

21 December 2010

**UniCredit Group's reply
to the BCBS proposal on the range of methodologies and
performance alignment of remuneration**

GENERAL REMARKS

We welcome the Basel Committee on Banking Supervision (BCBS) 's contribution to the development of sound practices for risk-adjusted remuneration at a technical level.

We support the approach which aims to enhance institutions understanding of different methodologies without setting prescriptive guidelines, allowing banks to develop practices most appropriate for their own risk profiles and business characteristics.

We would strongly recommend that any further regulatory evolution of the BCBS's report not establish a more prescriptive approach which would be detrimental to the firm's approach to sound risk and remuneration practices and may produce distortive systemic effects.

We suggest that the BCBS's Report be reviewed to ensure consistency with the CEBS guidelines to be finalised in the meantime, since any differences in wording or interpretation may create confusion and impede coherent implementation and adoption.

In this regard we would take the opportunity to submit you the Unicredit reply to the recent CEBS consultation.

Specific considerations

From the Risk Management perspective

Flexibility and Proportionality: The external guidelines should not be prescriptive and should leave the institution the flexibility to decide on the specific parameters/metrics to be used to design incentive systems so to link performance measures with the firm's objectives. Distortion, rigidity and complexity should be avoided as unintended side effects. Especially for international Group, it is important to have the flexibility to address the topic at Group wide level, while any prescriptive hint from any Regulator could jeopardize the Group overall approach.

Time to Implementation: It must also be noted that though institutions may agree with the concept , philosophy and spirit of the guidelines However practical impediments may delay full implementation in the immediate term. These may be linked to the granularity and frequency of data collected (i.e. collection at Branch ,Transaction level) as well as the ability and flexibility of backbone systems to cut data in the form required. Where possible Institutions should be given the time and the opportunity to develop a roadmap to develop the resources required to obtain and analyse data required.

From the HR perspective

Relative external measures: We note that reference to relative external measures is primarily to market measures (e.g. share price) and would clarify that external metrics may also be used as an approach to measure operational performance and sustainable value creation via benchmarking and ranking versus market peers on a broad range of financial and non financial measure. We suggest BCBS to take into consideration that “market” indicators are not the only parameters used in evaluating relative performance, since comments on strengths and weaknesses are currently misleading.

From the CFO planning, strategy and capital management perspective

Absolute and relative measures: Relative benchmarks may lead to positive outcomes also because relative improvement is significant, even if performance measures remain in the bottom range. In this case the effort to progress is recognized and assessed together with relative positioning. The link with relative performance measures and procyclical behaviours is not clear.

Internal and external measures

In some situations market measures can be distorted: should a firm be badly managed, so as to become an easy take-over target, its price could move up even though its profitability is collapsing.

In spite of their shortcomings, in the long run, market measures tend to reflect the true value of the business: the more appropriate use would be for long time incentives.

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