



MEDIOBANCA
International (Luxembourg) S.A.

REMUNERATION POLICY

Mediobanca International (Luxembourg) S.A.

March 2017



Contents

Objective of document	2
Remuneration and incentive system	3
1.1. Description	3
1.2. Principles and aims	3
1.3. Staff remuneration structure	3
1.4. Governance process	4
1.5. Principle of proportionality at company and local level	4
1.6. HR management system	5
1.7. Definition of "identified staff"	5
1.8. Determination of variable component	6
1.9. Quantitative and qualitative assessment of individual performance in the award of an annual bonus	6
1.10. Variable component structure: timescales for distribution and payment instruments, malus conditions and clawback provisions	7
1.11. Cap on variable remuneration	8
1.12. Other general regulations	8
1.13. Intragroup mobility	9
1.14. Incentive scheme regulations	9
1.15. Policies in the event of employment being terminated or otherwise ending	9



Objective of document

This document has been drawn up to provide disclosure on the remuneration and incentive scheme established for the staff of Mediobanca International (Luxembourg) S.A. ("MBIL" or the "Company"), a company 100%-owned by Mediobanca S.p.A. ("MB") and forming part of the Mediobanca Banking Group.

The main regulatory sources to which the Policy refers are as follows:

- ◆ EU Capital Requirement Directive (CRD IV), which updates the set of prudential regulations for banks and investment companies and provides instructions on remuneration and incentive policies and practices, coming into force on 1 January 2014;
- ◆ EU delegated regulation enacted by the European Commission on 4 March 2014 (published in the *Official Journal of the European Union* on 6 June 2014), which provides the means by which staff with significant impact on the bank's risk profile are to be identified (the "Identified Staff"), based on a combination of qualitative and quantitative criteria;
- ◆ ESMA guidance on remuneration policies and practices, published by the authority in June 2013, the principal aim of which is to promote greater convergence between intermediaries in interpreting the obligations instituted pursuant to MiFID in the area of remuneration;
- ◆ EBA guidelines on remuneration policies, published on 21 December 2015, along with the Opinion on application of the proportionality principle sent to the European Commission to be presented to the European Council and Parliament for possible revision of CRD IV and CRR. The new guidelines came into force starting from 1 January 2017;
- ◆ the Luxembourg law of 23 July 2015 transposing CRD IV;
- ◆ CSSF Circular 10/437 (guidelines concerning the remuneration policies in the financial sector); CSSF Circular 10/496; CSSF Circular 10/497; CSSF Circular 11/505 (details relating to the application of the principle of proportionality when establishing and applying remuneration policies that are consistent with sound and effective risk management); CSSF Circular 15/620 (transposition of the directive CRD IV into Luxembourg regulatory framework); CSSF Circular 15/622 (on higher ratio notification procedure applicable to remuneration policy according to Article 94 of CRD IV following its transposition into Luxembourg Law via article 19 of the law of 23 July 2015);
- ◆ Bank of Italy supervisory instructions on remuneration and incentive policies and practices published in November 2014, in 285/13, enacting CRD IV with reference to the issue of remuneration/incentive at banks and banking groups.



Remuneration and incentive system

1.1. Description

MBIL adopts and implements the Mediobanca Group Remuneration Policies (the "Group Policies") approved annually by the shareholders of MB in general meeting, which integrates with the Policy on staff remuneration and incentive set out below.

The MBIL staff remuneration and incentive system, in accordance with the Group Policies and in compliance with the regulatory provisions:

- ◆ sets out the principles and criteria for defining and implementing the Company's remuneration and incentive processes;
- ◆ describes the related mechanisms, the organizational and governance issues;
- ◆ identifies the objectives intended to be pursued.

1.2. Principles and aims

The general principles and criteria on which the Policy is based are as follows:

- ◆ maintain the objective of attracting and retaining highly qualified and professional staff commensurate with the complexity and specialization of the Company's business, based on a rationale of prudent management and sustainable costs and results over time;
- ◆ ensure consistency with the Group Policies, the Company's own objectives and values, as well as its long-term strategies and risk management policies;
- ◆ promote compliance with the applicable legal and regulatory framework;
- ◆ ensure that staff employed in the control units do not benefit from incentive mechanisms linked to earnings objectives;
- ◆ monitor the process so that improper practices which could induce staff to breach regulations or engage in undue risk-taking are discouraged;
- ◆ ensure that a variety of stakeholders are involved in the process of establishing the remuneration system.

1.3. Staff remuneration structure

The staff remuneration structure is based on different components with the objective of (i) ensuring that the fixed and variable remuneration components remain balanced over time (pay mix), (ii) implementing a flexible approach to remuneration, and (iii) rewarding performances based on Company role without inducing risky or short-termist behaviour. The positioning of the remuneration package within the reference market is assessed in conjunction with the Parent company on a regular basis.

The staff remuneration structure therefore consists of:



- ◆ fixed salary: this reflects the employee's technical, professional and managerial capabilities, so as his/her respective responsibilities. It also takes into account any collective bargaining regulations that may be applicable and market practice.
- ◆ variable remuneration: this acknowledges and seeks to reward objectives assigned and results achieved. It is paid in accordance with the provisions set forth in the Group Policies.
- ◆ benefits: in line with market practice, the remuneration package is completed by a variety of employee benefits. These consist chiefly of pension, insurance and healthcare schemes, and may be distinguished by families of professionals but no provision is made for individual discretionary systems. Company cars are only offered for the very highest professional profiles.

1.4. Governance process

The remuneration policy is approved by the Board of Directors.

Various organizational units are involved in the process, operating at the local level in conjunction with the respective Parent company units:

- the Accounting and Tax department reviews the system's sustainability and solidity with regard to the Company's objectives;
- the Risk Management unit is responsible for identifying the potential events which could impact the Company's activity, managing risk within acceptable limits, and therefore co-operating in the process of defining the valuation metrics;
- the Compliance unit checks, among other things, that the Company's incentive system is consistent with the objectives of compliance with regulations, Articles of Association and Code of Ethics or other applicable standards of conduct, to ensure that legal and regulatory risks are kept to a minimum. The unit is involved in the processes of revising, adapting and managing the remuneration systems, in order to bring them in line with the regulations in force at the time;
- the Group Audit unit checks once a year that the staff remuneration policy is compliant with the regulatory guidelines.

In line with the regulatory framework, and in view of the Company's characteristics, its size, organizational structure and the reach and complexity of its activities, MBIL has not established a Remunerations Committee.

Disclosure must be provided to shareholders in general meeting once a year on the methods by which the remuneration and incentive system operates (ex-post disclosure), also with reference to the Managing Director, and evidence shall be provided of any changes to the system which have previously been agreed with the Parent company, in particular in cases where the Company's business has changed or in the event of amendments to the Group Policies.

The Company applies the guidelines and principles laid down in the Parent Company's Remunerations Policies, thus ensuring the overall coherence of the Policy at the local level. MBIL is responsible for correctly implementing the guidance issued by the Parent Company.

1.5. Principle of proportionality at company and local level

The *Commission de Surveillance du Secteur Financier* ("CSSF") has set the following limits for the enforcement of the proportionality principle and for the adoption of stricter requirements in



case of material risk takers with variable remuneration of over €100.000 in accordance with the company's characteristics and complexity:

- Total assets in excess of €5bn;
- Capital requirement of over €125m.

Given that the Company exceeds both the thresholds set by the Regulator, it may be considered as a complex company and hence bound - in the event of variable remuneration being paid to material risk takers of over €100.000 - to apply stricter requirements on the remuneration structure (i.e. between 40% and 60% of the variable remuneration to be deferred for a period of between three and five years, malus clauses, use of financial instruments for at least 50% of the variable remuneration subject to an additional retention period of six months).

1.6. HR management system

MBIL seeks to valorise its staff on a meritocratic basis, developing their professional capabilities in accordance with the principle of equal opportunities and in accordance with its own strategic choices, its organizational and productive requirements. Professional development is also achieved through appropriate training, practical work experience under the direction of the management, transfers to different positions (including across the Group), performance assessment, career advancement and promotion.

1.7. Definition of “identified staff”

“Identified staff” (“IDS”) or “material risk takers” (“MRT”) with a substantial impact on MBIL's risk profile are defined on the basis of the qualitative and quantitative criteria laid down in EU delegated regulation 604/14 enacted by the European Commission on June 6, 2014.

In accordance with the regulatory provisions, MBIL's organizational structure is subject to a regular analysis with a view to classify the “identified staff” (“IDS”) or “material risk takers” (“MRT”). The process is directed by the Parent company, which co-ordinates the process of identifying and consolidating the scope at Group level.

The assessment process involves criteria which are:

- qualitative, i.e. linked to the organizational position and based on holding a governance (including non-executive directors) and managerial role, not only within the first-line “relevant” Company units, but also within the control, staff and support units;
- quantitative, i.e. based on overall remuneration for the previous year.

As at June 30, 2016 MBIL had a total of nine “identified staff”: these consist of the non-executive directors including the Chairman (1 + 5 Directors), the Managing Director, the CFO and the local staff employed locally in the control units (1 employee - Compliance).¹

These results have been approved by the Board of Directors of MBIL and sent to the Parent Company which maps the identification process at consolidated level. Subsequent to the consolidation process at Group level, no staff member is currently included in the Group-wide definition of “identified staff”.

¹ For the Group Audit and Risk Management units, activities are centralized at the Parent Company level (i.e. Group Audit) or handled by Parent Company staff identified who work seconded for MBIL (i.e. Risk Management).



1.8. Determination of variable component

The overall amount of the variable remuneration is determined annually based on the risk-adjusted earnings performance delivered by the Group and the Company, so as on other secondary quantitative objectives. Other factors are also used in the assessment linked to the performance quality achieved and the degree to which strategic, organizational and/or project objectives have been met.

The Parent company, under the powers vested in the General Manager and Group HR, approves the overall amount of the variable remuneration (bonus pool) and its allocation. In particular it sets the targets for the Managing Director and ascertains whether or not they have been met, with the related award of the variable component which is submitted to the approval of the Board of Directors of MBIL (which also approves any revisions to the fixed component and adopts resolutions with regard to the Authorized Managers' remuneration); and defines the principles underpinning the incentive mechanism for the other staff, delegating its determination in practice to the Managing Director and the Board of Directors of MBIL.

The Managing Director proposes the remuneration for the heads of the Control units² to the Board of Directors, and submits it to the approval of MB in accordance with the provisions of the Group Remuneration Policies. The Board receives notification of the final decision before the first available meeting.

1.9. Quantitative and qualitative assessment of individual performance in the award of an annual bonus

The assignment of an annual bonus to individual beneficiaries is established via an annual performance assessment process, based on merit and professional quality, with a focus in particular on reputational issues. Indeed, bonuses may be withheld or reduced for employees who have committed breaches of internal and/or external regulations during the financial year under review.

In accordance with the provisions in force for the Parent company and the other Group companies, the remuneration system of MBIL devotes special attention to the question of proper individual conduct (such as compliance with internal regulations and procedures) through recourse to the concept of the so called "compliance breach", both at the initial award stage of the variable component and afterwards in assessing whether or not distribute any deferred items in practice.

At the beginning of the financial year the respective line managers assign professional, operational, personal and corporate development objectives to each team member. These objectives are meant to be achievable, challenging and weighted according to the priorities assigned to each staff member. Particular emphasis is given to the issue of proper individual conduct, in accordance with the provisions set forth in the Code of Ethics, the Organizational Model, the Business Conduct policy, and in general by the provisions of the laws, regulations, operational rules and internal procedures, with particular reference to those of most relevance to reputational risk.

At the end of the financial year, the line managers carry out their assessment of each team member on the basis of the objectives assigned. Regular feedback is provided throughout the

²Limited to the heads of the control units who are directly employed by the Company (in this connection see the comments made above under point 1).



year to allow the line managers and the team members to agree on the extent to which the objectives have been met, as well as facilitating clear dialogue on the actual performance. This system ensures that the organization meets its objectives without prejudice to the Company's values, while at the same time provides transparency with regard to training opportunities, professional development and assessment criteria.

For staff employed at the business end of MBIL's operations, the assessment reflects:

- ◆ earnings results delivered, such as whether or not the budget objectives set on the basis of directives, business decisions and strategic guidelines established by the Parent company have been met, and taking due account of the current and future risks taken on by the Company;
- ◆ qualitative criteria: proper conduct and professional reliability, technical and analytical skills, cost discipline, emphasis on pursuit of operational efficiency, co-operation with other Group companies, reputational and compliance issues.

For all other staff, the main items of assessment are based on broader qualitative objectives, regarding compliance with the regulations, cost discipline, and efficient management of resources. In particular, for staff employed in the accounting and/or control and planning areas, items considered include performing all obligatory and supervisory duties correctly, providing financial disclosure to markets, efficient and accurate management of all accounting processes, IT procedures and tax declarations. For staff employed in the control units, the factors for consideration include ongoing management and control of the Bank's processes and operations, carried out independently and autonomously in order to prevent risk situations and promptly detect irregular behaviour or events, continuous assessment of compliance with regulations through planned checks, update of the internal procedures and guidelines, regular training to internal units, development of models, methodologies and metrics to measure market, credit and operational risks accurately, producing appropriate reporting for their effective monitoring, and detailed analysis in respect of new products and the associated risk profiles.

In connection with the assessment process, staff may also be involved in career advancement aimed at covering new organization roles, promotion to a higher contractual level, or assignment of a new corporate title based on the experience acquired and the results achieved. Promotions are proposed by the line manager of the unit to which the team member belongs, agreed with the Managing Director, and approved by the General Manager of the Parent and Group HR. For the highest professional level (managerial or equivalent), the process also includes specific evaluation of the candidate by other senior Group management with different professional backgrounds, experience and roles.

1.10. Variable component structure: timescales for distribution and payment instruments, malus conditions and clawback provisions

For any MBIL employees who is included in the definition of Group identified staff (if any), the variable component is paid in accordance with the guidelines set down by the Group Policies and is subject to the malus conditions also stipulated therein.

For all employees included in the definition of MBIL's identified staff who receive a variable remuneration equal to or in excess of €100.000 the Company defers 40% of the award over a three-year time horizon subject to malus conditions. 50% of the variable remuneration will be paid in financial or other equivalent instruments subject to an additional retention period of six months.



In the event of losses due to (illustrative but not exhaustive) provisions proving to be insufficient, contingent liabilities or other items which could compromise the integrity of MBIL's capital ("malus condition"), it may be decided not to pay all or part of the deferred variable component. Particular attention is devoted to the question of whether or not the beneficiary has committed any compliance breach (i.e. has not been made subject to disciplinary measures on the basis *inter alia* of the provisions of the Code of Ethics, Organizational Model, Business Conduct policy and the other internal Mediobanca Group and MBIL regulations).

MBIL and the Parent reserve the right to take all measures necessary to claim back variable remuneration already paid (the "clawback" mechanism) in the event of damages emerging to the integrity of its capital, profitability and financial or reputational situation, which are attributable to the conduct of individual staff members even without fraud and/or wilful misconduct being established.

1.11. Cap on variable remuneration

As regards the cap set on the variable remuneration payable to staff, and hence to all the employees classified as identified staff by the Company at the individual level or by the Group as a whole, MBIL refers to the provisions set forth in the Group remuneration policies.

Accordingly, unless decided otherwise by the shareholders of the Parent in general meeting, and in accordance with the national and supranational regulations in this area, a cap of 100% of the fixed remuneration has been set on the variable remuneration for all MBIL staff and hence for all its identified staff (without prejudice to the provisions in respect of staff employed by the control units or included in the definition of identified staff at Group level). The Company's shareholders in general meeting may approve a higher cap on variable remuneration provided that it does not exceed the maximum permitted by the local regulations in force, in accordance with the Group Policies, and following the procedure required by the Regulator, which includes disclosure to the CSSF.

1.12. Other general regulations

The means, instruments and timescales for payment of the variable remuneration, if any, are at the Company's discretion and are governed by the Mediobanca Group remuneration policies, as well as by the MBIL remuneration and incentive system approved by the competent governing bodies in force at the time. Payment, if any, of variable remuneration for consecutive years, does not give the recipient any right to be awarded or receive such remuneration in the future, and does not entail any obligation for the Company whatsoever with regard to later years. Such payment is indeed linked to the Company's performances and/or productivity and/or to the performances and/or productivity of the business unit to which the staff member belongs and/or to the individual performance of the staff members themselves and/or to market conditions. MB and MBIL retain the utmost discretion to amend the remuneration policies and the incentive system from year to year, also to comply with new regulatory provisions issued by any reference Authority.

Bonuses are to be understood as gross and do not include any social security contributions payable by the Company. The Company reserves the right to alter the incentive system.

The entitlement to receive bonuses is subject to the maintenance of the status of employee of the Mediobanca Group throughout the assessment period and at the actual date of payment (i.e. not on notice period for dismissal nor on termination for cause or other justified reasons). The distribution of other deferred items, if any, is subject to the beneficiary still being a Company's employee at the date on which the payment is actually made (i.e. not on notice



period for dismissal nor on termination for cause or other justified reasons), and also to any clawback or malus condition clauses, where provided by the MBIL and Group remuneration policies.

Guaranteed bonuses: these may be awarded to staff with particularly important profiles but only at the recruitment stage and for the first year of their employment by the Company, as per regulations in force. They also include bonuses awarded upon recruitment to compensate any loss in earnings from previous jobs, in accordance with sector practice. Such bonuses are decided and paid in accordance with the policies and regulations in force.

Staff are not allowed to use personal hedging or insurance strategies involving the variable component of their remuneration or other aspects which could alter or otherwise distort the fundamental alignment of the compensation mechanisms with the Company's risk. The control units carry out checks to this end.

Remuneration cannot under any circumstances be paid in forms, instruments or means that seek to bypass the regulatory provisions.

Exceptions, especially in those cases where the employment arrangements are terminated by mutual consent, are respectively the responsibility of the Board of Directors and the Managing Director of MBIL, according to the powers vested in them, to establish more favourable treatment in individual cases, subject to the prior favourable opinion and authorization of the General Manager of MB and Group HR.

1.13. Intragroup mobility

In cases involving intragroup mobility, the bonus accrued at the year-end will be calculated based on the results and objectives achieved in the corresponding periods at each of the companies (pro rata, full months). Every other instance will be analysed and managed on a case-by-case basis in conjunction with Group HR.

1.14. Incentive scheme regulations

Inclusion in specific incentive schemes, such as the award of performance shares, stock options or other financial instruments by the Parent company, or inclusion in long-term incentive or other types of scheme, are formalized separately through specific award letters and relevant regulations governing the terms of the schemes in force at the time.

1.15. Policies in the event of employment being terminated or otherwise ending

MBIL refers to the provisions established by the Group remuneration policies in respect of (i) the amount of the compensation to be paid in the event of an early termination of the employment arrangement (including the limits set in terms of number of years' fixed annual salary and the maximum amount that ensures from application of such limits), and (ii) the policies to be adopted in the event of termination of the working relationship.