

One Bank, One UniCredit.

8. Group Termination Payments Policy

Director's Report

2019

Ordinary and Extraordinary Shareholders' Meeting

Group Termination Payments Policy

Dear Shareholders,

We have called this Ordinary Meeting to request your approval of an update of the Group Termination Payments Policy (hereinafter also “the Severance Policy”), set out in the attached document - which forms an integral part of the present Report - in compliance with the regulatory provisions at Title IV, Chapter 2, “Remuneration and Incentive Policies and Practices” of Bank of Italy’s Circular 285 (“Regulatory Provisions for Banks”), which prescribe that the Shareholders’ Meeting approves, inter alia, *“the criteria for the determination of the amounts to be possibly awarded in case of early termination of the employment or office, thereby including the limits of such amounts in terms of years of fixed compensation and the maximum amount stemming from their application”*.

We recall that on April 20th, 2017 the Shareholders’ Meeting in Ordinary Session approved the Severance Policy currently into force which – inter alia – foresees that severance payments, including notice, do not exceed 24 months of total remuneration, that the portion additional to notice (the so-called “severance”) in any case does not exceed 18 months of remuneration and that their absolute maximum limit is € 7.2 million. These provisions had been revised restrictively compared to the past in order to ensure alignment with market practices and with the conservative approach to remuneration that had accompanied the launch of the Transform 2019 strategic plan, presented during the Capital Markets Day held in London on December 13th, 2016.

On October 23rd, 2018, the Bank of Italy published the 25th update of Circular 285, in order to incorporate into Italian regulations the provisions contained in the Guidelines on sound remuneration policies, issued in June 2016 by the European Banking Authority. Some of the changes introduced have an impact on the Group Termination Payments Policy, the most significant of which are:

1. classification of all amounts agreed upon or in view of the termination of employment (irrespective of their technical form and the context in which they are established) as variable remuneration, as such subject to the relevant regulatory provisions
2. exclusion from the categorisation as variable remuneration of:
 - a. deferred statutory remuneration (e.g. *Trattamento Fine Rapporto* - TFR) under general labour law
 - b. indemnity in lieu of notice, within the limits provided for by law or by collective labour agreements
3. obligation for the Bank to assess and document, at the time of their granting, the consistency of the termination payments for identified staff (the so-called “Golden Parachutes”) with:
 - a. the performance, net of risks, and behaviours at individual level
 - b. the bank’s performance, net of risks, and capital and liquidity levels
4. the inclusion of Golden Parachutes in the maximum limit of variable remuneration for the last year, with the exception of the amounts agreed and paid:
 - (i) on the basis of a non-competition agreement, for the part which, for each year of the duration of the contract, does not exceed the last year of fixed remuneration
 - (ii) in the context of an agreement between the bank and the staff, wherever and however reached, for the resolution of an ongoing or potential dispute relating to the resolution of the employment relationship, if calculated on the basis of a precise predefined formula, as set out in the Policy
5. possibility of excluding from deferred payment and application of malus clauses the consideration for a non-competition agreement up to an amount corresponding to one year’s fixed remuneration.

The provision relating to the consideration of the Golden Parachutes within the maximum limit of the variable remuneration of the last year is, in particular, especially critical. Under the national collective bargaining agreement for Italian executives, the severance pay additional to notice could - in some cases - reach up to 29 months' total remuneration, while the regulatory limit for variable remuneration would vary - depending on whether it is a control or business function - between 4 and 24 months of fixed remuneration. In this context, the impossibility of reaching at least the minimum contractual levels could lead to a significant increase in labour disputes, with an increase in costs and risks for the Bank.

In order to overcome these criticalities, it is therefore proposed to update the Severance Policy by providing:

- the confirmation of all the main terms of the current Policy and, in particular, that termination payments, including notice, do not exceed 24 months of total remuneration, that the portion additional to notice does not in any case exceed 18 months of remuneration and that the absolute maximum limit for severance pay remains at € 7.2 million, without the possibility of exceptions;
- the introduction of a predefined formula for calculating the allowance additional to the indemnity in lieu of notice (the so called "Severance") providing - without prejudice to the abovementioned limits of 24 and 18 months - for one month of total compensation per year of service, with a minimum of five and a maximum of 18 years of service. A corrective factor is then applied to the basic amount thus defined, determined by algebraically adding up a series of individual factors determined on the basis of consideration of the following elements: performance, risks, behaviour, social impacts, pension requirements, minimum contractual levels, additional commitments, specific circumstances and company interest. The overall adjustment factor thus determined may reduce the severance to zero or increase it to up to a maximum of +50%;
- within the general limit of 24 months of remuneration, the possibility of entering into pacts limiting the employee's activities after employment termination, providing for a consideration of up to one year's fixed remuneration for each year of duration;
- the exclusion in principle of the provision of discretionary pension benefits;
- the exclusion from the scope of application of the Severance Policy of the redundancy incentives defined for all employees as part of restructuring plans;
- a series of minor interventions aimed at bringing the semantics of the Policy into line with the latest regulatory provisions.

Resolutions submitted to the Ordinary Shareholders' Meeting

Dear Shareholders,

If you agree with the above proposal, you are invited to adopt the following resolution:

"The Ordinary Shareholders' Meeting of UniCredit S.p.A., having heard the Directors' proposal,

RESOLVES

to approve the Group Termination Payments Policy as outlined in the attached document, which forms an integral part of the present Report, in order to define the general principles, the limits, the criteria and the modalities for the payment of the amounts to be possibly awarded in case of early termination of the employment or office."