met / More than met / Exceeded
Margin of interest and trading revenues	25%	Below / Almost met / Met / More than met / Exceeded
Group Cost/Income	25%	Below / Almost met / Met / More than met / Exceeded

Qualitative goals	Assessment
Support to CMS platform	Below / Met / More than met
Group projects enhancement	Below / Met / More than met
Private Banking Division management	Below / Met / More than met

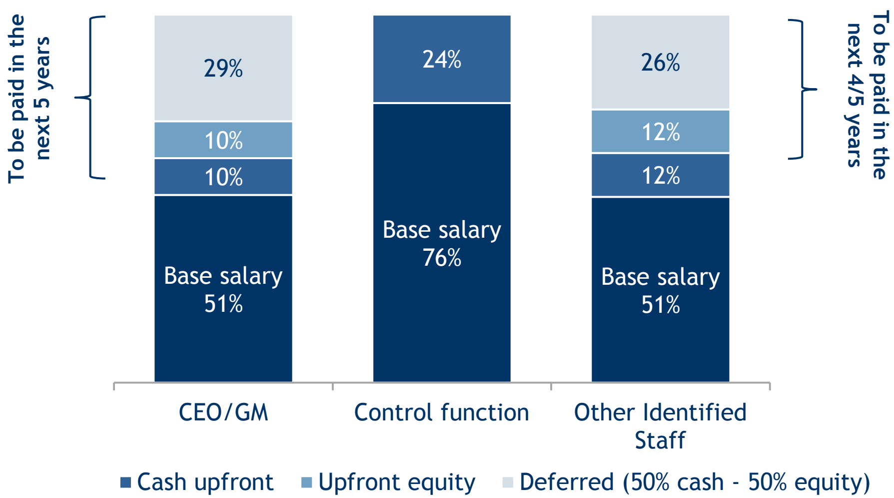
Group Pay mix and variable/fixed remuneration ratio

- Group variable/fixed remuneration 2016 vs. 2015:
  - reduction in WB: avg. 66% vs. 76% (Identified staff: 92% vs. 124%)
  - stable Retail & Consumer: avg. 8% vs. 9% (Identified staff: 98% vs. 99%)
- CEO and GM FY16
  - 60 % of variable compensation deferred
  - pay-mix: ≈40% to be paid in 5 years

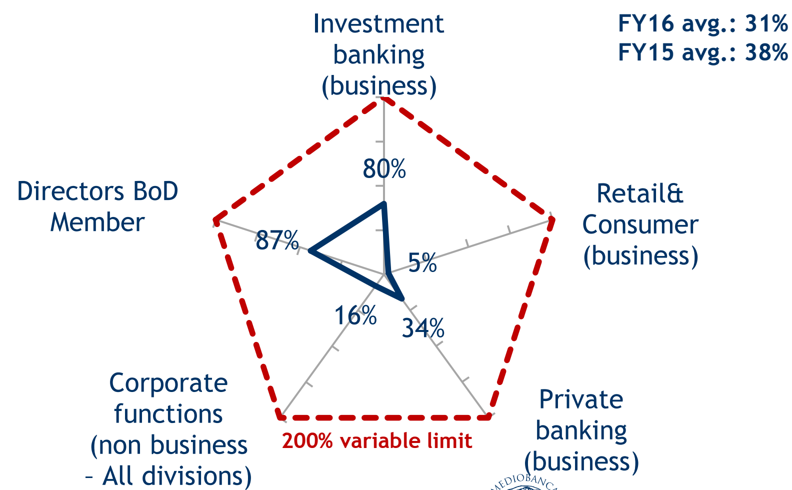
Variable remuneration distribution by MB Group activity (% on total bonus pool)



FY15/16 identified staff pay mix



Variable remuneration/fixed salary by activity [1](%)



1) *EBA classification*

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