



MEDIOBANCA

**Report on the qualitative and quantitative
composition of the Board of Directors:
recommendations to Shareholders and the new
Board of Directors**

04/07/2014



1. Introduction

The new supervisory Provisions of the Bank of Italy relating to corporate governance issued on 6 May 2014 require that the boards of banks identify the qualitative and quantitative composition that is deemed optimal for correctly fulfilling the functions attributed to them. In accordance with the above-mentioned Provisions, this body must be formed of members:

- ◆ who are fully aware of the powers and obligations relating to the functions they are each required to carry out (supervisory or management function; executive functions and otherwise; independent members, etc.);
- ◆ who have a suitable professionalism for the role they are to perform, including for any committees within the board, and calibrated in relation to the operational and dimensional characteristics of the bank;
- ◆ with expertise that is spread between all members and suitably diversified, in order to allow each of the members, within the committees they are part of and in collegial decisions, to effectively contribute to ensuring an effective governing of the risks in all areas of the bank;
- ◆ who dedicate suitable time and resources to the complexity of their assignment
- ◆ who focus their actions to the pursuit of the overall interest of the bank, regardless of the company component which voted for them or the list they were selected from, with the obligation to operate with independence of judgement.

In particular, the Bank of Italy Provisions promote non-executive member who are required, for the successful functioning of the Board, to fulfil an important dialectic function and a relevant contribution in terms of monitoring the choices made by the executive members, thus making it essential for them to have a professional profile that is suitable to this role.

From the perspective of the governance structures, the Provisions introduce many novelties with regard to the composition of the Board and the formation of committees. The main ones are:

- ◆ maximum limit of 15 members, without prejudice to exceptions which must be justified (adjustment that is required to take place by 2017);
- ◆ the presence on the Board of a number of independent members that is at least equal to a quarter, following the determination in the articles of association of a single notion of independence (adjustment that is required to take place by 2017);
- ◆ the Chairman of the Board of Directors must have a non-executive role and, for said reason, he/she must not be a member of the executive committee (prohibition applicable as of 2017);
- ◆ the three obligatory internal board committees (appointments, risks, remuneration) must be made up of 3/5 members, all of whom must be non-executive members and a majority of whom must be independent (the amendment to the articles of association is required by 2017, without prejudice to the requirement of the non-executive nature of the appointment);
- ◆ the presence in at least one internal board committee of a board member that is elected from the minority (adjustment that is required to take place by 2017);
- ◆ the members of the Board must guarantee a suitable dedication of time to their appointment in consideration of the nature of the commitment required and the functions carried out in the bank and other appointments in companies or bodies, working commitments or activities, without prejudice to the respect for the limits in the accumulation of appointments envisaged in CRD IV (Capital Requirements Directive). In this regard, art. 91 of the Directive, establishes precise limits with regard to the accumulation of appointments (in any type of company,



except for organisations which do not mainly pursue commercial objectives) of parties belonging to the boards of banks, establishing that each bank director may perform on the whole a maximum of one executive appointment and two non-executive appointments or four non-executive appointments¹.

Since the New Provisions require a progressive adaptation of various items of the articles of association (number of board members, presence of the Chairman in the Executive Committee; composition of committees, requirements of independence, etc.) and since the board's bodies are about to expire, the outgoing Board deemed it appropriate to demand that the next Board approve the new corporate governance project and the related amendments to the articles of association. On the other hand, in light of its own experience, it intends to provide some recommendations to Shareholders and the new Board which will allow a progressive convergence towards the Bank of Italy recommendations.

2. Evaluation of the qualitative and quantitative composition of the management body

The Board of Directors of Mediobanca has prepared this guidance document firstly to benefit the Shareholders who intend to present lists for the appointment of board members at the next Assembly and in light also of the process of self-evaluation which has highlighted the importance of:

- ◆ maintaining in the future Board of directors the current mix of professionalism and expertise (entrepreneurs, company managers, experts - including at an international level - of the banking sector, professionals in the Control sector and Group Managers);
- ◆ protect diversity in terms of international projection and further promote it in terms of age and gender;
- ◆ preserve the current ratio between independent and non-independent board members;
- ◆ maintain the current dimensions and mix of expertise in internal board committees, with the hope of strengthening the dimension of the control and risks Committee.

Proposals for candidates must be supported by *curriculum vitae* in order to identify the profile of skills and expertise for which each candidate is suitable, without prejudice to the shareholders' right to express different opinions with regard to the optimal composition of the Board, justifying where possible any differences.

Requirements of professionalism

The Board deems it necessary for candidates for the role of director of Mediobanca to have a good knowledge and experience in preferably one or more of the following areas of expertise:

- ◆ banking and valuation techniques and the management of risks connected to the practising of the banking activity, acquired through multi-year experience in administration, management and control within the financial sector;

1) In this regard please note that in defining the number of appointments a person performs, art. 91, par. 4 CRD IV attributes to a single person:

- ◆ executive or non-executive director appointments performed within the same group;
- ◆ executive or non-executive director appointments for entities that are members of the same system of institutional protection where the conditions established by art. 113, par. 7 CRR are respected;
- ◆ executive or non-executive director appointments performed within companies (including non-financial entities) in which the body has a qualified holding.



- ◆ experience of entrepreneurial management and company organisation, acquired through a multi-year administration, management and control activities in companies or groups of significant financial dimensions;
- ◆ ability to analyse and interpret financial statement data for financial institutions and their counterparties, acquired through multi-year experience in the administration and control of industrial companies and companies from the financial sector or the practising of professional activities;
- ◆ corporate expertise (audit, compliance, legal, company), acquired through multi-year experience in auditing or management control carried out within companies of significant dimensions or the practising of professional activities or university teaching;
- ◆ knowledge of the regulation of banking and financial activities;
- ◆ international experience and knowledge of foreign markets: acquired through the carrying out of multi-year entrepreneurial or professional activities in foreign institutions or entities, companies or groups with an international vocation;
- ◆ knowledge of the global dynamics of the economic system;
- ◆ expertise in the field of corporate governance including in light of the decisions to be taken with regard to the governance model and company structure.

We therefore invite Shareholders to present lists that contain candidates that will allow there to be an optimal combination of profiles with the characteristics described above in order to guarantee the development of the internal dialectics and the efficient functioning of the Board.

Requirements of respectability

Candidates for appointment as directors of Mediobanca must possess the requirements of respectability envisaged by Ministerial Decree 18/03/1998, n. 161 and Ministerial Decree 30/03/2000, n. 162.

Independence

The Bank of Italy provisions referred to above require that by 2017, the number of independent members within the board be equal to at least a quarter of the total on the basis of a single definition of the articles of association. The Board reports that currently, in accordance with art. 15 of the articles of association, lists must include at least one third of independent members pursuant to art. 3 of the Corporate Governance Code of the Italian Stock Exchange.

Gender quotas

With Law n. 120 of 12 July 2011 gender quotas were introduced in Italy for the composition of the company bodies of listed companies. The law modified art. 147-ter TUF, imposing the requirement of the criteria of gender composition of the administrative body on the basis of which the less represented gender must be reserved a quota of at least one third of the members. The assembly resolution for the modification of the articles of association for adaptation to the regulation in question specified, in line with the transitory provisions, a gradualness in the application of the regulation, with the provision that, at the time of the first renewal, the quota of the less represented gender be equal to at least one fifth of the members. The renewal of the Board of Directors of Mediobanca scheduled for October 2014 shall be the first mandate for which the law in question is applied; therefore the less represented gender must be reserved at least one fifth of the elected members.



Incompatibility

Pursuant to art. 36 of Law 214/11 (so-called *interlocking directorship* prohibition), the Board of Directors advises Shareholders that the lists presented for the appointment of the new administrative body include candidates for whom it has been verified in advance that there are no causes of incompatibility as required by the above mentioned regulation. In this regard, we remind you that art. 22 of the articles of association requires that members of the executive committee should not be managers, and not be allowed to carry out appointments “of any nature” in other bank or insurance groups, unless decided otherwise by the Board of Directors.

We also remind you that the articles of association establish that persons of more than seventy-five years of age may not be elected as Board Members and persons of more than seventy years old or sixty-five years old may not be appointed as Chairman or Managing Director respectively.

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With regard to the quantitative composition, the Board of Directors - following a proposal by the Appointments Committee - deemed that, in virtue of the specific characteristics of Mediobanca and the timeframes for the full respect of the Bank of Italy Provisions, the Board:

- ◆ be made up of a number of between 15 and 18 members and ensure sufficient dialectics and a suitable balance between executive and non-executive members;
- ◆ have a number of independent members, for the purposes of the Code of Corporate Governance, that guarantees the efficient functioning of the internal board committees conducting the activity of the Board, in accordance with the current provisions of the articles of association, considering also that the Board deems it appropriate to increase the size of the control and risks Committee that currently comprises three members;
- ◆ include, as per the articles of association provision, 5 Managers of companies belonging to the Mediobanca Group for at least three years.

3. Recommendations to the next board with regard to governance

The outgoing Board recommends that the new board promptly finalise the new governance project and the respective modifications to the articles of association which must be approved by the Assembly no later than October 2015. In particular, given the range of Group activities and their complexity, it recommends confirming the continuity of the choices that have been made to date in terms of:

- ◆ the traditional model of governance based on the presence of the board of directors as the strategic supervisory body and the board of statutory auditors as the controlling body;
- ◆ the coexistence within the management body, with a clear division of jurisdiction and responsibilities, of an Executive Committee and a Managing Director;
- ◆ the statutory figure of the General Manager;
- ◆ the maintenance of a suitable number of Managers of the Group within the Board of Directors and the Executive Committee, that is in line with that which can be observed in other international banks;



as well as forming committees which, whilst respecting the prevailing articles of association, conform (in terms of tasks, composition and incompatibility) to the new legislation.

In addition it recommends that the new Board:

- ◆ promote promptly induction sessions for new board members to quickly align their knowledge to those of any board members who are confirmed;
- ◆ re-examine and approve during the first financial year the *Risk Appetite Framework* which the outgoing board of directors approved on 4 July.