

2016 Group Compensation Policy

Side presentation

March 2016

UniCredit – Human Resources Strategy





OBJECTIVE OF THE DOCUMENT

- The purpose of this presentation is to provide an **overview of the key elements of the UniCredit 2016 Compensation Policy**, specifically on:
 - 2015 payout
 - major changes to 2016 remuneration cycle, with respect to 2015 system

- As such these slides will always **favor immediacy and simplicity** to exhaustiveness and details
 - For full disclosure please refer to the 2016 Group Compensation Policy itself.



1. 2016 GROUP COMPENSATION POLICY

2. ROLE, COMPOSITION & ACTIVITIES OF REMUNERATION COMMITTEE

3. HIGHLIGHTS OF 2015 PAYOUT

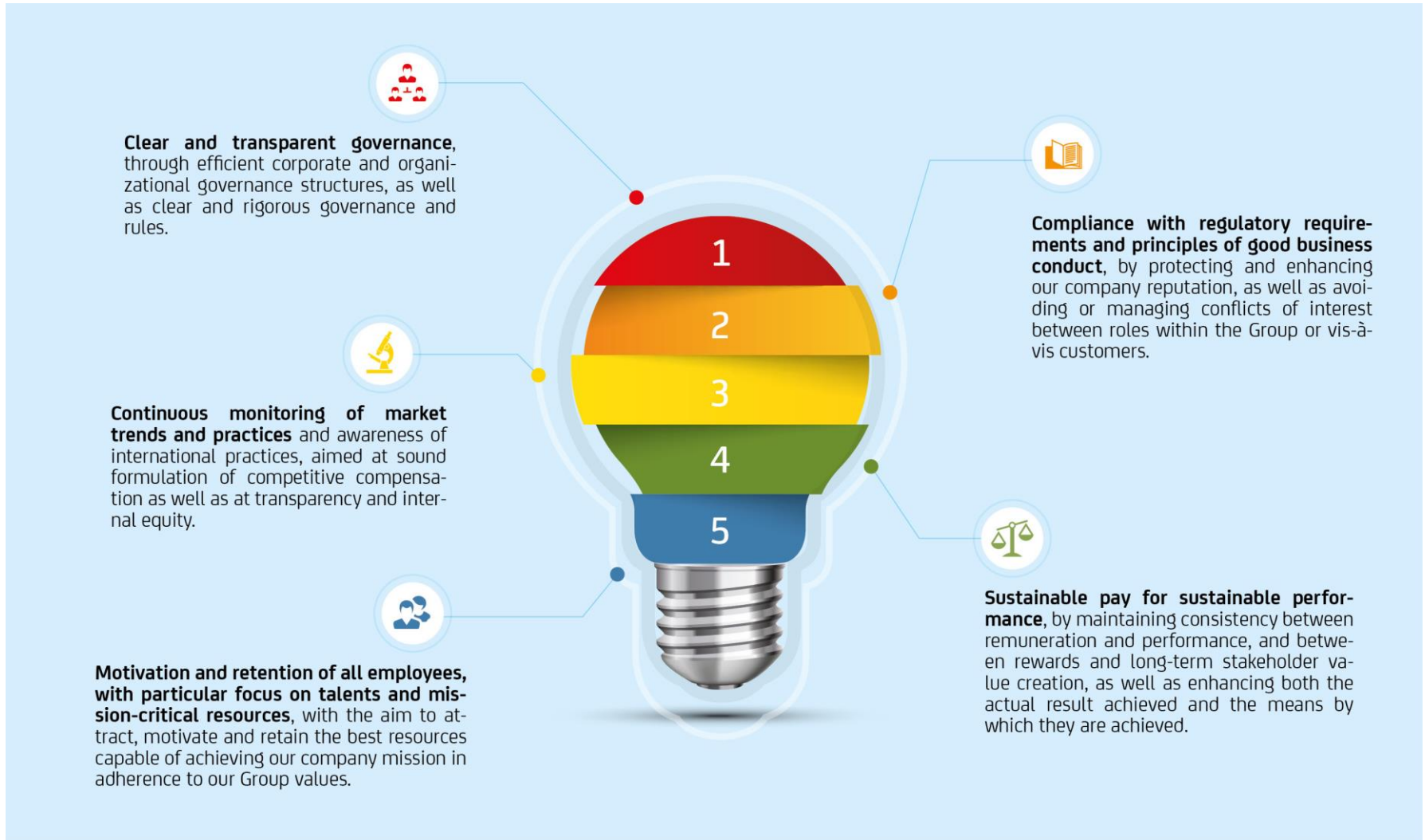
4. HIGHLIGHTS OF 2016 GROUP INCENTIVE SYSTEM (YEARLY BONUS)



2016 GROUP COMPENSATION POLICY

THE PILLARS

- To ensure the competitiveness and effectiveness of remuneration as well as transparency and internal equity, the principles of sustainable conduct and performance define the key pillars of our Group Compensation Policy:





2016 GROUP COMPENSATION POLICY

OUR REMUNERATION STRUCTURE

	DRIVERS	PAYMENT	BENEFICIARY
FIXED COMPENSATION 	<ul style="list-style-type: none"> • Role • Responsibility • Talent • Market Benchmarking 		<ul style="list-style-type: none"> • All employees
ANNUAL BONUS 	Annual performance at: <ul style="list-style-type: none"> • Group level • Country/Division level • Individual level 		<ul style="list-style-type: none"> • Top Management • Identified Staff • All the other employees
LONG TERM INCENTIVE 	<ul style="list-style-type: none"> • Alignment between Shareholders' and Management' interests • Motivation and retention • Behaviors orientation 		<ul style="list-style-type: none"> • Top Management • Identified Staff
BENEFITS 	<ul style="list-style-type: none"> • Satisfaction of non-monetary needs as healthcare, safety and welfare 		<ul style="list-style-type: none"> • All employees

The remuneration for members of the administrative and auditing bodies of UniCredit is represented **only by a fixed component**. Such compensation is **not linked to the economic results** achieved by UniCredit and no Member takes part in any incentive plans based on financial instruments.



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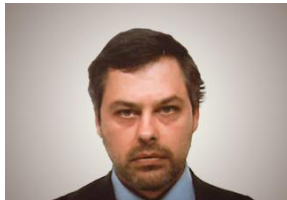
4. HIGHLIGHTS OF 2016 GROUP INCENTIVE SYSTEM
(YEARLY BONUS)



REMUNERATION COMMITTEE ROLE & COMPOSITION

- The Remuneration Committee performs an integral role in supporting Board of Directors oversight of Group Compensation Policy and plan design.
- **All members** of the Committee in its current composition **are independent** according to the 'TUF' (*Testo Unico della Finanza*) and the majority of the members (3 out of 5) meet the requirements of independence described in the 'Corporate Governance Code', which coincide with the ones given in the Articles of Association.
- **The activities are coordinated by the Chairman, chosen among independent members.**

CHIARMAN



Alessandro Caltagirone
*Non-executive
Independent*

MEMBERS



Henryka Bochniarz
*Non-executive
Independent*



Giuseppe Vita
*Non-executive
Non-independent*



Alexander Wolfgring
*Non-executive
Independent*



Anthony Wyand
*Non-executive
Non-independent*

% OF PARTICIPATION
TO COMMITTEE'S
MEETING IN AVERAGE:
92,5%

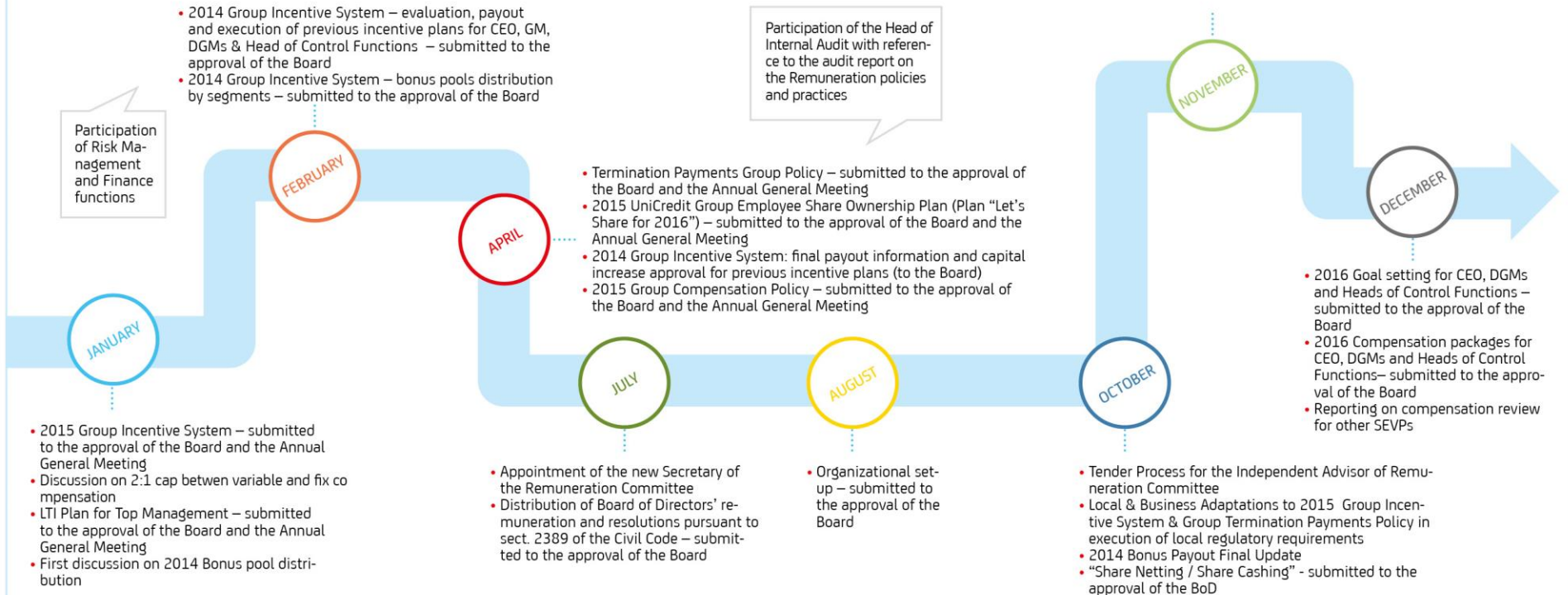


REMUNERATION COMMITTEE ACTIVITIES IN 2015

Activities of the Committee in 2015

In 2015 the Remuneration Committee met **8 times**. The meetings had an average duration of about one hour. From January 2016 to March 2016, 3 meetings of the Committee have been held. Each meeting of the Remuneration Committee is placed on record by the Secretary designated by Committee itself.

During 2015 the key activities of the Remuneration Committee included:





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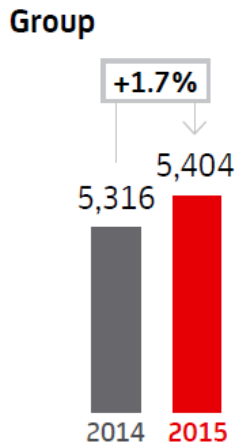
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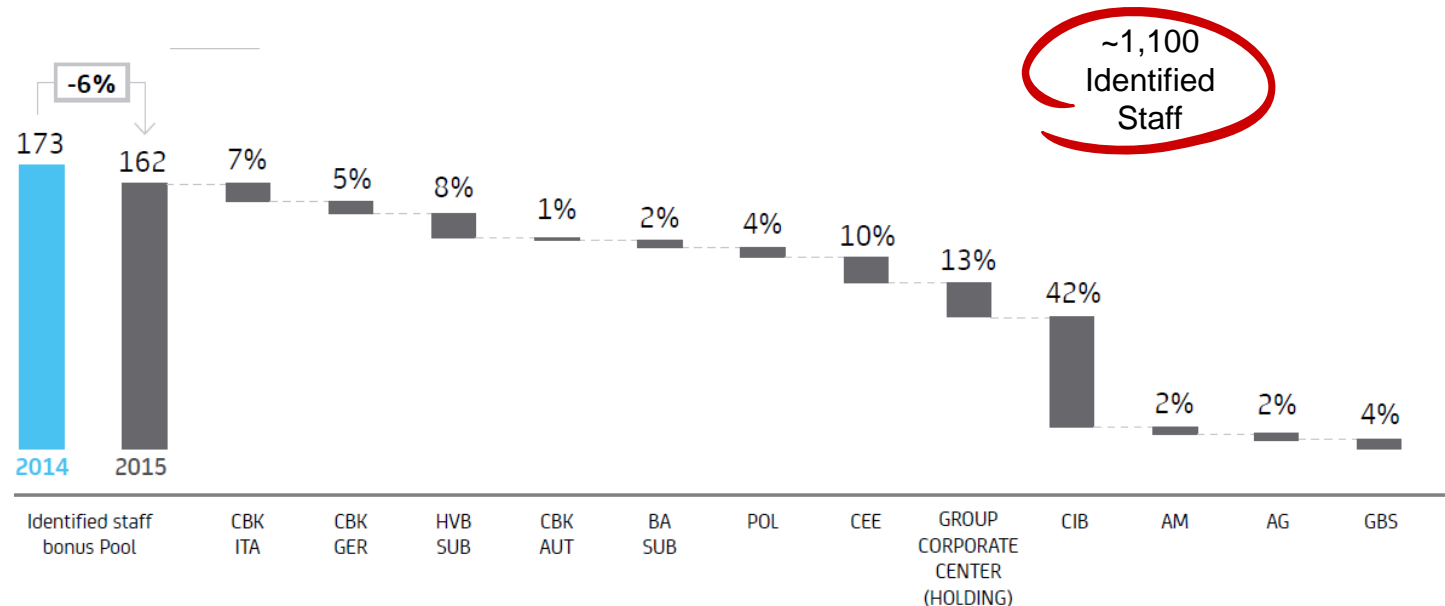
HIGHLIGHTS OF 2015 PAYOUT BONUS POOL DISTRIBUTION

- With reference to 2015, the Board of Directors of UniCredit has taken into consideration the proposals of the Remuneration Committee and the guidelines of the regulatory authorities on variable remuneration and approved the following **distribution of the bonus to Identified Staff population** (ca. 1,100 resources)
- The overall bonus pool for Identified Staff is **162 million**, as a result of the proposal of Remuneration Committee to reduce the theoretical bonus pool applying a **downward discretionary adjustment** of ca. 8% overall.

Net Operating Profit (pre bonus) Group, m



Bonus Pool – 2015 distribution m, percent





HIGHLIGHTS OF 2015 PAYOUT CEO EVALUATION AND BONUS PAYOUT

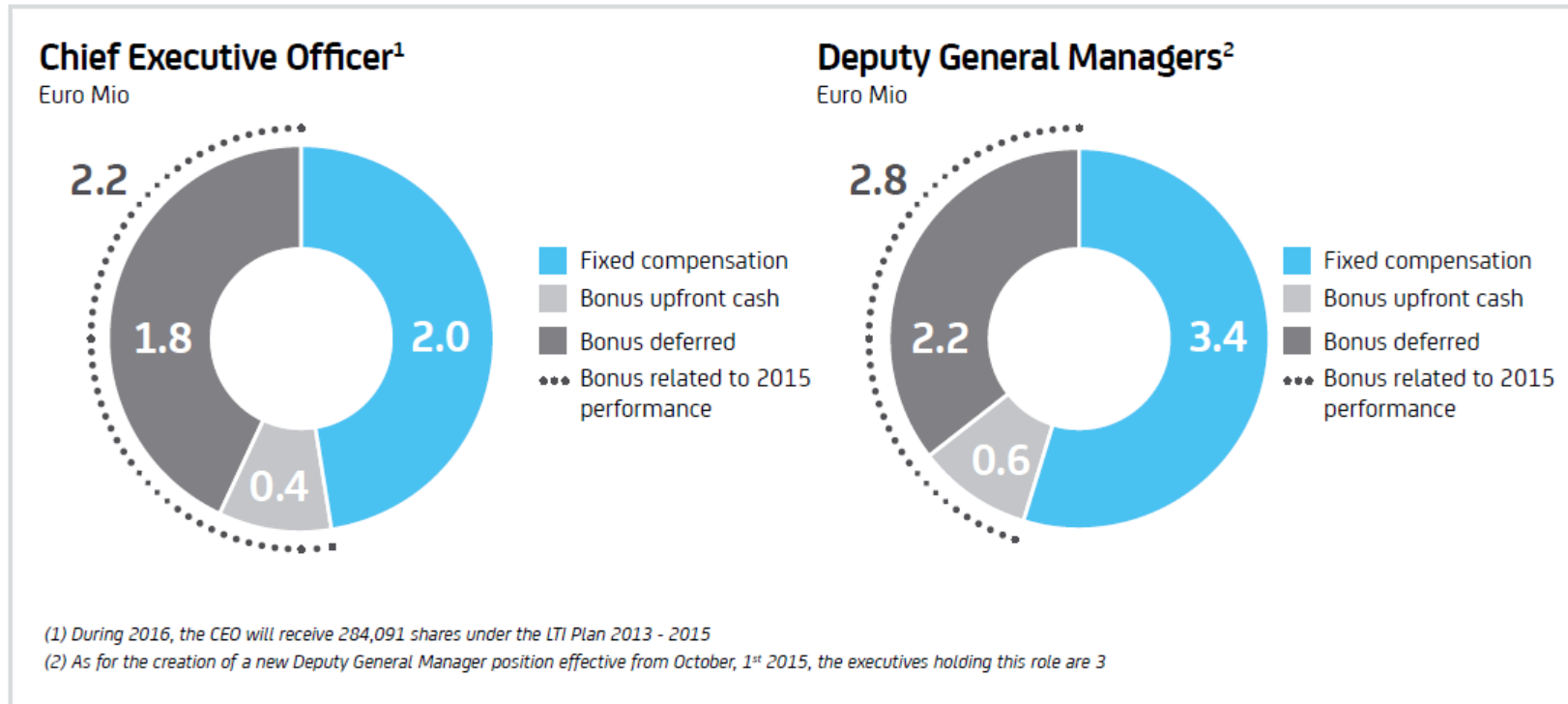
- The Board of Directors, upon the positive opinion of Remuneration Committee, assessed the **2015 Performance Screen of CEO as “Meets Expectations”** on the basis of the following elements:

	GOAL	RESULT	ASSESSMENT				
			Below	Almost meets	Meets	Exceeds	Greatly exceeds
1	Economic Profit (EVA) – vs budget	<i>Economic Profit</i> in line with budget (Budget: € -2.8 Bn; Actual: € -2.8 Bn)					
2	Risk Management Goal (EL % + Coverage Ratio ITA, DE, AU, CIB; Average PD of managerial portfolio CEE & Poland) - vs qualitative assessment based on CRO report	Group 2015 results evolved overall in line with RAF guidelines, with a consolidation of positive trend (vis-à-vis 2014) of a safe asset quality (increasing Coverage on Impaired Loans at 51.2% and Gross Impaired Loans Ratio down at 15.4%) and an improving capital position (CET1r Fully Loaded at 10.94% with 92 bps of capital generation in 2015). The Cost of Risk at Group level is equal to 86 bps (better than target at 92 bps). In addition, a safe liquidity position has been maintained with all the liquidity ratios well above the regulatory requirements.					
3	Common Equity Tier 1 ratio transitional - vs budget (%)	Target: 10%; Result: 10.59%					
4	Execution of Group strategic vision with focus on growth, capital reallocation and efficiency - vs qualitative assessment	Strategic Plan revised in 2015 to better reflect the macroeconomic environment characterized by sluggish growth and zero/negative rates (additional strategic and commercial initiatives to generate further benefits in terms of growth and efficiency). The Plan aims to build on the good results that have already been achieved in 2015 following implementation of the original plan. In particular: Growth: core revenues aligned to previous year despite macro scenario, growing of lending new business, resilience of deposits form customers confirmed; asset under management increased to 300bn, remarkable operating performance in CEE Countries and Market shares further increased, Group overall client base increased by 932k in the year; Capital reallocation: CET1 ratio FY at 10.59%; increase in regulatory capital (54 bps); non core segment reduction, capital light business growth; Efficiency: restructuring initiatives in western countries; restructuring plan for CBK Austria, re-commissioning activities proceeding.					
5	Stakeholder Value: Customer satisfaction (TRI*M external); People Engagement, Reputation - vs qualitative assessment based on ad hoc reports	Solid performance on customer satisfaction, reputation and people engagement with 2015 results in line or improved vs the respective targets in almost all the countries subject of the analysis. All main perimeters (Italy, Germany, Austria, Poland and 6 CEE countries) assessed as “meeting expectations” In particular: <ul style="list-style-type: none"> the Group People Engagement index is 77, well above the “meet” threshold of 61, Customer Satisfaction index: 5 out of 10 countries subject of the analysis exceeding expectations, all the other countries meet expectations Reputation: 8 out of 10 Countries subject of the analysis meet the expectations (overall in line both vs Peers and previous year) 					
6	Development of a strong and sustainable Group risk culture, ensuring a successful transition of Group's standings towards new European regulatory architecture - vs qualitative assessment	The overall assessment is positive, and in line with expectations. The results of the annual survey on risk culture show that 75% of colleagues believe that in the Group we have a common risk culture. Such outcome is broadly in line with previous year. The improvements have been registered on all dimensions of risk culture, in particular on <i>Governance</i> of risk processes and on communication.					



HIGHLIGHTS OF 2015 PAYOUT

TOP MANAGEMENT 2015 COMPENSATION LEVEL



TOP MANAGEMENT TOTAL COMPENSATION – OUR POLICY

- **No role allowance**
- Maximum ratio between variable and fixed compensation of 2:1, according to CRD IV for business functions
- Remuneration level set considering the **benchmarking analysis** provided by an external independent advisor to guarantee the **competitiveness of the overall compensation package**
- As policy target, total compensation is **set on the market median as reference**, with the possibility to increase (e.g. market upper quartile)



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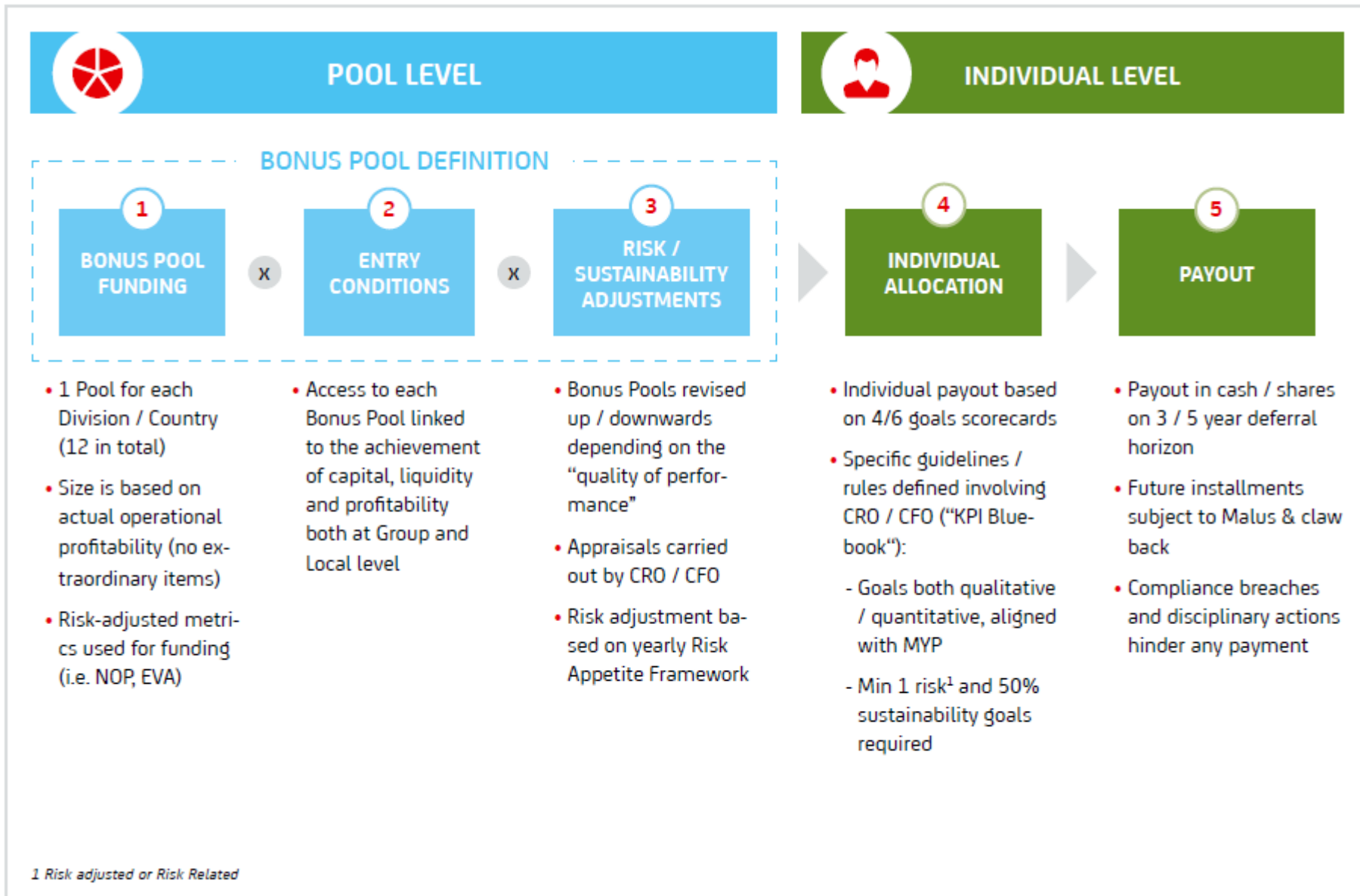
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**4. HIGHLIGHTS OF 2016 GROUP INCENTIVE SYSTEM
(YEARLY BONUS)**



HIGHLIGHTS OF 2016 GROUP INCENTIVE SYSTEM (YEARLY BONUS) /1





HIGHLIGHTS OF 2016 GROUP INCENTIVE SYSTEM (YEARLY BONUS) /2

AWARD LEVEL

- Ratio between variable and fixed compensation of **max. 200% for Business Functions**. For the staff of the **Company Control Functions** is expected that **fixed remuneration is predominant component** of total remuneration

BENEFICIARIES

- ca. 1,100 resources** identified as **identified staff** as the result of the assessment process based on EBA criteria, corresponding to ca. 0.8% of the Group employee population

OVERALL STRUCTURE

- 12 bonus pools**: 1 pool for each Country/Division
- Bonus funding based on the profitability** of each Country/Division

LINK WITH RISK & PROFITABILITY

- After the funding phase, the achievement of specific **Entry Conditions defined at Group and Local level** is verified:

ENTRY CONDITIONS DEFINITION	
GROUP	LOCAL
<ul style="list-style-type: none"> - NOP adjusted ≥ 0 and - Net Profit ≥ 0 and - Common Equity Tier 1 Ratio Transitional $\geq 10\%$ and - Liquidity Coverage Ratio $\geq 75\%$ 	<ul style="list-style-type: none"> - NOP adjusted ≥ 0 and - Net Profit ≥ 0

- Size of each bonus pool adjusted** upwards or downwards based on the evaluation **risk and economic sustainability** (respect of yearly "Risk Appetite Framework" and of financial sustainability KPIs)
- CRO, CFO steer the adjustment process



HIGHLIGHTS OF 2016 GROUP INCENTIVE SYSTEM (YEARLY BONUS) /3

INDIVIDUAL EVALUATION

- **Evaluation of a scorecard including 4 (max 6) individual goals** based on a "KPI Bluebook" of certified indicators (Financial & Economics, Risk, Controls, Operational & Clients)
- **A reference value**, defined for each specific position and adjusted according to the actual available bonus pool, represents the starting point for the individual bonus allocation
- **Individual bonus allocated managerially** based on available bonus pool, individual performance and the above mentioned reference value

All goals carry the same weight for evaluation purposes.

CEO

#	GOAL	PERIMETER	TARGET	LINK WITH 5 FUNDAMENTALS
1	Economic Profit (EVA)	Group	delta y/y delta on budget	People & Business Development
2	Stay within Risk Appetite Framework	Group	RAF target	Risk Management
3	Common Equity Tier 1 ratio fully loaded	Group	budget	Execution & Discipline
4	GOP / RWA	Group	budget	People & Business Development
5	Stakeholder Value: • Customer satisfaction (TRI™ external) • People Engagement • Reputation	Group	qualitative assessment based on ad hoc reports	Client Obsession
6	Execution of strategic plan	Group	qualitative assessment with a specific focus on: • Group simplification (inorganic actions) • Group revenues increase & cost reduction initiatives • Digital Agenda	Execution & Discipline
7	Tone from the top on conduct and compliance culture, also coherent with FSB guidelines	Group	qualitative assessment, considering: • initiatives aimed at promoting staff integrity towards internal/external conduct principles • the overall status of findings or proceedings in place (internal or external) considering the trend, type, severity and the timely completion of the related remediation actions	Risk Management

Note: Figures for reference target indicates as "vs budget" should be meant as the yearly target ambition that will be approved by the Board time by time.

2016 GOALS FOR THE CEO



HIGHLIGHTS OF 2016 GROUP INCENTIVE SYSTEM (YEARLY BONUS) /4

PAYOUT

- **60% of overall outcome is deferred** for top Identified Staff
- **50% equity and 50% cash**
- Deferral period to 5 years after upfront; 2 additional years retention on upfront shares; 1 year on deferred shares (as for Bank of Italy requirements)
- Application of **malus & clawback** to each installment

CASHFLOW VIEW

2016 BONUS PAYOUT STRUCTURE

	2016	2017	2018	2019	2020	2021	2022
EVP & ABOVE & OTHER IDENTIFIED STAFF WITH BONUS >=500K	PERFORMANCE YEAR	20% UPFRONT CASH	10% DEFERRED CASH	20% UPFRONT SHARES	10% DEFERRED SHARES	10% DEFERRED SHARES	20% DEFERRED CASH 10% DEFERRED SHARES
SVP & OTHER IDENTIFIED STAFF WITH BONUS <500K	PERFORMANCE YEAR	30% UPFRONT CASH	10% DEFERRED CASH	30% UPFRONT SHARES	10% DEFERRED CASH 10% DEFERRED SHARES	10% DEFERRED SHARES	



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