

Monte Titoli S.p.A. Remuneration Policy

February 2020

Document Summary

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|-----------------------|---------------------------------|------------------|--------------------|
| Document status | For Board of Directors approval | | |
| Version | February 2020 | Effective Date | Dec.19 - CSDR auth |
| Executive Responsible | Mauro Dognini | Document Owner | Marina Famiglietti |
| Approval(s) | Board of Directors approval | Approval date(s) | 25 March 2020 |

Version Control

| Date | Version | Summary of Changes |
|------------------|---------|--|
| July 2017 | 0.1 | Board of Directors' Remuneration Policy approval |
| 21 February 2020 | | Remuneration Committee revision |
| 25 March 2020 | 0.2 | Board of Directors' Remuneration Policy approval |

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1 Regulatory Framework

The remuneration policy has been finalized for the purposes of the Board of Directors' approval, in accordance with the "Regulation n. 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26EC and 2014/65/EU and Regulation (EU) n. 236/2012" (CSDR) and the "Regulatory Technical Standards under CSDR issued by the Commission Delegated Regulation (EU) 2017/392 of 11 November 2016".

2 Scope

The Monte Titoli remuneration policy is designed to attract, to recruit and to retain talented individuals and high calibre senior management in line with LSE Group guidelines and remuneration policy and in compliance with any relevant legal and regulatory requirements, while ensuring the delivery of Monte Titoli business strategy and plans, and maximizing returns for shareholders.

The remuneration should be:

- consistent in terms of responsibilities, competencies and performance;
- able to promote sound, effective and prudent risk management, to prevent conflicts of interests and do not create incentives to relax risk standards;
- able to mitigate the risk over-reliance on the responsibilities entrusted to any individual person;
- aligned with the internal and external market reference package in the international financial sector;
- fair and equitable in terms of working conditions offered to all the staff guaranteeing that failure is not rewarded;
- motivating and rewarding in relation to the achievement of individual contribution in line with company strategy, values and results in the short and in the long terms;
- economically sustainable over time.

The overview of the Remuneration policy process can be represented as follows: the Remuneration policy and its amendments shall be approved by the Board of Directors, on proposal of the Remuneration Committee. The Internal Audit, the Compliance and Risk functions annually perform checks on the Remuneration Policy.

3 Governance

3.1. Corporate bodies

- Shareholders' meeting

Pursuant to the By-Laws of the Company, Shareholders' Meeting establishes the overall remuneration for the Board of Directors upon appointment for the duration of their office.

- **Board of Directors**

The Board of Directors establishes the individual fee for each Director, within the overall amount established by the Shareholders' meeting and, according to the framework of delegated powers in force within the Company, determines, having consulted the Board of Statutory Auditors, the remuneration of those Directors appointed to special offices or who have been entrusted with special powers with regards to the ordinary management of the Company.

The Board of Directors decides the remuneration policy based on the Remuneration Committee proposals, reviews it at least annually and is responsible for its consistent implementation.

- **Remuneration Committee**

The Board of Directors has set up an internal Remuneration Committee to advise and to provide its competent and independent judgment on remuneration policies and practices. The composition, the scope of the authority and the responsibility of the Remuneration Committee have been detailed in the Terms of Reference, approved by the Board of Directors.

The Monte Titoli Remuneration Committee is responsible for submitting recommendations on the design and development of the remuneration policy, the oversight of its implementation by senior management and the review of its practical operations on a regular basis.

- **Statutory Auditors**

The Board of Statutory Auditors advises the Board of Directors on the proposed remuneration policy and its implementation.

3.2. Internal Control Functions

The approval process of the Remuneration policy above mentioned requires the involvement of the internal control functions. They should have appropriate authority in carrying out their activities. In particular:

- The Risk Department is responsible for identifying the risks that potentially affect and may affect the company business, contributing to the development of key risks indicators, ensuring consistency between the remuneration policies and the company risk appetite framework and consistency between the remuneration practices and the risk KPIs.
- The Compliance Department is responsible for ensuring the compliance of the remuneration policy to the company rules and to the relevant regulation and for submitting a compliance report to the Remuneration Committee and to the Board of Directors.
- The Internal Audit Department is responsible for verifying on annual basis the compliance of the remuneration practices to the remuneration policy and to the relevant regulation and for submitting an independent audit report to the Remuneration Committee and to the Board of Directors.

3.3. Other Corporate Functions involved

The definition of the remuneration process requires also the involvement of other Corporate Functions which should have appropriate authority in carrying out their activities:

- The Human Resources Department is responsible for drawing up the remuneration policies, supporting the governance, putting forward recommendations to the Remuneration Committee on the remuneration practices, coordinating the inputs from the other control functions to the extent of their responsibilities, ensuring alignment among the remuneration policy and practices, the group remuneration framework and the regulatory requirements on remuneration;
- The Finance Department is responsible for ensuring alignment between the remuneration practices and the short and long term financial objectives of the company as well as the sustainability of the remuneration practices in a multi-year period.

3.4. Authority

The allocation of the

- Monte Titoli annual **variable compensation pool**
- the fixed and variable remuneration of the **Chief Executive Officer** and of the **General Manager**
- the fixed and variable remuneration of **Head of Internal Audit, Chief Risk Officer, Chief Compliance Officer and Head of Post Trade Technology Services and CTO**, where employed by the company, as proposed by the Monte Titoli Chief Executive Officer to the Remuneration Committee

will be submitted by the Remuneration Committee Chairman to the Board of Directors for approval,

For all other employees the distribution of the **fixed and variable remuneration to the individuals**, including LTIP provisions, according to the level of individual performance, will be under the responsibility of the Monte Titoli Chief Executive Officer, acting on proposal from the managers. The Board is updated annually of the overall allocation.

Upon Board's request, **the fees of the Chairman of the Board of Directors** and of the additional fees of the Directors appointed to special offices or to whom specific powers have been delegated, will be proposed by the Remuneration Committee for the approval of Monte Titoli Board of Directors, with the abstention of the involved Directors.

4 Directors' remuneration

BoD Non-executive and Executive Directors: The Directors' remuneration is composed by a fee. Those Directors members of specific committees or to whom specific powers have been delegated might receive an additional fee for their attendance or for the specific office. No provision is made for

incentives linked to performance or for benefit and pension schemes for Non-executive Directors. Directors might renounce to the membership or attendance fee related to the directorship or to specific offices.

If they are employed in a Company owned by the LSE Group, in agreement with the guidelines of the Group, they are asked to renounce to the fees. Executives are covered by the Director's and Officers' insurance and indemnification.

Chairman of the Board of Directors: The Chairman as non Executive Director with a specific appointment receives a chairmanship flat fee. No provision is made for incentive linked to performance or for benefit and pension schemes. If he/she is employed in a Company owned by the LSE Group, in agreement with the guidelines of the Group, he/she is asked to renounce to the fees.

The Chairman might renounce to the chairmanship fee.

Statutory Auditors: The Board of Statutory Auditors Chairman and members are awarded with a flat fee and no provision is made for incentives linked to performance or for benefit and pension schemes.

5 Executives and employees' remuneration

The main elements of remuneration of Monte Titoli, in line with LSEG guidelines and policies and with national collective agreement requirements, are the followings:

- Fixed Remuneration:
 - a. Base Salary
 - b. Benefits
- Variable Remuneration
 - a. Discretionary Bonus scheme (cash)
 - b. Long Term Incentive Plan (LTIP) (shares)
- Profit Share scheme

They are differentiated into the two categories of executives/managers (Dirigenti/Quadri) and employees (Quadri/Aree Professionali), also on the basis of the provisions of the Collective National Bank Contract, harmonized internally within the Group in Italy and aligned to external best practices.

The following table summaries the elements of remuneration by category of employees:

| | Fixed Remuneration | Discretionary Bonus scheme | Long Term Incentive Plan | Profit Share |
|----------------------------------|-----------------------|-------------------------------|-----------------------------|--------------|
| Executives/Managers (D/Q) | X | X | X | X Q only |
| Employees (Q/AP) | X | X | | X |

The weight of the fixed and variable components expressed as a percentage of remuneration, the “pay-mix”, is properly differentiated with respect to the various categories of personnel, in order to adequately reflect the level of impact on risk and performance. An appropriate portion of the package is fixed so as not to incentivize inappropriate risk.

In order to ensure that the remuneration is consistent with the financials of the company and with the regulatory capital requirements (in terms of profitability), Monte Titoli oversees **gate conditions** strictly related to the business of the company. No reward will be decided and paid if the following both two conditions are not met:

- Operating Profit before taxes in comparison with the previous year Operating Profit before taxes (max decrease < 40%)
- Operating Profit before taxes in comparison with the Budget Operating Profit before taxes (max decrease < 50%)

Equivalent rules and bookkeeping principles will be applied to the above mentioned conditions.

5.1 Fixed Remuneration

1. The level of **fixed remuneration** provides a core element of remuneration which reflects the responsibilities of the role. Base salaries are:
 - reviewed annually against wider market and economic levels;
 - determined by the professional specialization and reflecting managerial skills and experiences, in accordance with the provisions of the Collective National Bank Contract for levels and grades, and against consistent comparison with similar roles within the organization and the external market benchmark;
 - aligned with performance of the Group and of the individuals and respecting the level of increases being made across the Group.

There is no defined maximum salary. Increases are solely at the company discretion except where mandated by law and/or by the national contract and are generally adequate within the other employees range. More significant increases may be awarded in certain circumstances, such as where there is a significant change in the scale, scope or responsibility of the role, development within role and/or significant market movement.

2. The **benefits** provide local market competitive benefits and support the wellbeing of employees. They are aligned for roles according to the same level of responsibilities in the company and in the Group. A flexible benefit plan is offered, in which individuals have certain core benefits (such as private medical, life, accident, long term care and disability insurances, pension fund, and luncheon vouchers) together with elective voluntary benefits. Benefits are reviewed periodically to ensure they remain affordable and competitive. Participation in the Group Save As You Earn Option Scheme is offered to all the employees, within the parameters of applicable legislation.

5.2 Variable Remuneration

The variable remuneration will be based on short-term bonus and for senior and key executives also on long-term share based awards with vesting depending on performance measured on an annual basis and over multi-year periods.

The metrics are reviewed annually and are both stretching and achievable.

The overall company performance will be measured 50% on the basis of the achievement of the strategic objectives and 50% on the basis of the achievement of financial targets. Successful risk management is a key component of Group and Monte Titoli's strategic objectives.

The individual performance will be assessed against the level of contribution to the strategic objectives, including risk objectives, and against the level of achievement of role-related goals and expected behaviors.

Variable remuneration will be recognized accordingly on a discretionary basis, reduced or withheld completely where there is poor performance or where the employee is subject to a disciplinary warning.

Employees will be eligible to be considered for a bonus if they remain employed by the Company on the date bonus is paid and have not given or received notice on or by that date. As a general principle, individual bonuses are not directly or formulaically linked to individual revenue generation.

The pay mix between short term and long term remuneration and between cash and equity components provides the deferral mechanism to the pay in alignment with the risk exposure of the company.

a. Discretionary Bonus scheme

Purpose

The bonus is discretionary and is designed to reward and incentivize employees by reference to maximizing shareholder value and aligning individual contribution and behaviours to the achievement of short term financial and long-term strategic objectives.

Awards

Awards are made in cash.

Participation

All Monte Titoli employees are eligible.

Starting from 2020 onwards all the Manager will be also subject to a Bonus Deferral regarding the variable remuneration in case greater than £150k, €150k, \$200k, consequently 50% of the bonus values will be deferred into shares vesting in 3 equal tranches (12/24/36 months).

Performance measures

Achievement of expected company results, maintenance of conditions of company stability, compliance to risk appetite framework and achievement of individual objectives and expected behaviors.

b. Long Term Incentive Plan (LTIP)

Purpose

The LTIP is designed to reward and incentivize employees over the longer term through the award of performance related shares, aligning individual contributions and behaviours to the achievement of long term sustainable Group performance and to the shareholder value. Employees can benefit from an increase in value of a notional share.

Awards

A conditional award of LSE Shares

Participation

Senior employees and managers of the Group are eligible for LSE Long Term Incentive Plan.

Performance period

Awards of Shares vest three years after grant, subject to meeting performance conditions and the employee remaining employed by the Group, unless the consideration as Good Leaver.

The plan is rolling (i.e. award paid out on overlapping periods so every year has the potential of a payout).

Performance measures

From 2010 vesting is conditional 40% on Total Shareholder Return (TSR) performance against FTSE 100 comparator group and 60% on adjusted Earning Per Share (EPS) performance.

Malus and claw back provisions

For the most relevant staff, to enhance the link between pay and performance, Monte Titoli remuneration policy foresees malus or clawback provisions on awards granted under the LTIP plan. Unvested awards are subject to a malus provision and vested awards are subject to clawback.

Malus and clawback conditions undertake to reduce, withhold, cancel, claw back or impose further conditions in certain circumstances including (i) where there is a material misstatement or restatement of the results of the company in its audited account (ii) the negligence fraud or serious misconduct of the individual which results in significant reputational damage to the Group or had a material adverse effect on the financial position of the Group or to the business opportunities of the Group (iii) if the individual is a member of a company in the Group which suffers significant reputational damage or material adverse effect on its financial position or on its business opportunities.

Claw back clauses could be applied for a period of three years following the vesting of shares.

c. Profit share scheme

Purpose

The profit share scheme is a national contractual provision with criteria linked to the profitability and productivity of the company and negotiated with Trade Unions.

No profit share is given in case of performance requires significant development in the role.

Awards

Awards are made in cash, using tax facilities where allowed.

Participation

All Monte Titoli employees are eligible, not including Dirigenti (Managers).

Performance period

Awards made as soon as practicable, typically following the shareholders' annual meeting balance sheet approval.

Performance measures

The Company and Trade Unions meet on an annual basis after the FY closure and financial results, to agree the performance conditions and profit share figures. The metrics are reviewed with Trade Unions in the company agreement every two years. The profit share values are equal for each grade and level.

6 Internal Control Functions' remuneration

While the Employees' remuneration policy applies entirely to the Internal Control Functions, the performance criteria for this category will be independent of the financial performance of the company and linked to the achievement of the company sustainability objectives, in particular regarding risk management, and of specific individual role-related goals. This is intended to avoid that control functions are subject to any conflicts of interest. However the level of remuneration shall be adequate in terms of responsibility as well in comparison to the level of remuneration in the business area.

7 Disclosure

Monte Titoli, on its website, shall make available to the public the key elements of the remuneration policy.

The results of the independent audits will be made available to the competent Authority.

8 Effectiveness

The remuneration policy will be effective from the FY commencing on the 1st of January 2020.