



MEDIOBANCA

**PRODUCT GOVERNANCE
INFORMATION ABOUT THE PRODUCT APPROVAL
PROCESS OF MEDIOBANCA**

February 2019



1 Scope

This document has been prepared to provide distributors with information about the product approval process of Mediobanca – Banca di Credito Finanziario S.p.A. (the “**Bank**” or “**Mediobanca**”) according to Directive 2014/65/EU (“**MIFID II**”), Delegated Directive 2017/593/EU as implemented in Italy by the Consob Resolution n. 20307/2018 “Regulation containing implementation rules of Italian Legislative Decree no. 58 of 24 February 1998 on intermediaries” (“**MIFID II product governance rules**”).

2 Product Governance Policy

In compliance with MIFID II product governance rules the Bank has adopted a Product Governance Policy that provides inter alia that any financial instrument and product (hereinafter “**instrument**”) manufactured by Mediobanca and/or distributed by the same is subject to an internal specific approval process with respect to the analysis of the product and the definition of the target market and the distribution strategy.

3 Analysis of the Product, definition of the Target Market and the distribution strategy

Any instrument issued or manufactured by Mediobanca is evaluated and approved with respect to its financial features (also in terms of payoff), its complexity, charging structure, risks, conflict of interests, its target market and distribution strategy.

3.1 Charging structure

The Bank considers the charging structure proposed for the instrument, including by examining the following: (a) instrument's costs and charges are compatible with the needs, objectives and characteristics of the target market; (b) charges do not undermine the instrument's return expectations; and (c) the charging structure of the instrument is appropriately transparent for the target market, such as that it does not disguise charges or is too complex to understand.

3.2 Risk

The Bank undertakes a scenario analysis of its instruments which shall assess the risks of poor outcomes for end clients posed by the instrument and in which circumstances these outcomes may occur. Where applicable the Bank assesses the instrument under negative conditions covering what would happen if, for example: (a) the market environment deteriorates; (b) the Bank or a third party involved in manufacturing and or functioning of the instrument experiences financial difficulties; (c) the instrument fails to become commercially viable; or (d) demand for the instrument is much higher than anticipated, putting a strain on the firm's resources and/or on the market of the underlying instrument.



3.3 Conflict of interests

The Bank implemented procedures and measures to ensure the manufacturing of the instruments complies with the requirements on proper management of conflicts of interest, including remuneration. In particular, the Bank ensures that the design of the instrument, including its features, does not adversely affect end clients or does not lead to problems with market integrity. The Bank assess whether the instrument creates a situation where end clients may be adversely affected if they take: (a) an exposure opposite to the one previously held by the Bank itself; or (b) an exposure opposite to the one that the Bank wants to hold after the sale of the product. Furthermore the Bank considers whether the instrument may represent a threat to the orderly functioning or to the stability of financial markets before deciding to proceed with the launch of the same.

3.4 Target Market

For any instrument manufactured by Mediobanca and addressed to the distribution, the Bank identifies its "potential" target market, specifying the type(s) of client for whose needs, characteristics and objectives the instrument is compatible (on the basis of the ESMA categories¹). As part of this process, the Bank identifies any group(s) of clients for whose needs, characteristics and objectives the instrument is not compatible. The Bank determines whether the instrument meets the identified needs, characteristics and objectives of the target market, including by examining also the following elements: (a) the instrument's risk/reward profile is consistent with the target market; and (b) the instrument design is driven by features that benefit the client and not by a business model that relies on poor client outcomes to be profitable.

Furthermore the Bank identifies the target market and distribution strategy for any instrument issued by third parties and distributed by the same, on the basis of the information on the instruments obtained from the third party manufacturers.

4 Review of the instruments, the target market and the distribution strategy

Mediobanca reviews the instruments the same manufactures on a regular basis taking into account any event that could materially affect the potential risk to the identified target market. Mediobanca considers if the instrument remains consistent with the needs, characteristics and objectives of the target market and if it is being distributed to the target market, or is reaching clients for whose needs, characteristics and objectives the instrument is not compatible.

Mediobanca reviews the instruments also prior to any further issue or re-launch, if the same is aware of any event that could materially affect the potential risk to investors, and at regular intervals to assess whether the instruments function as intended.

Furthermore, Mediobanca reviews all the instruments ti manufactures and distributes, their target market and distribution strategy at least annually. When Mediobanca is manufacturer

¹ ESMA Guidelines on MIFID II product governance requirements (05/02/2018 ESMA35-43-620).



MEDIOBANCA

of the instruments, the review is made also on the basis of the information collected from the distributors on sales outside the target market and the received complaints. Each instrument is assessed and a determination is made as to its suitability for ongoing sale to the target market and distribution strategy.