

# REPORT OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS' MEETING ON 18 APRIL 2023



4. Approval pursuant to Art. 114-Bis Italian Leg. Decree no. 58/1998 and Circular no. 285 of the Bank of Italy, 17 December 2013, of the long-term incentive plan known as “2023-2025 LTI Plan” reserved for the “Top Key People” among the executive directors and managers of Banca Mediolanum S.p.A. and/or subsidiaries, even if they are not part of the Mediolanum Banking Group



**ENGLISH TRANSLATION FOR COURTESY PURPOSES ONLY. IN CASE OF DISCREPANCIES BETWEEN THE ITALIAN VERSION AND THE ENGLISH VERSION, THE ITALIAN VERSION SHALL PREVAIL**

## **Board of Directors' Report**

**to the Ordinary Shareholders' Meeting of 18 April 2023 called in single call**

**pursuant to Art. 114-bis of Italian Leg. Decree 58/1998, as amended**

Dear Shareholders,

You have been called in ordinary Shareholders' Meeting to resolve, among other things, on the following:

- 4. Approval pursuant to Art. 114-bis of Italian Legislative Decree no. 58/1998 and of Circular no. 285 of the Bank of Italy dated 17 December 2013 of the long-term incentive plan called "2023-2025 LTI" reserved to "Top Key People" among the executive directors and managers of Banca Mediolanum S.p.A. and/or of its subsidiaries, even if they do not belong to the Mediolanum Banking Group.**

In implementation of the Group remuneration policies for 2023 submitted for your approval as item 2) on the Shareholders' Meeting agenda (the "**2023 Remuneration Policies**"), pursuant to Art. 114-bis of Italian Leg. Decree no. 58/1998, as subsequently amended ("**Consolidated Finance Act**"), as well as of the "Supervisory Provisions for Banks", Bank of Italy Circular no. 285, dated 17 December 2013 ("**Supervisory Provisions**"), taking into account the guidelines provided in Directive 2013/36/EU (as recently amended by Directive 2019/878/EU – CRD V), the Board of Directors, with the positive opinion of the Remuneration Committee, submits for your approval a long term incentive and retention plan known as "**2023-2025 LTI Plan**" (the "**LTI Plan**" or the "**Plan**"), reserved for some individuals ("*top key people*") occupying key positions in terms of special responsibilities and/or



skills, as well as of high impact on the growth of the business and the governance of the Mediolanum group as specified below. Specifically, the Plan is reserved for those who:

- (i) hold the office of executive director **(a)** of Banca Mediolanum S.p.A. (the “**Bank**” or “**Mediolanum Bank**”) and/or **(b)** of the subsidiaries that are part of the Mediolanum Banking Group pursuant to Art. 23 of Italian Leg. Decree no. 385/1993 as subsequently amended and integrated (“**Consolidated Banking Act**”), and/or **(c)** of the other subsidiaries of the Bank pursuant to Art. 2359, Par. 1, of the Italian Civil Code even if they are not part of the Mediolanum Banking Group (the companies *sub* **(b)** and **(c)**, the “**Subsidiaries**” and, jointly, with the Bank, “**Group**”); and
- (ii) to the parties who have with the Bank or with the Group company a permanent employment relationship at the management level, who, in both cases, can be classified as “key personnel” pursuant to the Supervisory Provisions and the 2023 Group Remuneration Policies (“**Key Personnel**”) (jointly, “**Recipients**”).

The beneficiaries of the Plan (the “**Potential Beneficiaries**”), identified on 7 March 2023 by the Board of Directors of the Bank among the Recipients of the Plan<sup>1</sup> in compliance with the Supervisory Provisions and in implementation of the 2023 Remuneration Policies, on proposal of the Remuneration Committee of the Bank of 27 February 2023 (the “**Remuneration Committee**” or the “**Committee**”), includes the Chief Executive Officer and the General Manager of Banca Mediolanum, as well as other selected top key people within the Banking Group’s Top Management.

The Remuneration Committee performs advisory and proposal-making functions according to the implementation of the Plan, pursuant to the applicable legal and regulatory provisions.

<sup>1</sup> Please note that the identification of the Potential Beneficiaries has been subject to the approval of the Plan by the Bank’s Shareholders’ Meeting called for 18 April 2023.



For any further information on the Plan, please refer to the relevant information document, drawn up pursuant to Art. 84-bis of CONSOB Regulation no. 11971/1999 as amended (“**Issuers’ Regulation**”) and in compliance with Annex 3A of the same regulation is available to the public under the legal conditions and terms.

## **1. Reasons for the adoption of the Plan**

The Plan is an instrument aimed at incentivizing Potential Beneficiaries against specific financial and non-financial targets, linked to the Group’s ESG business and sustainability strategy over three-year performance period 2023-2025. The Plan also aims at encouraging the retention of key personnel, one of the factors of strategic interest for the Bank. The Bank – also as parent company – believes, therefore, in line with consolidated practice also at the international level, that the Plan is an instrument able to extend the time horizon of the decision-making process of corporate players (long-term perspective), while encouraging the alignment of the interests of the latter with those of the shareholders in a medium-long term horizon. Notably, the Plan has the following objectives:

- (i) to motivate and retain the top management and the staff of the Bank / Group believed to be key because of special responsibilities and/or skills, and having high impact on the growth of the business and the governance of the Bank and the Group in a long-term perspective;
- (ii) to link a relevant component of the variable remuneration of the Beneficiaries of the Plan to the achievement of given corporate performance and corporate sustainability targets, to be assessed in a multi-year future time period, so as to align the interests of the Beneficiaries with the pursuit of the priority objective of creating value for the shareholders in a long-term perspective, through a careful management of corporate risk and the pursuit of multi-year programmes and projects.



The Plan is an instrument added to the remuneration package of the top key people, aimed at creating an independent incentive mechanism that takes into account the position occupied and the special skills of each Potential Beneficiary as value added in the supervision and support of the achievement of strategic objectives of the Bank and the Group.

## 2. Object and procedure of implementation of the Plan

The Plan is based on the achievement of specific Access Conditions and performance Objectives – as described in detail below – over a three year time horizon (2023-2025) and envisages, in the event of their achievement, the payment of a bonus (the “**Bonus**”) to be paid partly in cash (*cash*) and partly in financial instruments (*equity*), in portions of respectively 48% and 52% of the total amount of the accrued Bonus that will be paid according to the payment mechanisms illustrated in greater detail below.

Recognition of the portion of the Bonus in financial instruments takes place through the free assignment to Potential Beneficiaries of some rights (the “**Units**”) to receive, also free of charge, as the case may be:

- (i) Banca Mediolanum ordinary shares (the “**Shares**”) held by itself in the ratio of 1 ordinary share for each no. 1 Unit accrued;
- (ii) with particular reference to the Chief Executive Officer of the Bank, so-called *phantom shares* (“**Phantom Shares**”).

The maximum number of Shares or, as the case may be, of Phantom Shares, attributable to each Beneficiary of the Plan (corresponding to the maximum number of Units that may be assigned) shall be determined by dividing the portion of financial instruments (*equity*) of the Bonus accrued based on the achievement of the Access Conditions and the level of achievement of the Performance Objectives, by the average price, defined as the arithmetic average of the official prices of Banca Mediolanum



share recorded on Euronext Milan, during the 30 trading days prior to the date of the Shareholders' Meeting called to approve the financial statements as at 31 December 2025.

As at the date of this Report, it is estimated that a maximum total number of Shares to be granted under the Plan is 275,571 (approximately 0,04% of the Bank's current share capital). Similarly to the Bank's short-term performance share plans, for the purpose of obtaining the Shares to be granted free of charge to the Beneficiaries of the Plan, it is proposed that the Bank's stock of ordinary shares, consisting of treasury shares held in the Bank's portfolio resulting from purchases made on the market, be used.

As mentioned above, with specific reference to the Chief Executive Officer of Banca Mediolanum - in view of the latter's subjective condition - it should be noted that the Units granted to him will entitle him to receive, again free of charge, Phantom Shares instead of Shares; therefore, with reference to the latter, the component in financial instruments of the Bonus accrued depending on the achievement of the Access Conditions and the level of achievement of the performance Objectives, after the Retention Period (as defined below), shall be settled in cash through the payment (again without consideration) of a cash sum (gross of any tax, contribution and social security payments) to be calculated as specified *below*; it is specified that the Phantom Shares are not an equity instrument pursuant to the last paragraph, of Art. 2346 of the Italian Civil Code.

The Phantom Shares accrued under the Plan shall be settled through payment of the bonus in cash (gross of any tax, contribution and social security payments) (the "**Bonus in Cash**") calculated according to the number of Phantom Shares accrued pursuant to the Plan, multiplied by the market value of the ordinary shares of the Bank calculated as the arithmetic average of the listed prices of the ordinary shares of the Bank recorded in the 30 trading days before the end of the Retention Period (as



defined below). If the shares of the Bank are no longer listed, the Bonus in Cash shall be conventionally calculated by taking as the basis of the calculation the normal value of these shares pursuant to Art. 9 of Presidential Decree no. 917 of 22 December 1986.

The Plan also provides for the Bank's right - to be exercised by resolution of the Board of Directors, after consulting the Committee - to pay to the Beneficiaries of the Plan a cash sum (the "**Replacement Sum**"), in lieu of and in substitution for the Shares, also in cases of conversion of the Units assigned to executive directors of the Bank other than the Chief Executive Officer of the Bank, or to executive directors of the Subsidiaries, as well as in cases in which it is impossible to assign the Shares to the beneficiaries or in any other special cases established by the Board of Directors. In all the aforementioned cases, the Replacement Sum shall be calculated as the arithmetic average of the listed prices of the ordinary shares of the Bank reported on the basis of the arithmetic average of the official prices of the Bank's ordinary shares recorded on Euronext Milan in the 30 (thirty) trading days before the end of the Retention Period (as defined below).

The Plan will receive no support from the special Fund for creating incentives for the workers to invest in companies pursuant to Art. 4, paragraph 112 of Italian Law no. 350, 24 December 2003.

### **3. Recipients of the Plan**

The Plan is reserved to the executive directors and the managers of Banca Mediolanum and/or its Subsidiaries who can be classified as Key Personnel. In particular, at the date of this Report, the Board of Directors – with the favourable opinion of the Remuneration Committee – has identified the Chief Executive Officer and the General Manager of Banca Mediolanum, as Potential Beneficiaries of the Plan, as well as selected top key people within the Banking Group's Top Management.



The Board of Directors of the Bank, or the body and/or the parties appointed by this, on proposal of the Remuneration Committee, shall identify among the Potential Beneficiaries the actual beneficiaries of the Plan (the “**Beneficiaries**”), once it has verified the achievement of the Access Conditions, as well as the Performance Objectives during the three-year performance period of reference (the “accrual period”, corresponding to the years 2023, 2024 and 2025).

The Board of Directors shall have all necessary or appropriate powers to execute and implement the Plan, including, by way of example but not limited to, the power to supervise the management of the regulations and all powers to identify the Potential Beneficiaries, carry out the awarding to the Beneficiaries, perform any other act, fulfilment of obligation, and notification that are necessary or appropriate for the purposes of the management and/or implementation of the plan itself, including the related regulation, while retaining the right to delegate its powers, duties and responsibilities in regard to the execution and application of this plan to the Chairman, the Chief Executive Officer and the Vice Chairman, jointly or severally, being understood that any decision related and/or concerning the management and/or implementation of the Plan in regard to the Potential Beneficiary or Beneficiary who is an executive director of Banca Mediolanum shall remain within the exclusive competence of the Board of Directors of the Bank.

#### **4. Characteristics of the Plan**

In compliance with the 2023 Remuneration Policies, the Plan provides for, among other things, as follows:

- (A) that the recognition to the Beneficiaries of the Bonus be conditional on the achievement in each of the years in the reference three-year performance period (i.e. in each of the years 2023, 2024 and 2025), of the following performance conditions which perform the functions of





“gate” and are, in any case, consistent with the “Risk appetite Framework” (RAF) (the “**Access Conditions**”):

- a surplus of capital over and above the capital requirements established for the Mediolanum financial conglomerate;
- a liquidity coverage ratio (LCR) greater than 100%;
- a “Risk adjusted return on risk adjusted capital” (“RARORAC”) equal to or greater than 0%;
- a Total Capital Ratio (TCR) higher than the coefficient of binding capital, provided annually by the Authority.

(B) that the recognition to the Beneficiaries of the Bonus be also conditional on the achievement in the reference three-year performance period (i.e. the years 2023, 2024 and 2025) of other performance conditions (“**Performance Objectives**”) based on the indicators specified below, defined by the Board of Directors – with the positive opinion of the Remuneration Committee – in line with the business strategy of the multi-year plan to 2025. Each Performance Objective corresponds to a different weight on the total maximum level (i.e. 100%) of the Bonus paid to each Beneficiary, as illustrated in the 2023 Remuneration Policies, and reported below:

- CET1 *ratio* – weight: 20%;
- Dividends (from profits) per share<sup>2</sup>: DPS (cumulated over the three-year period) – weight: 20%;
- Cost/Income – weight 20% (average of the three-year period);
- NPL on total lending (average of the three-year period) – weight: 15%;
- ESG (Environmental Social Governance) Indicators, as better detailed in Section I of the 2023 Report on remuneration policy and compensation paid – weight: 25%.

<sup>2</sup> For the purpose of the Plan, dividends declared from time to time will be considered.



To calculate the Bonus to be paid to each Beneficiary, a calculation system is devised that takes into account the negative divergence with respect to each of the Performance Objectives according to the respective weight. This calculation system provides for: (i) a minimum level of the Performance Objectives, under which the right to the payment of the Bonus is forfeited, and a maximum level of the Performance Objectives, on the achievement of which a right is accrued to the payment of the predetermined maximum amount of the Bonus for each Beneficiary; as well as (ii) progressive percentages of achievement of the Performance Objectives, associated with the calculation of the amount of the Bonus to be granted to each Beneficiary, specified by the Board of Directors, on proposal of the Committee, taking into account the percentage weight of each;

- (C) that the maximum overall incidence of the individual Bonus as a percentage of the fixed remuneration is 150% (i.e. 50% for each performance year of the Plan).
- (D) that the Bonus is paid to the Beneficiaries according to the payment scheme illustrated in paragraph 4.6.2 of the 2023 Remuneration Policies, and reproduced herein.

	Instruments		Cash		Holding Period (1 year)		
	2026	2027	2028	2029	2030	2031	2032
Performance Accrual	Equity 20% (up-front)	Equity 20% (up-front)					
	Cash 20% (up-front)	Equity 7% (deferred I)	Equity 7% (deferred I)				
		Cash 5% (deferred I)	Equity 7% (deferred II)	Equity 7% (deferred II)			
			Cash 5% (deferred II)	Equity 6% (deferred III)	Equity 6% (deferred III)		
				Cash 6% (deferred III)	Equity 6% (deferred IV)	Equity 6% (deferred IV)	
					Cash 6% (deferred IV)	Equity 6% (deferred V)	Equity 6% (deferred V)
Total	40%	12%	12%	12%	12%	12%	-



In particular, (i) a portion amounting to 60% of the Bonus is subject to a deferment period (the “**Deferment Period**”) of 5 years during which the Bonus will be released once a year on a pro rata basis, and (ii) a further portion of the Bonus (the remaining [40]%) is paid up-front. The portion of the Bonus recognised in financial instruments (*equity*), both up-front and deferred, is also subject to a retention period of 1 year (the “**Retention Period**”). It should also be noted that, consistently with the regulatory provisions and the incentive practices adopted by the Group to date, the payment of the portions of the Bonus subject to the Deferment Period will be subject to the maintenance, during the Deferment Period, of (i) objective conditions of capitalisation, capital and liquidity and risk-adjusted value creation - similarly to the Access Conditions established with the function of gate, described above; and (ii) subjective conditions, which will be communicated to the Potential Beneficiaries (“**Maintenance Condition**”).

(E) that the Bonus is subject to “*malus*” mechanisms, which, among other things, reflect the levels of performance net of the risks actually assumed or obtained and capital risks, and take into account individual conduct. Notably, to guarantee over the years the maintenance of the performance conditions, the payment of the Bonus shall be subject to the absence of disciplinary measures for fraudulent conduct or conduct entailing gross negligence initiated by the Beneficiary from the Assignment Date until the end of the Retention Period.

(F) that the Bonus accrue (relative both to the *up-front* portion and to the deferred portion, including the Retention Period on the financial instruments) is subject to the absence of disciplinary measures for fraudulent conduct or conduct entailing gross negligence initiated by the Beneficiary;

(G) that the delivery of the Bonus to the Beneficiaries is also subject to the maintenance of the relationship between the Beneficiary and the Bank or the other companies of the Group from the assignment date of the Bonus after verification of the Access Conditions and the



Performance Objectives, to the date, as the case may be, of delivery of the *cash* component or the assignment of the financial instruments (*equity*) at the end of the Retention Period, unless otherwise resolved by the Board of Directors, after receiving the opinion of the Committee.

- (H) the regulation of the rights of the Beneficiaries if their relationship ends under “bad leaver” or “good leaver” provisions, according to the usual incentive plan practice;
- (I) a “claw back” mechanism, which entitles the Bank to request, for 5 (five) years from the the disbursement of the individual portion (up-front or deferred), the full or partial reimbursement of the Bonus disbursed, if the Beneficiary adopts any of the following conducts: **(i)** conduct resulting in a significant loss for the Bank or any Group company or the Group in general or the clients; **(ii)** infringement of the obligations established by Art. 26 of the Consolidated Banking Act or, when the Beneficiary is an interested party, of Art. 53, Par. 4 et seq., of the Consolidated Banking Act, or the obligations concerning remuneration and incentive; **(iii)** other behaviour not compliant with legal, regulatory and by-law provisions as well as any codes of ethics or conduct applicable, in the cases that may be envisaged; **(iv)** fraudulent conduct or gross negligence to the detriment of the Bank or any Group company or the Group in general.

Pursuant to the Plan, the Board of Directors, after receiving the opinion of the Remuneration Committee, might resolve, at one [or] several times, in the course of 2023, the participation to the plan of the Potential Beneficiaries. The Board of Directors shall also have the right to identify, after receiving the opinion of the Committee, other Potential Beneficiaries also in 2024 in predefined time windows and with the procedure that shall be specified by the Board itself, after receiving the opinion of the Committee, being understood that in this case the reference performance period in which the Access Conditions and the Performance Objectives must be met shall be two years (“accrual period”).

In the case of one-off or unforeseeable events concerning the Bank – by way of an example, but not limited to, one-off transactions such as mergers, spin-offs, capital increases, or other transactions



with similar effects on equity or on the ownership structure of the Group, as well as in the case of a change of control pursuant to Art. 93 of the Consolidated Finance Act and Art. 23 of the Consolidated Banking Act (even if this does not result in an obligation to launch a public takeover bid) – the Board of Directors, following the favourable opinion of the Committee and the completion of the procedure specified for related party transactions (where applicable), might assess the option to make the amendments and/or integrations and/or adjustments to the Plan necessary to implement the Plan, all this in the interest of the Bank and in compliance with the objectives of the Plan.

Furthermore, if unforeseeable special exceptional circumstances occur during the reference three-year performance period of the Plan (i.e. years 2023, 2024 and 2025) that have a significant impact on the business and without prejudice to the malus and claw back mechanisms regulated by the Plan, the Board of Directors may carry out, at the end of this three-year period, an assessment, which – based on qualitative as well as quantitative elements and taking into account, by way of example but not limited to, the value created for the shareholders, the achievement of other KPIs included in the business plan (such as AUM, Net Inflows), the performance with respect to the competitors and the market context – might involve the reduction of up to 50% of the Bonus or its increase for a total maximum value equal to 20%. It is understood that: (i) the final total maximum value of the Bonus cannot in any case exceed 100% of what was initially specified and notified to the Beneficiaries; and (ii) this right shall be exercised by the Board of Directors, with the favourable opinion of the Committee and following the completion of the procedure specified for related party transactions (where applicable).

## **5. Duration of the Plan**

The Plan shall be effective from the approval by the ordinary Shareholders' Meeting (called for 18 Aprile 2023 in single call) until the to the last year included in the Deferment Period.



## **6. Limits of the transfer**

The Units are personal, non-transferable and cannot be sold inter vivos and they cannot be pledged or given as guarantee to the Bank, the other Group companies or third parties. In general, they cannot be the object of any type of contract, including derivative contracts.

There are no restrictions on the transfer of the ordinary shares allocated to the Beneficiary following the conversion of the Units accrued.

The Plan envisages – for the purposes of the disbursement to the Chief Executive Officer of Banca Mediolanum of the Bonus component in financial instruments – the use of Phantom Shares and, therefore, in this specific case no shares or options shall be awarded.

The Phantom Shares are personal, non-transferable and cannot be sold inter vivos, and they cannot be pledged or given as a guarantee to the Bank, the other Group companies or third parties. In general, they cannot be the object of any type of contract, including derivative contracts.

The virtual delivery of the Phantom Shares during the effective period of the Plan does not give any of the rights of the shareholders, or any of the other property rights or administrative rights specified by the last paragraph of Art. 2346 of the Italian Civil Code and it gives no right or expectation to the delivery of Phantom Shares over the years to come, nor to the continuation of the relationship between the Beneficiary and the Bank, or between the Beneficiary and other Group companies, which shall continue to be regulated by the applicable provisions of current laws.

The settlement of the Phantom Shares shall take place with the payment (without consideration) of the Bonus in Cash directly to the Beneficiary or, in the case of death or permanent disability of the latter, respectively to the heirs and/or these or of their successors in title or legal representatives.



## 7. Draft resolutions on item 4 on the agenda

Dear Shareholders,

in consideration of what is discussed above, we ask you to adopt the following resolutions:

*“The ordinary Shareholders’ Meeting of Banca Mediolanum S.p.A. having taken note of the explanatory Report of the Board of Directors,*

### **RESOLVES**

- (A) *to approve, pursuant to Art. 114-bis of Italian Leg. Decree 58/1998, as subsequently amended, and the Circular no. 285 of Bank of Italy of 17 December 2013, as well as in implementation of the “Group Remuneration Policies” for 2023 the adoption of the new long-term incentive plan “2023-2025 LTI Plan” with the characteristics (including conditions and assumptions of implementation) specified in the Board of Directors’ Report (“2023-2025 LTI Plan”) giving mandate to the Board to adopt the related regulation;*
- (B) *to grant to the Board of Directors all necessary or appropriate powers for the execution and implementation of the Plan, including, by way of example but not limited to, the power to supervise the management of the regulation and all powers to identify the Beneficiaries, carry out the awarding to the Beneficiaries, to perform any other act, fulfilment of obligation, formal requirements, notification that are necessary and/or appropriate for the purposes of the management and/or implementation of the Plan, including the related regulation, as well as the contracts and the legal relations deriving from the Plan, to fulfil all formal requirements to ensure that the resolutions taken obtain regulatory approval with the right of making any change or integration that were necessary and/or appropriate for this purpose, while retaining the right to delegate its powers, duties and responsibilities in regard to the execution and to the implementation of this plan to the Chairman, to the Chief Executive Officer, as well as to the Vice Chairman, jointly or severally, being understood that any decision related and/or concerning the*



*management and/or implementation of Plan towards the Beneficiary who is executive director of Banca Mediolanum S.p.A. shall remain within the exclusive competence of the Board of Directors.”*

Milan 3, 7 March 2023

For the Board of Directors  
Chairman  
(Giovanni Pirovano)