

## **6. 2018 Group Compensation Policy** Directors' Report

**Ordinary and Extraordinary Shareholders' Meeting**

**Milan, April 12, 2018**

# 2018 Group Compensation Policy

Dear Shareholders,

We have called this Ordinary Meeting to request your approval of the Group Compensation Policy, set out in the attached document which forms an integral part of the present Report, in compliance with the provisions set by the “Disposizioni di vigilanza per le Banche” issued by Bank of Italy which prescribe that the Shareholders’ Meeting approves, amongst other items, the remuneration policy for Member of Administrative and Auditing bodies and employees.

The approval of remuneration policy and incentive systems shall evidence their conformity with prudent risk management and the company’s long-term objectives, as well as ensuring an appropriate balance between the fixed and variable components as required by regulators, including in the case of the latter, risk-weighting systems and mechanisms designed to ensure that compensation is linked to effective and lasting results.

Furthermore, and again in compliance with indications of the regulators, information is provided on the implementation of remuneration policy approved by the Shareholder’s Meeting of April 20, 2017 (Annual Compensation Report).

It is therefore proposed that this Shareholders’ Meeting approves the annual revision of the Group Compensation Policy which defines the principles and standards which UniCredit applies to and are reflected in the design, implementation and monitoring of compensation policy and systems across the entire UniCredit organization. This proposal was drawn up considering the contribution of Group Human Capital, Group Compliance, Group Risk Management and Finance functions on the topics under their scope. Shareholders are also invited to consult the information regarding the implementation of remuneration policies approved by the Shareholders’ Meeting on April 20, 2017.

The document is prepared to fulfil the obligation prescribed by Sect. 123-ter of Legislative Decree nr. 58/98 (TUF).

The general principles foreseen at Group level by the Compensation Policy may be the object of calibration, consistently with the rules and regulatory provisions locally applicable.

## **GROUP COMPENSATION POLICY AND ANNUAL COMPENSATION REPORT**

The key principles of the Group Compensation Policy, which are confirmed with respect to those approved by the Ordinary Shareholders’ Meeting on April 20, 2017, are fully described in the Group Compensation Policy that has been made available to shareholders and the market – in the ways and in accordance with law - and that is summarized here below:

- (a) the UniCredit compensation approach is performance oriented, market aware and aligned with business strategy and stakeholder interests, ensuring remuneration competitiveness and effectiveness as well as internal and external equity and transparency, by driving sustainable behaviors and performance;
- (b) within UniCredit’s governance structure, rules and processes for delegation of authority and for compliance have been defined with the aim of assuring adequate control, coherence and compliance of remuneration framework across the Group;
- (c) the key pillars of the Group Compensation Policy are:
  - clear and transparent governance
  - compliance with regulatory requirements and principles of conduct
  - continuous monitoring of market trends and practices
  - sustainable pay for sustainable performance
  - motivation and retention of all employees, with particular focus on talents and mission-critical resources;

(d) on the basis of these principles, the Group Compensation Policy establishes the framework for a consistent approach and a homogeneous implementation of sustainable remuneration in UniCredit, with particular reference to the Executive population.

In compliance with applicable regulations, it is not changed the approach presented to the Annual General Meeting held on May 13, 2014, which approved - 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 Functions, for which it is expected that the fixed remuneration is 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 needs of the Group.

The main rationales for supporting the proposal approved in 2014 to set a ratio higher than 1:1 aim to safeguard the Group presence in specific markets and, in particular: to ensure a stronger link between compensation and performance, maintain competitiveness in the market, being also the direction in which the main peers moved, limit the “un-level playing field” in the markets where the cap is not present, avoid the rigidity of the cost structure, guarantee the alignment with multi-year performance through deferring a relevant component of the variable compensation.

Maintaining of a ratio of 2:1 between variable and fixed compensation will not have implications on bank’s capacity to continue to respect all prudential rules, in particular capital requirements.

In line with national and international disclosure standards, the key implementation features and outcomes of Group Compensation Policy and Incentive Systems in 2017, as well as demonstration of the coherence of the underlying logic of Group incentive systems with our compensation policy and with specific regulatory requests, are described in the Annual Compensation Report that has been made available for information to shareholders and the market. The Annual Compensation Report provides a description of compensation practices adopted in UniCredit and the implementation of Group Incentive Systems, as well as Remuneration Tables with a focus on Non-Executive Directors, Senior Executives and other Identified Staff, in compliance in particular with the 7th update of Bank of Italy circular no. 285 of December 17, 2013.

In addition, in compliance with the latest regulatory requirements provided by European Banking Authority (EBA), UniCredit performed the yearly assessment of categories of staff whose professional activities have a material impact on an institution's risk profile. The self-assessment was performed at local and Group level, as requested by Bank of Italy, and is documented in the 2018 Group Compensation Policy. The number of Identified Staff in 2018 is ca. 1,000 resources.

Furthermore, in line with the indications of national and international regulators, it is deemed appropriate within the annual review of policy and remuneration systems to make some updates including in particular:

- I. full documentation of the new 2018 Group Incentive System, based on bonus pool approach
- II. full documentation of the Long Term Incentive Plan 2017-2019, linked to the Strategic Plan Transform 2019
- III. description of the structured process for the definition of Identified Staff population
- IV. adequate information about Remuneration Committee role and the its respective activities performed in 2017, as well as the role of Group Compliance, Internal Audit and Group Risk Management functions

# 2018 Group Compensation Policy

- V. illustration of the international and national regulatory framework as well as disclosure on the peer group for compensation and performance benchmarking
- VI. disclosure of all information requested by national and international regulations (e.g. Bank of Italy, Consob, Institutions of the European Union)

Finally, the Report and the respective annexes provide:

- the disclosure as per Sect. 84-quarter of the Italian National Commission for Listed Companies (Consob) Issuers Regulation no. 11971, referring to Directors, Statutory Auditors, General Managers and other Executive with Strategic Responsibilities,
- specific disclosure on equity plans approval and execution, as requested by Sect. 114-bis of TUF.

\*\*\*

## Resolution proposals 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 Compensation Policy, also pursuant to Sect. 123-ter of TUF as contained in the 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 policy and practices across the entire organization."*