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**RATIO BETWEEN VARIABLE AND FIXED COMPENSATION  
2014 GROUP COMPENSATION POLICY  
2014 GROUP INCENTIVE SYSTEM  
PLAN “LET’S SHARE FOR 2015”**

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**Shareholders' meeting**

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Rome, May 13<sup>th</sup> 2014



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# RATIO BETWEEN VARIABLE AND FIXED COMPENSATION FRAMEWORK

## REGULATORY FRAMEWORK

- The Capital Requirements Directive 2013/36/EU (known as CRD IV) provides for application of the cap **on variable compensation for Identified Staff**
- The **bonus cap is set at one time fixed compensation**, with the possibility to increase it to 2-times fixed compensation, if allowed by local regulators and subject to shareholders approval with a qualified majority
- **Bank of Italy has not yet issued the Regulation** in order to implement the updates introduced by the CRDIV but it published the consultation paper on December 13<sup>th</sup> 2013, providing the Shareholders' Meeting the faculty to set a ratio between variable and fixed remuneration higher than 1:1 (but in any case the variable part of the remuneration cannot exceed twice the fixed). In addition, it provides for the cap on variable remuneration for all the employees and not only for Identified Staff as does CRDIV
- It has been decided to propose to the Shareholders' meeting to set the ratio between variable and fixed compensation at 2:1, or, if lower, at the maximum level permitted by law or regulation in force. This principle is also applied in the Group Compensation Policy with reference to the geographical areas in which the Group operates (whether or not the same are part of the European Community)

# RATIO BETWEEN VARIABLE AND FIXED COMPENSATION RATIONAL

## UNICREDIT: EUROPEAN BANK CHARACTERIZED BY:

- ✓ presence in **17 countries** with approximately 70% of employees outside of Italy
  - ✓ articulated international network spread over **50 markets**
  - ✓ **significant portion of the revenues** generated by the **CIB** and **Asset Management** divisions (i.e. approx. 30% of Group's Gross Operating Profit comes from CIB division)
  - ✓ **revenues** generated in **CEE region** (i.e. approx. 30% of Group's Gross Operating Profit) **up by 2.9%** year on year, thanks in particular to the performances of **Russia, Hungary and Romania**
- In this **diverse geographical and business context** where the variable component of remuneration has a significant importance because UniCredit competes both in the markets where its '**peers**' have **expressly declared the adoption of the 2:1** ratio as well as in **countries** where **there is no regulation** thus leaving the remuneration aspects deregulated (i.e. Russia, U.S.)

In order to **maintain competitiveness** in all markets in which it operates, to **strengthen the link** between **pay and performance**, and to confirm its ability for '**attraction**' and '**retention**', UniCredit decided to **request the Shareholders' meeting approval** of raising the **ratio between fixed and variable remuneration to 2:1**

## RATIO BETWEEN VARIABLE AND FIXED COMPENSATION IMPACTS

- The adoption of a ratio of 2:1 between variable and fixed compensation would have **no implications on bank's capacity to continue to respect all prudential rules**, in particular capital requirements. This point is confirmed by the decrease in the total maximum compensation of the Executives, following this year's compensation review that considered a different balance between the fixed and variable components
- The **overall impact of fixed salary review for Group Executives**, as per cap application, amounts to 3.2%, in particular:
    - no fixed compensation review has been considered for **Top Management** as a direct consequence of the cap proposed; however, a further benchmarking will be carried out during 2014 in order to assess the correct alignment with the market practices
    - limited number of salary review interventions are planned for **Identified Staff** based on a case by case approach
    - no significant changes are expected in the remuneration of **non-Executive population**

# RATIO BETWEEN VARIABLE AND FIXED COMPENSATION DISTRIBUTION OF EMPLOYEES AND IDENTIFIED STAFF

## DISTRIBUTION OF EMPLOYEES BASED ON UNICREDIT STRUCTURE

| Segment      | Employees<br>("fte") |
|--------------|----------------------|
| CB Italy     | 38.753               |
| CB Germany   | 13.902               |
| CB Austria   | 6.949                |
| CEE          | 47.251               |
| Poland       | 18.152               |
| CIB          | 4.146                |
| AM           | 1.994                |
| GBS          | 13.459               |
| AG           | 1.486                |
| CC Global    | 2.452                |
| <b>TOTAL</b> | <b>148.544</b>       |

- The total number of Identified Staff is estimated at **approx. 900 (0.6% of the total population)**, the majority of which are in the CIB and CC Global
- The **proposal for the approval of the Shareholders' meeting** is to **adopt** the ratio of **2:1** between variable and fixed compensation **for the overall employee population**, except:
  - For the **company control functions the proposed approach is more conservative**, providing for a 1:1 bonus cap, or anyhow a stringent approach if introduced by Bank of Italy.
  - In Asset Management considering the presence of industry-specific regulation that does not provide for a cap on variable compensation, **only the employees recognized as identified staff will be subject to the cap.**



- RATIO BETWEEN VARIABLE AND FIXED COMPENSATION

- **2014 GROUP COMPENSATION POLICY**

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## 2014 GROUP COMPENSATION POLICY

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### WHAT IS IT?

- The **Group Compensation Policy** defines the principles & standards which UniCredit reflects in its design, implementation and monitoring of compensation practices through a performance-oriented approach, market awareness, alignment with business strategy and shareholders' long term interests.

### KEY PILLARS OF GROUP COMPENSATION POLICY

- Clear and transparent **governance**
- **Compliance** with regulatory requirements and principles of good business conduct
- Continuous monitoring of **market trends and practices**
- **Sustainable pay** for sustainable performance
- **Motivation and retention** of all employees, with particular focus on talents



# 2014 GROUP COMPENSATION POLICY

## MAIN UPDATES VS. LAST YEAR



- Updates brought to 2014 Policy with respect to 2013 are **in line with the latest regulatory requirements** and also take into account the input received from **main international investors** and **proxy advisors** during the meetings "dialogue with investors"

### MAIN UPDATES

- Definition of **Identified Staff** population, following the updated regulatory indications (total number approx. **900**)
- Introduction of **2:1 cap on variable compensation**
- Complete presentation of the new **2014 Group Incentive System**, based on the bonus pool approach\*



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## 2014 GROUP INCENTIVE SYSTEM FRAMEWORK

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### KEY FEATURES/ CHANGES

- **2014 Group Incentive System** provides for a different approach from the past for determining and allocating variable compensation introducing a "bonus pool" approach
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### WHY?

- The System assures a more direct link **between bonus decision and company results** and in particular links bonuses to Country/Divisions results, in addition to the Group ones
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### LINK AMONG PROFITABILITY , RISK AND REWARD

- In the new approach, the **link between profitability, risk and reward is even stronger** linking directly the bonus pools with Company results (at Group and Country/Division level), the cost of capital and relevant Group risk profile as defined in the Group Risk Appetite framework (RAF)

# 2014 GROUP INCENTIVE SYSTEM

## RISK METRICS AND PERFORMANCE CONDITIONS



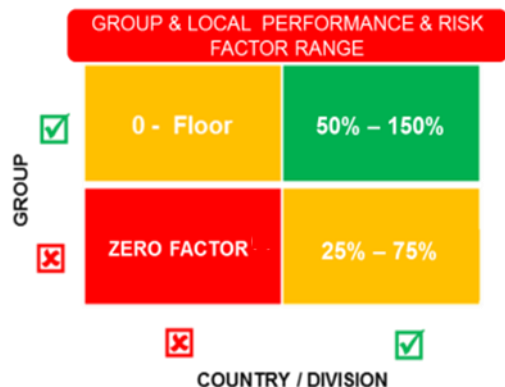
- Specific indicators are set **at Group and local level** as "**Entry conditions**", evaluating annual results in terms of profitability, capital and liquidity

### 2014 GROUP INCENTIVE SYSTEM – ENTRY CONDITIONS

| Group                        | Local                       |
|------------------------------|-----------------------------|
| NOP adjusted $\geq 0$ , and  | NOP adjusted $\geq 0$ , and |
| Net Profit $\geq 0$ , and    | Net Profit $\geq 0$         |
| Core Tier 1 $\geq 9\%$ , and |                             |
| Cash Horizon $\geq 90$ days  |                             |



- In order to align the System to regulatory requirements, shareholders' expectations and to assure the link between bonuses and performance, in case the 'Entry Conditions' are not met at Group and Country/Division level, **Zero Factor will apply**



- In case the Entry Conditions are met both at Group and Country/Division level, the **bonus pools will be adjusted** based on the evaluation of performance and risk factors aligned with the Group Risk Appetite framework (RAF)

# 2014 GROUP INCENTIVE SYSTEM BENEFICIARIES AND BONUS STRUCTURE

## BENEFICIARIES

- The **total number** of 2014 Group Incentive System beneficiaries is estimated at **ca. 900**, number in line with the 'extended population' defined in 2013 (among which are *Identified Staff and other selected roles*) to whom in 2013 regulatory requirements applied

## BONUS STRUCTURE

- 2014 Group Incentive System is composed of a balanced structure of **cash and shares, upfront and deferred, over a 6 year period**

|   | 2014 BONUS STRUCTURE |        |        |        |        |        |
|---|----------------------|--------|--------|--------|--------|--------|
|   | YEAR 1               | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 | YEAR 6 |
|   | CASH                 | CASH   | CASH   | SHARES | SHARES | SHARES |
| <i>EVP &amp; above &amp; other identified staff with bonus &gt;500k</i> | 20%                  | 15%    | 15%    | 20%    | 15%    | 15%    |
| <i>SVP &amp; other identified staff with bonus &lt;500k</i>             | 30%                  | 10%    | 10%    | 30%    | 10%    | 10%    |



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# PLAN “LET’S SHARE FOR 2015” FRAMEWORK

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## WHAT IS IT?

- Let’s Share - UniCredit Group Employee Share Ownership Plan – offers an opportunity to Group employees to **purchase UniCredit shares at favorable conditions**

## WHY?

- To strengthen the employees **sense of belonging to the Group and their motivation to achieve company goals**

## PLAN FEATURES

- **25% discount in free shares** restricted from selling for 1 year
- **Free shares (or rights to shares) allocated immediately** together with the first purchase
- **Max investment capped at €6.000**
- **No diluting impact** on share capital as shares are ordinary UniCredit shares bought on the market

# PLAN “LET’S SHARE FOR 2015”

## PLAN FEATURES

### 2 ELECTION WINDOWS

*27 Nov 2014 - 15 Jan 2015 **and/or**  
27 May 2015 - 15 Jul 2015*

- Employees **choose the overall amount** that they want to **invest**

### ENROLMENT

*Jan 2015 - Dec 2015*

- Participants **buy shares**
- Participants receive **discount in the form of free shares** that will be allocated **in the beginning of the enrolment period** and restricted for **1 year**

### HOLDING PERIOD

*Jan 2015 - Jan 2016 **and/or**  
Jul 2015 - Jul 2016*

- Participants can **sell the purchased shares at any moment**, but by doing so they will lose the free shares in respect of the number of shares sold



## RESOLUTIONS

### POINTS 5 AND 6 OF THE ORDINARY MEETING AGENDA

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Shareholders are invited to approve the following resolutions:

- *to approve the ratio between variable and fixed compensation for the specified population **at 2:1**, or, if lower, at the maximum level permitted by law or regulation in force. The effectiveness of the current resolution is to be considered subject to terms and conditions defined in the new Regulation on remuneration and incentive policies and practices that will be issued by Bank of Italy to introduce the Directive 2013/36/EU (known as CRD IV)*
- *to approve the **Group Compensation Policy** (Remuneration Report included) as contained in the attached document which forms an integral part of the present Report, in order to define the principles and standards which UniCredit shall apply and reflect in its design, implementation and monitoring of compensation practices across the entire organization.”*

(continues)

# RESOLUTIONS

## POINTS 7 AND 8 OF THE ORDINARY MEETING AGENDA

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- *to adopt the **2014 Group Incentive System** which provides for the allocation of an incentive in cash and/or UniCredit free ordinary shares, to be performed by May 2020, to selected UniCredit Group employees in the manner and terms described above as well as to confer to the Chairman and to the Chief Executive Officer, also separately, every opportune power of attorney to implement the present resolution and the documents which represent part of it*
  
- *to adopt the “**UniCredit Group Employee Share Ownership Plan 2014**” (**Plan Let’s Share for 2015**) aiming at offering to all employees of the Group the possibility to invest in UniCredit shares at favorable conditions, as well as to give to the Chairman and/or to the Chief Executive Officer, respectively, any relevant power of attorney to enact today’s resolution and to make all possible changes and integrations (not changing substantially the content of the resolution) which should be necessary to carry out what was resolved*