



Report on remuneration

28 October 2013

Ongoing attention by governing bodies to issue of remuneration, in view of approval by European Parliament of CRR/CRDIV Directive and Regulation on 16 April 2013 (due to come into force on 1 January 2014) and Bank of Italy memo sent on 14 March 2013 containing instructions on methods of payment of variable remuneration for the year under review given the difficult economic and financial scenario, in accordance with the criteria of prudence and watchfulness established in previous years.

Approach to remuneration for FY 2012/13 results

- ◆ For FY 2012/13, in accordance with the results posted by the Bank and in line with the Bank of Italy's instructions in its memo sent on 14 March 2013, **no variable remuneration component** has been paid to the **Bank's directors who are members of the Group's management, the Head of the Principal Investing division, the Head of the Risk Management unit or the Head of Company Financial Reporting.**
- ◆ The Board of Directors, having received a favourable opinion from the Remunerations Committee, agreed with the Chief Executive Officer's decision to pay a **bonus for retention purposes**, electing to exercise the right provided for under the remunerations policies in force in the event of the conditions or gates not being met if this is due to extraordinary events, and provided the performance in terms of banking activities is positive. This decision is justified by **the need to safeguard the Bank's professional resources**, both in Italy and the various international branches, in view of the sustainability of future results and **performances during the year which were creditable given the difficult operating conditions.**
- ◆ **Sharp reduction in the variable component**, with a retention bonus being paid to part of the "most relevant staff" on the books of Mediobanca S.p.A. (with 99 beneficiaries compared to the 119 who participated in the bonus pool last year, a reduction of 16%) **down 35% on 2012 and down 68% on 2011.** Payout ratio for the year 21% (compared to 26% in 2012 and 37% in 2011).
- ◆ Based on the policies in force which require a substantial part of the variable remuneration to be paid in deferred form, including via equity instruments and subject to malus conditions in order to link the incentives to the objective of value creation in the long term and to allow the continuity of the Bank's results to be ascertained, overall **some 40% of the retention bonus is subject to deferral mechanisms and a holding period** (for the equity component), and will therefore be **paid over a time horizon of three years** (with deferral of up to 60% for the highest profiles).
- ◆ WB cost of labour down 7% vs 2012 and 20% vs 2011, and **compensation/income ratio 26%**, well below the sector average.



Main innovations in FY 2013/14 policies submitted for approval

The new remunerations policies are substantially in line with the previous ones, which themselves fully incorporated the Bank of Italy's instructions issued in March 2011, pending introduction of the new provisions contained in the recent European regulations (CRD IV), which will be incorporated as soon as they have been definitively approved.

In the meantime the following improvements and clarifications have been made:

- ◆ explicit statement of the governance process applied in the event of retention bonuses being paid, with the full involvement of the Board of Directors and the Remunerations Committee being consulted;
- ◆ new criteria for identifying "most relevant staff" for those with roles of responsibility in the trading, liquidity and origination desks of the Financial Markets area, which has led to a wider population being identified.

Summary of remuneration policies

- ◆ **Governance:** the corporate governance of the remuneration policies guarantees that the policies are based on clear and prudent guidelines which ensure the policies are consistent, preventing situations of conflicts of interest from arising, and transparent, through suitable reporting. **The Remunerations Committee has powers of consultation and enquiry**, while the **Board of Directors**, in addition to determining the remuneration of the Chairman, the Chief Executive Officer and the General Manager, **establishes the criteria** for distributing the bonus pool decided by the Chief Executive Officer, who proposes the remunerations policies and allocates them himself. The Group's Human Resources department and the Group Audit, Compliance and Risk Management units support the governance activities and ensure that remuneration and risks are aligned and that the regulations are applied correctly and the correct processes duly followed.
- ◆ **The remuneration of directors who are members of the Group's senior management is decided by the Board of Directors:** for this category, the annual variable component, with a cap set at twice the amount of their fixed salaries, accrues only if the prerequisites for distribution of the bonus pool apply, and depends on specific quantitative and qualitative performance indicators being achieved, assigned individually by the relevant bodies from year to year through the use of scorecards. The Chairman receives only a fixed salary.
- ◆ **The correlation between remuneration, risks and performance** is achieved by a system which:
 - ◆ benchmarks the variable remuneration to **performance indicators measured net of risks over several years** (pre-risk adjustment), and is determined on the basis of indicators recorded at Group, division (Wholesale Banking - WB) and business unit level;
 - ◆ ensures that the award of variable compensation is subject to **the conditions of capital solidity, liquidity and risk-adjusted profitability** (Economic Profit) **being met continuously**;
 - ◆ stipulates **malus conditions** for the deferred variable component, making payment conditional upon maintenance of: conditions of capital solidity, liquidity and profitability, adjusted for risk, at Group and possibly also business level; an appropriate individual performance; and proper individual conduct (**with reference to compliance breaches**);



- ◆ reflects an overall discretionary, quantitative and qualitative **assessment of personal performance**.
- ◆ **The Chief Executive Officer allocates the bonus pool to the business units** of the WB Division based on the Economic Profit earned by each individual area as the primary metric, with other secondary quantitative and qualitative metrics **as well as the provision of a cap**.
- ◆ The payment by the Chief Executive Officer of **retention bonuses** in view of individual performances which are decisive for the sustainability of results over time, and in the event of failure to meet the relevant conditions (gates) due to extraordinary events if the Bank's performance in its banking activities is positive, is **approved by the Board of Directors subject to obtaining a favourable opinion from the Remunerations Committee**.
- ◆ For staff identified as "most relevant", a substantial part of the variable remuneration (up to 60%) is deferred over a three-year time horizon and paid *inter alia* in the form of equity instruments (**performance share and performance stock option schemes**) in order to link the incentives to the objective of value creation and to allow the continuity of the Bank's results to be ascertained.
- ◆ The **remuneration package** for the Head of Company Financial Reporting, the heads of the **internal control units** (Internal audit, Compliance and Risk management), the head of Human Resources and the most senior staff in the areas referred to above is **structured so as to ensure that the majority of the compensation is fixed**, with a small variable component to be revised on a year-to-year basis in view of quality and efficiency criteria, **in order to guarantee the independence of the Bank's earnings performance**.
- ◆ No provision is made for special treatment for directors leaving their post. For the executive directors and management, **if they leave Mediobanca for whatever reason the only provisions that apply are those of the law** and the national collective labour contract in force.
- ◆ Guaranteed bonuses may be considered for particularly important profiles but only at the recruitment stage and for the first year of their employment by the company, as per the regulations in force
- ◆ The report incorporates the Bank of Italy's and Consob's reporting requirements, and the appropriate quantitative disclosure is made in the tables attached to it.