

# 2015 GROUP COMPENSATION POLICY

## SIDE PRESENTATION

13 April 2015

**UniCredit – Human Resources Strategy**



Life is full of ups and downs.  
We're there for both.





## OBJECTIVE OF THE DOCUMENT

- The purpose of this presentation is to provide an **overview of the key elements of the UniCredit 2015 Compensation policy**, specifically on:
  - 2014 payout
  - major changes to 2014 system for 2015 cycle
- As such these slides will always **favor immediacy and simplicity** to exhaustiveness and details
  - For full disclosure please refer to the 2015 Group Compensation Policy itself.



## 1. HIGHLIGHTS OF 2014 PAYOUT

2. HIGHLIGHTS OF 2015 GROUP INCENTIVE SYSTEM  
(YEARLY BONUS)

3. HIGHLIGHTS OF LONG TERM INCENTIVE PLAN FOR THE  
TOP MANAGEMENT

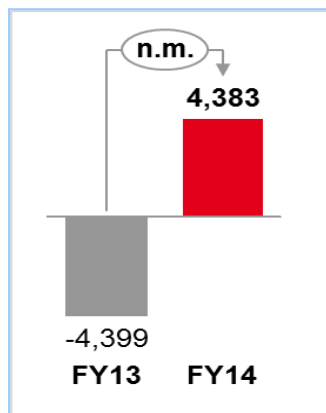
4. GROUP POLICY ON TERMINATION PAYMENTS



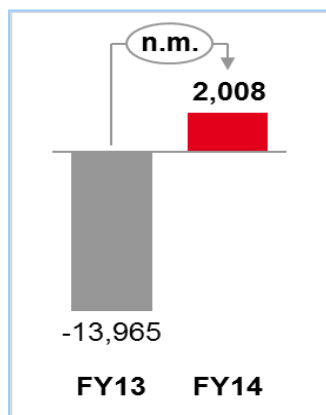
# HIGHLIGHTS OF 2014 PAYOUT BONUS POOL DISTRIBUTION

Section I - Executive Summary  
Section III - Paragraph 5.2

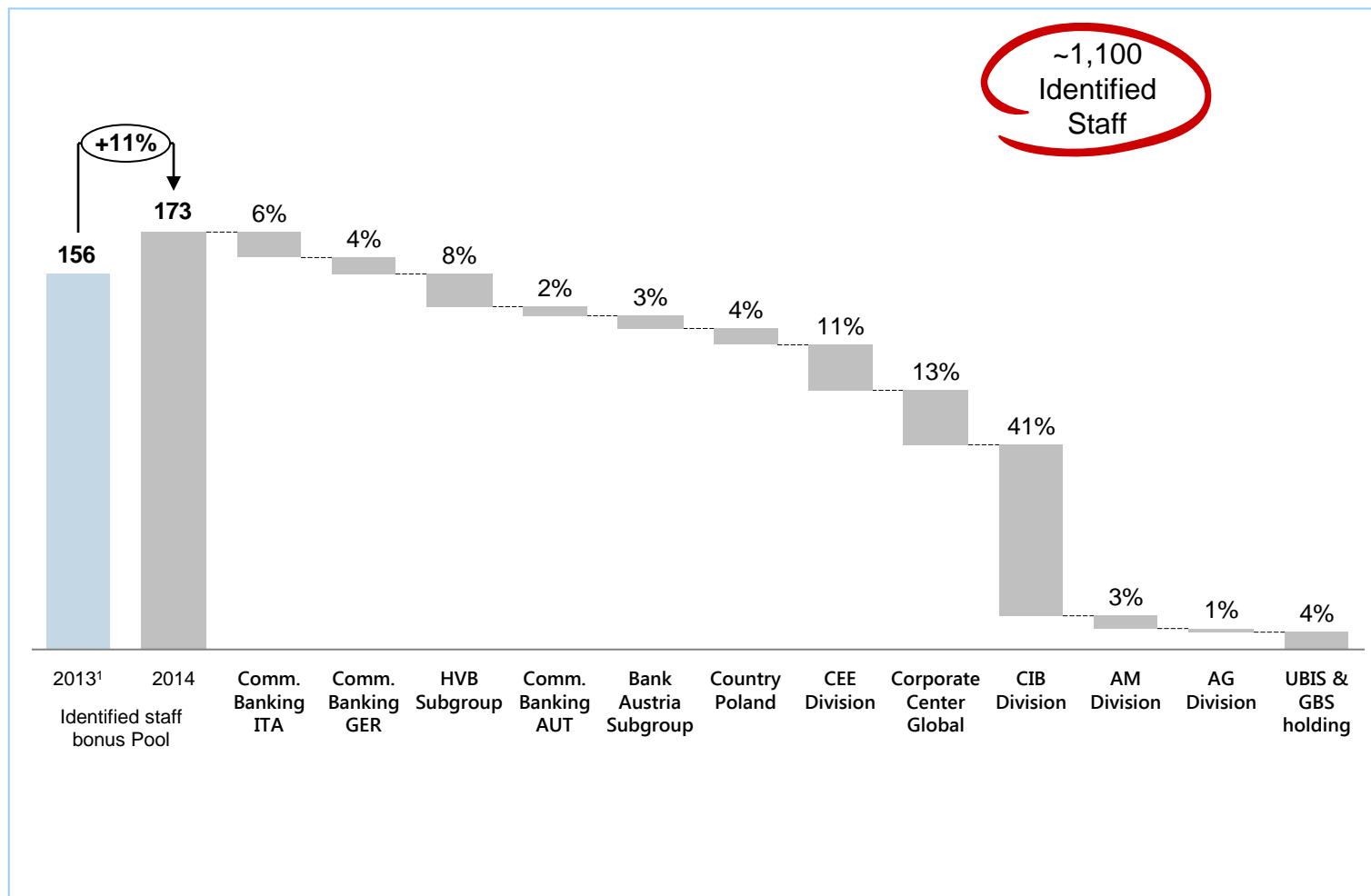
## Net Operating Profit Group, m



## Net Profit Group, m



## Bonus Pool – 2014 distribution m, percent



1. pro-forma – based on 2014 Identified staff population



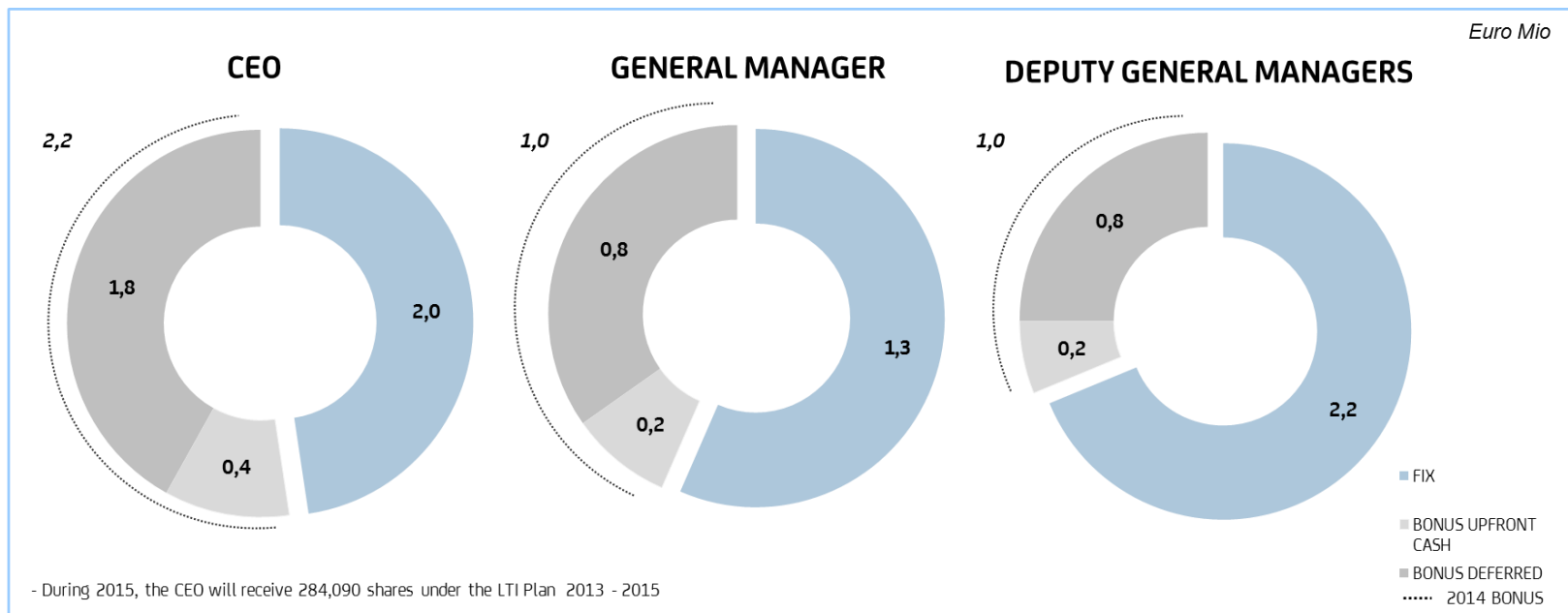
# HIGHLIGHTS OF 2014 PAYOUT CEO EVALUATION AND BONUS PAYOUT

	Goal	Result	Assessment				
			Below	Almost meets	Meets	Exceeds	Greatly exceeds
1	<b>Economic Profit (EVA) within risk appetite framework - delta y/y</b>	8.825 € Mio					
2	<b>Risk Management Goal (EL % + Coverage Ratio ITA, DE, AU, CIB; Average PD of managerial portfolio CEE &amp; Poland) - vs qualitative assessment based on CRO report</b>	Overall Group risk profiles and asset quality have developed in line with the Risk Appetite Framework approved by the Board of Directors, despite the still challenging macroeconomic environment					
3	<b>Net Operating Profit (GOP after net LLP) - vs budget (€ mio)</b>	4.383 € Mio					
4	<b>Common Equity Tier 1 ratio - vs budget (%)</b>	CET1 Ratio Transitional a 10,41% e Fully Loaded a 10,02%					
5	<b>Execution of Group strategic vision with focus on growth, capital reallocation and efficiency - vs qualitative assessment</b>	New MYP defined and launched; very good results in term of: - growth (core revenues, deposits, asset under management, market share in CEE) - capital reallocation (CET1, implementation of several capital optimization initiatives, downsize of non-core segment, growth of CEE loans, Growth of capital light business) - efficiency: several projects carried out in 2014 following the implementation of strategic plan					
6	<b>Progress on commercial lending activities on the basis of risk and credit methodologies - vs qualitative assessment</b>	Overall achieved, also considering the persisting difficult macro-economic environment					
7	<b>Stakeholder Value: Customer satisfaction (TRI*M external); People Engagement, Reputation - vs qualitative assessment based on ad hoc reports</b>	Solid performance on reputation, customer satisfaction and people engagement, with 2014 results in line or improved vs the respective targets in almost all the countries subject of the analysis					
8	<b>Development of a strong and sustainable Group risk culture - vs qualitative assessment</b>	Consistency and reiteration of the message and of concrete behaviors has lead thanks to CEO support to a genuine improvement in terms of Group Risk Culture. Recent survey highlighting 80% of colleagues (vs 28% 3 years ago) sharing the feeling of strong common risk culture.					



# HIGHLIGHTS OF 2014 PAYOUT

## TOP MANAGEMENT 2014 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
- 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 **between market median and upper quartile**



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# HIGHLIGHTS OF 2015 GROUP INCENTIVE SYSTEM (YEARLY BONUS) /1

Section III – Paragraph 5.3 & 5.4

## AWARD LEVEL

- Ratio between variable and fixed compensation of **max. 200% for Business Functions. 100% for Company Control Functions<sup>1</sup>**.

## BENEFICIARIES

- ca. 1,100 resources** identified as **identified staff** as the result of the assessment process based on EBA criteria, corresponding to ca. 0.7% 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, it is verified the achievement of specific **Entry Conditions defined at Group and Local level**:

ENTRY CONDITIONS DEFINITION	
GROUP	LOCAL
<ul style="list-style-type: none"><li>- NOP adjusted <math>\geq 0</math> and</li><li>- Net Profit <math>\geq 0</math> and</li><li>- CET 1 ratio transitional <math>\geq 7\%</math> and</li><li>- Cash Horizon <math>\geq 90</math>days</li></ul>	<ul style="list-style-type: none"><li>- NOP adjusted <math>\geq 0</math> and</li><li>- Net Profit <math>\geq 0</math></li></ul>

- 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

<sup>1</sup> The maximum ratio of 33% between VAR/FIX for Company Control Functions requested by the regulations will be applied starting from July 2016, consistently with the transitional period provided by Bank of Italy





# HIGHLIGHTS OF 2015 GROUP INCENTIVE SYSTEM (YEARLY BONUS) /2

Section III – Paragraph 5.3 & 5.4

## 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
- 2015 goals for CEO and General Manager:

2015 GOALS – CHIEF EXECUTIVE OFFICER	
1	Economic Profit (EVA) – Group – vs budget
2	Risk Management Goal (EL % + Coverage Ratio ITA, DE, AU, CIB; Average PD of managerial portfolio CEE & Poland) – Group – vs qualitative assessment based on CRO report
3	Common Equity Tier 1 ratio – Group – vs budget
4	Execution of Group strategic vision with focus on growth, capital reallocation and efficiency – Group – vs qualitative assessment
5	Stakeholder Value: Customer satisfaction (TRI*M external); People Engagement, Reputation – Group – vs qualitative assessment based on ad hoc report
6	Development of a strong and sustainable Group risk culture, ensuring a successful transition of Group's standings towards new European regulatory architecture (e.g. ECB) – Group – vs qualitative assessment

2015 GOALS – GENERAL MANAGER	
1	Economic Profit (EVA) – Group – vs budget
2	Risk Management Goal (EL % + Coverage Ratio ITA, DE, AU, CIB; Average PD of managerial portfolio CEE & Poland) – Group – vs qualitative assessment based on CRO report
3	Strongly develop and implement the Group Digital & Payments Agenda – Group – vs qualitative assessment
4	Drive transition of the Group towards international clients management – Group – vs qualitative assessment
5	Ensure a successful transition of Group's standings towards new European regulatory architecture, including progress of ICS – Group – vs qualitative assessment
6	Loans and Deposit Market Share – GM area of responsibility – vs budget

## 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 BankIT requirements)
- Application of **malus & clawback** to each installment

		2015	2016	2017	2018	2019	2020	2021
CASHFLOW VIEW	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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- A specific Long Term Incentive Plan for Top Management has been designed to:
  - further align to **long term / shareholder interests**
  - create the right incentives for management and reward actions done in the **medium term interest of the bank**
  - **address a retention risk** that we have as for three consecutive years of zero bonus
- The overall structure of the LTI plan and the relevant performance conditions are aligned to **UniCredit Strategic Plan**
- The performance conditions take into consideration **financial, sustainability KPI** and a **qualitative assessment of the Board** on the Top Management activities evaluated in the relevant performance period
- The amount to be reserved to the LTI system **will fall into the cap** provided by the regulations.



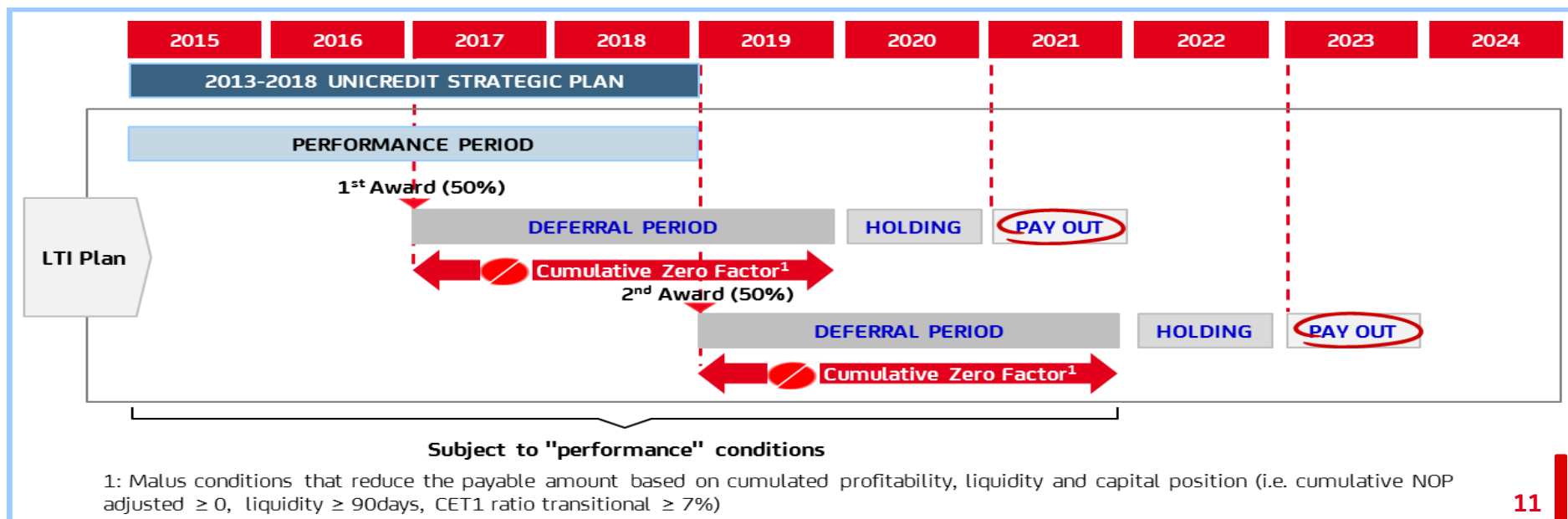
# HIGHLIGHTS OF LONG TERM INCENTIVE PLAN

## MAIN FEATURES AND PLAN STRUCTURE

Section III – Paragraph 5.5

### GROUP LTI PLAN: MAIN FEATURES

PARTICIPANTS	CEO, General Manager and Deputy General Managers
MAX AMOUNT AT STAKE	1/3 of max. variable compensation
PERFORMANCE PERIOD	4 years (aligned to UniCredit Strategic Plan)
PERFORMANCE AWARDS	2 possible awards based on the achievement level of set performance conditions – 1st award at the end of 2016 – 2nd award at the end of 2018.
VEHICLES AND VESTING	– Performance Phantom Share (price determined at Plan launch; any variation of share price will directly impact cash payout) – Cliff vesting for each award (no intermediate instalments)
DEFERRAL PERIOD (AFTER EACH AWARD)	– 3 years deferral subject to a cumulative "malus" conditions (cumulative zero factor) – 1 additional compulsory holding year (i.e. sales restriction)





# HIGHLIGHTS OF LONG TERM INCENTIVE PLAN PERFORMANCE CONDITIONS

## Section III – Paragraph 5.5

#	KPI CATEGORY	ACHIEVEMENT OF SPECIFIC OBJECTIVES OVER TWO PERIOD 2015-2016 AND 2015-2018	DESCRIPTION	REFERENCE TARGET AND MEASUREMENT <sup>1</sup>	WEIGHT
1	FINANCIAL	<ul style="list-style-type: none"> <li>▪ <b>ROAC%</b><sup>2</sup> of Core Business</li> <li>▪ <b>Gross Loans</b> Reduction of non Core Business</li> </ul>	<p>Key indicators of Multi-year Strategic Plan:</p> <ul style="list-style-type: none"> <li>- ROAC %: calculated as the average of the "Return on allocated capital" compared with the average value of the same indicator included in the Strategic Plan</li> <li>- Gross Loans: reduction of non-core business "gross loans" vs. the values of the Strategic Plan</li> </ul>	<p>≥ MYP 120% =120%</p> <p>80% &lt;MYP&lt; 120% =100%</p> <p>50% &lt; MYP &lt; 80% =50%</p> <p>MYP &lt; 50% = 0%</p>	50%
2	SUSTAINABILITY	<ul style="list-style-type: none"> <li>▪ <b>Common Equity Tier 1</b></li> <li>▪ <b>External Customer Satisfaction</b></li> <li>▪ <b>Succession Planning index</b></li> </ul>	<p>Expected verification of the respect of CET1 average values with reference to the same value stated in the Strategic Plan</p> <p>Analysis of customer satisfaction to verify the levels of service toward our customers. The calculation of the Customer Satisfaction Index is done according to the TRIM methodology developed by TNS research institute, who also calculate directly the index in all Countries assessed. The assessment of the External customer satisfaction is conducted by TNS and local research providers.</p> <p>Coverage ratio on ca. 120 Top Management positions to assure a sustainable leadership pipeline. The ratio is yearly communicated to the Board of Directors. The analysis follows a structured process based on Executive Development Plan, which represents the Group Management Review process that allows to plan, manage and develop the Group Leadership pipeline</p>	<p>≥ MYP targets</p> <p>≥ 2014</p> <p>≥ 90% over the whole performance period</p>	30%
3	OVERARCHING BOARD OF DIRECTORS ASSESSMENT	<ul style="list-style-type: none"> <li>▪ <b>Qualitative assessment of alignment between Bank and Stakeholders' interests</b></li> </ul>	<p>Board members evaluation of participants retention risk and effective contribution, over the whole performance period, to the Strategic Plan pillars:</p> <ul style="list-style-type: none"> <li>• transformation of commercial banking in WE countries;</li> <li>• investing in growth businesses;</li> <li>• leveraging global platform</li> </ul> <p>In particular, the evaluation would take into account the actual achievement of the quantitative KPI referred to the 3 pillars of the Strategic Plan.</p>		20%

**Total Scorecard outcome anyway capped at 100%**

1: Measurement will be performed using MYP target references or its recasting as approved by the BoD.

2: Return on Allocated Capital



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## GROUP POLICY ON TERMINATION PAYMENTS UNICREDIT APPROACH

Section II – Paragraph 5.1

### Group Policy on Termination Payments

- Severance payments take into consideration the **long-term performance**, in terms of shareholder added-value, **do not reward failures or abuses**.
- As a general principle, in UniCredit Group severances **do not exceed the limits** set by Law/ National Labor **Agreements locally applicable**.
- In case of lack of such regulations, any severance beyond the notice period shall not generally exceed **24 months of total compensation** (policy unchanged vs 2014)
  - *For further information, please refer to the Group Policy on Termination Payments, submitted to the approval of 2015 Annual General Meeting*



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