

# One Bank, One Team, One UniCredit.

## 10. 2020-2023 Long-Term Incentive Plan (2020-2023 LTI Plan)

Director's Report

April 9, 2020

Ordinary and Extraordinary Shareholders' Meeting



# 2020 – 2023 Long Term Incentive (LTI) Plan

Dear Shareholders,

We have called this ordinary meeting to request your approval of the 2020 – 2023 Long Term Incentive Plan (hereinafter also: “2020-2023 LTI Plan” or “LTI Plan”), providing for the grant of an incentive, in 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 plan described in this report.

This proposal is also in line with Group Compensation Policy the provisions issued by Bank of Italy on remuneration and incentive policies and practices, the provisions set forth the European Directive 2013/36/UE (Capital Requirements Directive, also CRD IV) and EBA (European Banking Authority) guidelines.

## 2020 - 2023 LONG TERM INCENTIVE (LTI) PLAN

### Goals

The 2020-2023 LTI Plan aims at aligning Top and Senior Management interests to the long term value creation for the shareholders, to share price appreciation and to Group performance, as well as fostering a sound and prudent risk management, orienting the performance management measurement on a multi-year horizon.

The Plan has also the characteristic to be qualified as a “retention” tool, in order to retain key Group resources for the achievement of the medium-long term Group strategy.

### Beneficiaries

The potential beneficiaries of the LTI Plan are:

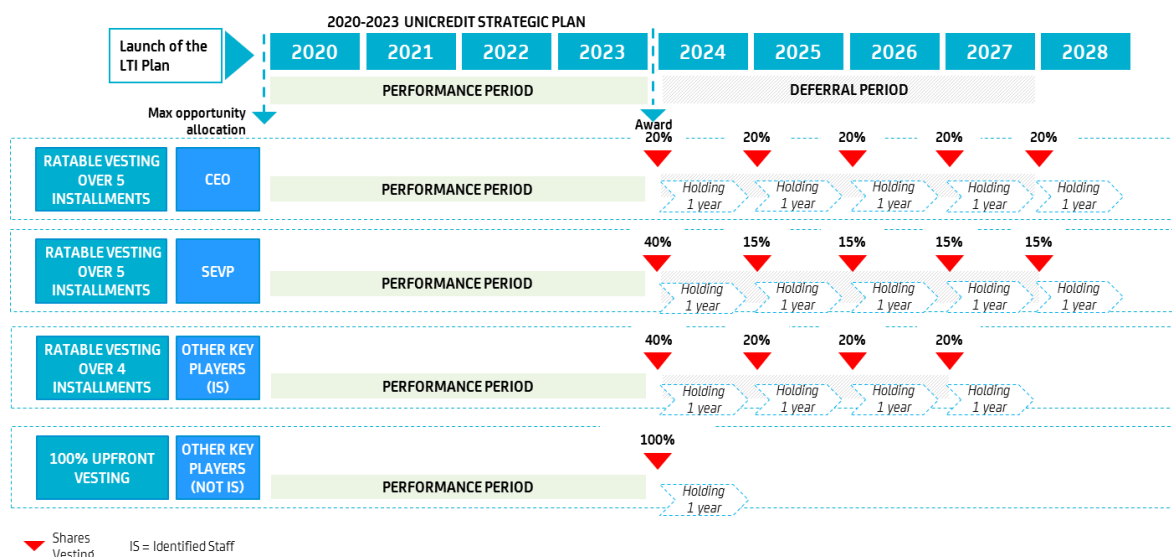
- the Chief Executive Officer (CEO) of UniCredit SpA;
- the Senior Executive Vice Presidents (SEVPs);
- the Executive Vice Presidents (EVPs);
- other Group key roles, including selected talents not belonging to the aforementioned clusters

The personnel of Corporate Control Functions (i.e. Risk Management, Compliance, Internal Audit), of Human Capital function and the Manager in Charge of Drafting the Company Financial Reports “Dirigente Preposto” is excluded from Plan.

### Elements of LTI Plan

- a) The LTI Plan provides for the granting - subject to the achievement of specific performance conditions linked to the 2020-2023 Strategic Plan - of free UniCredit ordinary shares, in several instalments and over a multi-year period.

- b) The overall number of shares to be allocated has been defined on the basis of the arithmetic mean of the official market price of UniCredit ordinary shares, listed in the telematic stock exchange managed by Borsa Italiana SpA, during the 30 days preceding the date on which the Board has approved the proposal that is submitted today to this Shareholders' Meeting.
- c) Percentage of allocation of shares and deferral periods vary, depending on the various categories of beneficiaries, as outlined in the following table:



- d) The final amount of the granting will be defined based on the achievement of specific performance conditions linked to the 2020-2023 MYP, subject to continuous employment at the time of each payment<sup>1</sup>. The shares assigned will be subject to the mandatory deferral periods from the date of assignment of the LTI Plan, as provided for by current regulations. In addition, the shares will be granted only if - during the performance period - the minimum conditions of UniCredit's profitability, capital and liquidity, as well as the positive Risk Appetite Framework and the conditions of compliance with the law, the Company's and Group's compliance rules, the Company's policies and the corporate values referred to in the Code of Conduct are met.
- e) The payments that the beneficiary receives for each year of deferral of the Plan are subject to malus conditions (linked to the UniCredit's profitability, capital and liquidity and to conditions of compliance with the law, the Company's and Group's compliance rules, the Company's policies and the corporate values referred to in the Code of Conduct) and, potentially, to claw-back actions.
- f) The LTI Plan's performance indicators for defining the number of shares to be awarded are as follows:
- Return on Tangible Equity<sup>2</sup> with CET1 underpin<sup>3</sup> (weight: 60%): this KPI will be measured on the basis of its average value over the period 2020-2023, consistently with the objectives of the 2020-2023 Strategic Plan (100% achievement in the case of a value equal to 8.1%; achievement between 0-100% for values between 7.3% and 8.1%);
  - Asset Quality:
    - o NPE ratio "core" (weight: 10%): this KPI will be measured on the basis of its average value over the period 2020-2023, consistently with the objectives of the Strategic Plan 2020-2023 (100% achievement in case of value equal to 3.8%; achievement between 0-100% for values between 4.2% and 3.8%);
    - o Expected Loss New Business Flow without impact of models (weight: 10%): this KPI will be measured on the basis of its average value over the period 2020-2023, consistently with the objectives of the Strategic Plan 2020-2023 (100% achievement in case of a value equal to 0.39%; achievement between 0-100% for values between 0.44% and 0.39%);

<sup>1</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>2</sup> Based on underlying Net Profit consistent with the logic of distribution of capital to shareholders

<sup>3</sup> Access threshold with a CET1 of at least 200 basis points above the regulatory minimum

- Operating Expenses (weight: 10%): this KPI will be measured on the basis of its value at the end of the Plan and consistently with the objectives of the 2020-2023 Strategic Plan (100% achievement in case of a value equal to € 10.2 billion; achievement between 0-100% for values between € 10.5 billion and € 10.2 billion);
- Sustainability (weight: 10% equally distributed):
  - ESG Sustainalytics rating: this KPI will be measured on the basis of its value at the end of the 2020-2023 Strategic Plan compared to the standard Peer Group used for remuneration purposes (100% in the case of placement in third place; 75% in the case of placement in fourth place; 50% in the case of placement in fifth place; 0% in the case of placement below fifth place);
  - Customer Experience on the basis of the Net Promoter Score: this KPI will be measured on the basis of its value at the end of the 2020-2023 Strategic Plan with respect to competition at country level - analysis carried out at individual country level and then aggregated to obtain results at Group level (reaching 100% in the case of a value equal to +3 points with respect to competition; reaching between 0 and 100% in the case of values between +1 and +3 points with respect to competition);
  - People engagement on the basis of the Internal Engagement Index<sup>4</sup>: this KPI will be measured on the basis of the average of two surveys during the course of the 2020-2023 Strategic Plan (reaching 100% in the case of a value equal to 73 points; reaching between 0 and 100% for values between 71 and 73 points).

For the CEO only, 100% of the variable remuneration is allocated on Long Term Incentive, out of which 20% of the yearly opportunity is also subject to yearly goals achievement, annually disclosed in the Group Compensation Policy. The LTI yearly portion is unlocked when the overall performance evaluation is, based on current taxonomy, at least "Solid" in a 5-rating scale (i.e. Inadequate, Inconsistent, Solid, Strong and Outstanding).

The overall performance, capped at maximum 100% of the shares for which each beneficiary is eligible, includes also the over-achievement for one or more KPIs (KPI result above MYP target) and may compensate those other KPIs whose result are below the MYP target but at least at their minimum threshold level.

- g) The Board of Directors will also carry out a final assessment on the basis of Total Shareholder Return in relative terms and on a comprehensive evaluation of the overall performance achieved during the Plan period, also based on other managerial KPIs included in the MYP, market context and compensation trends, reputational impacts, risks, relative RoTE, innovation and digitalization level of the Bank. Such assessment may lead to a decrease down to 0 or an increase up to maximum 20% (upwards adjustment is not applicable to Group CEO) of the shares to be awarded under the Plan. However the overall final number of shares assigned under the LTI Plan may in no event exceed the maximum 100% of the shares for which each Beneficiary is eligible.
- h) In line with the relevant regulations, the distribution of payments in shares provides for a retention period of one year on the shares themselves.
- i) Once the conditions set forth in the LTI Plan have been verified, the Board of Directors, at the end of the period of restriction, may assign freely transferable<sup>5</sup> free ordinary UniCredit shares.
- j) The LTI Plan could also be offered during the hiring process of external employees for the coverage of key roles in the Group, up to June, 30 2021, with a pro-quota participation.
- k) It is estimated that a maximum of 9,400,000 free ordinary UniCredit shares<sup>6</sup> will be assigned, representing approximately 0.42% of UniCredit's share capital.

### Changes to the LTI Plan

In order to guarantee the compliance with regulatory and legal provisions (also in fiscal area) in the countries where the Group is present, and to ensure that the implementation of the LTI Plan 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 LTI Plan that

<sup>4</sup> In case of changes to the methodology used internally, the target and minimum levels will be modified accordingly

<sup>5</sup> As long as the beneficiary is not subject to obligations to maintain the shares of UniCredit S.p.A. as provided for by the Share Ownership Guidelines, if any, or by other restrictions provided for by company policies (e.g. internal/personal dealing)

<sup>6</sup> In the case of capital transactions (e.g. capital increase) subsequent to the determination of the maximum number of shares, in order to maintain a situation of neutrality for the holders of the securities concerned by the transaction, the application of adjustment factors is provided for

do not change substantially the content of the resolutions of today General Shareholders' Meeting, also via alternative solutions that fully comply with the principles of LTI Plan 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 different period of claw-back; a different retention period on granted shares; application of Entry Conditions that may incorporate profitability, capital position and liquidity results of local Group companies; paying an equivalent amount in cash in lieu of granting shares, to be determined 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 each Board resolution executing the payment of each shares installment after the end of the mandatory retention period).

In case of recasting to the Strategic Plan perimeters, regulatory changes impacting the Group (not exhaustive examples: changes in the calculation of the RWA, capital definition) or extraordinary corporate events, the Board of Directors may decide, at its unquestionable discretion, to approve any possible amendments and/or integrations to the LTI Plan Rules which will be necessary and/or appropriate to align the scorecard to the Strategic Plan.

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 2020-2023 LTI Plan**

As in the past, the powers for the issue of the UniCredit free ordinary shares necessary for the execution of the the LTI should be object of a delegation of powers of attorney by the Extraordinary Shareholder Meeting to the Board of Directors, in compliance with sect. 2443 of the Civil Code.

Considering that the LTI Plan proposed today provides for an extension of its duration with respect to the previous plan (which covered the three-year period 2017-2019) and that the first issue and simultaneous grant of shares to the beneficiaries is scheduled to take place only during the first half of 2025 and, conversely, the right to increase the share capital in accordance with art. 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 to grant the proxy, differently from the past, it is not proposed to today's Shareholders' Meeting to grant the Board of Directors the relevant proxy to increase the share capital.

A proposal for the conferment of the proxy to increase the share capital to service the LTI Plan, in one or more tranches, within a maximum period of five years, by a maximum of € 125,000,000 corresponding to a maximum of 9,400,000 ordinary UniCredit shares, to be assigned, pursuant to Article 2349 of the Italian Civil Code, to the beneficiaries of the LTI 2020-2023 Plan will be therefore submitted to a future Shareholders' Meeting.

Such an increase in capital will be performed by 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 LTI Plan (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.

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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 2020-2023 Long Term Incentive Plan, which provides for the allocation of an incentive in 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. Notwithstanding any possible amendments and/or integrations to the LTI Plan Rules which will be necessary and/or appropriate to align the scorecard to the Strategic Plan in case of any recast to the Strategic Plan perimeters, regulatory changes impacting the Group or extraordinary corporate events, will be subject to the Board of Directors approval.”