

One Bank
One
 UniCredit



2017 Group Compensation Policy Side Presentation

UniCredit, Group Human Capital
March 2017

Welcome to
 **UniCredit**

Objective of the document

- The purpose of this presentation is to provide an **overview of the key elements of the UniCredit 2017 Compensation Policy**, specifically on:
 - **2016 payout**
 - **New Compensation Framework**, as announced by the CEO Jean Pierre Mustier at a Capital Markets Day in London on Dec 13, 2016, during the presentation of our 2016-2019 Strategic Plan *Transform 2019* to analysts and investors

- As such, these slides will always favor immediacy and simplicity to exhaustiveness and details. For full disclosure please refer to the 2017 Group Compensation Policy itself.



- **2016 Highlights**

- New Compensation Framework



Remuneration Committee

Role and composition

- The Remuneration Committee performs an integral role in **supporting Board of Directors oversight of Group Compensation Policy and Incentive Plans 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**

CHAIRMAN



Alessandro Caltagirone
*Non-executive
Independent*

MEMBERS



Henryka Bochniarz
*Non-executive
Independent*



Giuseppe Vita
*Non-executive
Non-independent¹*



Alexander Wolfgring
*Non-executive
Independent*



Anthony Wyand
*Non-executive
Non-independent²*

Average
participation to
Committee
meetings: 90%

1. Non independent (according to the Corporate Governance Code) because he holds contemporaneously the role of Chairman of the Board of Directors
2. Non independent (according to the Corporate Governance Code) because of the length of the service with the Company as non-executive director



Remuneration Committee Activities in 2016

- In 2016, the Remuneration Committee met 10 times. The key activities included the followings:

	Approved by		2016							
	BoD	AGM	JAN	FEB	MAR	JUN	AUG	OCT	NOV	DEC
STRATEGY, POLICY AND GOVERNANCE										
2016 Group Compensation Policy	✓	✓			✓					
Ratio between variable and fixed compensation for Company Control Functions								✓		
Compensation framework review	✓								✓	✓
2016 AGM – follow up								✓		
ANNUAL COMPENSATION REVIEW										
2015 Group Incentive System and previous incentive plans	✓		✓	✓	✓			✓		
2016 Group Incentive System	✓	✓	✓					✓		
2016 Goal setting for the new Top Management	✓							✓		
2017 Goal setting and compensation of CEO, GM and Heads of Company Control Functions	✓					✓				✓
2016 Employee Share Ownership Plan	✓	✓			✓					
Competitive assessment of total compensation package for Top Management									✓	
COMPENSATION DECISIONS										
Severance including local adaptations to the Group Policy			✓		✓			✓		
CEO and DGM-COO employment resolution	✓					✓	✓			
Compensation review for Executives					✓			✓		✓
RISK AND REGULATORY										
Follow up on regulators' inspections			✓		✓					



2016 Group Incentive System

Rules application

- Based on the different scenarios deriving from entry conditions assessment, **2016 Group Incentive System's rules have been applied:**

	Entry conditions	Achievement	Rules application
Group	NET PROFIT \geq 0 €/mnl	✗ - € 11.790 mnl	<div style="background-color: red; color: white; padding: 5px; display: inline-block; border-radius: 10px;">Zero factor</div> <ul style="list-style-type: none"> • Zero bonus for Executives & Identified Staff • 50% pool reduction for Identified Staff of Control Functions • Retention Pool for 4% of Identified Staff total population • 40% reduction applied to Not Identified Staff
	CET 1 RATIO TRANS \geq 10%	✓*	
	NOP ADJUSTED \geq 0 €/mnl	✗ - € 5.858 mnl	
	LIQUIDITY COVERAGE RATIO >75%	✓	
Each bonus pool	ALL above "ENTRY CONDITIONS"...	✓	<div style="background-color: yellow; padding: 5px; display: inline-block; border-radius: 10px;">Partially open (50%)</div> <ul style="list-style-type: none"> • 50% reduction • CRO/CFO multipliers (from 50% to 125%) • BoD discretion +5% of the total for Not Identified Staff (excluding CIB)
	...excepting for Commercial Banking Italy, Commercial Banking Austria, Corporate Center Global (Holding), UBIS and GBS Holding	✗	

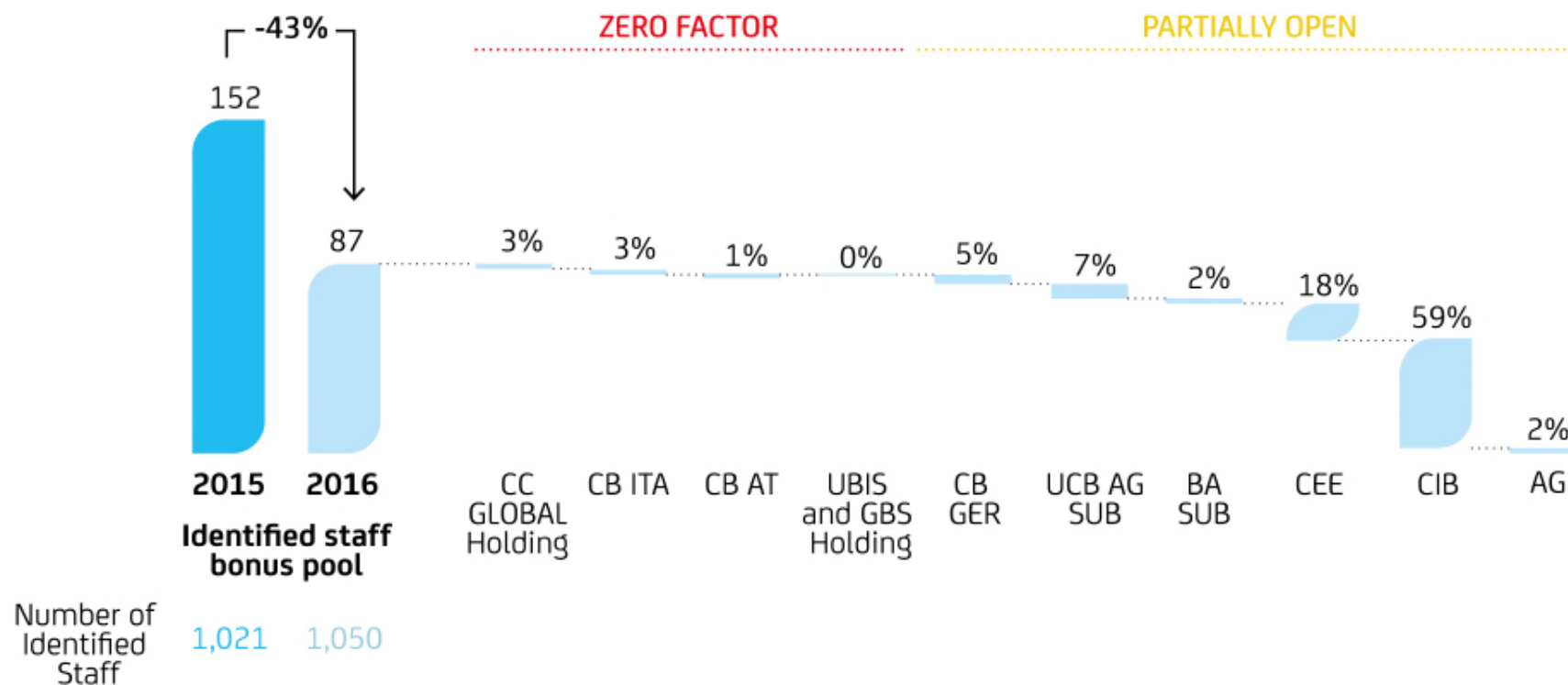
* In the Financial Report 2016 CET 1 Ratio Transitional is reported as equal to 8.15%. Considering capital increase effects, the value at December 2016 would be equal to 11.49%. CET 1 fully loaded would be equal to 11.15%



2016 Group Incentive System

Bonus Pool distribution

- With reference to the year 2016, the UniCredit Board of Directors, upon the proposals of the Remuneration Committee, defined the following distribution of the bonus **for the Identified Staff population, ca. 1,050 resources¹**:

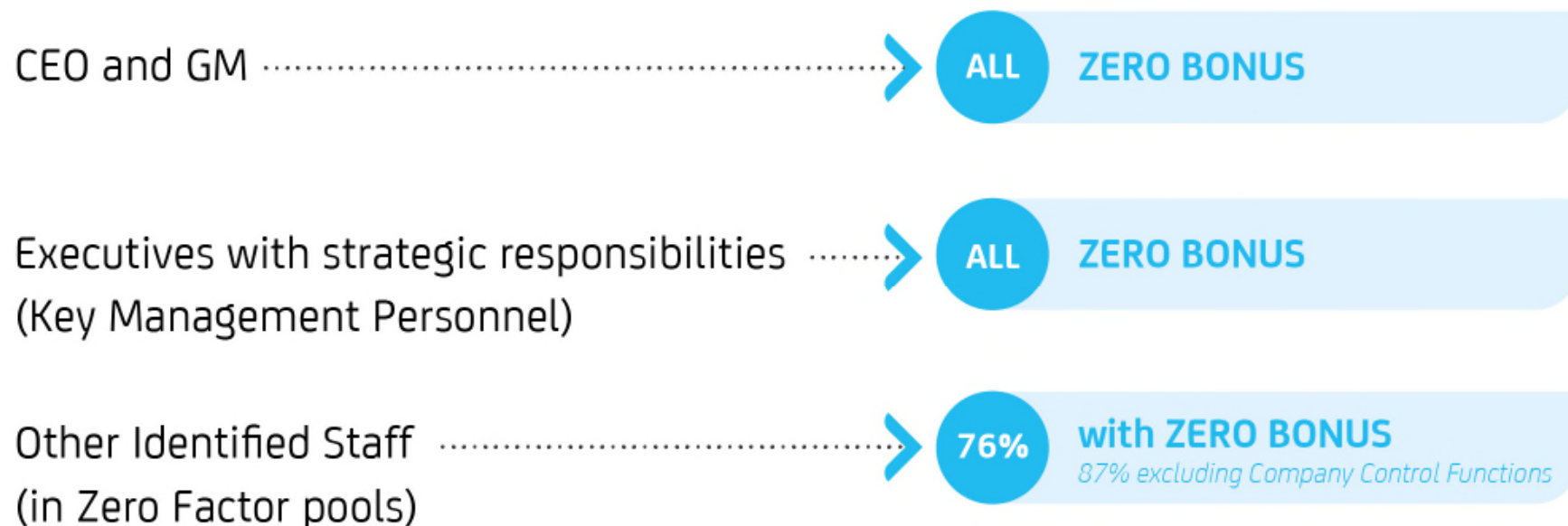


7 1. Information reflects the classification under IFRS5 of Pioneer and Bank Pekao, accounted as «Held for Sale» from December 2016



2016 Group Incentive System Payout

- The Board of Directors, **in consideration of the group's results for the year 2016**, while expressing sincere appreciation for the work done by the management in relation with the in-depth strategic review that brought the presentation and the launch of the 2016-2019 Strategic Plan *Transform 2019*, **resolved not to proceed with any bonus payment for 2016 for the CEO, General Manager¹ and other Executives with strategic responsibilities²**, independently from individual performance assessment



Additionally, the Board of Directors has also resolved to reduce by 50% all outstanding deferrals for all Identified Staff under "Zero Factor" and to cancel the 2015-2018 LTI Plan³

1. The CEO received a fixed remuneration of € 2 m, including director's remuneration. It has been paid pro rata for the period July 12, 2016 - December 31, 2016 for the amount of € 0.95 m, the General Manager received a total fixed remuneration of € 1.2 m, of which € 0.4 m pro-rated, referring to General Manager position

2. Two incumbents received 2016 variable compensation related the positions covered before September 1, 2016 for a total amount of € 0.3 m

3. With reference to the LTI Plan 2015-2018 and the award foreseen for 2017, the BoD on March 13, 2017, exercised its downward discretion and decided not to proceed with any payments. In addition, it was decided to cancel the second award foreseen for 2019, considering the launch of the new LTI Plan linked to *Transform 2019*. The LTI Plan 2015-2018 is therefore closed



-
- 2016 Highlights

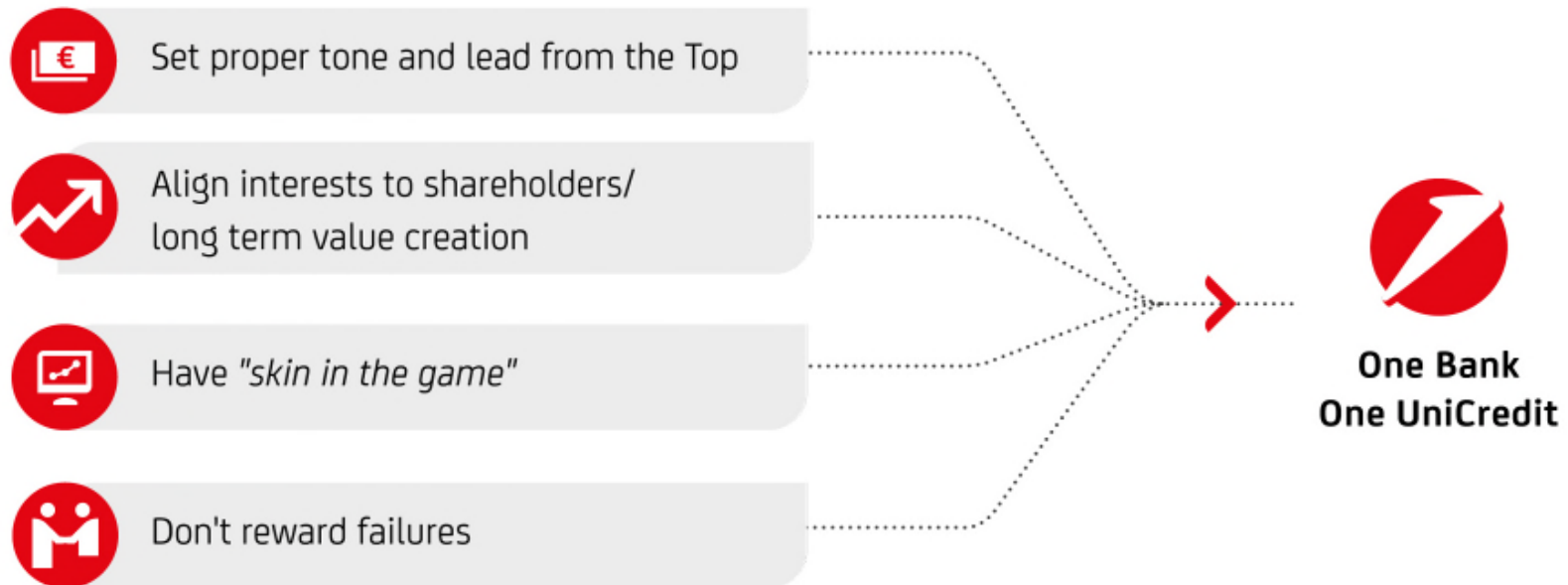
- **New Compensation Framework**



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Compensation strategy





- In order to incentivize all our colleagues to focus on the implementation of **our Transform 2019 Plan**, meet our shareholders' expectations and above all, further improve our customer focus, **we are presenting a revised compensation strategy**
- **The compensation framework review is based on 4 principles:**



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Compensation strategy

- The compensation framework review leads to **substantial changes to current Company policies** as well as **specific actions for the CEO**:

	General policy	CEO's specific undertakings
 Target pay	<ul style="list-style-type: none"> General repositioning around median of the market (from above median) 	<ul style="list-style-type: none"> 40% reduction of own fixed pay, to €1.2m
 Senior management remuneration	<ul style="list-style-type: none"> Executive Management Committee incentives aligned to Group long term value creation, via new equity LTIP Progressively softer cascading embracing the Top ~120 Group positions 	<ul style="list-style-type: none"> No yearly bonus for 2016 nor plan horizon Performance-based LTIP as the only form of variable remuneration till 2019
 Shareholding requirements	<ul style="list-style-type: none"> Share ownership guidelines extended to Top ~120 Group positions 	<ul style="list-style-type: none"> Investment of €2m in UniCredit shares
 Termination policy	<ul style="list-style-type: none"> Reduction of overall severance limits to 24 months¹ (inclusive of notice) 	<ul style="list-style-type: none"> "Zero severance" arrangement in case of separation from the Bank

1. Of total compensation defined as the average of the last 3 years fixed salary plus "cash-in"/vested variable installments





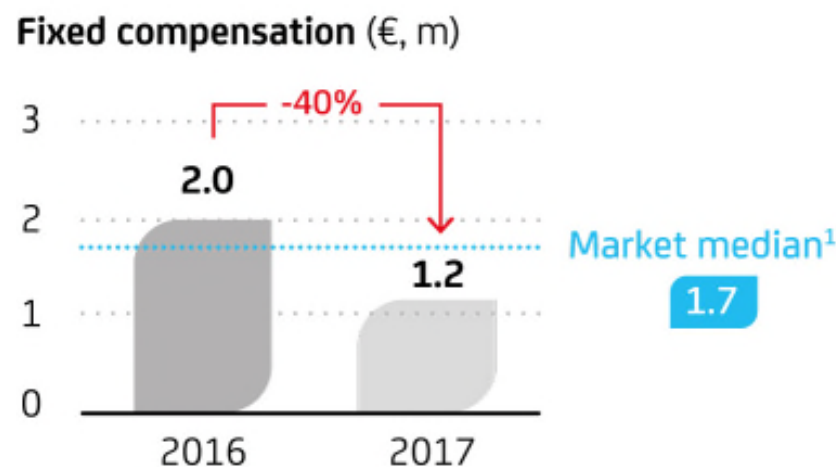
Target Pay

Policy target and CEO's remuneration

- As a policy target, Identified Staff's fixed compensation **is set on the market median as reference**, with individual positioning being defined on the basis of specific performance, potential and people strategy decisions, as well as UniCredit's performance over time

Policy
change

- In line with the announcement made at the Capital Markets Day, **the fixed remuneration of the CEO has been lowered by 40%** from January 2017



*In the same spirit and consistently with the decision taken by the CEO, **the Board Chairman asked to apply the same 40% reduction to his remuneration**, which is effective from January 2017 as well*

The three Vice Chairmen² have also asked the Board to reduce their special remuneration pursuant to art. 2389 3rd par. of the Italian Civil Code by 40%, effective from January 2017





Senior Management remuneration

Reshaping the variable compensation

SECTION III
ANNUAL COMPENSATION
REPORT
PARAGRAPH 5.1, 5.3, 5.5

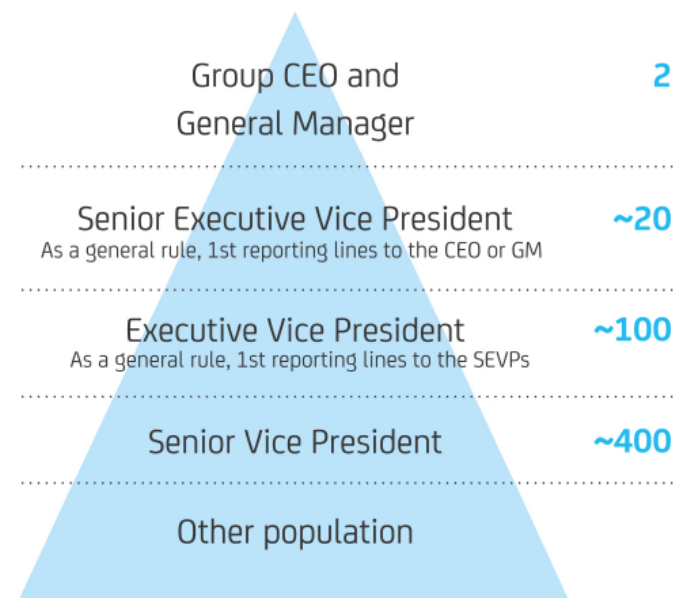
- The new framework of senior management variable compensation envisages a **greater shift towards the new LTI Plan**, and, as a consequence, a **higher use of shares**

Recipients	Form of incentivation		Use of shares
	New LTI Plan (100% shares)	Annual GIS ² (50% shares & 50% cash)	
Group CEO+GM	100%	0%	100% <i>(from 66%)</i>
SEVP ¹	50%	50%	75% <i>(from 50%)</i>
EVP ¹	30%	70%	65% <i>(from 50%)</i>

LTI Plan beneficiaries include up to 200 other Key Players³

LTIP as only form of variable remuneration until 2019 for CEO and GM

Focus on our Global Job Model



LTIP dilution ~0.31% (front loaded in the 1st year) · **GIS 2017 ~0.72%**
Overall dilution (including previous Plans) ~1.75%

13

- Considering the application, from 2016, of the new variable ratio between the variable and the fixed components of remuneration (which cannot exceed the limit of one third for Italian Identified Staff within Control Functions, while the fixed remuneration is expected to be the predominant component for the Control Functions of other geographies), Executives belonging to Company Control Functions will not participate to the LTIP
- Group Incentive System
- Out of the SEVP and EVP clusters





Senior Management remuneration

LTI Plan features

SECTION III
ANNUAL COMPENSATION
REPORT
PARAGRAPH 5.5

Performance period

- **3 years** (aligned to UniCredit Strategic Plan *Transform 2019*)

Deferral period

- **3 years years deferral (Regulatory)** subject to "malus" conditions¹
- **Additional compulsory holding years** (after which the shares become free to sell, only if the share ownership guidelines are respected)

Performance awards

- **One award** based on:
 - gateway conditions on **profitability, liquidity, capital and risk position**
 - achievement of a **set of performance conditions focused on Group targets, aligned to the Strategic Plan *Transform 2019***

Vehicles and vesting

- **100% UniCredit Shares**
- **Cliff vesting** of the award **for CEO; ratable vesting for GM, SEVPs, EVPs and other Key Players²**
- Claw-back clause foreseen for 4 years after shares vesting

**7 years
market
exposure
for the CEO**

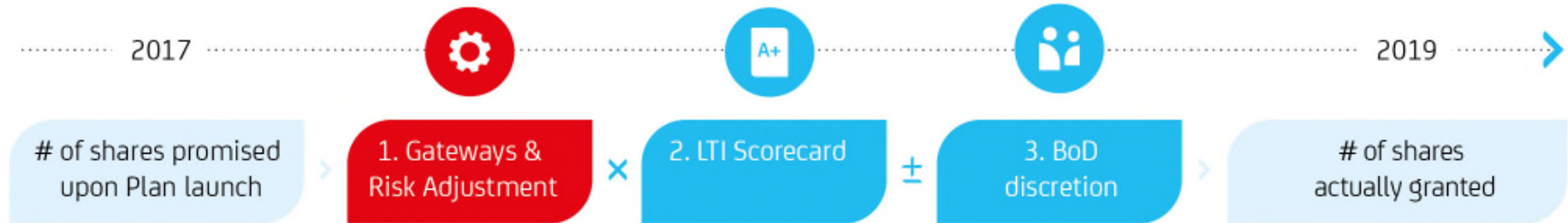




Senior Management remuneration

LTI Plan overall assessment

SECTION III
ANNUAL COMPENSATION
REPORT
PARAGRAPH 5.5



1. Gateways & Risk Adjustment

- **Minimum conditions of Company assets, capital and liquidity to be met over performance and deferral period.** If thresholds are not met, incentive can be reduced till zeroing
- **Qualitative assessment of RAF yearly performed,** based on CRO dashboard. Progressive reduction of incentive until zeroing in case of material breaches of RAF across the period

3. BoD discretion

- **Overall qualitative assessment based** on absolute and relative measures (e.g. TSR), other *Transform 2019* KPIs, market context and compensation trends
- **Max + 20% additional payout, unlimited downward discretionality (no upward discretionality for CEO)**
- Assessment outcome limited to 100% of the LTIP initial grant

*Evidence of misconduct or gross negligence by the beneficiary during the performance, deferral period and claw-back period (e.g. breach of code of conduct and other internal rules, especially concerning risks) will trigger **malus & claw-back conditions***





Senior Management remuneration

LTI Plan scorecard

SECTION III
ANNUAL COMPENSATION
REPORT
PARAGRAPH 5.5

	KPI	Perimeter	Weight	Target <i>Transform 2019</i>	Assessment criteria	
					Treshold	Payout
Value creation	ROAC	Group	50%	9%	≥ 9%	100%
					8% - 9%	0% - 100% ²
					< 8%	0%
Industrial sustainability	Cost/ Income ratio	Group	25%	52%	≤ 52%	100%
					55% - 52%	0% - 100% ²
					> 55%	0%
Risk	NET ¹ NPE	Group	25%	20.2 bn	≤ 20.2 bn	100%
					22 - 20.2 bn	0% - 100% ²
					> 22 bn	0%



Simple, straightforward and fully disclosed

16 1. Net Non Performing Exposure (after provisions)
2. Linear progression (eg. 50% payout for ROAC at 8.5%)



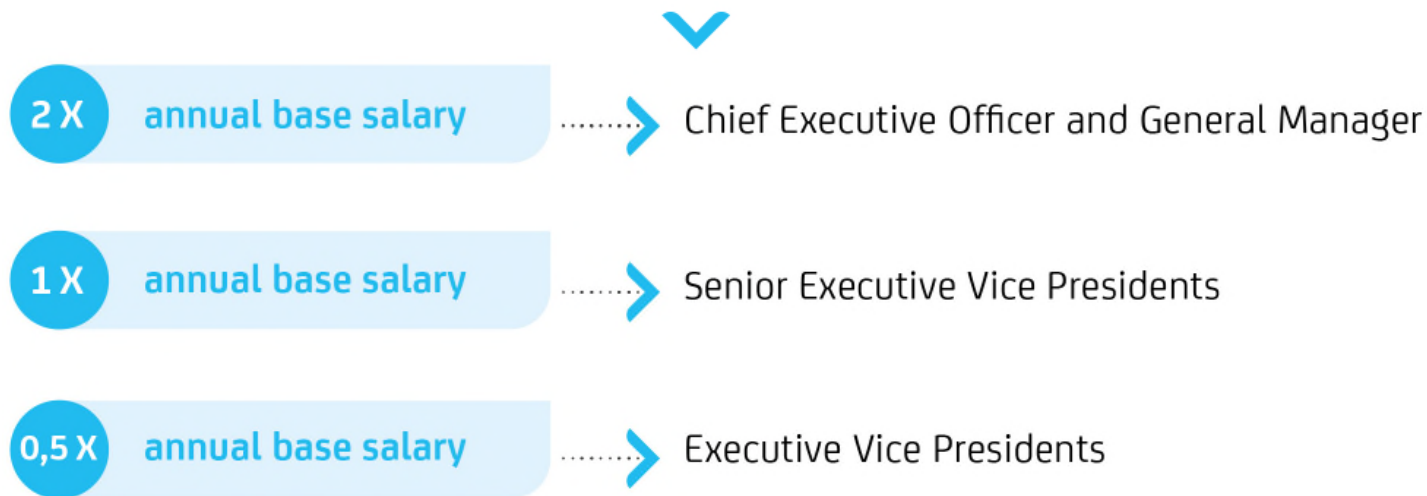


Shareholding requirements

Share ownership guidelines extension

SECTION II
GROUP COMPENSATION
POLICY
PARAGRAPH 3.5

- Aiming at aligning managerial interests to those of shareholders', **share ownership guidelines set the minimum level of shares that shall be withheld in each Executive's portfolio**
- To strengthen the common alignment to the achievement of the *Transform 2019* Plan targets **share ownership guidelines have been extended to SEVPs and EVPs¹**, taking into consideration the roles that are currently covered
- **The requirement has to be met, as a rule, in 5 years from first appointment** and shall be maintained **until the role is held**
- The achievement shall be accomplished **through a linear pro rata approach over five years period, granting a minimum amount of shares every year**, considering potential vested plans



1. Considering the application, from 2016, of the new variable ratio between the variable and the fixed components of remuneration (which cannot exceed the limit of one third for Italian Identified Staff within Control Functions, while the fixed remuneration is expected to be the predominant component for the Control Functions of other geographies), share ownership guidelines will not be applied to Company Control Functions





Termination Policy

New features

SECTION II
GROUP COMPENSATION
POLICY
PARAGRAPH 3.3

	From...	To...
Notice	<ul style="list-style-type: none">• Defined according to national contracts/laws	<ul style="list-style-type: none">• Defined according to national contracts/laws• In any case not exceeding 12 months of total compensation
Severance	<ul style="list-style-type: none">• Respecting the maximum limits imposed by national contracts/regulations• In their absence, maxing at 24 months of total compensation	<ul style="list-style-type: none">• Max 18 months of total compensation• In any case the overall termination package cannot exceed 24 months of total compensation, inclusive of notice
Payout structure	<ul style="list-style-type: none">• Confirmed - Including deferral scheme, payment in cash and shares and the applicability of malus and claw-back clauses	
Local adaptation	<p>Limits could be adjusted:</p> <ul style="list-style-type: none">• upwards if forced by the Law/national labor market¹• downwards if provided by the Law/National Labor Agreements or if not commercial to the market	

18 1. Or in presence of specific contracts (e.g. «tenured» employees in Austria)



2017 Group Incentive System

2016 features generally confirmed

SECTION III
ANNUAL COMPENSATION
REPORT
PARAGRAPH 5.3

BONUS POOL LEVEL

Bonus pool definition

1. Bonus pool funding

- 1 Pool for each Division / Country (8¹ in total)
- Size is based on actual operational profitability (no extraordinary items)
- Risk-adjusted metrics used for funding (i.e. NOP, EVA)

2. Entry conditions

- Access to each bonus pool linked to the achievement of capital, liquidity and profitability both at group and Local level

3. Risk/sustainability adjustment

- Bonus pools revised up / downwards depending on the "quality of performance"
- Appraisals carried out by CRO
- Risk adjustment based on yearly RAF

Simplified methodology.
CFO presenting to RemCo relation on each pool results

INDIVIDUAL LEVEL

~ 900 Identified Staff

4. Individual allocation

- Individual payout based on 5/8 goals scorecards
- Specific guidelines rules ("KPI Bluebook") defined involving relevant Functions (CRO, CFO, Compliance, Group Stakeholder Insight, etc.)
- Goals both qualitative /quantitative aligned with the Strategic Plan
- Min 1 risk² and 50% sustainability goals required

5. Payout

- Payout in cash / shares on 3 / 5 year deferral horizon
- Future installments subject to malus & claw-back
- Compliance breaches and disciplinary actions hinder any payment

Transform 2019
KPIs and goal "Tone from the Top" on compliance and risk culture cascaded down from SEVPs³ to levels below



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