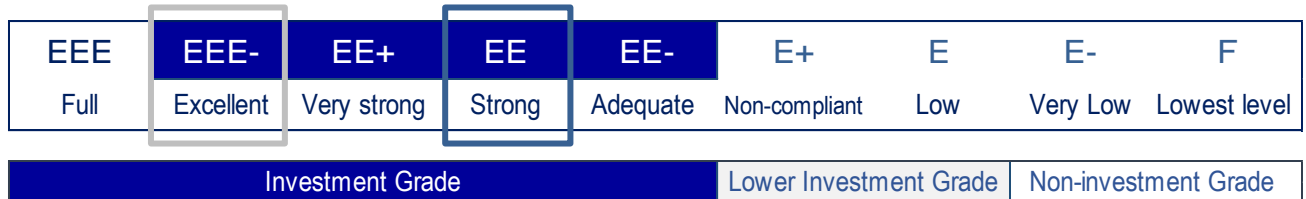


Standard Ethics Rating [SER]: **EE** *Outlook stable*  
 Long Term Expected SER [5y to 6y]: **EEE-**

**Issuer:** FinecoBank Spa  
**Listing:** Milan Stock Exchange  
**ISIN:** IT0000072170  
**Market Capitalisation:** 5.4 bn EUR  
**Sector:** Financials  
**Industry:** Banking  
**Type of rating:** Corporate Standard Ethics Rating [SER]  
**Last Issue Date:** 11 June 2018  
**Expiry Date:** 11 June 2019  
**Previous SER:** EE (2017)  
**Edit by:** SE Research Office

Level of Compliance



Summary

FinecoBank is a direct multichannel bank belonging to the UniCredit Group. Its policies and sustainability strategies are in synergy with those of its parent company, UniCredit (“EE+” rating). FinecoBank’s reporting is integrated at Group level.

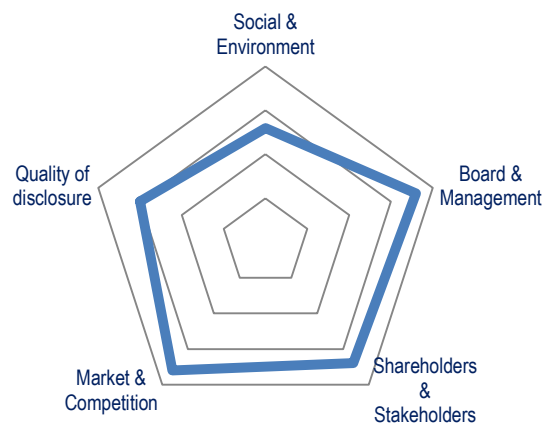
Over the last few years, FinecoBank has: i) independently developed Environmental, Social and Governance (ESG) practices; ii) begun to release additional and independent reporting; iii) set up its own high-level sustainability body; iv) created an advanced system of Investor Relations that deals with ESG issues.

Its internal policies are advanced on many issues such as: i) compliance of services, technology and commercial policies with the best European practices; ii) training and monitoring (including competition); and iii) quality of the working environment.

Its corporate bodies enjoy a high level of independence, diversity of skills and has achieved gender equality.

The level of its Corporate governance is adequate, with its risk management and compliance functions well monitored, and the legal function providing solid support. The long-term outlook is positive.

Snapshot



Regarding the major areas of assessment, further improvements can be done in: reporting, sustainability governance, Code of Ethics

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STANDARD ETHICS LTD  
3RD FLOOR, 14 HANOVER STREET, W1S 1YH LONDON, UK  
COMPANY NUMBER: 7703682

Published and produced by SE Research Office  
Analysis, research, review: B.Gornati, A.Russo, G.Giannerini  
External Relations: Filippo Cecchi (Head of Communication and Public Affairs Office)

Hub and Corporate Website in [www.standardethics.eu](http://www.standardethics.eu)  
For all inquiries, please write to: [headquarters@standardethics.eu](mailto:headquarters@standardethics.eu)

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- 2020 e 2030 EUROPEAN STRATEGIES
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## BACKGROUND, METHODOLOGY, RATING

In the last two decades, new elements – such as communication technologies and Internet – have created open and transparent financial markets, with the participation of growing segments of non-professional investors (through funds and pension funds or trading platforms), resulting in:

- greater attention to **extra-financial issues**, tangible and intangible, with repercussions on the level of trust;
- new assessments on the quality and **long term durability** of listed financial products, whether related to companies (stocks, bonds, green bonds) or institutional issuers (such as government bonds).

Today, regulated markets, although they can be fallible and volatile, have evolved and are proving to be the most important and independent system in assessing the long-term sustainability of many human activities.

The conclusion of Standard Ethics is that we are facing the end of the classic financial era, focused exclusively on economic variables, which is why the Standard Ethics Rating makes a decisive contribution to the refinement of strategies, languages and ways in which an issuer operates on the market.

### STANDARD ETHICS

Standard Ethics Ltd is an independent London-based agency, which assigns **Solicited Sustainability Ratings** (SSR) to companies and sovereign issuers<sup>1</sup>.

As a brand, Standard Ethics® has operated since 2001 in the world of Sustainable Finance and ESG (Environmental, Social and Governance) studies.

Standard Ethics has a structure supervised by an independent Compliance Officer. The composition of the Board complies with the international guidelines on diversity of nationality, professional skills and gender equality.

### STANDARD ETHICS RATING

The Standard Ethics Rating, that has been put to the test over the last 12 years, is a Solicited Sustainability Rating (SSR).

- **Solicited**, because it is issued only on request by an applicant, the recipient of the rating.
- **Standard**, because any rating is always comparable to others since the algorithms are aligned to the same guidelines. For this reason, clients or other third parties cannot change the agency's principles of evaluation or change the procedures for issuing ratings.
- **Independent**, because its assignment is incompatible with the supply of other services, research and consulting activities related to

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<sup>1</sup> SE may issue unsolicited ratings to create and maintain national sustainability indices. SE publishes and updates the ratings of listed companies that are components of the indices in the website.

the data collected. Furthermore, no common financial and economic interests exist between the rating agency and the applicant.

In short, the Standard Ethics Rating is a rating that intends to deliver an opinion on the **level of compliance** by companies and sovereign nations in the field of sustainability and corporate social responsibility (CSR) on the basis of documents and guidelines published by:

- the United Nations (UN);
- the Organisation for Economic Cooperation and Development (OECD);
- the European Union (EU).

Standard Ethics uses an analyst-driven rating process, so the work to be carried out does not require applicants to fill out forms and questionnaires or draft other documentation in addition to existing information. Standard Ethics analysts will gather the required data.

#### SE ANALYSIS UNIT

Following the methodology based on the Standard Ethics Guidelines and Procedures governing the issue, the Analysis Unit working on this rating has carefully analyzed the following areas (divided into 219 analysis points):

1. MARKET AND COMPETITORS (13)
2. MARKET AND DOMINANT POSITIONS (10)
3. CONTRACTS, FINANCINGS AND PUBLIC AIDS (7)
4. MARKET DISTORTIONS, FAVOURITISM & CORRUPTION (7)
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15. EMPLOYMENT AND HUMAN RESOURCES SELECTION (11)
16. HEALTH, SAFETY AT WORK AND SOCIAL DIALOGUE (16)
17. ADAPTATION TO CHANGES (6)
18. ENVIRONMENT (17)
19. CONSUMERS AND QUALITY (9)
20. SCIENCE AND TECHNOLOGY (4)
21. LOCAL COMMUNITIES (3)
22. BUSINESS PARTNERS (9)
23. HUMAN RIGHTS (6)
24. 2020 e 2030 EUROPEAN STRATEGIES (2)

THE RESEARCH OFFICE  
AND THE RATING  
COMMITTEE

The Research Office has reviewed the analysis and has produced the following report proposing the ratings issued. The Rating Committee has analyzed all data collected and approved the report.

Chinese Walls between clients, Analysis Units, the Research Office, the Rating Committee and all other company offices, ensure maximum transparency. A Compliance Officer oversees all processes.

S.E. ALGORITHM OF  
SUSTAINABILITY ©

Standard Ethics developed an algorithm based on five “standards” and a premium variable called “k” to elaborate data from the Analysis Units ( $F_{CEU}$ ;  $S_{aEU-OECD}$ ;  $Mw$ ;  $I_{dEU-OECD}$ ;  $Cg_{UN-OECD-EU}$ ). The balance between the five "standards" is the final pre-assessment underlying the rating.

**$F_{CEU}$**  = *Fair competition*. Main topics: Fair competition, including analysis of dominant positions, market distortions, cartels. Issues that can affect the other variables (Sources: the EU and conduct regulators in OECD countries).

**$S_{aEU-OECD}$**  = *Shareholders’ agreements*. Main topics: Shareholders’ agreements, rights of minority shareholders, access to information (Sources: the EU and conduct regulators in OECD countries).

**$Mw$**  = *Market weight*. Main topics: Shareholding structure, weight and type of major shareholders, potential conflicts in relation to the other variables (Sources: conduct regulators in OECD countries).

**$I_{dEU-OECD}$**  = *Independent directorship*. Main topics: Structure and quality of apical and control organs, Risk and Control Management system, Risk Analysis. It is one of the standards most likely to mitigate risks of the other issues and can increase the "k" variable. (Sources: the EU and the OECD).

**$Cg_{UN-OECD-EU}$**  = *Governance and Corporate Social Responsibility*. Main topics: Overall assessment of both the policies and the corporate governance by weighting the various elements also in relation to the balance of the other variables (Sources: the EU, OECD and UN).

**k** = *Sustainability at Risk* (SaR). Statistical projection.

$\frac{(F_{CEU} + S_{aEU-OECD} + I_{dEU-OECD} + Mw * f(S_{aEU-OECD}) * f(I_{dEU-OECD}) + Cg_{UN-OECD-EU} * f(F_{CEU}) * f(I_{dEU-OECD}))}{10} + k$	©
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RATING ISSUED

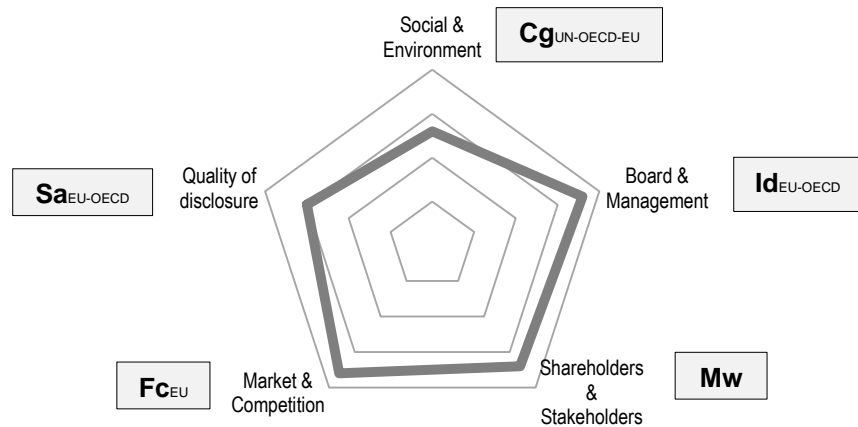
Standard Ethics Rating [SER]: **EE**  
 Long Term Expected SER [5y to 6y]: **EEE-**

ALGORITHM - INPUT  
 VALUES (SUMMARY)

Values for each standard are **between 0 and 2**.  
 Assigned and input values are as follows:

$F_{CEU} = 1.80$   
 $Sa_{EU-OECD} = 1.75$   
 $Mw = 1.05$   
 $Id_{EU-OECD} = 1.80$   
 $Cg_{UN-OECD-EU} = 1.02$

Values are subsequently adjusted by the algorithm. See final info below:



*Banking Sector. Companies under SE rating:*

BNP Paribas	EE+
Nordea Bank	EE+
Uunicredit	EE+
BBVA	EE
Danske Bank	EE
HSBC Holding	EE
Intesa SanPaolo	EE
Svenska Handelsbanken	EE
Swedbank	EE
ABN Amro	EE-
Banca Generali	EE-
Banca MPS	EE-
Banca Pop. di Sondrio	EE-
B. Pop. Emilia Romagna	EE-
Banco BPM	EE-
Banco de Sabadell	EE-
Bankia	EE-
Credito Valtellinese	EE-
Deutsche Pfandbriefbank	EE-

JPMorgan Chase	EE-
Mediobanca	EE-
Skandinaviska Enskilda B.	EE-
Societe Generale	EE-
Standard Chartered	EE-
AIB Holdco	E+
Azimut Holding	E+
Banca Carige	E+
Banca Profilo	E+
Banco Comercial Port.	E+
Banco Santander	E+
Bank of Ireland	E+
Bankinter	E+
Caixabank	E+
Commerzbank	E+
Credit Suisse	E+
CYBG Plc	E+
Goldman Sachs	E+
ING Group	E+

Lloyds Banking Group	E+
Natixis	E+
Raiffeisen Bank Int.	E+
UBS Group	E+
Banca Finnat	E
Banca Ifis	E
Banca Intermobiliare	E
Banco Desio Brianza	E
Barclays Plc	E
BNP Paribas Fortis	E
Credit Industriel et Com.	E
Credit Agricole	E
DNB Group	E
Erste Group Bank	E
KBC Group	E
National Bank of Greece	E
Deutsche Bank	E-
Mediolanum	E-
Royal Bank of Scotland	E-



## FINECOBANK REPORT

### 1. MARKET AND DOMINANT POSITIONS

**FinecoBank** (also Fineco or the Bank) is a **direct multichannel bank** belonging to the **UniCredit Group** with over one million clients and a wide financial advisors network. In general, **UniCredit**, as the parent company of the **UniCredit Banking Group**, manages, coordinates and carries out non-financial (i.e., ESG, Environmental, Social and Governance) **reporting**.

Since its foundation in 1999, FinecoBank has adopted an innovative approach to financial services thanks to banking instruments, investments and trading activities handled with new technologies. In 2002, it became the first online trading operator in Europe.<sup>2</sup>

Its activities are supervised and strictly regulated.

Since the 1926 Banking Law and, in particular, since the 1936 Banking Law, Italy has constantly enjoyed a well-regulated financial and banking system. Between 1944 and 1947 and, subsequently, between 1960 and 1990, a number of measures were taken to increase the number and the powers of supervisory authorities.

It is also important to highlight the fact that Article 47 of the **Italian Constitution** provides clear guidance to the legislator on “safeguarding every form of saving” by underlining that every activity in this area must be supervised and regulated by law.

Since the 1990s, Italian legislation has become even more incisive thanks to an updated regulatory framework (see the 1991 Regulation and the 1993 Consolidated Banking Act or TUBC).

Today, the Italian financial system is regulated by the **Consolidated Banking Act (TUB)**, the **Consolidated Act on Financial Intermediation (TUF)**, the Savings Protection Act (Law no. 262/2005) and by subsequent measures such as the reform of the legislation on financial intermediation due to Legislative Decree no. 141/2010 implementing European Directive no. 48/2008/EC.<sup>3</sup>

The overall purpose of Italian legislation is to ensure an adequate level of transparency of the markets and to increase the guarantees offered to savers. Special powers, scope of actions, coordination and exchange of information<sup>4</sup> between various authorities such as the Bank of Italy<sup>5</sup>, Consob, Covip, Isvap and Agcm are provided for.<sup>6</sup>

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<sup>2</sup> FinecoBank, in one of its most recent Press Releases to the market (7 April 2017), defines itself as: “*UniCredit Group’s direct multichannel bank*”. “...one of the largest financial advisors’ network”, and “... the number one broker in Italy for equity trades in terms of volume of orders\*\*.” It has “an integrated business model combining direct banking and financial advice”. It offers “a single free-of-charge account including banking, credit, trading and investment services, also available through applications for smartphone and tablet. With its fully integrated platform, FinecoBank is the benchmark for modern investors.” Sources: \*Assoreti e \*\*Assosim.

<sup>3</sup> Legislative Decree no.141/2010 amends the regulations on consumer credit and rationalises controls on financial intermediaries as per Title V of the Consolidated Banking Act (TUB).

<sup>4</sup> They need to identify the most appropriate forms of cooperation while excluding mutual enforceability of professional secrecy.

<sup>5</sup> The Bank of Italy, in its capacity as national supervisory authority, supervises banks, banking groups, financial intermediaries, electronic money institutions, and payment institutions (article 5, para. 2 of the Consolidated Banking Act (TUB), for the purposes of i) stability, efficiency and competitiveness of the entire financial system; ii) sound and prudent management of intermediaries; and iii) compliance with credit and financial provisions of law (article 5, para. 1 of the Consolidated Banking Act (TUB)).

<sup>6</sup> Isvap (“*Istituto per la vigilanza sulle assicurazioni private e di interesse collettivo*”, Institute for the Supervision of Insurance); Covip (“*Commissione di vigilanza sui fondi pensione*”, Supervisory Commission on Pension Funds); Agcm (“*Autorità Garante*

The development of the Italian regulatory framework needs to be considered within a wider context. It is undeniable that an incentive to improve controls came from the banking crises of the 1970s and 1980s (Franklin National, Continental Illinois, Banco Ambrosiano, Bank of Credit and Commerce International and other cases). Implementation of measures has led to the so-called “prudential supervision”, decided collectively by the central banks meeting as the **Basel Committee** (Basel Committee on Banking Supervision, BCBS).

In the 1990s the question of governance became central and even more so after the 2008 crisis. On the bases of the Principles of Corporate Governance issued by the **OECD** in 1999, the **Basel Committee** (BCBS) approved the Enhancing Corporate Governance for Banking Organisations (1999), which was modified in 2006 following the new version of the Principles that the OECD updated in 2004. There is no doubt that the context of the guidelines is wider: suffice it to mention the BCBS Principles for Enhancing Corporate Governance published in 2010, or the Corporate Governance Principles for Banks (2015) as recommended by the **Financial Stability Board**<sup>7</sup>. It is also worth mentioning EBA’s guidelines on internal governance (2011) and on the assessment of the suitability of members of the management bodies (2012), the **European Union** Directive no. 2013/36/EU on the central role played by the governance as well as the latest proposals for a Regulation on **ESG** dated May 2018 (COM 2018/354, COM 2018/353, COM 2018/353).

**FinecoBank** mainly focuses on the Italian market.

For the purposes of our Rating, in relation to **fair competition**, the market **FinecoBank** is in is characterised by regulatory, strategic and size-related entry barriers. As far as the regulatory entry barriers are concerned, these relate to very complicated procedures to obtain permits and authorisations and to meet ordinary legal requirements (they have been briefly mentioned above) entailing organisational, financial and compliance efforts that are heavier than those for other economic sectors. Size-related entry barriers have to do with capital requirements and economies of scale that are necessary to compete sustainably. Strategic barriers include lawful behaviours that existing businesses adopt to discourage new entrants. The Italian legislator, however, tends to remove restrictions and obstacles to the free market and the freedom of choice of the various operators.

The Bank focuses on three sectors: **Banking** (current and deposit accounts; payment services; debit, credit and prepaid cards; personal loans and mortgages), **Brokerage** (fulfilling customers’ orders on the main financial markets) and **Investing** (placement and distribution of financial products between mutual funds and SICAV sub-funds, insurance products, saving products and consultancy services).<sup>8</sup>

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*della Concorrenza e del Mercato*”, Italian Competition Authority); Consob (“*Commissione Nazionale per le società e le borse*”, Italian Securities and Exchange Commission) and, obviously, the above mentioned Bank of Italy.

<sup>7</sup> See *Thematic Review on Risk Governance* (2013) and *Principles for An Effective Risk Appetite Framework* (2013).

<sup>8</sup> 2017 Reports and Financial Statements, FinecoBank. Page 13.

The **Brokerage** business covers the major world markets and serves mainly Italian clients who also enjoy direct access to these markets thanks to Fineco's proprietary platform. In 2017 Fineco's Italian market share was around 19% of the equity business and about 6% of the bond business<sup>9</sup>.

Concerning others two sectors (**Investing**<sup>10</sup> and **Banking**) overall, market shares are as follows: for Assoreti 11.16%; for Bank of Italy: Total Financial Assets (TFA): 1.61%.<sup>11</sup>

The Bank does not have a monopoly **in any** of the above three sectors nor is it a party to competition-restricting agreements. Furthermore, Italian, European or other foreign supervisory and antitrust authorities have not reported any problems in this regard.

FinecoBank **does not hold** major, direct or indirect **shares** in **other companies operating in the same market**.

Moreover, it is not a party to any major commercial agreements or agreements that distort competition.

## 2. CONTRACTS, FINANCINGS AND PUBLIC AID

Unlike many institutions that were affected by the 2008 banking crisis, FinecoBank **did not enjoy public funding**, special terms or other types of State aid. Its position in terms of fair and proper competition has not been distorted.

## 3. MARKET DISTORTIONS, FAVOURITISM & CORRUPTION

For its financial results, the Bank **does not depend** on the outcome of competitions, orders, or assignments by any national or foreign public administration or selected large customer.

The Bank is not involved in the public utilities business.

Its main relationships with institutions have to do with supervisory and compliance activities. Therefore, the risk of corruption or favouritism is low, monitored and regulated by the internal Organisational Model (and related documents<sup>12</sup>, the Code of Ethics, all the way to staff recruitment policies.

The Bank also has well-established policies on staff training to reduce the risk of fraudulent and anti-competitive behaviour. The training plan includes lectures on prevention of market abuses as well as meetings with top management, first line management, their direct reports including risk takers.

## 4. INTERNAL VOLUNTARY RULES ON OWNERSHIP

FinecoBank **is listed** on the Italian Stock Exchange (*Mercato Telematico Azionario* system, MTA).

In 2016, it joined the FTSE MIB and Standard Ethics Italian Index. In 2017, it joined the Stoxx Europe 600.

<sup>9</sup> Source: ASSOSIM Report, 2017.

<sup>10</sup> Fineco offers 6.000 financial products of 70 Asset Management firms.

<sup>11</sup> 2017.

<sup>12</sup> "FinecoBanks' Organisational and Management Model in accordance with Italian Legislative Decree no. 231/01", hereinafter also called Organisational Model.

FinecoBank's **main shareholder** is the **market** that holds (with a share of the free float) **57.028%**<sup>13</sup> of its share capital.

The **major** institutional shareholder is **UniCredit**, with **35.397%** of Fineco shares. As has already been stated, **UniCredit**, in its capacity as the parent company of **UniCredit Banking Group**, manages and coordinates the Bank.

The other shareholders (with more than 5% of shares) include **Blackrock Inc.**, with 7.575% of shares.<sup>14</sup>, an international corporation with direct interests in various FinecoBank's business areas. Blackrock Inc. is not an offshore company.

FinecoBank's **share capital** amounts to € **200,773,450.35** divided into **608,404,395** ordinary shares with a nominal value of €0.33.<sup>15</sup>

Its **ordinary shares** carry the standard rights provided for by Italian legislation in line with **EU** and **OECD** guidelines.<sup>16</sup>

**There are no** special prerogatives for specific types of shares or bonds or securities conferring **special control rights**.

There are no restrictions to the transfer of securities.

There are **no** provisions in the Bank's Articles of Association allowing **multiple votes** or **increased voting rights**.

There are **no** shareholders' agreements.

**Derivatives** on regulated markets with underlying FinecoBank securities are conventional and in line with the risk profiles set by the regulators.<sup>17</sup>

There are **no** policies on **Employee Financial Participation** in the Bank's capital. There is a predefined reward policy contemplating variable remunerations including Bank's shares.<sup>18</sup>

Regulatory and control **measures** on maintaining the managerial and operational **independence** of FinecoBank vis-à-vis its parent company (UniCredit) and the other shareholders are those provided for by the current legislation.<sup>19</sup>

## 5. OWNERSHIP AND CONFLICT OF INTERESTS

No shareholder is a public authority. No shareholder is involved in regulating the market segment where Fineco operates.

<sup>13</sup> Source: Consob, as at March 2018.

<sup>14</sup> Source: Consob, as at March 2018.

<sup>15</sup> Source: FinecoBank Article of Association amended to art. 5, par. 11, 12 and 13, following the changes resolved by the Extraordinary General Meeting of 11 April 2018.

<sup>16</sup> These rights are in line with the European regulatory framework. They are: equity rights to profits and share of liquidation; administrative rights to attend and vote at shareholders' meetings; administrative rights to challenge resolutions, consult the financial books, the budgets, the book of resolutions and the shareholders' register; rights to check any report of possible irregularity; disposal rights through pledge of or beneficial interest in shares.

<sup>17</sup> There are many derivatives with underlying FinecoBank shares: futures (with various deadlines, traditional options (call, put), and structured products.

<sup>18</sup> It is just for a small number of managers and employees and has a small impact. See 2018 Remuneration Policy. There are also guidelines on possession of shares to align managerial interests with those of the shareholders.

<sup>19</sup> Some of them are also included in the Organisational Model.

According to the documents in Standard Ethics' possession and the information that has been supplied, there are no direct or indirect major shareholders representing governments or involved in regulatory or control activities.

#### 6. NON-CONTROLLING SHAREHOLDERS (MINORITY) PROTECTION AND DIRECTORS APPOINTMENT

In compliance with the Italian legislation and the Corporate Governance Code, **minority shareholders** are dealt with in various documents. The fact that there are no voluntary rules on minority shareholders is an indirect confirmation of the good coverage offered by the above two instruments.

Following the latest round of appointments within corporate bodies, two Board members and one member of the Board of Auditors represent minority shareholders.<sup>20</sup>

#### 7. INTERNAL VOLUNTARY RULES ON DIRECTORS

FinecoBank has adopted the "traditional" **management** and control **system** based on two bodies appointed by the shareholders' meeting: the **Board of Directors**, with managerial and strategic functions, and the **Board of Auditors**, with control functions.

Auditing is performed by an auditing company.

The number of members of the **Board of Directors** cannot be less than five and more than thirteen.

Its composition must ensure gender balance. The Board of Directors is vested with the broadest powers of ordinary and extraordinary administration.<sup>21</sup>

The Bank does not have an employee representative on its Board.

At the date of this Report, the Board of Directors is composed of 9 directors. All of them are Italian nationals and **most of them are independent**. Its composition **complies with gender equality**.<sup>22</sup>

There are **no** cases of **interlocking directorship** within the Group.

The Board of Directors<sup>23</sup> has duly created the **Risk and Related Party Committee**,<sup>24</sup> the **Remuneration Committee**<sup>25</sup> and the **Appointments and**

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<sup>20</sup> Board of Directors: Elena Biffi and Maurizio Santacroce. Board of Auditors: Elena Spagnol (representing minority shareholders) replaces Stefano Fiorini. Gianfranco Consorti has been appointed Alternate Auditor. Elena Spagnol has also been appointed Chair of the Board of Auditors. Article 13 of the Articles of Association states that Directors are appointed by the Shareholders' Meeting on the basis of lists, including minority lists, submitted by those entitled to vote. Democratic governance and minority shareholders are related to modern economic democracy: an approach that is at the very basis of Italian company law.

<sup>21</sup> Except those that Italian legislation exclusively vests in the Shareholders' Meeting.

<sup>22</sup> At their Meeting of 11 April 2017, the Shareholders appointed the Directors for 2017-2019 on the basis of lists. Their mandate will expire on the day when the 2019 Financial Statements are approved. Independent Directors: Francesco Saita, Maria Chiara Malaguti, Gianmarco Montanari, Patrizia Albano, Elena Biffi, Maurizio Santacroce. Non-independent Directors: Enrico Cotta Ramusino (according to "Codice di Autodisciplina"), Manuela D'Onofrio ed Alessandro Foti (current Chief Executive Officer and General Manager). Directors' CVs are available in the Bank's websites.

<sup>23</sup> See resolution approved on 11 April 2017, in compliance with the Consolidated Act on Financial Intermediation (TUF) and the Corporate Governance Code ("Codice di Autodisciplina").

<sup>24</sup> With independent members: Francesco Saita (Presidente), Gianmarco Montanari e Maurizio Santacroce.

<sup>25</sup> With mainly independent members: Gianmarco Montanari (Presidente), Elena Biffi ed Enrico Cotta Ramusino.

**Sustainability Committee.**<sup>26</sup> Their functions and powers are duly defined and published.<sup>27</sup>

On 1st March 2018, the Board of Directors assigned sustainability tasks to the Appointments Committee thus changing its name. The new tasks relate to the Bank's business and interactions with its stakeholders. A Management Committee, whose ownership will be assigned to the Investor Relations Department, will be set up to support this Committee<sup>28</sup>

Directors have to comply both with **voluntary regulations** and the regulations outlined in FinecoBank's **Code of Ethics**, the main instruments containing **Internal Voluntary Rules (IVR)** not emanating from Italian legislation.

A rigorous **multi-stakeholder approach**, developed as a result of UniCredit Group's experience, is at the basis of Fineco's **Code of Ethics**. The Code includes UniCredit Group's "Integrity Charter and Code of Conduct – FinecoBank Supplementary Rules" as well as the behavioural and control principles of the "Decision Protocols".

Additional policies on sustainability issues are being drafted in line with the **OECD**, the **European Union** and the **United Nations**.

A **Supervisory Body**, with powers of inspection, ensures compliance with the **Code of Ethics**.<sup>29</sup> Every function within the Bank (including top level functions) is supervised.

## 8. DIRECTORS, CONFLICT OF INTERESTS AND RELATED COMMITTEES

Directors' **independence requirements** are laid down in the Consolidated Act on Financial Intermediation (TUF) and adopted by the Corporate Governance Code of the Italian Stock Exchange.<sup>30</sup> In addition, and in compliance with the legislation, the Code of Ethics, the internal regulations and other documents contain rules on **conflicts of interests**.

Fineco has formalised the **qualitative, quantitative** and **time-related** aspects that were deemed suitable when choosing its Directors.<sup>31</sup>

<sup>26</sup> With independent members: Elena Biffi (Chairwoman), Patrizia Albano and Francesco Saita.

<sup>27</sup> Part B (page 14 and subsequent pages) of FinecoBank Corporate Bodies Regulations, 12 June 2018.

<sup>28</sup> The Appointments and Sustainability Committee will also oversee sustainability strategies in the light of international and Group principles and will draft proposals on related issues. It will also assess medium- and long-term risks (Application Criterion 1.C.1. of the Governance Code) and will oversee reporting both in terms of methodology and content.

<sup>29</sup> The Organisational Model's Supervisory Body: "*has independent powers of initiative and control as well as independent spending powers, (ii) regularly reports to the Risk and Related Party Committee on the functioning of the Model, and (iii) submits a yearly written report to the Board of Directors (...)*".

Composition of the Supervisory Body: (i) Marianna Li Calzi (Chairwoman); Salvatore Messina, Silvio Puchar (Compliance Officer), Andrea Pepe (Head of *Legal & Corporate Affairs Office*). The mandates of the members of the Supervisory Body will have the same duration as the mandate of the Board of Directors.

<sup>30</sup> Article 148 of the Consolidated Act on Financial Intermediation (TUF). Corporate Governance Code of the Italian Stock Exchange, pages 21-22.

<sup>31</sup> In order to ensure the proper functioning of the administrative body and in compliance with the Supervisory Arrangements for Italian banks on corporate governance (Circular of the Bank of Italy no. 285 dated 17 December 2013), FinecoBank's Board of Directors has declared that its qualitative and quantitative composition is optimal. With a resolution dated 7 February 2017, the Board approved and published the following document "Assessment of the Qualitative and Quantitative Composition of the FinecoBank Board of Directors".

Currently, **on top of** provisions of law, there are no additional voluntary rules on **interlocking** and **cross-directorships**, **gender equality** (that in fact exceeds gender balance) and diversity of nationalities.

According to the documentation available to Standard Ethics:

- There are no shareholders' agreements involving Directors and Managers;
- There are no Directors who are members of: national and local government bodies, jurisdiction bodies, licence-granting bodies or bodies exercising control over the markets;
- There are no Directors who are also Directors, managers, auditors or consultant of other companies controlled by shareholders who are members of national and local government bodies, jurisdiction bodies, licence-granting bodies or bodies exercising control over the markets;
- There is no *cross-directorship*.<sup>32</sup>

The Bank has clearly stated that gifts **cannot be accepted**.<sup>33</sup>

Internal and Group guidelines deal with **remunerations** (including those for Directors).<sup>34</sup> Compliance of remuneration policies is ensured by the supervision and involvement of control bodies.

The remuneration of non-executive Board members, members of the Supervisory Board and the Board of Auditors, is not linked to financial performance. Furthermore, they do not benefit from incentive schemes based on stock options or, in general, on financial instruments.<sup>35</sup>

However, executives with strategic responsibilities<sup>36</sup> receive fixed and variable remuneration, the latter linked to financial performance.

## 9. DISCLOSURE AND TRANSPARENCY & STAKEHOLDERS

Since 2014 and pursuant to the *Triple Approach* (financial, social and environmental performances), **UniCredit Group** has been issuing **Integrated Reports** based on a multi-stakeholder approach.<sup>37</sup>

FincoBank contributes to drafting the Integrated Reports and its data are included in the financial reports. Nonetheless, its 2017 Financial Statements include a section on sustainability dealing with issues related to Risk Management, Cyber Risk and Governance, Customer Policy, Local Communities and Environmental Impact. Its corporate website has a similar section.

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<sup>32</sup> See latest report on *Corporate Governance*.

<sup>33</sup> Code of Ethics.

<sup>34</sup> Every year, the Bank approves a document on its remuneration policy that takes current provisions of law into account and is in line with the Group's remuneration policy. This policy defines the principles and standards on remuneration and incentives (see page 16 of the Organisational Model). UniCredit Group's remuneration policies are aligned with national and international requirements as outlined in the European Directive on Capital Requirements (CRD IV), the EBA Regulatory Technical Standards (RTS) and Bank of Italy's guidelines.

<sup>35</sup> 2018 Remuneration Policy.

<sup>36</sup> The CEO and General Manager, the Deputy General Manager and Head of Global Banking Services, the Deputy General Manager and Head of Global Business, the Head of Network FPA, the Head of Investments and Wealth Management as well as the Chief Financial Officer. 2018 Remuneration Policy.

<sup>37</sup> It includes: "(...) the Group's financial and sustainability performance, business model, corporate governance, risk management, compliance, competitive environment, strategy and capitals (2017 Unicredit Integrated Report). Since 2000 UniCredit has been publishing its Social and Environmental Report. Reporting has been based on the GRI (Global Reporting Initiative) standards for a while. This entails auditing and indirect compliance of the management model with some ILO and OECD guidelines.

As far as traditional **reporting** is concerned, FinecoBank uses both communication tools and its own website.<sup>38</sup>

In terms of media and investor relations, Fineco is independent and constantly developing these relations.<sup>39</sup>

The **Comply or Explain** principle has been indirectly adopted through the Corporate Governance Code of the Italian Stock Exchange and is applied to all corporate communications on governance. The Bank is currently considering a blanket adoption of this principle.<sup>40</sup>

The **systems of controls** is structured on the basis of the best practices. First level controls are carried out within internal activities and/or contacts with clients. There are procedures to be followed for these activities. They are also supervised and updated by “process managers”.<sup>41</sup>

Risk Management and the Compliance office (for compliance procedures) supervise second level controls.<sup>42</sup>

Internal Audit (as a central function within Unicredit) is in charge of third level controls. These controls are based on the final review of information and data.

#### 10. PARTICIPATION AND VOTE IN GENERAL MEETINGS

According to the principles laid down in the Code of Ethics, the Board of Directors does its utmost to have an ongoing dialogue with its shareholders. A section within the Bank’s website is dedicated to this.

Given that the Bank’s most complex feature is the varied nature of minority shareholders, specific policies could be adopted for them in the future.

#### 11. EMPLOYMENT AND HUMAN RESOURCES SELECTION

This issue is also considered by the Code of Ethics as the Bank is committed to carrying out “objective” assessments in accordance with the principle of “equal opportunities” and without making distinctions that are not professional.<sup>43</sup>

Special procedures as well as a “Global Policy” at Group level on **gender equality** that is being regularly monitored are provided for.<sup>44</sup>

At 31 December 2017, FinecoBank’s **employees** amounted to 1,119 (as against 1,086 in 2016).

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<sup>38</sup> The main documents published in its website are: the Financial Report, the Corporate Governance Report, Articles of Association, Internal Regulations, Minutes of the meetings of the Board of Directors with amendments to the Articles of Association; Minutes of the Shareholders’ Meetings and related explanatory reports, important procedures. Obviously, information that might affect share price is disseminated in accordance with the Consolidated Act on Financial Intermediation (TUF) and Consob Regulations no.11971.

<sup>39</sup> Investor Relations as a function was internalised in 2016. It had been outsourced to UniCredit through a service contract.

<sup>40</sup> According to this principle, the Bank is required to follow up its decisions and communications with appropriate updates, in particular when the objectives that have been communicated are not reached within the deadlines that have been set or not reached at all.

<sup>41</sup> The Bank has also appointed an anti-money laundering officer, an anti-corruption officer, and a whistleblowing officer. See also the Organisation Model.

<sup>42</sup> The Bank’s “Compliance Plan” provides for specific and detailed inspections for this type of controls.

<sup>43</sup> “The Bank adopts criteria based on objectivity, competence and professionalism by applying the principle of equal opportunities without favouritism with the aim of ensuring the best skills on the labour market and compliance with relevant legislation (...)”. Page 5, Code of Ethics.

<sup>44</sup> In 2018 too, the Gender Pay Gap is one of the factors included in the “Target Evaluation Forms” for the CEO and other Risk Takers in relation to the short-term incentive scheme.



Staff selection is performed by reviewing CVs and through interviews. In some cases, for senior managers, specialist companies carry out the pre-selection. The Bank's organisation (in terms of fair remuneration too) is well structured.<sup>45</sup>

Regulations and initiatives on the **quality of the working environment** and for the benefit of women and men who work within the Group are in line with current legislation.

**Training** and professional development are central and there are regular training and refresher courses on "selected" topics. There are also courses on "on-demand" topics.<sup>46</sup>

## 12. HEALTH AND SAFETY AT WORK AND SOCIAL DIALOGUE

The Code of Ethics deals with some specific issues and outlines voluntary guidelines on the quality of work and optimal work-life balance.<sup>47</sup> This topic is also well outlined by various governance and policy instruments thanks to yearly Group- and Bank-level surveys.<sup>48</sup>

The Bank attaches strategic importance to internal communication and dialogue with employees, associates and their representatives.<sup>49</sup>

**Fringe benefits** are extremely integrated: insurance policies, benefits and services aimed at promoting favourable working conditions. There are four major schemes on: Time Management<sup>50</sup>, financial benefits, health support and family support.<sup>51</sup>

Disabilities are taken into account and there are employment policies for people belonging to the so-called protected categories. There are also external partnerships.<sup>52</sup>

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<sup>45</sup> A remuneration strategy and appropriate personnel management are some of the Bank's priorities. Both the "GPR\_2017 Recruiting Process" and the internal process no. 9051 "Personnel Management: Recruitment, Selection, Internal Transfer and Resignation" govern the selection process. In 2018 a pilot project called (Video-Interview) will be launched to optimise the initial recruitment phase. Processes and practices related to human resource management will be analysed and evaluated by the Top Employers Institute in 2018 too.

<sup>46</sup> As at 31 December 2017, the number of training hours during the year amounted to 27,362, about 3,000 more hours than in 2016 (2017 Financial Statements). My Campus (a platform offering employees a wide catalogue of training activities from language and IT courses to courses to develop managerial skills) is part of the training offer.

<sup>47</sup> To "maintain a positive corporate climate". Code of Ethics, page 13.

<sup>48</sup> A yearly employee survey is carried out in conjunction with UniCredit. The survey is a communication/listening tool through which improvements in working life, work-life balance and work organisation can be identified by introducing flexibility (Flexible Work). The results of the latest survey show that the Engagement Index (the main indicator of corporate climate) is very favourable (81%).

<sup>49</sup> In 2017 a Group trade union agreement was reached. Following this agreement, a bilateral Committee was set up to monitor the implementation of the Group business plan and the technological and digital innovation programmes.

<sup>50</sup> The pilot phase of Time Management (a Smart Working application) has been completed. This scheme has been extended to other areas of the Bank thus increasing the coverage of Bank staff from 26% to 43% (as at 1 June 2018).

<sup>51</sup> Financial benefits: pension fund, financial benefits or schemes such as the "Conto Welfare" that was introduced a few years ago and has become the pillar of the benefits offered by the Bank. Health support takes place through responsible policies for leave and absence due to health reasons. Family support: various initiatives for families, particularly those with preschool children, and support services. Other services on mobility, travel and leisure time have been introduced this year (2018). In November 2017, the "Joint Declaration on Work-Life Balance" was signed. This agreement provides for initiatives and actions to support work-life balance such as an automatic sabbatical period (three months without needing an authorisation or having to present a reason for wanting this sabbatical), new paid leave opportunities for key life events (e.g., children's graduations, relocations and mortgages as first-time buyers).

<sup>52</sup> An example is attendance to the Diversity Day at the Polytechnic of Milan. In synergy with UniCredit, Fineco is now accredited to Jobmetoo, a portal focusing on selecting disabled staff or staff belonging to minority groups.

### 13. ADAPTATION TO CHANGES

This is a central issue at EU and OECD levels and is taken into account by the Group policies that provide for close relationships with the various **stakeholders** and local players who are interested in any change process. Currently, there are no extraordinary initiatives on change and the type of company reduces the relevance of this issue.

### 14. ENVIRONMENT

The Code of Ethics discusses this issue that is dealt with on a practical level **by the Group** thanks to special communications and work projects. In some cases, these are real behavioural policies (and **environmental good practices**) aimed at reducing energy consumption and aimed at employees, interested parties and local communities.

**Environmental sustainability strategies** are part of the Group synergies, such as reporting that provides data on total consumption (gas and electricity), areas under consideration, the survey system, details on buildings, trends over time, objectives. Many on going measures have been adopted involving the use of renewable sources of energy.<sup>53</sup>

In terms of **its own environmental impact**, FinecoBank has mainly focused on its activities and dematerialisation processes<sup>54</sup>.

### 15. CONSUMERS AND QUALITY

First and foremost, **quality** is dealt with by the Code of Ethics, with its references to general criteria of propriety, courtesy, transparency, professionalism and cooperation, followed by many other internal tools.<sup>55</sup> The Bank's focus is on compliance with procedures, proper communication of risks and costs, handling of conflicts of interests, gifts, proper data management or other critical aspects such as circumvention practices or inappropriate behaviour.

The entire operational structured has been harmonised with and implemented after the introduction of the EU General Data Protection Regulation (GDPR) in 2018. Stricter checks as well as new governance, organisational, operational and reporting procedures are the most recent measures adopted by the Bank.<sup>56</sup>

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<sup>53</sup> GHG direct and indirect emissions (scope 1 & 2): 123,217 tons CO2 equivalent ((-41% YoY). Energy consumption per employee: 32 GJ/capita. Since 2013 UniCredit has been a member of the Energy Efficiency Financial Institutions Group (EEFIG), a permanent working group created by the Directorate General for Energy of the European Commission and by UNEP FI (United Nations Environment Programme Finance Initiative). As far as direct financial support for renewable sources of energy is concerned, the Group's portfolio has been steadily expanding. In 2017, credit exposure was above €8,2 billion. Overall, most of the funding for renewable energy projects is directed to photovoltaic plants, with a 47% share. Wind energy accounts for 32% of the portfolio and other renewable energy sources for the remaining 21%.

<sup>54</sup> From the advanced management of its servers to remote digital signature for online clients or biometric signature, these are innovative uses of advanced tools that drastically reduce paper and emissions.

<sup>55</sup> Page 6, Code of Ethics.

<sup>56</sup> In terms of information security, FinecoBank is obviously complying with Regulation (EU) 2016/679 on personal data protection for all individuals and free movement of these data (the GDPR) that came into force on 25 May 2018. Compliance Risk Assessment and second-level checks "aim at identifying, monitoring and managing compliance risks in this regulated sphere". The Bank has also adopted a "Response to Incident" Security Plan. The Plan has sections on governance, organisation, operations and reporting, and includes assessments on vulnerability of systems and applications (internal and external assessments and penetration tests), verification tests, anti-fraud measures, monitoring and dedicated teams "in close partnership with law enforcement agencies, the banking association and partners in the field of security". 2017 Financial Statements.

Fineco mainly communicates with **consumers** via the web and proprietary platforms through which it offers services, information, updates and data.

Thanks to physical and virtual classrooms, web conferences and e-learning, the Bank provides customers with the necessary training to manage financial risks and markets and to work safely with the highest possible level of awareness.<sup>57</sup>

16. SCIENCE AND TECHNOLOGY

Given the type of business the Bank is involved in, technology is central. Overall investments, in synergy with the Group, cannot be quantified accurately.

17. LOCAL COMMUNITIES

Within the UniCredit Group, FinecoBank has steady relationships with the Milanese community. In some cases it acts independently. Its latest local initiative has been on **sustainable mobility**.<sup>58</sup>

18. BUSINESS PARTNERS

This issue is dealt with by the Code of Ethics, the internal Organisational Model, and the reporting arranged by the UniCredit Group.

19. HUMAN RIGHTS

Through its own Code of Ethics, the Bank has pledged to reject any form of violation to human and working dignity. Furthermore, according to the above-mentioned Integrity Charter and Code of Conduct – FinecoBank Supplementary Rules, the Bank shares the Group's commitment towards human rights. Accordingly, the Group operates in line with the **Universal Declaration of Human Rights of the United Nations**. However, formal references to this in the governance documents are currently under study.<sup>59</sup>

20. 2020 e 2030 EUROPEAN STRATEGIES

The **European strategies** aim to achieve growth that is: i) smart, thanks to more effective investments in education, research and innovation; ii) sustainable, by promoting an economy based on low CO2 emissions; and iii) inclusive, i.e., focused on creating jobs and reducing poverty. The strategies are based on the following objectives: employment, innovation, education, poverty reduction and climate changes/energy. The strategies are taken into account by the Group sustainability objectives.

21. CONCLUSIONS

FinecoBank is a direct multichannel bank belonging to the UniCredit Group. Its policies and sustainability strategies are in synergy with those of its parent company, UniCredit ("EE+" rating). FinecoBank's reporting is integrated at Group level.

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<sup>57</sup> Focus on the financial markets (things to know before trading and how to manage one's positions) all the way to trading techniques, long-term investments, detailed analysis on risks, instruments and available products.

<sup>58</sup> More specifically, FinecoBank has financed the BikeMi station in Piazza Durante.

<sup>59</sup> Explicit reference to the UN Declaration of 1948 and/or the European Convention would be useful. The lack of references makes the notion of "human rights" less clear, leaving open doubts about what should be included, or not, in its interpretation.

Over the last few years, FinecoBank has: i) independently developed Environmental, Social and Governance (ESG) practices; ii) begun to release additional and independent reporting; iii) set up its own high-level sustainability body; iv) created an advanced system of Investor Relations that deals with ESG issues.

Its internal policies are advanced on many issues such as: i) compliance of services, technology and commercial policies with the best European practices; ii) training and monitoring (including competition); and iii) quality of the working environment.

Its corporate bodies enjoy a high level of independence, diversity of skills and has achieved gender equality.

The level of its Corporate governance is adequate, with its risk management and compliance functions well monitored, and the legal function providing solid support.

The long-term outlook is positive.

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## SOURCES

*Where there are no dates, the most recent versions prevail*

The documents that have been consulted were published by FinecoBank or the UniCredit Group before 5 June 2018.

The main sources are: Code of Ethics, Financial Statements, Group Integrated Report; Corporate Governance Report; Articles of Association; Organisational Model; Internal Regulations; Minutes of the Meetings of the Board of Directors with amendments to the Articles of Association; Regulations of the Shareholders' Meetings; Minutes of Shareholders' Meetings, Notices of Meetings and related explanatory reports; Various procedures including "related party transactions" and "Internal Dealing"; Documents on remuneration, qualitative and quantitative composition of top management bodies and sustainability strategies (at Group level too). Data and information given during meetings with Group and Bank internal functions were also used.

## Other sources

Moreover, documents supplied by national and European regulatory bodies, the Italian Stock Exchange and independent sites (published before 1 June 2018) were consulted.



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For all inquiries, please write to: *headquarters@standardethics.eu*



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