

Our Purpose and Identity



Value Creation over time

Main 2017 Results

Unique culture

Governance

Governance model

Board Composition

Risk Management and Compliance

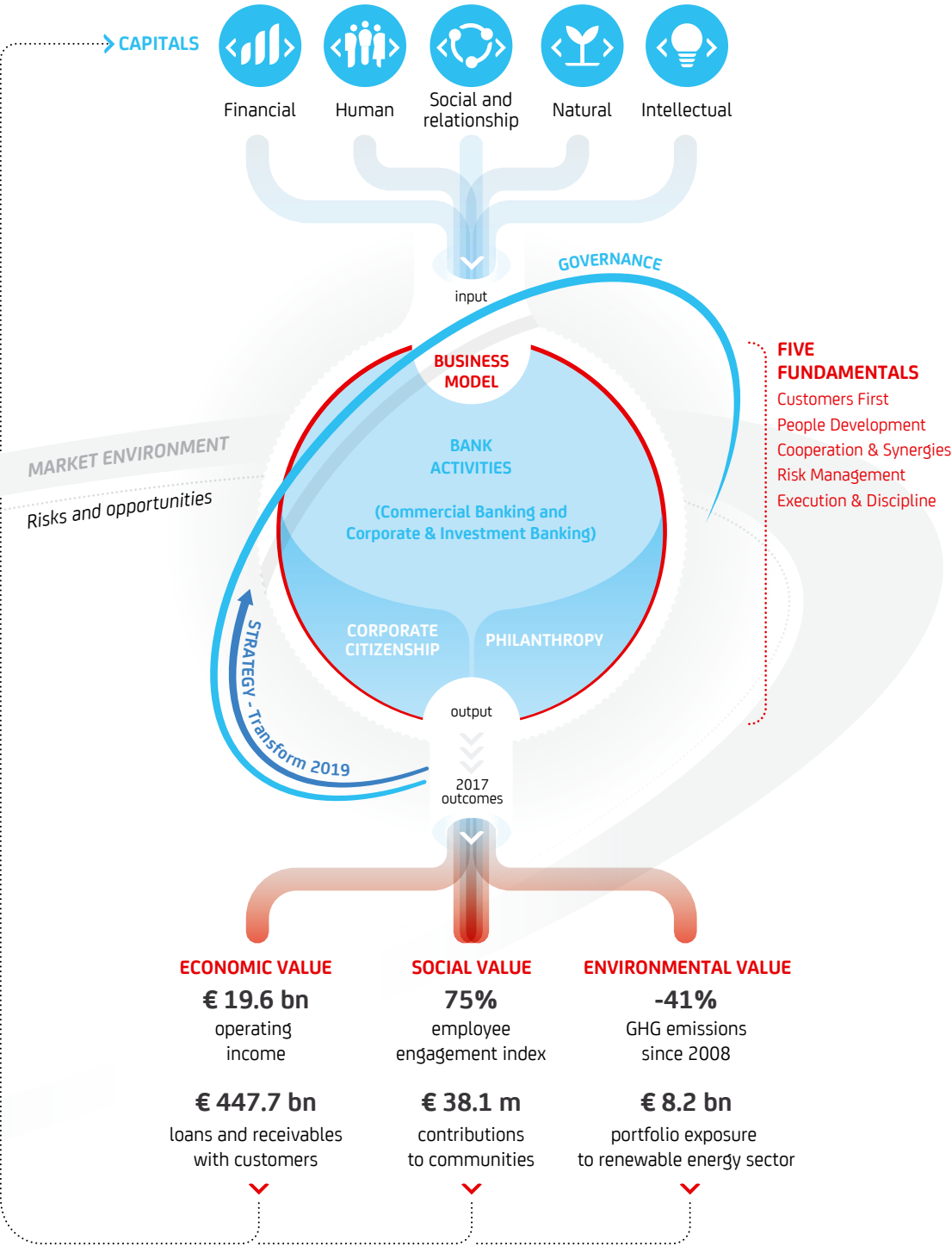
Risk Management

Compliance culture



Our Value Creation over time

Our vision is to be One Bank, One UniCredit. We are a simple, successful pan-European commercial bank, with a fully plugged in Corporate & Investment Banking, delivering a unique Western, Central and Eastern European network to our extensive client franchise.



We are realizing our vision by making UniCredit an effective, efficient and profitable Group – one that supports the advancement of local communities, the competitiveness of enterprises and the well-being of individuals.

Our highest priority is to serve our customers the very best we can. To achieve this, we rely on the quality and commitment of our people, as well as on our ability to collaborate effectively and generate synergies as *One Bank, One UniCredit*. We will also take care to accept only the right kinds of risk and to maintain discipline in how we execute our strategy.

The underlying set of resources and relationships that we depend on to create value are known as capitals. Groupwide, we work to responsibly manage our financial capital, human capital, social and relationship capital, natural capital and intellectual capital. This effort is underpinned by the success of our clients and the trust and support we receive from our stakeholders.

Our business model driving synergies and streamlining our operations, in combination with our efficient, informed and client-focused Corporate & Investment Banking division, facilitates the conversion of our capitals into outputs and outcomes that help us achieve our strategic goals and create value for society and the environment.

By offering responsible lending, savings, payment and investment products, we enable individuals to improve their quality of life and enhance their financial stability.

By providing funding to small, medium and large businesses and financing the development of key sectors, we contribute to economic growth, job creation and innovation.

By improving financial literacy, promoting inclusion and gender balance and conserving natural resources, we also contribute to the achievement of the United Nations' Global Goals for Sustainable Development.¹

At its heart, our business is to help customers and stakeholders manage social and environmental challenges and invest for the future. Their success guarantees the sustainability of our business.

Building a unique culture to support our value creation

For our Group, establishing a shared culture of *One Bank, One UniCredit* represents an important milestone along the road to sustainability. The integrity and consistency of our values and behavior form the foundation of this endeavor.

Our *Five Fundamentals*² are the principles that inform our actions, today and into the future.

Ever since they were first endorsed by our Board of Directors, our System of Values and our Code of Conduct have comprised the core of our Group's organizational culture.

Our Code of Conduct outlines our approach to managing compliance risks and underscores the legal and ethical standards necessary to run our business successfully. At the same time, the code requires us always to protect our clients' interests, mitigate risks, comply with financial regulations, assure market transparency and safeguard confidential data.

To enhance our sustainability as a bank, we are also reinforcing our risk management culture, which is an essential driver of business development.

Accountability for risk is a high priority for every UniCredit employee. To ensure the healthy growth of our business, all colleagues must be aware of the risks inherent in every action they take, every product they create and every deal they originate.

MATERIAL TOPICS



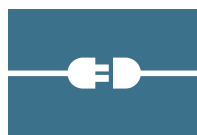
Our Five Fundamentals



Customers First



People Development



Cooperation & Synergies



Risk Management



Execution & Discipline

1. Refer to UniCredit Contribution to the Sustainable Development Goals section for more information.
 2. Refer to the 2016 Integrated Report for more information.

Governance

UniCredit's system of corporate governance promotes clarity, accountability and the creation of sustainable long-term value.

Governance model

UniCredit is an Italian listed company, with a traditional management and control system, which assigns specific responsibilities to the Shareholders' Meeting and allows for a clear exchange of views between shareholders and management on fundamental decisions relating to governance. These include appointing and removing directors, appointing members to the Board of Statutory Auditors, granting a mandate for external auditing to an audit firm and approving all associated fees. Such decisions also include the approval of financial statements, the allocation of profits, resolutions on remuneration and incentive policies and practices, and setting criteria to determine compensation to be made in the event of early termination of employment or early retirement from office.¹

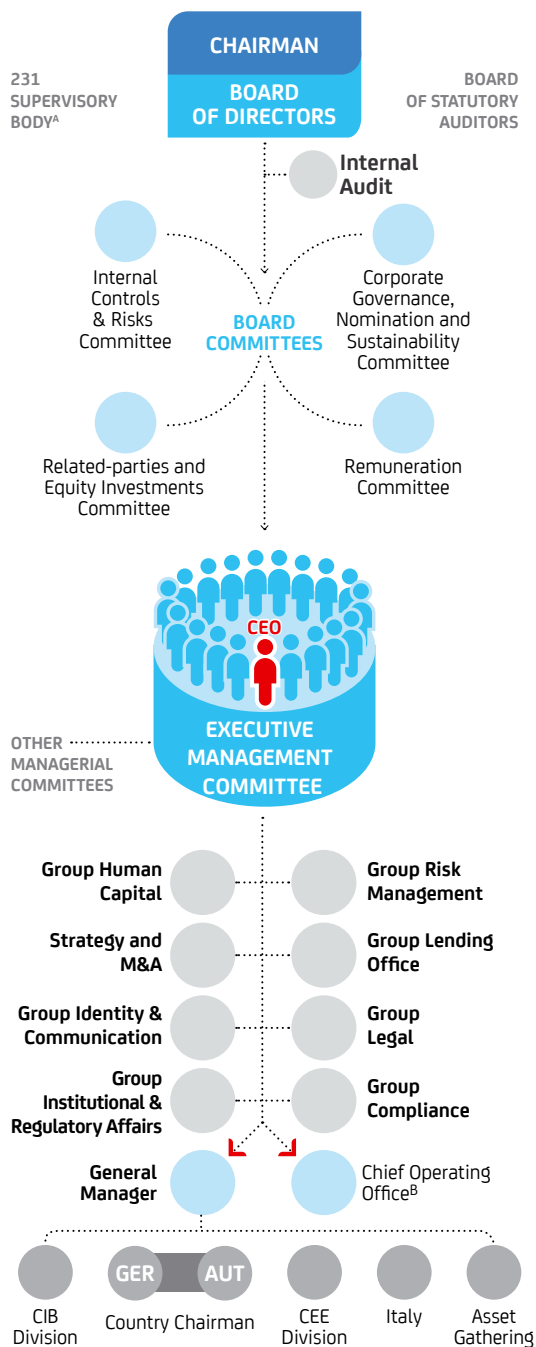
Internal Control System

An effective and efficient internal controls system is, in fact, a prerequisite for the creation of value in the medium-long term, for safeguarding the quality of the activities, for a correct risk perception and for an appropriate allocation of capital.

As a matter of fact, it establishes the rules, procedures and organizational structures, as well as information flows, that ensure effective management of risks and keep UniCredit's activities in line with its corporate strategies and policies, which are founded on sound, prudent management principles.

UniCredit's Internal Control System relies on control bodies and functions, involving, each one within its respective competence, the Board of Directors, the Internal Controls & Risks Committee, the Chief Executive Officer as officer in charge of the internal controls and risks management system, the Board of Statutory Auditors, as well as the corporate functions, with specific tasks to that regard.

Organizational and governance structures (as of Dec. 31, 2017)



A. Set up according to the Legislative Decree No. 231 dated June 8, 2001.
B. Position covered by two Co-Heads.

1. Refer to the annual Report on Corporate Governance and ownership structure and the Group Compensation Policy for more information.



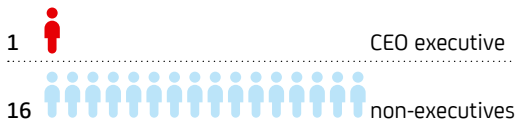
Board composition

The composition of the Board of Directors of UniCredit SpA currently in office quantitatively and qualitatively corresponds to the theoretical profile approved by the board itself before the appointment of the supervisory body, in compliance with current provisions.

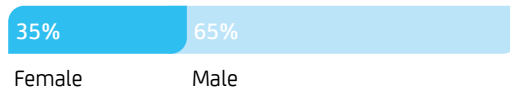
Also in light of the information given by the persons concerned, the requirements concerning professional experience, integrity and independence, gender balance and the maximum number of directorships that Directors may hold have been accounted for.

Board in numbers

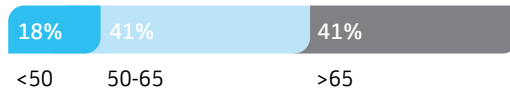
Balance of executive and non-executive directors



Board gender balance



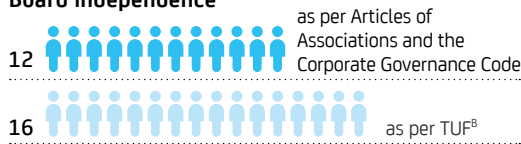
Age group



Geographical mix



Board independence



Average tenure length - 2017: **5.2 years**

Board attendance rate - 2017

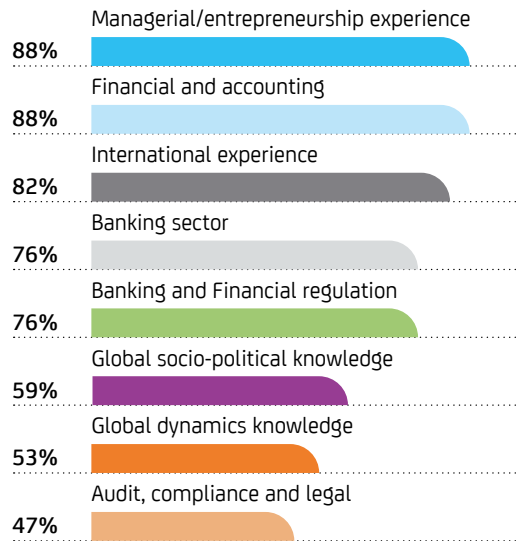


A. Includes Austria, France, Germany, England, Poland, United Arab Emirates, United States of America.

B. Legislative Decree No. 58 dated February 24, 1998.

2. Refer to the Governance section on our website (www.unicreditgroup.eu) for more information.

Board skills and knowledge areas



FOCUS

Corporate Governance actions²

In light of the 2018 renewal of its Board of Directors, UniCredit SpA has approved significant changes to the bank's governance to simplify and align it with the best international standards.

These changes included:

- the recommendation to shareholders on the occasion of said renewal to:
 - reduce the number of the Board of Directors members from 17 to 15
 - introduce a maximum number of three mandates
- the reduction from three Vice Chairmen to one Vice Chairman
- the empowerment of the Board of Directors to present its own list of candidates for election of directors
- the approval of an ad hoc procedure to identify candidates for the post of Board of Directors member, including the CEO and the Chairman
- the increase from 1 to 2 of the number of board members appointed from the second list receiving the highest votes.

Risk Management and Compliance

Risk is intrinsic to banking - managing risk is the core of our business. Our strategic plan, Transform 2019, emphasizes the mitigation of risk to assure the healthy long-term growth of our business. To remain a sustainable banking institution, we are reinforcing our risk management culture, making risk awareness paramount across our Group.

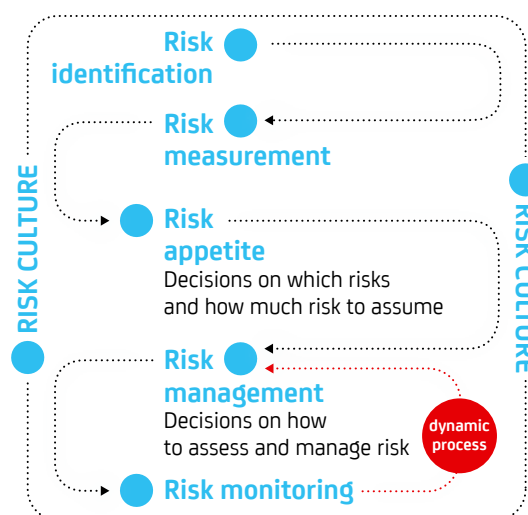
Guarantee strong risk management

Our strategic plan prioritizes decisive actions that resolve legacy issues, transform the bank, and build on our existing competitive advantages. We are doing this to capture opportunities and secure sustainable levels of profitability for our enterprise. In this effort, Group Risk Management – whose mission is to control Group risks as defined by UniCredit’s Board of Directors – is continuing with its conservative approach to risk. As in recent years, the function is particularly focused on further reinforcing its disciplined approach to new loan originations and the monitoring of loans.

This year, to ensure the effectiveness of risk controls and minimize any conflicts of interest, UniCredit separated risk management from credit-related operational functions. This organizational change, enacted October 1, 2017, delegates distinct responsibilities to the Group Risk Management (GRM) function and to the Group Lending Office (GLO). Dividing responsibilities between GRM and GLO provides more independence and control compared to the operating business functions. To efficiently manage risks, an organization must be strongly aware of them. UniCredit’s risk management process begins by identifying the risks the bank is potentially exposed to, and then measures those risks.

With that information, our Group decides how much risk it is willing to assume, establishing its Risk Appetite Framework (RAF). UniCredit’s business activities need to remain within risk limits. This is an approach that requires continuous monitoring of UniCredit’s risk profile to mitigate any deviation from its established risk appetite. These actions, which form our risk management method, are guided by a strong approach to risk culture across the Group.

Our risk methodology



Identifying and measuring risks

We identify and measure risk with a set of rules, methodologies and policies that are also used to support the Group’s strategic planning processes.

When determining risk, it is critical to assess the macroeconomic and microeconomic contexts in which UniCredit operates. We must account for the continuously evolving regulatory framework while defining our risk appetite and calculating the best trade-offs between risk and return.

Our RAF is aimed at achieving sustainable levels of growth and profitability for our business. This framework, approved by the Board of Directors, establishes our desired risk profile for our short and long-term strategic objectives and our business plan, taking into consideration the expectations of various



internal and external stakeholders. It is therefore embedded in our daily management activities via rules, operational limits and compensation programs. The RAF is directly linked to our incentive system; by setting risk embedded goals for Group executives and colleagues responsible for taking significant risks, it encourages prudent risk-taking across the organization.

Due to constant changes in the regulatory, financial and economic environment, the RAF is subject to a continuous process of improvement. In 2017, it integrated additional indicators to meet new regulatory requirements, better capture the underlying risk in the evolution of our business, achieve the objectives of our strategic plan, and steer our business functions.

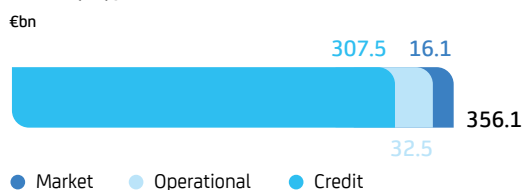
Managing and monitoring risks

Risks constantly evolve, and must be monitored so they can be properly managed. Whenever our Group updates its RAF, the Risk Management function incorporates it into a set of operational Key Performance Indicators (KPIs) to closely monitor UniCredit's activities and their encumbered risks. These KPIs support risk management efforts in the application of the most adequate techniques to either tolerate, mitigate, transfer or even eliminate risk.

As a simple pan-European commercial bank, UniCredit's main risk exposure relates to credit. This is evident in the breakdown of Risk Weighted Assets (RWA). Its **credit risk**, at 86.4 percent, is diversified across geographies and asset classes, while its operational risk RWA and its market risk RWA account for €32.5 billion (9.1 percent) and €16.1 billion (4.5 percent), respectively, of its total RWA.

Aside the Basel Pillar 1 risks, UniCredit faces risks related to liquidity, interest rates, reputation, compliance, the environment, society and other emerging areas.¹

RWA by type 2017



Over the course of 2017, we have consistently pursued the risk reduction strategy outlined in the *Transform 2019* plan. This involved actions to reduce our exposure to non-performing loans (NPLs), which we decreased by 14 percent in the last year, mainly by completing the *FINO* project.¹ While that initiative deconsolidated a stock of roughly €17 billion in NPLs in July 2017, we also significantly decreased inflows of new NPLs over the past year, reducing them by 25 percent. This was a result of our prudential approach to risk, which we have adopted in recent years to further strengthen our discipline in terms of granting loans and monitoring loan portfolios.

We reinforced this approach in 2017 by finalizing our review and rationalization of the Group Credit Risk Rules Framework, which should further improve the quality of future loan originations and of our credit portfolio, and strengthen our risk management governance.

Moreover, in 2017 we launched a special project, approved by the Board of Directors, to focus on the redevelopment of existing models to measure credit risk. Our aim is to rationalize the landscape of the Internal Ratings-Based (IRB)² model and help take into account impending changes to regulatory requirements (i.e., the latest consensus factorization of Basel IV).

| Loan classification ^A | Amount as of Dec 31 st , 2017 | Y/Y change | Coverage ratio |
|----------------------------------|--|------------|----------------|
| Bad loans | €27,805 m | -13% | 65.8% |
| Unlikely to pay | €19,522 m | -16% | 43.5% |
| Past Due loans | €1,105 m | -20% | 39.9% |
| Performing loans | €428,550 m | +2% | 0.5% |

Risk profile (indicated by an upward arrow next to the 'Loan classification' column)

A. Loan Classification includes:

Bad Loans: exposures to borrowers in a state of insolvency (even when not recognized in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the bank; Unlikely to Pay: classification in this category is the result of the judgment of the bank about the unlikelihood, without recourse to actions such as realizing collaterals, that the obligor will pay in full (principal and / or interest) its credit obligations; Past Due Loans: problematic exposures that are more than 90 days past due on any material obligation; Performing loans: exposures which are not past due for more than 90 days or to borrowers in a problematic state.

1. Refer to the 2016 Integrated Report for more information.

2. Advanced internal ratings based approach credit risk measurement techniques proposed under Basel II capital adequacy rules for banking institutions.

Our Purpose and Identity

→ Risk Management and Compliance

To manage **operational risk**, our Group maintains a series of policies and procedures for its measurement, control and mitigation. In accordance with the UniCredit operational risk framework, we identify and assess the risks inherent to all our material products, activities, processes and systems. This is a regular process of monitoring risk profiles, material risk exposure, and risk mitigation strategies. In line with the strategy of our *Transform 2019* plan to reduce operational risk, in 2017 we established an Information and Communication Technology (ICT) & cyber risk roadmap. This involved holding dedicated workshops to increase risk mitigation skills and awareness, boost analysis and monitoring of external and internal incidents, and establish ICT and cyber risk indicators. These workshops, involving 15 legal entities, can help our Group develop stronger control processes and identify potential areas of weakness. As an outcome of these initiatives, a specific indicator to assess ICT risk based on major ICT security incidents has been defined and included in UniCredit 2018 RAF.

It remains vital to safeguard against **reputational risks**. Since 2015, we have deployed a monitoring system to strongly reinforce the Group's capacity to identify and analyze the salient reputational risks in the financial sector. This system monitors external events that may pose reputational risks and assesses their potential impact on UniCredit by engaging with the internal functions (e.g., Investor Relations, Compliance) that intimately understand the perspectives of our many different stakeholders. This information is integrated with data on internal events to make our risk management process more complete. The Group Operational and Reputational Risk Committee discussions focus on this process on a quarterly basis.

In 2015, we began using our system of governance to reinforce our management of **environmental and social risks**. The Group Environmental and Social Council (GESC)³ proposes UniCredit's strategy, annual objectives, and activities related to executive implementation of UniCredit's environmental and social initiatives and commitments, addressing potential related risks.

Two Group statements – our Environmental Commitment and our Human Rights Commitment – describe the approach, roles and responsibilities, principles, rules, procedures and systems adopted by UniCredit to prevent and manage environmental, social and human rights impacts and risks in our operations and value chain.

In addition, we have adopted detailed guidance policies for sectors relevant to UniCredit that could pose environmental and social risks.⁴ These policies are regularly reviewed and reinforced with various forms of employee training. This training has been developed in partnership with external experts to facilitate consistent Groupwide implementation of these specialized policies.

Roughly 360 colleagues, including relationship managers, risk managers and members of other functions involved in due diligence processes, have participated in this training program in the last three years.

We are currently assessing the feasibility of the implementation of the most recent trends and development in terms of monitoring climate-related risks and their financial impacts on our business model and strategy.

3. Refer to the 2016 Integrated Report for more information.

4. Refer to the Supplement – Risk Management and Compliance and to the Sustainability section on our website (www.unicreditgroup.eu) for more information.

Reinforcing risk awareness

Our Group has adopted a structured and comprehensive approach to strengthening its risk culture. This approach aims to enhance the mindset, accountability and behavior of all UniCredit employees.

To further raise risk awareness across the Group, we launched a communication campaign focused on the Risk Appetite Framework and published articles on the Group Intranet about risk management activities and achievements.

Over the year, we also revised our risk training offer to make it more easily accessible and scalable to all UniCredit employees. The new offer, available in 2018, provides a comprehensive set of online modules in two different levels, enabling colleagues to deepen their awareness and knowledge of risk according to their different needs. Colleagues will have a view across all risk topics, from the economic and regulatory environment, to primary risks, to the impacts of risk management policies on capital, bank performance and clients.

MATERIAL
TOPICS



FOCUS

Our approach to human rights

The UniCredit Human Rights Commitment, drafted in 2011, describes the principles and systems adopted by the Group pertaining to human rights. This text was the first step towards aligning our Group with the UN's Guiding Principles on Business and Human Rights. It is informed by international declarations and conventions, standards, principles, guidelines and recommendations, including The Universal Declaration of Human Rights and the International Labour Organization's Fundamental Human Rights Convention.

Over the past two years, as we have evolved and responded to the expectations of our stakeholders, we updated the UniCredit Human Rights Commitment. The revised document, which is available on the UniCredit website, summarizes the Group's approach to human rights, focusing on stakeholder categories such as employees, customers, suppliers and communities.

In regards to governance, we have clarified how human rights impacts are managed by the governance rules and structures that assign guidance, support and control roles. In regards to impact management, we have explained in

greater detail how UniCredit is addressing both positive and negative human rights impacts within its operations and value chain. In regards to monitoring, we have clarified the various monitoring mechanisms and processes in place within our organization.

• In 2017 more than 6,000 colleagues received human rights training.

Through various working groups and initiatives, we continue to promote constructive dialogue on human rights with our external stakeholders, including customers, investors, rating agencies, peers and civil society organizations.

This includes also our participation at the Thun Group of banks, informal group which regularly discusses how to apply United Nation Guiding Principles on Business and Human Rights (UNGPs). At the beginning of 2017, the Thun Group published its second discussion paper.⁵

UniCredit is also member of UN Global Compact - Global Compact Network Italy Foundation, which is a strategic policy initiative that is promoted by the United Nations at the national level.

5. Refer to <https://business-humanrights.org/en/thun-group-of-banks-releases-new-discussion-paper-on-implications-of-un-guiding-principles-for-corporate-investment-banks> for more information.

Strengthen a culture of compliance as a fundamental pillar for the Group

Compliance is essential to the legitimacy of our business and the sustainability of our Group. It is built into UniCredit's values and forms an integral part of our business strategy.

Reinforcing compliance

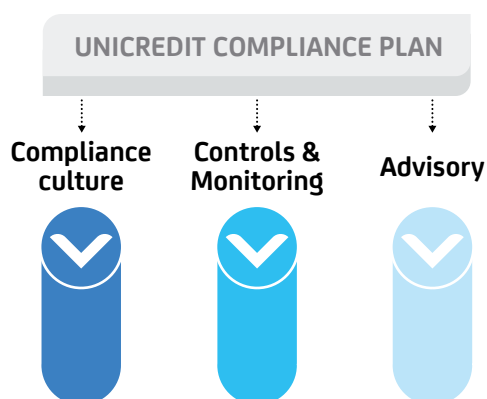
Compliance is inseparable from our Group's business activities. Adherence to laws and regulations is neither an obstacle nor a drag on growth, it is a prerequisite to running a sustainable business.

Regulations are part of our operational environment and we must comply with them while remaining focused on our customers' needs in all of our business areas, in all of the countries where we are present. By adhering to all applicable laws, rules and regulations, UniCredit helps prevent misconduct and reduce the risk of sanctions.

Consistently to our *Transform 2019* strategic plan, the UniCredit Compliance function is focused on enhancing risk discipline and the effectiveness of actions to mitigate noncompliance risks, strengthening common compliance standards and rolling them out across the Group, and addressing regulatory challenges and new emerging risks affecting the Group.

2017 Compliance Plan

UniCredit's 2017 Compliance Plan, approved by the Board of Directors, is built upon three strategic pillars:



The plan lays out the guidelines, strategic priorities, and main initiatives to be implemented during 2017 aimed to bolster these pillars at Group level.

✓ Compliance culture

Our Group is focused on building and enforcing a strong and common culture of compliance to endorse and promote risk discipline, integrity, and sustainability with all its stakeholders.

In 2017, we have defined and implemented a *Tone from the Top* program aimed to ensure that our management leaders remain focused on compliance issues, requiring them to periodically remind all Group employees about the expectations for conduct and behaviours at UniCredit.

In addition, the UniCredit Code of Conduct was updated for all countries within the Group. Its principles have been widely disseminated through a number of initiatives, including a Groupwide communication campaign for all colleagues, a dedicated brochure, and mandatory training for all employees, with a final exam. To further raise knowledge and understanding of the Code of Conduct, the Group organized specific events for senior managers recalling its principles, the Group's expectations, and responsibilities of each individual UniCredit employee.

Throughout the year, we facilitated greater understanding of a broad range of compliance issues through regular Groupwide trainings that were preceded by instructional videos. Our *Compliance Academy* offer was robustly strengthened in 2017 by adding two specialized modules on Anti-Financial Crime and Markets & Investments, to its core curriculum. These modules have been designed and developed to address the needs of Compliance colleagues as well as those working in UniCredit's business lines.

We expect these training efforts to be bolstered by our *Compliance Induction* program, which we began in 2017 to formally instruct every new employee about essential compliance issues as they begin working at UniCredit. Meanwhile, to further our managerial training, this year two courses on proper conduct and business ethics, which feature our sustainability framework, were developed for managers. Groupwide, mandatory training focused on conflicts of interests, antitrust, market abuse, Markets in Financial Instruments Directive (MiFID II) and anti-money laundering (AML, with focus on the EU's Fourth Money Laundering Directive – AMLD4).¹

1. AMLD4, entered into force on June 26, 2015, accords a key role to the principles of risk analysis and corresponding adequate safeguards.

During the year, UniCredit employees received more than 500,000 hours of compliance training.

In 2018, we will continue to invest in increasing the technical skills of senior AML colleagues through the Certified Anti-Money Laundering Specialist (CAMS) certification. We will prioritize a specific Groupwide project to increase proximity between Compliance and all of our other functions, and continue to promote and endorse compliance standards and requirements for all employees.

Controls & Monitoring

In 2017, the Compliance risk assessment methodology was updated to meet industry best practices and international guidelines (e.g., Wolfsberg,² Society of Corporate Compliance and Ethics - SCCE³). The new methodology, which employs a more quantitative approach and provides a multi-level perspective (e.g., giving the option of having aggregated views for the Group, individual legal entities and business lines), uses benchmarks industry best practices to further enhance our noncompliance risk management. The methodology was applied in a pilot phase to anti money laundering and financial sanctions areas in 2017 and will be progressively applied to other areas from 2018.

Every year risk assessments are reported on a quarterly basis to relevant Group bodies such as the Internal Controls and Risk Committee, the Group Risk & Internal Control Committee, and the Board of Statutory Auditors.

Advisory

The Compliance function performs another vital task: staying abreast with regulatory changes and promptly identifying UniCredit's obligations. Our Compliance function monitors and analyzes

forthcoming regulations and triggers the necessary implementations at different levels of the Group. In 2017, this involved launching special projects to address a number of key regulations and issues, including: General Data Protection Regulation (GDPR), MiFID II, conflicts of interest, Market Abuse (MAR), Regulation Revised Payment Service Directive (PSD2) and AMLD 4.

In 2018, Compliance will continue with these efforts to detect and interpret forthcoming regulations. It will also focus on digitization initiatives to help streamline processes, support the Group business digital strategy, and enhance the function's own work methods through Regtech solutions.⁴

MATERIAL TOPICS



FOCUS Anti-corruption

UniCredit has zero tolerance towards acts of corruption and prohibits them in any shape or form, both direct and indirect. UniCredit's approach to this is set out in our Group's Policy on Anti-corruption. It consists of a detailed program implemented by all legal entities. In 2017, among other activities, we updated such policy, launched a whistleblowing campaign, and focused on the program of control of relevant intermediaries.⁵

During the year UniCredit employees received more than 60,000 hours of anti-corruption training.

Italian Legislative Decree 231/2001

UniCredit SpA, aware of the importance of a correct application of the principles established by the Italian Legislative Decree 231/01, provides the Italian companies belonging to and directly controlled by the Group with principles, guidelines and the most suitable procedures to be adopted for their established organizational and management model.⁵

2. Wolfsberg, an association of 13 global banks, develops financial industry standards for Anti-Money Laundering (AML), Know Your Customer (KYC) and Counter Terrorist Financing (CTF) policies.

3. SCCE is a non-profit association that provides resources for compliance professionals from various industries.

4. The use of new technologies to solve regulatory and compliance requirements more effectively and efficiently.

5. Refer to the Supplement - Risk Management and Compliance section for more information.