

# Unlock your potential

## 9. 2022 Group Incentive System

Directors' Report

8 April 2022

Ordinary part Shareholders' Meeting



# 2022 Group Incentive System

Dear Shareholders,

We have called this ordinary meeting to request your approval of 2022 Group Incentive System (the “2022 System”), providing for the grant of an incentive in cash and/or equity instruments, 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 24th, 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 (the “information document”), 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 the Group Remuneration Policy (as also submitted for approval to the Ordinary General Meeting), the provisions issued by Bank of Italy on remuneration and incentives policies and practices (Circular n. 285 - December 17, 2013 and subsequent updates), the provisions set forth in the European Directive 2019/878/UE (Capital Requirements Directive, also CRD V) 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 People & Culture 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 Directive 2019/878/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.

## 2022 GROUP INCENTIVE SYSTEM

### Goals

The 2022 System aims to incentivise, 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, 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 2022 System, identified in compliance with the regulatory provisions in force, are:

- The Group Chief Executive Officer (Group CEO), the Group Executive Committee’s members (GEC) and Group Chief Audit Executive (Group CAE);

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

- The Executives directly reporting to GEC members (GEC-1), Group CAE direct reports and other Senior Management<sup>2</sup> positions e.g. Board members of relevant and identified Group Legal Entities;
- Other selected roles of the Group with a material impact on the risk profile of the Group.

The total estimated number of beneficiaries is ca. 1,100 based on population identified in the last years. The logic and overall amount of the Incentive System, as in previous years, apply to the entire Group population.

## Elements of 2022 System

Without prejudice to what is illustrated in greater detail in the Information Document (and in the Group Remuneration Policy), to which reference should be made, the 2022 System has the following main characteristics.

- In line with previous years, the 2022 System is based on a “bonus pool” approach for determining the variable remuneration to be paid starting from 2023. The connection among profitability, risk and reward is assured by linking directly the bonus pool with company results, cost of capital and risk profiles relevant for the Group as stated in the Group Risk Appetite Framework.
- The bonus pool will be defined based on Group performance, with following cascading to Divisions according to risk-adjusted performance indicators and distributed to employees according to individual performance.
- The 2022 System - besides having the goal to incentivise, 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 equity instruments;
  - the distribution of equity instruments payments with equity instruments retention periods (one year for both upfront and deferred equity instruments);
  - 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.
- Malus conditions (“Zero Factor” or “Reduced Scenario”) will be applied in case specific thresholds on capital, liquidity and profitability are not met at Group level. In particular, the Bonus Pool linked to 2022 performance will be zeroed or reduced, 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 annual performance appraisal is based on specific goals, with a balanced mix, based on the role and seniority, of financial quantitative KPIs and qualitative goals, including both strategic and sustainability priorities, as well as conduct and behavioural elements inspired by Group culture and corporate values.
- For Group CEO, GEC and GEC-1 (excluding Executives belonging to control functions, People & Culture and “Dirigente Preposto”) additional long-term performance conditions related to 2023-2025 are defined - in order to promote a medium-long term orientation, and provide for a multi-year period of performance evaluation - certain additional long-term performance conditions in relation to the years 2023-2025, the actual degree of achievement of which will make it possible to re-evaluate (as applicable, cancel, reduce, confirm or increase up to 30%, and in any case in compliance with the

<sup>1</sup> Staff members below GEC-1 which are senior management of the Legal Entities of Group MBU. This includes: Group CEO, Heads of Group Businesses/Divisions, Heads of Group Competence Lines, Group CEO reporting lines and all other Senior Management roles in Group Legal Entities (as defined by Bank of Italy) receiving a significant amount of variable remuneration

variable to fixed regulatory cap) the deferred component of the award (60% of annual award). Such additional long-term performance conditions consider two levers: absolute profitability (70% weight via RoTE with CET1 underpin) and relative returns (30% weight via relative TSR vs. peers).

(g) The overall incentive payout will be made over a multi-year period, based on what is stated below, 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) and subject to continuous employment at each date of payment<sup>3</sup>:

- in 2023 the first instalment of the overall incentive will be paid in cash and shares;
- the remaining amount of the overall incentive will be assigned in various instalments in cash and/or equity instruments during the period:
  - 2026-2028 for Group CEO, GEC and GEC-1 (excluding control functions, People & Culture and “Dirigente Preposto”)
  - 2024-2028 for GEC and GEC-1 (belonging to control functions, People & Culture and “Dirigente Preposto”), Group CAE and other Senior Management whose variable remuneration amount exceeds 430,000 €
  - 2025-2028 for other Senior Management whose variable remuneration amount is equal or below 430,000 €
  - 2024-2027 for other Material Risk Takers.

Each tranche will be subject to the application of the Zero Factor for the year of allocation.

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

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

	2023 <sup>5</sup>	2024	2025	2026	2027	2028	2029
Group CEO and GEC (excluding control functions*, People & Culture and “Dirigente Preposto”)	20% cash	20% shares			20% shares	20% shares	20% shares
GEC belonging to control functions*, People & Culture and “Dirigente Preposto” and Group CAE	20% cash	20% shares	12% shares	12% shares	12% shares	12% shares	12% shares

<sup>3</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 equity at the end of the period of retention

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

<sup>5</sup> The first year of payment may be 2022 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 2023, 2024, 2025, 2026, 2027 and 2028 respectively)

\* Audit, Compliance, Risk Management

GEC - 1 (excluding control functions* and People & Culture)	20% cash	20% shares			20% shares	20% cash + 20% shares	
GEC - 1 belonging to control functions* and People & Culture, Group CAE direct reports and Other Senior Management with variable remuneration > €430k <sup>6</sup>	20% cash	20% shares	10% shares	10% shares	10% shares	20% cash + 10% shares	
Other Senior Management with variable remuneration ≤ €430k	25% cash	25% shares	5% cash	10% shares	10% shares	10% cash + 15% shares	
Other Material Risk Taker with variable remuneration > €430k	20% cash	20% shares	15% shares	15% cash + 15% shares	15% cash		
Other Material Risk Taker with variable remuneration ≤ €430k	30% cash	30% shares	10% shares	10% cash + 10% shares	10% cash		

- (j) 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 of annual variable remuneration is above EUR 50.000 or one third of the total annual remuneration of beneficiary (lower thresholds could be defined at local level).
- (k) The 2022 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 and payment in financial instruments.
- (l) The number of shares to be allocated in each instalment will be defined on the basis of the arithmetic mean of the official market price of UniCredit ordinary shares during the month preceding the Shareholders' Meeting approving the 2022 Group Incentive System.

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 2022 for the severances contracted during the first half of 2022 and the month of December 2022 for the severances contracted during the second half of 2022, unless a different decision is made by the Board of Directors for the management of specific cases<sup>7</sup>.

- (m) The free allocation of a maximum number of 19,700,000 UniCredit ordinary shares is estimated, representing about 0.88% of UniCredit share capital.

<sup>6</sup> Including other Material Risk Taker assimilated to Senior Management according with applicable regulations

<sup>7</sup> For example, by taking as a reference the average market price for a given period of time prior to the conclusion or approval of the Severance agreement.

\* Audit, Compliance, Risk Management

- (n) The Board of Directors - having verified that all foreseen conditions have been met - may establish, at its own discretion, whether to grant, on the dates indicated in the above tables, shares subject to a non-availability restriction (for a period of one year for both "immediate" and "deferred" shares), or to grant the shares only at the end of the aforesaid restriction periods (in which case they are freely transferable as soon as they are granted)<sup>8</sup>.

## Changes to the 2022 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 2022 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 2022 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 Group Chief Executive Officer and the Head of Group People & Culture to implement, also separately and with the power to sub-delegate to the Executive Staff of the Head Office, some adaptations to the 2022 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 2022 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 UniCredit ordinary shares; application of Entry Conditions that may incorporate profitability, capital position and liquidity results of local Group companies; extension of 2022 System application to other beneficiaries considered as equivalent to material risk takers; 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 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 instalment after the end of the mandatory retention period).

Moreover, following any changes in the laws in force and/or in relation to any extraordinary and/or unforeseeable circumstances that may affect the Group, the Company or the market in which it operates, the Board of Directors, having heard the opinion of the Remuneration Committee, reserves the right to adapt the 2022 System and the related rules, consistently with the overall structure approved by the Shareholders' Meeting and insofar as it is necessary to keep the essential contents of the 2022 System as unchanged as possible, preserving its main incentive and loyalty-enhancing purposes.

## Sourcing of shares for the 2022 System

Consistently with the practices observed in the market and with the remuneration strategy for shareholders, starting from 2022 it is proposed to use own shares (possibly also through dedicated Share Buy Back "SBB") as alternative and preferred method to Free Capital Increase (FCI) for sourcing the shares under the new and previous Group incentive systems.

For previous incentive systems, a specific proposal is submitted to today's Shareholders' Meeting.

For the 2022 System, differently from the past, no specific request to issue UniCredit free ordinary shares via FCI will be submitted to today's Shareholders' Meeting, having been considered preferable, as anticipated, to use own shares.

Any dedicated proposals of SBB or FCI relating to the 2022 System will be submitted to the General Meeting from time to time on the basis of the actions necessary to serve the 2022 System, depending on the evaluation that, in light of the broader economic context, will be carried out by Management and the Board of Directors and without prejudice to the need to obtain Supervisory approvals. In case it will not be feasible to proceed with the allocation (full or partial) of UniCredit ordinary shares to serve the 2022

<sup>8</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)

System, 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.

## Management of 2020 – 2023 Long Term Incentive (LTI) Plan

Considering the review of UniCredit strategic plan and the connected review of the variable remuneration framework, with the introduction of the new 2022 System – which provides, as noted above, for certain categories of personnel<sup>9</sup>, certain additional long-term performance conditions with respect to the years 2023-2025 – it is proposed to offer the beneficiaries of the 2020 – 2023 Long Term Incentive Plan (“LTIP”) against an agreed reduction in the so-called bonus opportunity linked to the LTIP, a correlated increase in the so-called bonus opportunity under the 2022 System (subject to compliance with the limits in terms of the ratio between fixed and variable remuneration).

In this regard, it is recalled that LTIP was approved by Shareholders’ Meeting on April 9th 2020, and provides for the grant of an incentive in free ordinary shares, to selected Group employees, over a multi-year period linked to the 2020-2023 Multi-Year Plan (MYP - Team '23) and subject to the achievement of specific performance conditions.

In particular, it is proposed to keep the LTIP plan in place (which therefore remains unchanged in all its structural elements, as approved by the Shareholders' Meeting on April 9, 2020, including gate, objectives, duration of the vesting period, terms and methods of payment of the incentive, etc.) however agreeing with the beneficiaries a reduction in the amount of the equity incentive potentially assignable within the same (in other words, proceeding with the cancellation of the quotas referred to the 2022 and 2023 financial years so as to be able to increase the bonus opportunity linked to the 2022 System, in compliance with the ratio between fixed and variable remuneration).

The above change opportunity is closely tied to the launch of the new 2022 System, to ensure full alignment between incentive systems and business strategy, and is subject to the consent of LTIP beneficiaries.

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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 2022 Group Incentive System which provides for the allocation of an incentive in cash and/or UniCredit equity instruments, over a multi-year period, to selected UniCredit Group employees, in the manner and under the terms described above;
2. to allow the possibility to offer to the beneficiaries of the 2020-2023 Long Term Incentive Plan (LTIP) an agreed reduction in the amount of the incentive potentially achievable by them under the LTIP plan (in particular, of the portions referring to the financial years 2022 and 2023), against a correlated increase in the amount of the incentive potentially achievable under the 2022 Scheme (in compliance with the ratio between fixed and variable remuneration, in the terms and methods illustrated above);
3. to confer to the Group Chief Executive Officer and to the Head of Group People & Culture, 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

<sup>9</sup> For the Group Chief Executive Officer, GECs and GEC-1s (with the exception of personnel in the Control Functions, People & Culture, and the “Dirigente Preposto”)



which represent part of it, also rendering any amendments and/or integrations to the 2022 System which should be necessary to enact the present deliberations of today's Shareholders' Meeting (in the cases, under the terms and in compliance with the general principles outlined above).