

5. 2018 Group Incentive System Directors' Report

Ordinary and Extraordinary Shareholders' Meeting

Milan, April 12, 2018

2018 Group Incentive System

Dear Shareholders,

We have called this ordinary meeting to request your approval of 2018 Group Incentive System, providing for the grant of an incentive in cash and/or UniCredit free ordinary shares, to selected beneficiaries of Group employees, over a multi-year period according to the modalities described below subject to the achievement of specific performance conditions.

This proposal has been formulated in compliance with the provisions of section 114-bis of Decree 58 dated February 24 1998, and in accordance with the provisions set forth by Consob with reference to incentive plans based on financial instruments assigned to corporate officers, employees and collaborators; for this purpose, a document describing the details of the incentive systems has been prepared pursuant to Section 84-bis of the Consob Regulation no. 11971/99 and subsequent amendments, and has been made available to the public under the terms of law and reference is made to detailed description of the incentive system described in this report.

This proposal is in line with Group Compensation Policy and considering the indications issued by Bank of Italy on remuneration policies and practices, and the direction set by the European Directive 2013/36/UE (CRD IV) and by EBA (European Banking Authority) guidelines. With this regards, it should be highlighted that UniCredit, in compliance with applicable regulations, confirms - for the personnel belonging to the business functions - the adoption of a maximum ratio between variable and fixed remuneration of 2:1. For the rest of the staff it is usually adopted a maximum ratio between the components of remuneration equal to 1:1, except for the staff of the Company Control Functions¹, for which it is expected that the fixed remuneration is a predominant component of total remuneration and incentive mechanisms are consistent with the assigned tasks as well as independent of results from areas under their control. For these functions, in particular, the maximum weight of the variable component will take into account the differences between national rules and regulations in application of Directives 2013/36/EU in the various countries in which the Group operates, in order to ensure equal operating conditions in the market and the ability to attract and retain individuals with professionalism and capacity adapted to the needs of the Group.

2018 GROUP INCENTIVE SYSTEM

GOALS

The 2018 Group Incentive System (the “2018 System”) aims to incentive, motivate and retain Group beneficiaries, in compliance with national and international regulatory requirements with the aim to define – in the interest of all stakeholders – incentive systems aligned with long term company strategies and goals, linked to Group results, adjusted in order to consider all risks, in coherence with capital and liquidity levels needed to cover the activities in place and, in any case, able to avoid misleading incentives that could drive excessive risk taking for the bank and the system in its whole.

BENEFICIARIES

The potential beneficiaries of the 2018 System, as provided by the criteria issued by Commission Delegated Regulation (EU) No 604/2014 of March 4th, 2014 - are:

¹ Internal Audit, Risk Management, Compliance and Human Resources. Human Resources is considered a Control Function for what concern remuneration and compensation policies, upon Bank of Italy Circular 285-VII update

- UniCredit Chief Executive Officer (CEO) and General Manager (GM), Senior Executive Vice Presidents (SEVP), Executive Vice Presidents (EVP), Senior Vice Presidents (SVP), Board members of relevant and identified Group Legal Entities;
- Employees of the Group with total remuneration greater than 500,000 in 2017;
- Employees included within 0.3% of staff with the highest remuneration at Group level;
- Employees whose remuneration is within the remuneration bracket of senior management and other risk takers at Group level;
- Other selected roles of the Group (defined also during possible future hiring processes).

The total estimated number of beneficiaries is ca. 1,100 based on population identified in the last years.

ELEMENTS OF 2018 SYSTEM

(a) 2018 System provides for the same approach adopted in the previous years (based on the “bonus pool approach”) for determining variable remuneration to be paid in 2019. The link between profitability, risk and reward is assured by linking directly bonus pools with company results – at Group and local level – cost of capital and risk profiles relevant for the Group as stated in the Group Risk Appetite Framework.

(b) Bonus pools will be defined based on Country/Division and Group performance and assigned to employees according to individual performance.

(c) The 2018 System aims to incentive, retain and motivate beneficiaries in alignment with the national and international regulatory requirements providing for:

- allocation of a variable incentive based on defined bonus pool, individual performance evaluation, internal benchmark for specific roles/markets and bonus cap as set by the Ordinary Shareholder’s meeting;
- definition of a balanced structure of upfront (done at the moment of performance evaluation) and deferred payments, in cash and in shares;
- distributions of share payments with share retention periods (a retention period on upfront shares of 2 years and of 1 year for deferred shares);
- risk adjusted metrics in order to guarantee long-term sustainability with respect to company’s financial position and to ensure compliance with regulatory expectations.

(d) Malus condition (“Zero Factor”) applies in case specific thresholds (profitability, capital & liquidity) are not met at both local and Group levels. In particular, the Bonus Pool of 2018 will be zeroed, while previous systems deferrals could be reduced from 50% to 100% of their value, based on final effective results and dashboard assessments done by the Chief Risk Officer function. Individual performance appraisal is based on specific goals, linked to the UniCredit 5 Fundamentals of Competency Model: “Customers First”; “People Development”, “Cooperation and Synergies”, “Risk Management” and “Execution and Discipline”.

(e) Incentive payouts shall be made over a multi-year period subject to continuous employment at each date of payment and as follows:

- in 2019 the first installment of the overall incentive will be paid in cash and/or shares in absence of any individual values/compliance breach, considering also the gravity of any internal/external findings (i.e. Audit, Bank of Italy, Consob and/or analogous local authorities);
- the remainder of the overall incentive will be paid in several installments in cash and/or UniCredit free ordinary shares during the period
 - 2020-2024 for Executive Vice President and above and other identified staff with bonus equal or higher than Euro 500,000,
 - 2020-2023 for Senior Vice President and other identified staff with bonus lower than Euro 500,000.

Each further tranche will be subject to the application of the Zero Factor for the year of allocation and in absence of any individual/values compliance breach, considering also the gravity of any internal/external findings (i.e. Audit, Bank of Italy, Consob and/or analogous local authorities).

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(f) The final evaluation of Group sustainable performance parameters and risk-reward alignment will be reviewed by the Remuneration Committee and the Board of Directors of UniCredit.

(g) The percentages of payments in cash and shares² are defined considering beneficiary categories, as described in the following table:

	2019	2020	2021	2022	2023	2024
EVP & above & other identified staff with bonus $\geq 500k^3$	20% cash	10% cash	20% shares	10% shares	10% shares	20% cash + 10% shares
SVP & other identified staff with bonus <500k	30% cash	10% cash	30% shares	10% cash + 10% shares	10% shares	-

(h) In coherence with the previous years, it is provided the introduction of a specific minimum threshold below which deferral mechanism would not apply (75K Euro or a lower threshold could be defined at local level).

(i) The 2018 System can also be offered during the hiring process of outside employees, in the event that new hires are already beneficiaries of deferral incentive plans (Bonus "buy-out"). In this circumstance, the scheme of payment that would be offered will reflect the scheme defined by previous Employer, in accordance to local Regulators. The free capital increase that will be carried out for the 2018 System could be also used for other variable remuneration (e.g. sign-on / welcome bonus, special awards, retention bonus) and for severance payments to Group employees, for whom the regulatory foresee deferred payments in financial instruments.

(j) The number of shares to be allocated in the respective installments shall be defined in 2019, on the basis of the arithmetic mean of the official market price of UniCredit ordinary shares during the month preceding the Board resolution that evaluates 2018 performance achievements. The allocation of a maximum number of 9,000,000 UniCredit ordinary shares is estimated, representing about 0.40% of UniCredit share capital, of which maximum n° of 1,800,000 UniCredit ordinary shares devoted to the payment of so called "bonus buy-out", of other variable remuneration and to the severance payments.

(k) The Board of Directors could establish to assign free UniCredit ordinary shares that will be freely transferable at the end of the shares retention period, or in the year of the assignment, but subject to restrictions on the transfer for the foreseen shares retention period (a retention period on upfront shares of 2 years and of 1 year for deferred shares).

CHANGES TO THE 2018 SYSTEM

Considering regulatory and legal dispositions (also in fiscal area) in the countries where the Group is present, in line with the practice of previous years, it is considered to provide for the employees of Zagrebačka Banka (Croatia), UniCredit Bank Czech Republic & Slovakia and UniCredit Bank Srbija, several adaptations for the implementation of 2018 System (providing, for example, for the use of local company shares instead of UniCredit shares).

Moreover, as done also in the previous years, for the Executives in Fincobank (Italy) share-based incentive plan 2018 based on Fincobank shares will be offered.

² The table shows the share payments distribution after the shares retention periods (a retention period on upfront shares of 2 years and of 1 year for deferred shares)

³ Including direct reports to strategic supervisory, management and control bodies and other Identified staff as required by local regulation

In order to guarantee the compliance with regulatory and legal dispositions (also in fiscal area) in the countries where the Group is present, and to ensure that the implementation of 2018 system will not have any adverse effects (legal, tax or other) on Group Companies and/or beneficiaries residing in countries where the Group operates, the Chairman and the Chief Executive Officer will be granted every opportune power to implement, also separately, some adaptations to the 2018 System that do not change substantially the content of resolutions of today General Shareholders' Meeting, also via alternative solutions that fully comply with the principles of 2018 System and allow achievement of the same results (for example: a different percentage distribution of the various installments of payments; a different period of deferral; a retention period on granted shares; allocation of local company shares instead of Group ordinary shares; application of Entry Conditions that may incorporate profitability, solidity and liquidity results of local Group companies; extension of 2018 System application to other beneficiaries considered as equivalent to identified staff; using a trust company or the allocation of shares or other instruments of the UniCredit Group local companies where the beneficiary is employed; paying an equivalent amount in cash in lieu of granting shares, to be determined on the basis of the market value of UniCredit shares, considering the arithmetic mean of the official market price of ordinary shares during the month preceding each Board resolution to execute the actual grant).

It is understood that these amendments will be in any case adopted in accordance with the applicable provisions and in particular as provided by the "Regulations on remuneration and incentive policies and practices of banks and banking groups".

SHARES REQUESTED FOR THE 2018 SYSTEM

The issue of UniCredit free ordinary shares necessary for the execution of the 2018 System, as in the past, should be object of a delegation of power of attorney to the Board of Directors, in compliance with sect. 2443 of the Civil Code.

Accordingly, the extraordinary session of today's shareholders' meeting will be asked to approve the proposal to delegate to the Board of Directors the aforementioned power of attorney to resolve, on one or more occasions for a maximum period of five years, to carry out a free capital increase, as allowed by section 2349 of the Italian Civil Code, for a maximum amount of Euro 76,597,177 corresponding to up to 8,200,000 UniCredit ordinary shares, to be granted to employees of the Holding Company and of Group banks and companies for the 2018 System.

Related to section 2443 of Civil Code that provides that the Directors can exercise the right to carry out a free capital increase for a maximum period of five years starting from the date when the Shareholders' meeting resolution providing the delegation of power has been registered and therefore - regarding the date of the AGM resolution - until 2023, in order to assign last share installment provided for 2024, it will be necessary to submit to a future AGM approval a proposal aimed at integrating the delegation of power already provided to the Board of Directors in order to complete the implementation of 2018 System.

The allocation of free ordinary shares needed shall be done using the special reserve known as "Provisions Linked to the Medium Term Incentive System for Group Personnel", which, if case, may be restored or increased via allocation of profits or a portion of available statutory reserves, formed from the distribution of company profits that shall be identified by the Board of Directors at the moment of share issuance. In case the amount of the "Provisions Linked to the Medium Term Incentive System for Group Personnel" does not allow the issuance (full or partial) of UniCredit ordinary shares to serve the 2018 System, an equivalent amount in cash will be allocated to the beneficiaries, determined in base of arithmetic mean of the official market price of UniCredit ordinary shares during the month preceding the Board resolution that evaluates performance achievements 2018.

2018 Group Incentive System

Resolution proposals to the Ordinary Shareholders' Meeting

Dear Shareholders,

If you agree with the above proposal, you are invited to approve it by adopting the following resolution:

“UniCredit’s ordinary shareholders’ meeting, having heard the Board of Directors proposal,

RESOLVES

- 1. to adopt the 2018 Group Incentive System which provides for the allocation of an incentive in cash and/or UniCredit free ordinary shares, over a multi-year period, to selected UniCredit Group employees, in the manner and terms described above;*
- 2. to confer to the Chairman and to the Chief Executive Officer, also separately and with the faculty to sub-delegate the Executive Staff of the Head Office, every opportune power of attorney to implement the present resolution and the documents which represent part of it, also rendering any amendments and/or integrations which should be necessary to enact the present deliberations of today’s Shareholders’ Meeting (not changing substantially the content of the resolutions) or to guarantee the compliance with regulatory and legal dispositions (also in fiscal area) in the Countries where the Group is present, and to ensure that the implementation of 2018 system will not have any adverse effects (legal, tax or other) on Group Companies and / or beneficiaries residing in countries where the Group operates.”*