

# One Bank, One Team, One UniCredit.

## 7. 2020 Group Incentive System

Director's Report

April 9, 2020

Ordinary and Extraordinary Shareholders' Meeting



# 2020 Group Incentive System

Dear Shareholders,

We have called this ordinary meeting to request your approval of 2020 Group Incentive System (the “2020 System”), providing for the grant of an incentive in cash and/or free ordinary shares, to selected Group employees, over a multi-year period as described below and subject to the achievement of specific performance conditions.

This proposal has been formulated in compliance with the provisions of section 114-bis of Legislative Decree 58 dated February 24<sup>th</sup>, 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; in addition, an information document has been prepared pursuant to Section 84-bis of the Consob Regulation no. 11971/99, and has been made available to the public under the terms of law and to which reference is made for a detailed description of the incentive system described in this report.

This proposal is also in line with Group Compensation Policy, the provisions issued by Bank of Italy on remuneration and incentives policies and practices, the provisions set forth in the European Directive 2013/36/UE (Capital Requirements Directive, also CRD IV) and 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 Corporate Control Functions<sup>1</sup> and of the Human Resources function and for the Manager in Charge of Drafting the Company Financial Reports, for whom it is foreseen that the variable remuneration is moderate and that the incentive mechanisms are consistent with the assigned tasks as well as independent from the results of the areas subject to 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 issued also 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 target market and the ability to attract and retain individuals with professionalism and skills adequate to the needs of the Group.

## 2020 GROUP INCENTIVE SYSTEM

### Goals

The 2020 System aims to incentive, motivate and retain beneficiaries, in compliance with national and international regulatory requirements with the purpose of defining – in the interest of all stakeholders – remuneration systems aligned with the long term company strategies and goals, linked to Group results,

---

<sup>1</sup> Internal Audit, Risk Management and Compliance according to Bank of Italy Circular 285 of December 17<sup>th</sup>, 2013.

adjusted in order to consider all risks, consistent with the 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 as a whole.

### **Beneficiaries**

The potential beneficiaries of the 2020 System, identified in compliance with the criteria issued by Commission Delegated Regulation (EU) No 604/2014 of March 4th, 2014 – are:

- the 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 higher than 500,000 in 2019;
- 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 new hiring).

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

### **Elements of 2020 System**

- (a) In line with previous years, the 2020 System is based on the “bonus pool” approach for determining the variable remuneration to be paid in 2021. The connection among profitability, risk and reward is assured by linking directly the bonus pools with company results (at Group and Country/Divisional 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 distributed to employees according to individual performance.
- (c) The 2020 System – besides having the goal to incentive, retain and motivate beneficiaries – is aligned with the national and international regulatory requirements providing for:
  - the allocation of a variable incentive based on a pre-defined bonus pool, on the beneficiary’s individual performance evaluation and on the benchmark for specific roles/markets, as well as consistent with the ratio between fixed and variable compensation set by the Ordinary Shareholder’s meeting;
  - the definition of a balanced structure of “upfront” (i.e. done at the moment of the performance evaluation) and “deferred” payments, in cash and in shares;
  - the distribution of share payments with share retention periods (one year for both upfront and deferred shares);
  - risk adjusted metrics in order to guarantee long-term sustainability with respect to company’s financial position and to ensure compliance with Regulator’s expectations.
- (d) A malus condition (“Zero Factor”) will be applied in case specific thresholds (profitability, capital and liquidity) are not met at both Group and Country/Division level. In particular, the Bonus Pool linked to 2020 performance will be zeroed, while the previous systems deferrals could be reduced from 50% to 100% of their value, based on actual results and on the assessment done by Group Risk Management function. Individual performance appraisal is based on specific goals, linked to the 5 Fundamentals of UniCredit Competency Model: “*Customers First*”; “*People Development*”; “*Cooperation and Synergies*”; “*Risk Management*”; “*Execution and Discipline*”.

(e) The overall incentive payout will be made over a multi-year period, based on what is stated below and subject to continuous employment at each date of payment<sup>2</sup>:

- in 2021 the first installment of the overall incentive will be paid in cash and/or shares in the 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 remaining amount of the overall incentive will be paid in various installments in cash and/or UniCredit free ordinary shares during the period:
  - 2022-2026 for Senior Management (Executive Vice President and above)<sup>3</sup>,
  - 2022-2024 for the remaining identified staff (Senior Vice President and other roles).

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

(f) The achievement of Group performance parameters and the risk-reward alignment will be evaluated by UniCredit Remuneration Committee and the Board of Directors .

(g) The percentages of payments in cash and shares<sup>4</sup> per each category pf beneficiary, are described in the following table:

	2021 <sup>5</sup>	2022	2023	2024	2025	2026
Senior Management (EVP and above) with variable remuneration > €430k <sup>6</sup>	20% cash	20% shares	12% cash	12% shares	12%	12% cash + 12% shares
Senior Management (EVP and above) with variable remuneration ≤ €430k	25% cash	25% shares	10% cash	10% shares	10% shares	10% cash + 10% shares
Other identified staff (SVP and other roles) with variable remuneration > €430k	20% cash	5% cash + 20% shares	5% cash + 15% shares	20% cash + 15% shares		
Other identified staff (SVP and other roles) with variable remuneration ≤€430k	30% cash	30% shares	10% cash	20% cash + 10% shares		

- (h) In coherence with the previous years, it is provided the introduction of a specific minimum threshold below which deferral mechanisms will not apply. Bonus will be deferred in case

<sup>2</sup> To be understood as the final vesting of the right to the incentive and not as the actual payment and/or allotment of the shares at the end of the period of retention

<sup>3</sup> Including other identified staff assimilated to Senior Management according with applicable regulations

<sup>4</sup> The table shows the share payments distribution after the shares retention periods (a retention period on upfront and deferred shares of one year)

<sup>5</sup> The first year of payment may be 2020 for those types of payments (e.g. severance payments) for which immediate payout is foreseen on or shortly after termination of employment or the verification of other relevant contractual provisions. In such cases all other deferred payments will also be advanced by one year (to 2021, 2022, 2023, 2024 and 2025 respectively)

<sup>6</sup> Including other identified staff assimilated to Senior Management according with applicable regulations

of annual variable remuneration is above 50K or one third of the total annual remuneration. (lower thresholds could be defined at local level).

- (i) The 2020 System can also be used for other forms of variable remuneration (e.g. sign-on, buy-out) and for severance payments to Group employees, for whom regulation foresees deferred payments in financial instruments.
- (j) The number of shares to be allocated in each installment will be defined in 2021, on the basis of the arithmetic mean of the official market price of UniCredit ordinary shares during the month preceding the Board to which the 2020 bonuses are submitted for information, after having evaluated performance achievements. For the shares to be granted as severance payments, the arithmetic mean will be calculated considering the official market price of the month of June 2020 for the severances contracted during the first half of 2020 and the month of December 2020 for the severances contracted during the second half of 2020, unless a different decision is made by the Board of Directors for the management of specific cases.
- (k) The allocation of a maximum number of 14,460,000 UniCredit ordinary shares is estimated, representing about 0.65% of UniCredit share capital, of which maximum n° of 2,900,000 UniCredit ordinary shares can be used for the payment of other forms of variable remuneration and of severances.
- (l) The Board of Directors – having verified that all foreseen conditions have been met – at the end of the shares retention period (one year both on upfront and deferred shares) will be entitled to assign free UniCredit ordinary shares that will be freely transferable<sup>7</sup>.

### Changes to the 2020 System

Considering the regulatory and legal provisions (also in the fiscal area) applicable in some of the countries where the Group companies are based, in line with the practice of previous years, it is considered to provide for the employees of some Group Legal Entities (e.g. Zagrebačka Banka in Croatia, UniCredit Bank Czech Republic & Slovakia and UniCredit Bank Srbija), several adaptations for the implementation of 2020 System (providing, for example, for the use of local company shares instead of UniCredit shares).

In order to guarantee the compliance with regulatory and legal provisions (also in fiscal area) in the countries where the Group companies are based, and to ensure that the implementation of 2020 system will not have any adverse effects (legal, fiscal or other) on Group Companies and/or beneficiaries residing in countries where the Group operates, it is deemed relevant to grant the delegation with every opportune power to the Chief Executive Officer and the Head of Group Human Capital to implement, also separately and with the power to sub-delegate to the Executive Staff of the Head Office, some adaptations to the 2020 System that do not change substantially the content of the resolutions of General Shareholders' Meeting, also via alternative solutions that fully comply with the principles of 2020 System and allow the achievement of the same results (e.g. a different percentage distribution of the various installments of payments; a different deferral period; a different period of claw-back; a different retention period on granted shares; allocation of local company shares instead of Group ordinary shares; application of Entry Conditions that may incorporate profitability, capital position and liquidity results of local Group companies; extension of 2020 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 multiplying the number of shares

---

<sup>7</sup> As long as the Beneficiary is not subject to withholding duties on UniCredit SpA shares as provided by the possibly applying Share Ownership Guidelines or other restrictions under the corporate policies (e.g. internal / personal dealing)

to be assigned by the arithmetic mean of the official market price of ordinary shares during the month preceding each Board resolution executing the payment of each shares installment after the end of the mandatory retention period). 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 2020 System**

The issue of UniCredit free ordinary shares necessary for the execution of the 2020 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, in one or more instances 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 123,146,209 corresponding to up to 13,100,000 UniCredit ordinary shares, to be granted to the beneficiaries of the 2020 System.

Such an amount does not include the last tranche of shares scheduled for 2026, since the power to increase the share capital pursuant to Article 2443 of the Italian Civil Code may be exercised for a maximum period of five years from the date of registration of the shareholders' resolution granting the proxy and therefore, with respect to the date of today's shareholders' resolution, until 2025. Therefore, for the allocation of the last tranche of shares scheduled for 2026 a proposal to supplement the proxy already granted to the Board of Directors in order to complete the execution of the 2020 System will have to be submitted to a future shareholders' meeting.

Such capital increase will be done using the special reserve known as "Provisions Linked to the Medium Term Incentive System for Group Personnel", which, if needed, may be restored or increased via allocation of profits or a portion of available statutory reserves, formed through the allocation of company profits that shall be identified by the Board of Directors at the moment of shares issuance. In case it will not be feasible to proceed with the issuance (full or partial) of UniCredit ordinary shares to serve the 2020 System (also due to the lack of reserves in the "Provisions Linked to the Medium Term Incentive System for Group Personnel"), an equivalent amount in cash will be allocated to the beneficiaries, determined multiplying the number of shares to be assigned by the arithmetic mean of the official market price of ordinary shares during the month preceding each Board resolution executing the payment of each shares installment after the end of the mandatory retention period.

- - -

Dear Shareholders,

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

"UniCredit S.p.A.'s ordinary shareholders' meeting, having heard the Board of Directors proposal,

#### RESOLVES

1. to adopt the 2020 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 under the terms described above;

2. to confer to the Chief Executive Officer and to the Head of Group Human Capital, 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 there will not be any adverse effects (legal, tax or other) on Group Companies and/or beneficiaries residing in countries where the Group operates."