

# One Bank, One UniCredit.

## 6. 2019 Group Incentive System

Director's Report

2019

Ordinary and Extraordinary Shareholders' Meeting



# 2019 Group Incentive System

Dear Shareholders,

We have called this ordinary meeting to request your approval of 2019 Group Incentive System, providing for the grant of an incentive in cash and/or free ordinary shares, to selected beneficiaries of Group employees, over a multi-year period according to the modalities described below subject to the achievement of specific performance conditions.

This proposal has been formulated in compliance with the provisions of section 114-bis of 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; for this purpose, a document describing the details of the incentive systems 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 reference is made to detailed description of the incentive system described in this report.

This proposal is in line with Group Compensation Policy and considering the indications issued by Bank of Italy on remuneration policies and practices, and the direction set by the European Directive 2013/36/UE (Capital Requirements Directive, also CRD IV) and by 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<sup>1</sup>, except for the staff of the Corporate Control Functions<sup>2</sup>, for which it is expected that the fixed remuneration is a predominant component of total remuneration and incentive mechanisms are consistent with the assigned tasks as well as independent of results from areas under 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 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 market and the ability to attract and retain individuals with professionalism and skills adapted to the needs of the Group.

## 2019 GROUP INCENTIVE SYSTEM

### Goals

The 2019 Group Incentive System (the “2019 System”) aims to incentive, motivate and retain Group beneficiaries, in compliance with national and international regulatory requirements with the aim to define – in the interest of all stakeholders – incentive systems aligned with long term company strategies and goals, linked to Group results, adjusted in order to consider all risks, in coherence with 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 in its whole.

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<sup>1</sup> For Human Resources function and, where existing, for the Manager in Charge of drafting the Company Financial Reports set forth by TUF in section 154-bis, the variable component, if any, is contained, as defined in Bank of Italy Circular 285 of December 17th, 2013.

<sup>2</sup> Internal Audit, Risk Management and Compliance. under Bank of Italy Circular 285 of December 17th, 2013.

## Beneficiaries

The potential beneficiaries of the 2019 System, as provided by the criteria issued by Commission Delegated Regulation (EU) No 604/2014 of March 4th, 2014 – are:

- UniCredit Chief Executive Officer (CEO) and General Manager (GM), 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 greater than 500,000 in 2018;
- 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 2019 system

- (a) 2019 System provides for the same approach adopted in the previous years (based on the “bonus pool approach”) for determining variable remuneration to be paid in 2020. The connection among profitability, risk and reward is assured by linking directly bonus pools with company results (at Group and local 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 assigned to employees according to individual performance.
- (c) The 2019 System – besides having the goal to incentive, retain and motivate beneficiaries – is aligned with the national and international regulatory requirements providing for:
  - allocation of a variable incentive based on defined bonus pool, individual performance evaluation, benchmark for specific roles/markets and bonus cap as set by the Ordinary Shareholder’s meeting;
  - definition of a balanced structure of upfront (done at the moment of performance evaluation) and deferred payments, in cash and in shares;
  - distribution of share payments with share retention periods (a retention period on upfront and deferred shares of one year);
  - 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) Malus condition (“Zero Factor”) applies in case specific thresholds (profitability, capital and liquidity) are not met at both Group and Country/Division level. In particular, the Bonus Pool of 2019 will be zeroed, while previous systems deferrals could be reduced from 50% to 100% of their value, based on final effective results and dashboard assessments done by Group Risk Management function. Individual performance appraisal is based on specific goals, linked to the UniCredit 5 Fundamentals of Competency Model: “*Customers First*”; “*People Development*”; “*Cooperation and Synergies*”; “*Risk Management*”; “*Execution and Discipline*”.
- (e) Incentive payouts shall be made over a multi-year period subject to continuous employment at each date of payment and as follows:
  - in 2020 the first installment of the overall incentive will be paid in cash and/or shares in 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 several installments in cash and/or UniCredit free ordinary shares during the period:

- 2021-2025 for Senior Management (Executive Vice President and above)<sup>3</sup>.
- 2021-2023 for the remaining identified staff (Senior Vice President and other roles).

Each individual tranche will be subject to the application of the Zero Factor for the year of allocation and in 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).

- (f) The final evaluation of Group sustainable performance parameters and risk-reward alignment will be reviewed by the Remuneration Committee and the Board of Directors of Unicredit.
- (g) The percentages of payments in cash and shares<sup>4</sup> are defined considering beneficiary categories, as described in the following table:

	2020	2021	2022	2023	2024	2025
Senior Management (EVP and above) with variable remuneration > €430k <sup>5</sup>	20% cash	20% shares	12% cash	12% shares	12%	12% cash + 12% shares
Senior Management (EVP and above) with variable remuneration ≤ €430k <sup>5</sup>	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 mechanism would not apply (75,000 Euro or a lower threshold that could be defined at local level).
- (i) The 2019 System can also be offered during the hiring process of outside employees, in the event that new hires are already beneficiaries of deferral incentive plans (Bonus “buy-out”); in this circumstance the payment scheme that would be offered will reflect the scheme defined by previous Employer, in accordance to local Regulators. The free capital increase that will be carried out for the 2019 System could be also used for other variable remuneration (e.g. sign-on / welcome bonus, special awards, retention bonus) and for severance payments to Group employees, for whom the regulation foresees deferred payments in financial instruments.

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

- (j) The number of shares to be allocated in the respective installments shall be defined in 2020, 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 2019 bonuses are submitted for information, after having evaluated performance achievements.
- (k) The allocation of a maximum number of 16,000,000 UniCredit ordinary shares is estimated, representing about 0.72% of UniCredit share capital, of which maximum n° of 3,200,000 UniCredit ordinary shares destined to the payment of so called “bonus buy-out”, of other variable remuneration and to the severance payments.
- (l) The Board of Directors could establish to assign free UniCredit ordinary shares that will be freely transferable at the end of the shares retention period, or in the year of the assignment, but subject to restrictions on the transfer for the foreseen shares retention period (a retention period on upfront and deferred shares of one year).

### **Changes to the 2019 system**

Considering regulatory and legal dispositions (also in fiscal area) in the countries where the Group is present, in line with the practice of previous years, it is considered to provide for the employees of Zagrebačka Banka (Croatia), UniCredit Bank Czech Republic & Slovakia and UniCredit Bank Srbija, several adaptations for the implementation of 2019 System (providing, for example, for the use of local company shares instead of UniCredit shares).

Moreover, as done also in the previous years, for the Executives in Finecobank (Italy) share-based incentive plan 2019 based on Finecobank shares will be offered.

In order 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 the implementation of 2019 system will not have any adverse effects (legal, tax 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 2019 System that do not change substantially the content of resolutions of today General Shareholders' Meeting, also via alternative solutions that fully comply with the principles of 2019 System and allow achievement of the same results (e.g. a different percentage distribution of the various installments of payments; a different period of deferral; a retention period on granted shares; allocation of local company shares instead of Group ordinary shares; application of Entry Conditions that may incorporate profitability, solidity and liquidity results of local Group companies; extension of 2019 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 on the basis of the market value of UniCredit shares, considering 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 2019 system**

The issue of UniCredit free ordinary shares necessary for the execution of the 2019 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, on one or more occasions 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 131,453,966 corresponding to up to 14,000,000 UniCredit ordinary shares, to be granted to beneficiaries for the 2019 System.

Related to section 2443 of Civil Code that provides that the Directors can exercise the right to carry out a free capital increase for a maximum period of five years starting from the date when the Shareholders' meeting resolution providing the delegation of power has been registered and therefore - regarding the date of the AGM resolution - until 2024, in order to assign last share installment provided for 2025, it will be necessary to submit to a future AGM approval a proposal aimed at integrating the delegation of power already provided to the Board of Directors in order to complete the implementation of 2019 System.

The allocation of needed free ordinary shares shall 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 from company profits that shall be identified by the Board of Directors at the moment of share issuance. In case it will not be feasible to proceed with the issuance (fully or partially) of UniCredit ordinary shares to serve the 2019 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 on the basis of the market value of UniCredit shares, considering 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.

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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 2019 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 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."