



# Unlocking...

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## 7. 2023 Group Incentive System

Directors' Report

31 March 2023

Ordinary part Shareholders' Meeting

Empowering  
Communities to Progress.

 **UniCredit**

# 2023 Group Incentive System

Dear Shareholders,

We have called this ordinary meeting to request your approval of 2023 Group Incentive System (the “2023 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, defines - coherently with the proposal under item No. 8 on the agenda of today's Ordinary Shareholders Meeting - for the whole population a maximum ratio between variable and fixed remuneration of 2:1 except for the staff for whom more stringent local regulatory cap applies. 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, 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.

## 2023 Group Incentive System

### Goals

The 2023 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 2023 System, identified in compliance with the regulatory provisions in force, are:

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

- The Group Chief Executive Officer (Group CEO), the Group Executive Committee's members (GEC) and Group Chief Audit Executive (Group CAE);
- 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.950 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 2023 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 2023 System has the following main characteristics.

- In line with previous years, the 2023 System is based on a “bonus pool” approach for determining the variable remuneration to be paid starting from 2024. 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 2023 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 2023 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 2024-2026 are

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<sup>2</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

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 2024-2026, the actual degree of achievement of which will make it possible to re-evaluate (as applicable, cancel, reduce, confirm or increase up to 20%, and in any case in compliance with the 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 (80% weight via RoTE with CET1@13%) and Sustainability (20% weight via qualitative assessment on ESG volumes, DE&I ambitions and climate-risk Net Zero commitments).

- (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>:
- for the CEO, GEC members and Group Chief Audit Executive, in 2025 the first instalment of the total incentive will be paid in free UniCredit ordinary shares;
  - for all other Group Material Risk Takers, in 2024 the first instalment of the total incentive will be paid in cash and in 2025 the first instalment will be paid in free UniCredit ordinary shares;
  - the remaining amount of the overall incentive will be assigned in various instalments in cash and/or equity instruments during the period:
    - 2028-2030 for Group CEO and GEC (excluding Control Functions, People & Culture and Manager in Charge of Drafting the Company Financial Reports);
    - 2026-2030 for GEC belonging to Control Functions and People & Culture, Manager in Charge of Drafting the Company Financial Reports and Group CAE;
    - 2028-2029 for GEC-1 (excluding Control Functions and People & Culture);
    - 2026-2029 for GEC-1 belonging to Control Functions and People & Culture, Group CAE direct reports and other Senior Management;
    - 2026-2028 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:

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<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)

	2024 <sup>5</sup>	2025	2026	2027	2028	2029	2030
Group CEO and GEC (excluding control functions*, People & Culture and “Dirigente Preposto”)		40% shares			20% shares	20% shares	20% shares
GEC belonging to control functions*, People & Culture and “Dirigente Preposto” and Group CAE		40% shares	12% shares	12% shares	12% shares	12% shares	12% shares
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% cash	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 identified staff 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).

<sup>5</sup> The first year of payment may be 2023 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 2024, 2025, 2026, 2027, 2028 and 2029 respectively)

\* Audit, Compliance, Risk Management

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

- (k) The 2023 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 in deferred payments and in financial instruments.
- (l) To align interests with shareholders from day-1 of performance, share conversion price (i.e. price to convert EUR amount in number of granted shares) is confirmed to be set at the beginning of the performance period, based on the market share price at the beginning of the performance period (average price from the beginning of the year until AGM approving incentive system to reduce the possible volatility stemming from a shorter observation period), adjusted to take into account availability constraints during deferral period, as per regulatory requirements<sup>7</sup>
- (m) The free allocation of a maximum number of 11,263,017 UniCredit ordinary shares is estimated, representing about 0.58% of UniCredit share capital.
- (n) The Board of Directors - having verified that all foreseen conditions have been met - may to 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 2023 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 2023 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 2023 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 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 2023 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 2023 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 2023 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

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<sup>7</sup> Considering the regulatory prohibition to distribute dividends or to accrue them and pay them ex-post (Bank of Italy Circolare 285; EBA guidelines), a discount for the share conversion price is applied for unavailability of shares so to restore the value at arm's length with the market. The model, certified by Risk Management function, is based on expected dividends from public source i.e. listed futures, discounted via a risk-free cash flows approach to infer expected dividends till instruments delivery, weighted according to the sizes and the time periods of each deferrals plan.

<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)

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 2023 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 2023 System as unchanged as possible, preserving its main incentive and loyalty-enhancing purposes.

## Sourcing of shares for the 2023 System

Consistently with the practices observed in the market and with the remuneration strategy for shareholders, also for 2023 it is proposed to use own shares (possibly also through dedicated Share Buy Back "SBB") as alternative method to Free Capital Increase (FCI) for sourcing the shares under the new and previous Group incentive systems.

For the 2023 System, as done in 2022, no specific request to issue UniCredit free ordinary shares via FCI will be submitted to today's Shareholders' Meetings.

Any dedicated proposals of SBB or FCI relating to the 2023 System will be submitted to the General Meeting from time to time on the basis of the actions necessary to serve the 2023 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 2023 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 instalment after the end of the mandatory retention period.

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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 2023 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 confer to the 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 which represent part of it, also rendering any amendments and/or integrations to the 2023 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).