DISCLOSURE BY INSTITUTIONS

ACCORDING TO REGULATION (EU) NO. 575/2013 AS AT DECEMBER 31, 2017

This is an English translation of the original Italian document. The original version in Italian takes precedence.

Disclosure by Institutions according to Regulation (EU) 575/2013 as at December 31, 2017

Contents

Introduction

The Bank's Disclosure by Institutions is prepared in accordance with the prudential rules for banks and investment companies, which came into force on January 1, 2014 and is contained in Directive 2013/36/EU (Capital Requirements Directive, CRD IV) and in Regulation 575/2013/EU (Capital Requirements Regulation, CRR).
The Directive and the Regulation transpose the framework known as Basel III (Basel Committee for Banking Supervision) into European Union legislation. The new EU rules were collated and implemented by the Bank of Italy through the "Supervisory Regulations for Banks" (Circular 285 of December 17, 2013).

The CRR requires Institutions to publish the information set out in Title I Part Eight at least annually, in conjunction with the financial statements, and to assess the need to publish all or some of the information more frequently in view of the relevant characteristics of their activities.
The Disclosure by Institutions is published at both consolidated and individual level if the bank is considered a "significant subsidiary" (art. 13 CRR, Application of disclosure requirements on a consolidated basis). Having been identified as a "significant subsidiary" in the UniCredit group and included by the ECB/EBA in the list of significant supervised entities, the Bank publishes the Disclosure by Institutions annually and discloses the information specified in articles 437, 438, 440, 442, 450, 451 and 453 of the Regulation.
It should be specified that the Bank, although it assumed the role of parent company following the establishment of Fineco AM Limited on October 26, 2017, is a subsidiary of UniCredit S.p.A., the institution authorised in the same Member State, and as such it does not qualify as a "parent institution in a Member State" and is not required to comply with the obligations of parts two to four and part seven of the CRR on the basis of the consolidated financial situation. As it is not required to produce common reporting (Corep) on a consolidated basis, the information specified in articles 437, 438, 440, 442, 450, 451 and 453 of CRR 575/2013 has been disclosed on an individual basis.
In accordance with EBA "GL/2014/14" and the subsequent amendments introduced in EBA "GL/2016/11", the tables below report references to the location, in this document, of the information required.

References for EBA requirements (EBA/GL/2016/11)

Table name	Chapter
EU OV1 – Overview of RWAs	Capital requirements
EU CRB-B – Total and average net amount of exposures	Credit risk adjustments
EU CRB-C – Geographical breakdown of exposures	Credit risk adjustments
EU CRB-D – Concentration of exposures by industry or counterparty types	Credit risk adjustments
EU CRB-E – Maturity of exposures	Credit risk adjustments
EU CR1-A – Credit quality of exposures by exposure class and instrument	Credit risk adjustments
EU CR1-B – Credit quality of exposures by industry or counterparty types	Credit risk adjustments
EU CR1-C – Credit quality of exposures by geography	Credit risk adjustments
EU CR1-D – Ageing of past-due exposures	Credit risk adjustments
EU CR1-E – Non-performing and forborne exposures	Credit risk adjustments
EU CR2-A – Changes in the stock of general and specific credit risk adjustments	Credit risk adjustments
EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities	Credit risk adjustments
EU CR3 – CRM techniques – Overview	Use of risk mitigation techniques
EU CR4 – Standardised approach – Credit risk exposure and CRM effects	Use of risk mitigation techniques

References for information required by article 13 of the CRR

Article	Content	Chapter
437	Own funds	Own funds
438	Capital requirements	Capital requirements
440	Capital Buffers	Capital Buffers
442	Credit risk adjustments	Credit risk adjustments
450	Remuneration policy	Remuneration and incentive systems and practices
451	Leverage	Leverage
453	Use of credit risk mitigation techniques	Use of credit risk mitigation techniques

General Disclosure Requirements

FinecoBank S.p.A is a multi-channel bank belonging to the UniCredit group and is therefore subject to management and coordination by UniCredit S.p.A..

In view of the ownership structure and in order to ensure effective and efficient risk management, the Bank's Risk Management process is structured according to the organisational choices made by the UniCredit group and the Supervisory Instructions for Banks concerning internal control systems.

Risk management and control is performed by the Risk Management function of the Bank in collaboration with the same function of the Parent Company, which performs its role of guidance, coordination and control of risks at Group level. The organisational model has established the Chief Risk Officer function (CRO) Italy function of the Parent Company as the specific liaison for Italy, and this function been assigned the responsibilities related to credit risks, operational risks and reputational risks for Italy, as well as the managerial coordination of Risk Management functions in the Italian Legal Entities, including FinecoBank.

The Bank is responsible for first and second level controls, with specific reference to verifying that the level of risk assumed on an individual basis is in line with the Parent Company's instructions, capital requirements and prudential supervisory rules.

The overall level of risk is assessed by the Bank through the Risk Appetite Framework, a managerial tool for setting the risk appetite that best governs the Bank's business activities, in line with an appropriate level of risk.

Scope of application

Name of the bank to which the disclosure requirements apply

The contents of this document refer to FinecoBank Banca Fineco S.p.A., a subsidiary of UniCredit S.p.A., UniCredit Banking Group.

FinecoBank has been identified by the Parent Company UniCredit S.p.A. as one of the significant subsidiaries of the Group and is included by the ECB/EBA in the list of “significant supervised entities”. Accordingly, it is required to apply the provisions of article 13 of Regulation (EU) No. 575/2013 (CRR) in relation to the disclosure obligations of institutions.

This document contains the information specified in articles 437, 438, 440, 442, 450, 451 and 453 of Regulation (EU) No. 575/2013 (CRR) on an individual basis.

As specified earlier, the Bank, although it assumed the role of parent company following the establishment of Fineco AM Limited on October 26, 2017, is a subsidiary of UniCredit S.p.A., the institution authorised in the same Member State, and as such it does not qualify as a “parent institution in a Member State” and is not required to comply with the obligations of parts two to four and part seven of the CRR on the basis of the consolidated financial situation. Consequently, the information reported in this document is provided on an individual basis.

Any discrepancies between the figures presented in this document is solely due to roundings.

Own Funds

From January 1, 2014, the calculation of the capital requirements takes account of the “Basel 3” regulatory framework, transposed in the Regulation 575/2013/EU on the prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – “CRR”) and the Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive 4 – “CRD 4”), according to the adoption within the Italian regulatory legislation.

Those regulations establish the following structure for Own funds:

- Tier 1 Capital, in turn composed of:
    - Common Equity Tier 1 capital - CET1 and
    - Additional Tier 1 – AT1;
- Tier 2 capital (T2);

the sum of Tier 1 capital and Tier 2 capital makes up the total Own Funds (Total Capital).

With regard to the amount of transitional adjustments as at December 31, 2017, these amounts incorporate the provisions introduced by the Regulation (EU) 2016/445 on the exercise of the options and discretion is available in Union law issued by the European Central Bank. They also reflect the progressive reduction of the transitional adjustment for the year 2017, and in particular:

- the unrealised gains on AFS securities are excluded at 20% (40% in 2016);
- the unrealised losses on AFS securities are included at 80% (60% in 2016);
- the actuarial losses calculated in accordance with article 473 of the CRR are excluded at 40% (60% in 2016).

Own funds at December 31, 2017 amounted to €484,960 thousand, calculated by applying the supervisory regulations in force according to the Basel III regulatory framework.

At December 31, 2017, Own Funds consisted solely of Common Equity Tier 1 (CET1), as there were no Additional Tier 1 capital items and Tier 2 items.

Transitional Own Funds disclosure template

	12.31.2017		12.31.2016	
	(A) Amount at disclosure date	*(C) - Amounts subject to pre-Regulation (EU) No. 575/2013 treatment or prescribed residual amount of Regulation (EU) No. 575/2013*	*(A) Amount at disclosure date*	*(C) - Amounts subject to pre-Regulation (EU) No. 575/2013 treatment or prescribed residual amount of Regulation (EU) No. 575/2013*
Common Equity Tier 1 capital: instruments and reserves				
1 Equity instruments and related share premium accounts (A)	202,479		202,180	
of which: ordinary shares	*202,479*		*202,180*	
2 Retained earnings (B)	291,841		250,247	
3 Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) (C)	23,751		21,366	
5a Independently reviewed interim profits net of any foreseeable charge or dividend (D)	40,888		41,684	
6 Common Equity Tier 1 (CET1) capital before regulatory adjustment	**558,959**		**515,477**	
Common Equity Tier 1 capital (CET1): regulatory adjustments				
7 Additional value adjustments (E)	(538)		(577)	
8 Intangible assets (net of related tax liabilities) (F)	(73,766)		(74,055)	
9 Transitional adjustment related to IAS 19 (G)	3,807		3,853	
16 Direct and indirect holdings by an institution of own CET1 instruments (H)	(2,414)		(6,153)	
20a Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative (I)	(718)		-	
26a Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468 (J)	(295)		182	
of which: filtered for unrealised gains (losses) on debt securities issued by European Union central governments	*(370)*		*(424)*	
of which: filtered for unrealised gains on debt and equity securities other than those issued by European Union central governments	*75*		*606*	
26b Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR (K)	(75)		(606)	
of which: filtered for unrealised gains on debt and equity securities other than those issued by European Union central governments	*(75)*		*(606)*	
28 Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(73,999)**		**(77,356)**	
29 Common Equity Tier 1 capital (CET1)	**484,960**		**438,121**	
36 Additional Tier 1 (AT1) capital before regulatory adjustments	-		-	
43 Total regulatory adjustments to Additional Tier 1 (AT1) capital	-		-	
44 Additional Tier 1 (AT1) capital	-		-	
45 Tier 1 Capital (T1= CET1 + AT1)	**484,960**		**438,121**	
51 Tier 2 (T2) capital before regulatory adjustments	-		-	
57 Total regulatory adjustments to Tier 2 (T2) capital	-		-	

(Amounts in € thousand)

continued on the next page

	12.31.2017		12.31.2016	
	(A) Amount at disclosure date	*(C) - Amounts subject to pre-Regulation (EU) No. 575/2013 treatment or prescribed residual amount of Regulation (EU) No. 575/2013*	*(A) Amount at disclosure date*	*(C) - Amounts subject to pre-Regulation (EU) No. 575/2013 treatment or prescribed residual amount of Regulation (EU) No. 575/2013*
58 Tier 2 capital (T2)	-		-	
59 Total capital (TC=T1+T2)	**484,960**		**438,121**	
60 Total risk weighted assets	**2,335,013**		**1,909,713**	
Capital ratios and buffers				
61 Common Equity Tier 1 (as a percentage of risk exposure amount)	**20.77%**		**22.94%**	
62 Tier 1 capital (as a percentage of risk exposure amount)	**20.77%**		**22.94%**	
63 Total capital (as a percentage of risk exposure amount)	**20.77%**		**22.94%**	
64 Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	5.750%		5.125%	
65 of which: capital conservation buffer requirement	1.250%		0.625%	
66 of which: countercyclical capital buffer requirement	0.0001%		0.0001%	
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	15.02%		17.82%	
Capital ratios and buffers				
72 Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	11,670		9,905	
75 Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in article 38 (3) are met)	27,377		30,693	
Applicable caps on the inclusion of provisions in Tier 2				
Capital instruments subject to phase-out arrangements (only applicable between January 1, 2013 and January 1, 2022)				

(Amounts in € thousand)

Note:
Amounts and sub-amounts, other than totals, that are equal to zero or not applicable are not reported.

A. The item comprises the share capital of 607,713,345 ordinary shares with a par value of €0.33, totalling €200,545 thousand, plus the share premium reserve of €1,934 thousand.

B. The item comprises the legal reserve, the extraordinary reserve and other retained earnings.

C. Accumulated other comprehensive income (OCI) consists of: the net positive reserve for debt securities issued by central governments of EU member countries, held in the "Available-for-sale financial assets" portfolio after December 31, 2009, amounting to €1,849 thousand; the net negative reserve for debt securities, other than those mentioned above, held in the "Available-for-sale financial assets" portfolio, amounting to €377 thousand; the negative IAS 19 Reserve amounting to €9,812 thousand and Other Reserves amounting to €32,091 thousand.

D. The amount recognised in Own Funds at December 31, 2017, pursuant to article 26 of the CRR, was calculated on the year-end profit for 2017, net of foreseeable dividends, equal to €173,395 thousand.

E. The item includes the filter relative to additional valuation adjustments (AVA), amounting to €538 thousand, calculated on the assets and liabilities reported in the financial statements, measured at fair value.

F. The item comprises goodwill, net of deferred taxes, amounting to €65,857 thousand and other intangible assets amounting to €7,909 thousand.

G. As of January 1, 2013, as a result of the entry into force of the amendments to IAS 19 (IAS 19R), the elimination of the corridor method – requiring recognition of present value of defined benefit obligations – resulted in an impact on shareholder's equity related to the recognition in the revaluation reserves of actuarial net losses not previously recognised using this method. This revaluation reserve – equal to -€9,812 thousand, included in item "3. Accumulated other comprehensive income" – is subject to a transitional adjustment of €3,807 thousand reported in the present item, equal to 40% of the amount calculated in accordance with CRR article 473.

H. The item includes treasury shares totalling €365 thousand, treasury shares held synthetically of €31 thousand and UCITS units held in the Bank' portfolio amounting to €2,019 thousand.

I. With reference to the financial resources of the Voluntary Scheme (instrument introduced by the IDGF for resolving bank crises through support measures in favour of banks subscribing to it, where specific regulatory conditions are met), in 2017 an extraordinary meeting of the participating banks was held to approve an increase in the financial resources of the scheme by an additional €95 million (from €700 million to €795 million), thereby raising the Bank's commitment to a total of €13.3 million, as calculated using the percentage share identified on the basis of reimbursable funds at March 31, 2017. In September 2017 and December 2017, that commitment led to a total outlay of €13.6 million to fund the acquisition of Caricesena, Carim and Carismi by Credit Agricole Cariparma, as a result of which equity instruments were recognised and classified as "available-for-sale financial assets" and the commitment towards the Voluntary Scheme was reduced (residual commitment of €0.1 million). The structure of the overall transaction, as outlined in the framework agreement made between Credit Agricole Cariparma, the Voluntary Scheme, Caricesena, Carim and Carismi, envisaged:
   - the spin-off of an NPL portfolio (consisting of "unlikely to pay" exposures and non-performing loans) and the subscription by the Voluntary Scheme of mezzanine and junior debt;
   - the recapitalization of the three banks by the Voluntary Scheme;
   - the transfer of the three banks to Credit Agricole Cariparma, at the same time as their recapitalisation.

   Since the amount of the recapitalisations is a non-recoverable cost for the Voluntary Scheme, as a result of the transfer of the banks to Credit Agricole CariParma, the Bank wrote-off the equity instruments of the Voluntary Scheme connected with the transaction for a total amount of €8.9 million (in addition to the €6.7 million contributed in 2016 and written down in the financial statements at December 31, 2016). The residual amount of the equity instruments, totalling €4.7 million and mainly related to the subscription of junior and mezzanine debt under the securitization by the Voluntary Scheme, were written down for a total of €4 million to align the carrying amount of the instruments to their fair value, as provided by the Voluntary Scheme on the basis of the assessment produced by the advisor engaged to measure the underlying loans on the basis of a discounted cash flow model based on the recovery estimates produced by the special servicers. The residual amount of the equity instruments net of impairment recognised in the income statement, amounting to €0.7 million, was deducted in full from Own Funds.

J. The regulatory adjustments implement the provisions introduced by Regulation (EU) 2016/445 on the exercise of options and discretions available in Union law ("ECB Regulation"), which entered into force on October 1, 2016 and allowed banks subject to direct supervision by the ECB ("significant banks") to respectively include within or deduct from CET 1 in 2017 80% of the unrealised gains and losses resulting from exposures to central governments classified in the "Available-for-sale financial assets" portfolio. Accordingly a prudential negative filter has been applied to the unrealised gains at December 31, 2017 for the securities classified in the AFS category amounting to €295 thousand (20% of the net overall reserve of the AFS portfolio, amounting to €1,472 thousand).

K. Under the national transitional provisions, a negative prudential filter has been applied of €75 thousand, corresponding to 20% of the net negative reserve of the AFS securities other than those issued by central governments. The unrealised gains and losses relating to exposures to central governments continue to be neutralised based on the national regime in force at December 31, 2013.

Accounting and regulatory balance sheet consolidation, with reconciliation of elements of Own Funds

	*Accounting figures**	*Amounts relevant for Own Funds purposes ***	*Ref. Own Funds Table*
ASSET ITEMS			
130. Intangible assets, of which:	**97,511**	**(73,766)**	
Goodwill	*89,602*	*(65,857)*	*8*
Other non-current intangible assets	*7,909*	*(7,909)*	*8*
140. Tax assets, of which:	**9,224**	**-**	
a) current	*1,765*	*-*	*-*
b) deferred	*7,459*	*-*	*21*
deferred tax assets that rely on future profitability	*3,633*	*-*	*21*
LIABILITIES			
130. Valuation reserves, of which:	**(8,340)**	**(4,902)**	
Revaluation reserves for available-for-sale financial assets	*1,472*	*1,103*	*3, 26a, and 26b*
Revaluation reserves for net actuarial gains (losses)	*(9,812)*	*(6,005)*	*3 and 9*
160. Reserves	**323,932**	**323,932**	2 and 3
170. Share premium reserve	**1,934**	**1,934**	1
180. Share capital	**200,545**	**200,545**	1
190. Treasury shares	**(365)**	**(365)**	16
200. Net Profit (Loss) for the year	**214,284**	**40,888**	5a
OTHER ELEMENTS OF OWN FUNDS			
Total other elements, of which:		**(3,306)**	
Prudential filters (-) fair value adjustments		(538)	7
Prudential filters (-) deduction of the exposure in equity instruments to the Voluntary Scheme		(718)	
Deductions of holdings of own Common Equity Tier 1 capital instruments (UCITS units)		(2,050)	16
Total Own Funds		**484,960**	

(Amounts in € thousand)

* The figures for the accounting consolidation and the regulatory consolidation are identical, hence they are shown in a single column.
** The plus/minus sign (+/-) represents the (positive / negative) contribution to Own Funds.

Changes in Own Funds (Enhanced Disclosure Task Force – EDTF recommendation)

	01.01.2017 / 12.31.2017	01.01.2016 / 12.31.2016
Common Equity Tier 1 Capital - CET1		
Start of period	**438,121**	**390,977**
Instruments and Reserves		
Share capital, issue-premium reserves and other reserves	4,140	6,237
Own CET1 instruments	1,988	4,154
Commitments to purchase own CET1 instruments	1,750	(1,750)
Accumulated other comprehensive income (OCI)	(1,546)	(18,421)
Profit allocated to reserves	40,888	41,684
Regulatory adjustments		
Intangible assets – Goodwill	467	467
Intangible assets - Other intangible assets	(178)	481
Supervisory adjustments	40	(523)
Deduction of the exposure in equity instruments to the Voluntary Scheme	(718)	-
Other transitional adjustments to Common Equity Tier 1 Capital	8	14,815
End of period	**484,960**	**438,121**
Additional Tier 1 – AT1		
Start of period	**-**	**-**
End of period	**-**	**-**
TIER 2 – T2		
Start of period	**-**	**2,926**
Other transitional adjustments to Tier 2		(2,926)
End of period	**-**	**-**
Total Own Funds	**484,960**	**438,121**

(Amounts in € thousand)

Own Funds totalled €484,960 thousand, an increase of €46,839 thousand on December 31, 2016 mainly attributable to the combination of the following factors:

- the increase in "Share capital, issue-premium reserves and other reserves" by €4,140 thousand, driven mainly by the higher "reserve related to equity-settled plans" due to the recognition of the income statement and balance sheet effects of payment plans based on FinecoBank ordinary shares during the vesting period for the instruments for a total of €8,075 thousand, net of € 4,144 thousand of drawdowns for the assignment of Fineco Bank ordinary shares held in portfolio to the Bank's Financial Advisors and Network Managers under the third tranche of the stock granting "2014 PFA Plan";
- the amount of the 2017 profits that will not be distributed, amounting to €40,888 thousand, assuming the conditions established in article 26, paragraph 2, of EU Regulation 575/2013, have been met;
- the decrease in "Accumulated other comprehensive income (OCI)" by €1,546 thousand, due to the recognition of €3,473 thousand of actuarial losses carried in the IAS 19 Negative reserve, which were partially offset by €1,927 thousand of positive changes in fair value recognised on debt and equity securities held in the "Available-for-sale financial assets" portfolio;
- the decrease in "Own CET1 instruments" by €1,988 thousand, mainly due to the assignment of €4,144 thousand of FinecoBank ordinary shares held in portfolio to the Bank's Financial Advisors and Network Managers under the third tranche of the stock granting "2014 PFA Plan", partially offset by the purchase of €172 thousand of treasury shares under the "2016 PFA Plan" and the purchase of €2,019 thousand of UCITS units, which qualify as own

CET1 instruments held indirectly if the institution is not aware of the underlying exposures and is therefore unable to adopt the look through method;

- the termination of the commitment to purchase treasury shares under the "2016 PFA Plan", for €1,750 thousand;
- the full deduction of the exposure in equity instruments to the Voluntary Scheme established by the Interbank Deposit Guarantee Fund, for €718 thousand (more information is provided in note I to the "Transitional Own Funds disclosure template").

Capital requirements

The Bank has made a priority of capital management and allocation on the basis of the risk assumed in order to expand its operations and create value. These activities involve the various planning and control stages and, specifically, the planning, budgeting and monitoring processes (analysis of expected and actual performance, analysis and monitoring of limits, performance analysis and monitoring of capital ratios).
Capital is managed dynamically: the Bank prepares the financial plan, monitors capital requirements for regulatory purposes and anticipates the appropriate steps required to achieve goals.

On the basis of the EU regulations set out in Directive 2013/36/EU and Regulation No 575/2013/EU, collated and implemented by the Bank of Italy through Circular No. 285 of December 17, 2013 "Supervisory Regulations for Banks" as amended, the Bank must satisfy the following own funds requirements established in Article 92 of the CRR, expressed as a percentage of the total risk exposure amount (RWA – Risk Weighted Assets):

- a Common Equity Tier 1 capital ratio of at least 4.5%;
- a Tier 1 capital ratio of at least 6%;
- a total capital ratio of at least 8%.

Furthermore, in addition to the Common Equity Tier 1 necessary to meet Own Funds requirements under Article 92 of the CRR, banks are required to hold a capital buffer of 1.25% for 2017 of the Bank's overall risk exposure (1.875% for 2018 and 2.5% from 2019) and, under article 160 of the CRDIV (paragraphs 1 to 4), an institution-specific countercyclical capital buffer (CCyB)[1] of 0.00005% for 2017.

In December 2016, the European Central Bank sent the Parent Company UniCredit the decision on capital adequacy as part of the SREP assessment. For FinecoBank, the European Central Bank and the other competent authorities concluded that the level of Own Funds and Liquidity was adequate and, therefore, did not impose any additional requirement for 2017 pursuant to Article 16 of the Regulation (EU) 1024/2013 or the national legislation implementing Article 104 (1) (a) and Article 105 of the Directive 2013/36/EU.

Also for 2018, in December 2017 the European Central Bank announced that the level of the Bank's Own Funds and Liquidity was adequate and, therefore, did not impose any additional requirement pursuant to Article 16 of the Regulation (EU) 1024/2013 or the national legislation implementing Article 104 (1) (a) and Article 105 of the Directive 2013/36/EU.
To calculate regulatory requirements for credit and market risks, the Bank applies standardised approaches, in accordance with Part Three, Title II, Chapter 2 of Regulation (EU) No. 575/2013 (CRR).
As regards operational risks, the Bank has obtained approval from the Bank of Italy to use Advanced Measurements Approaches (AMA) to calculate capital requirements for operational risks as of June 30, 2010.

[1] In application of the transitory regime set forth by the Bank of Italy, for 2017 the institution-specific countercyclical capital buffer is required to consist of Common Equity Tier 1 for a maximum of 1.25% of total risk-weighted exposures.

The Basel III supervisory regulations require that entities using methods based on internal ratings to calculate capital requirements for credit risk or advanced measurements approaches for calculating Own Funds requirements for operating risk must, until December 31, 2017, hold own funds that are equal to or above 80% of the requirements under Basel I (article 500 CRR Regulation 575/2013).

In line with Group guidelines, the Bank assesses capital adequacy by managing and allocating (regulatory and economic) capital according to the risks assumed and with the aim of directing its operations towards the creation of value.

The Bank has set itself the goal of generating income in excess of that necessary to remunerate risk (cost of equity). This goal is achieved by allocating capital to the different areas and operational units according to their specific risk profiles and by adopting a risk-adjusted performance measurement (RAPM). In support of planning and monitoring processes, a number of indicators are used that combine and summarise the operating, financial and risk variables to be considered.

Capital and its allocation are therefore extremely important in defining strategies, since on the one hand it represents the shareholders' investment in the Bank, which must be adequately remunerated, while on the other hand it is a scarce resource on which there are external limitations imposed by supervisory regulations.

The definitions of capital used in the allocation process are as follows:

- Risk or employed capital: this is the equity component provided by shareholders (employed capital) for which a return that is greater than or equal to expectations (cost of equity) must be provided;
- Capital at risk: this is the portion of capital and reserves that is used (the budgeted amount or allocated capital) or was used to cover (at period-end - absorbed capital) risks assumed to pursue the objective of creating value.

If capital at risk is measured using risk management methods, it is defined as economic capital; if it is measured using regulatory provisions, it is defined as regulatory capital.

Economic capital and regulatory capital differ in terms of their definition and the categories of risk covered. The former is based on the actual measurement of exposure assumed, while the latter is based on templates specified in regulatory provisions. Economic capital is set at a level that will cover adverse events with a certain probability (confidence interval), while regulatory capital is quantified on the basis of a CET1 target ratio higher than that required by the supervisory regulations in force and in line with Group targets.

The process of capital allocation is based on a "dual track" logic, considering both economic capital, measured through the full evaluation of risks via risk management models, and regulatory capital, quantified applying internal capitalisation targets to regulatory capital requirements.

The Bank monitors regulatory capital in relation to shareholders' equity, both according to the accounting and supervisory definition (Common Equity Tier 1, Additional Tier 1 and Tier 2 Capital and Own funds), and in relation to the planning and performance of risk-weighted assets (RWAs).

The assessment of the Bank's capital adequacy is a dynamic process that requires constant monitoring designed to control the level of available resources compared to the capital used, and also to provide indications to the decision-making bodies. The monitoring is accompanied by an efficient and appropriate communications system, both for management purposes and communications with the supervisory authorities.

The joint analysis of the risk/return profile is performed by the Bank through performance measures corrected for risk – namely EVA (Economic Value Added) and RARORAC.

EU OV1 – Overview of RWAs

		RWAs		Minimum capital requirements
		12.31.2017	12.31.2016	12.31.2017
	1 Credit risk (excluding CCR)	**1,328,387**	**815,719**	**106,272**
Article 438(c)(d)	2 Of which the standardised approach	1,328,387	815,719	106,272
Article 438(c)(d)	3 Of which the foundation IRB (FIRB) approach	-	-	-
Article 438(c)(d)	4 Of which the advanced IRB (AIRB) approach	-	-	-
Article 438(d)	5 Of which equity IRB under the simple risk-weighted approach or the IMA	-	0	-
Article 107, Article 438(c)(d)	**6 CCR**	**189,278**	**243,350**	**15,141**
Article 438(c)(d)	7 Of which mark to market	1,542	1,620	123
Article 438(c)(d)	8 Of which original exposure	-	0	-
	9 Of which the standardised approach	-	0	-
	10 Of which internal model method (IMM)	-	0	-
Article 438(c)(d)	11 Of which risk exposure amount for contributions to the default fund of a CCP	379	381	30
Article 438(c)(d)	12 Of which CVA	593	1,588	47
Article 438(e)	**13 Settlement risk**	**24**	**3**	**2**
Article 449(o)(i)	**14 Securitisation exposures in the banking book (after the cap)**	**-**	**-**	**-**
	15 Of which IRB approach	-	-	-
	16 Of which IRB supervisory formula approach (SFA)	-	-	-
	17 Of which internal assessment approach (IAA)	-	-	-
	18 Of which the standardised approach	-	-	-
Article 438(e)	**19 Market risk**	**51,857**	**30,412**	**4,149**
	20 Of which the standardised approach	51,857	30,412	4,149
	21 Of which IMA	-	-	-
Article 438(e)	**22 Large exposures**	**-**	**-**	**-**
Article 438(f)	**23 Operational risk**	**697,025**	**743,496**	**55,762**
	24 Of which basic indicator approach	-	-	-
	25 Of which the standardised approach	-	-	-
	26 Of which advanced measurement approach	697,025	743,496	55,762
Article 437(2), Article 48 and Article 60	**27 Amounts below the thresholds for deduction (subject to 250% risk weight)**	**68,442**	**76,732**	**5,475**
Article 500	28 Floor adjustment			
	29 Total	**2,335,013**	**1,909,712**	**186,801**

(Amounts in € thousand)

The sum of the RWA amounts at lines 1, 6 and 27 (net of line 12 "Of which: CVA"), equal to €1,585,514 thousand, is consistent with the amount of item A.1 "Weighted amounts" in the "Capital Adequacy" template.

Total RWAs at line 29, amounting to €2,335,013 thousand, is consistent with item C.1 "Risk-weighted assets" in the "Capital Adequacy" template.

Credit and counterparty risk

Portfolio	12.31.2017			12.31.2016		
	Exposure to credit and counterparty risk	*Risk-weighted assets*	*Capital requirement*	*Exposure to credit and counterparty risk*	*Risk-weighted assets*	*Risk-weighted assets*
Total IRB approach	-	-	-	-	-	-
Central governments or central banks	6,051,345	72,270	5,782	4,040,518	80,911	6,473
Public-sectors entities	99,924	-	-	-	-	-
Institutions	14,656,637	28,597	2,288	16,259,880	22,784	1,823
Corporates	194,078	194,064	15,525	138,486	137,209	10,977
Retail	1,347,655	1,010,741	80,859	1,034,666	776,000	62,080
Secured by mortgages on immovable property	515,982	180,847	14,468	917	329	26
Exposures in default	2,779	2,798	224	3,664	3,736	299
Equity instruments	5,006	5,006	400	3,532	3,532	283
Other exposures	90,818	90,812	7,265	109,337	109,331	8,746
Total standardised approach	**22,964,224**	**1,585,135**	**126,811**	**21,591,003**	**1,133,832**	**90,707**
Exposures to central counterparties in the form of pre-financed contributions to the default fund		**379**	**30**		**381**	**30**
Risk assets - Credit and counterparty risk	**22,964,224**	**1,585,514**	**126,841**	**21,591,003**	**1,134,213**	**90,737**

(Amounts in € thousand)

Credit and counterparty risk – Breakdown of credit risk and counterparty risk

Portfolio	12.31.2017				12.31.2016			
	Credit risk		*Counterparty risk*		*Credit risk*		*Counterparty risk*	
	Risk-weighted assets	*Capital requirement*	*Risk-weighted assets*	*Capital requirement*	*Risk-weighted assets*	*Capital requirement*	*Risk-weighted assets*	*Risk-weighted assets*
Total IRB approach	-	-	-	-	-	-	-	-
Central governments or central banks	72,270	5,782	-	-	80,911	6,473	-	-
Regional governments or local authorities	-	-	-	-	-	-	-	-
Public-sectors entities	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-
Institutions	9,625	770	18,972	1,518	10,562	845	12,222	978
Corporates	166,069	13,285	27,995	2,240	98,215	7,857	38,994	3,120
Retail	869,405	69,552	141,336	11,307	585,835	46,867	190,165	15,213
Secured by mortgages on immovable property	180,847	14,468	-	-	329	26	-	-
Exposures in default	2,796	224	2	-	3,736	299	-	-
Items associated with particularly high risk	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-
Collective investment undertakings (UCITS)	-	-	-	-	-	-	-	-
Equity instruments	5,006	400	-	-	3,532	283	-	-
Other exposures	90,812	7,265	-	-	109,331	8,746	-	-
Total standardised approach	**1,396,830**	**111,746**	**188,305**	**15,065**	**892,451**	**71,396**	**241,381**	**19,311**
Exposures to central counterparties in the form of pre-financed contributions to the default fund	**379**	**30**			**381**	**30**		
Risk assets - Credit and counterparty risk	**1,397,209**	**111,776**	**188,305**	**15,065**	**892,832**	**71,426**	**241,381**	**19,311**

(Amounts in € thousand)

Capital adequacy

Category/Amount	Non-weighted amounts		Weighted/required amounts	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
A. RISK ASSETS				
A.1 Credit and counterparty risk	**22,964,224**	**21,591,003**	**1,585,514**	**1,134,213**
1. Standardised approach	22,964,224	21,591,003	1,585,514	1,134,213
2. Internal rating method	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**126,841**	**90,737**
B.2 Risk of adjustment of valuation of credit			**47**	**127**
B.3 Settlement risk			**2**	**-**
B.4 Market risk			**4,149**	**2,433**
1. Standardised approach			4,149	2,433
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			**55,762**	**59,480**
1. Basic Indicator Approach			-	-
2. Standardised approach			-	-
3. Advanced measurement approach			55,762	59,480
B.6 Other calculation elements			**-**	**-**
B.7 Total prudential requirements			**186,801**	**152,777**
C. C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,335,013	1,909,712
C.2 Common Equity Tier 1 Capital/Risk-weighted assets (CET1 capital ratio)			20.77%	22.94%
C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			20.77%	22.94%
C.3 Own funds/Risk-weighted assets (Total capital ratio)			20.77%	22.94%

(Amounts in € thousand)

As described above, the Bank uses advanced measurement approaches for calculating Own Funds requirements for operational risk. Therefore, under Basel III (article 500 CRR – Regulation 575/2013) it must hold own funds until December 31, 2017 that are equal to or above 80% of the requirements under Basel I. As at December 31, 2017, the Basel I capital requirements amounted to €374,964 thousand; accordingly, 80% of that amount was €299,971 thousand.

Total capital requirements

Type of risk	*Approach used*	*Capital requirements 12.31.2017*	*Capital requirements 12.31.2016*
1. On-balance-sheet risk assets	Standardised approach	111,647	70,514
2. Guarantees issued and commitments to disburse funds	Standardised approach	100	882
3. Derivative contracts	Current value approach	123	130
4. Securities financing transactions	CRM - Comprehensive method with regulatory adjustments for volatility	14,941	19,181
Capital requirements credit and counterparty risk		**126,811**	**90,707**
Capital requirements for exposures to central counterparties in the form of pre-funded contributions to the default fund		**30**	**30**
Market risk			
1. Foreign-exchange risk	Standardised approach	1,090	827
2. Debt securities position risk	Standardised approach	1,691	1,113
3. Equity securities position risk	Standardised approach	722	493
4. Position risk on commodities	Standardised approach	-	-
5. CIU position risk	Standardised approach	646	-
Capital requirements for market risk		**4,149**	**2,433**
1. Concentration risk	Standardised approach	-	-
Capital requirements for concentration risk		**-**	**-**
1. Risk of credit valuation adjustment	Standardised approach	47	127
Capital requirements for risk of credit valuation adjustment		**47**	**127**
1. Settlement risk	Standardised approach	2	-
Capital requirements for settlement risk		**2**	**-**
1. Advanced measurement approach	Advanced measurement approach	55,762	59,480
Capital requirements for operational risk		**55,762**	**59,480**
Total capital requirements		**186,801**	**152,777**

(Amounts in € thousand)

Capital Buffers

Article 136 of the directive EU/2013/36 (Capital Requirements Directive, CRD4) establishes the requirement for the designated national authorities to set up an operational framework for establishing the countercyclical capital buffer (CCyB) with effect from January 1, 2016. The buffer is reviewed on a quarterly basis. The European legislation was implemented in Italy through the Bank of Italy Circular 285/2013 (Supervisory regulations for banks), which contain specific rules on the CCyB. Legislative Decree 72 of May 12, 2015 identified the Bank of Italy as the authority designated to adopt the macro prudential measures in the banking sector, including the CCyB. The rules apply at individual and consolidated level to banks and investment firms.

The countercyclical capital buffer seeks to ensure that the capital requirements of the banking sector take account of the macro-financial environment that the banks operate in. Its primary purpose is to use a capital buffer to achieve the macro-prudential objective of protecting the banking sector from periods of excessive growth in aggregate credit, which have often been associated with the accumulation of risk at system level. In times of recession, the buffer should contribute to reducing the risk of the availability of credit being limited by capital requirements that could undermine the performance of the real economy and lead to additional credit losses in the banking system.

Accordingly, institutions are required to maintain an institution-specific countercyclical capital buffer, equivalent to their total risk exposure amount, calculated in accordance with Article 92(3) of Regulation (EU) No 575/2013 multiplied by the weighted average of the countercyclical buffer rates. The institution-specific countercyclical capital buffer rate consists of the weighted average of the countercyclical buffer rates that apply in the jurisdictions where the relevant credit exposures of the institution are located. To calculate the weighted average, institutions must apply to each countercyclical buffer rate its total own funds requirements for credit risk, that relates to the relevant credit exposures in the territory in question, divided by its total own funds requirements for credit risk that relates to all of its relevant credit exposures.

The introduction of the countercyclical buffer includes a phase-in period between January 1, 2016 and the end of 2018 and will become fully effective from January 1, 2019 (the countercyclical buffer cannot be higher than 1.25% in 2017, 1.875% in 2018, and 2.5% in 2019).

The Bank's specific countercyclical capital buffer as at December 31, 2017 was 0.00005%, corresponding to around €1 thousand.

<u>Amount of institution-specific countercyclical capital buffer</u>

	Figures as at December 31, 2017
Total risk exposure amount	2,335,013
Institution-specific countercyclical capital buffer rate	0.00005%
Institution-specific countercyclical capital buffer	1

(Amounts in € thousand)

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposures		*Trading book exposures*		*Securitisation exposures*		*Own funds requirements*					
	Exposure value for SA	*Exposure value for IRB approach*	*Sum of long and short position of the trading book*	*Exposure value in the trading book for internal models*	*Exposure value for SA*	*Exposure value for IRB approach*	*Of which: general credit exposures*	*Of which: trading book exposures*	*Of which: securitisation exposures*	*Total*	*Weightings for own funds requirements*	*Countercyclical buffer*
Breakdown by country												
Abu Dhabi	43	-	-	-	-	-	3	-	-	3	0.000%	0.000%
Saudi Arabia	146	-	7	-	-	-	9	-	-	9	0.000%	0.000%
Argentine	96	-	300	-	-	-	6	-	-	6	0.000%	0.000%
Australia	15	-	-	-	-	-	1	-	-	1	0.000%	0.000%
Austria	269	-	11	-	-	-	20	-	-	20	0.000%	0.000%
Belgium	59	-	225	-	-	-	4	-	-	4	0.000%	0.000%
Bermuda	277	-	29	-	-	-	22	-	-	22	0.000%	0.000%
Brazil	17	-	100	-	-	-	1	2	-	3	0.000%	0.000%
Bulgaria	6	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Canada	114	-	9	-	-	-	7	1	-	8	0.000%	0.000%
China	14	-	57	-	-	-	1	-	-	1	0.000%	0.000%
Cyprus	26	-	-	-	-	-	2	-	-	2	0.000%	0.000%
Colombia	2	-	-	-	-	-	-	-	-	-	0.000%	0.000%
South Korea	6	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Croatia	7	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Curacao	-	-	40	-	-	-	-	-	-	-	0.000%	0.000%
Denmark	6	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Ecuador	2	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Ethiopia	4	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Finland	1	-	48	-	-	-	-	2	-	2	0.000%	0.000%
France	3,037	-	3,798	-	-	-	242	2	-	244	0.000%	0.000%
Georgia	6	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Germany	518	-	35,584	-	-	-	40	50	-	90	0.000%	0.000%
Ghana	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Japan	1	-	6	-	-	-	-	-	-	1	0.000%	0.000%
Greece	7	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Hong Kong	46	-	-	-	-	-	3	-	-	3	0.000%	0.000%
India	6	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Ireland	1,333	-	7,111	-	-	-	109	1	-	110	0.000%	0.000%
Cayman Islands	3	-	1,944	-	-	-	-	25	-	25	0.000%	0.000%
British Virgin Islands	-	-	4	-	-	-	-	-	-	-	0.000%	0.000%
Israel	30	-	181	-	-	-	2	-	-	2	0.000%	0.000%
Italy	2,091,993	-	500,451	-	-	-	113,659	248	-	113,906	0.000%	0.000%
Jersey	-	-	3,360	-	-	-	-	-	-	-	0.000%	0.000%
Kazakhstan	1	-	2	-	-	-	-	-	-	-	0.000%	0.000%
Kenya	8	-	-	-	-	-	1	-	-	1	0.000%	0.000%
Kuwait	2	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Latvia	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Lebanon	1	-	117	-	-	-	-	-	-	-	0.000%	0.000%
Liberia	-	-	11	-	-	-	-	-	-	-	0.000%	0.000%
Lithuania	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Luxembourg	41,858	-	8,179	-	-	-	3,348	-	-	3,348	0.000%	0.000%
Malaysia	282	-	-	-	-	-	8	-	-	8	0.000%	0.000%
Malta	6	-	152	-	-	-	-	-	-	-	0.000%	0.000%
Morocco	-	-	50	-	-	-	-	-	-	-	0.000%	0.000%
Mexico	4	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Moldova	4	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Namibia	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Nigeria	3	-	15	-	-	-	-	-	-	-	0.000%	0.000%
Norway	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
New Zeland	5	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Holland	456	-	105,675	-	-	-	36	12	-	48	0.000%	0.000%
Panama	4	-	17	-	-	-	-	-	-	-	0.000%	0.000%
Paraguay	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Poland	28	-	-	-	-	-	2	-	-	2	0.000%	0.000%
Portugal	19	-	-	-	-	-	1	-	-	1	0.000%	0.000%
Principality of Monaco	8	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Qatar	-	-	39	-	-	-	-	-	-	-	0.000%	0.000%
United Kingdom	9,035	-	1,085	-	-	-	719	2	-	721	0.000%	0.000%
Czech Republic	29	-	-	-	-	-	2	-	-	2	0.000%	0.000%
Romania	4	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Russia	358	-	12	-	-	-	22	-	-	22	0.000%	0.000%
San Marino	41	-	-	-	-	-	2	-	-	2	0.000%	0.000%
Serbia	3	-	40	-	-	-	-	-	-	-	0.000%	0.000%
Singapore	10	-	144	-	-	-	1	-	-	1	0.000%	0.000%
Syria	-	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Slovakia	3	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Spain	146	-	2,096	-	-	-	9	-	-	9	0.000%	0.000%
United States of America	5,469	-	118,957	-	-	-	437	253	-	690	0.000%	0.000%
South Africa	17	-	800	-	-	-	1	1	-	2	0.000%	0.000%
Sweden	10	-	1	-	-	-	1	-	-	1	0.000%	0.000%
Switzerland	376	-	471	-	-	-	19	3	-	22	0.000%	0.000%
Thailand	17	-	490	-	-	-	1	-	-	1	0.000%	0.000%
Tunisia	2	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Turkey	5	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Ukraine	2	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Hungary	2	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Uruguay	7	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Venezuela	1	-	2	-	-	-	-	-	-	-	0.000%	0.000%
Vietnam	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
TOTAL	**2,156,323**	**-**	**791,620**	**-**	**-**	**-**	**118,741**	**602**	**-**	**119,343**		

(Amounts in € thousand)

Credit risk adjustments

Section A – General qualitative information on credit risk

<u>Definitions of impaired exposures</u>

According to Bank of Italy regulations, set out in Circular no. 272 of July 30, 2008 as amended, impaired exposures, i.e. those with the characteristics mentioned in paragraphs 58-62 of IAS 39, correspond to the Non-Performing Exposures aggregate referred to in the EBA ITS.

Specifically, the EBA has identified Non-Performing exposures as those that satisfy either or both of the following criteria:

- material exposures which are more than 90 days past due;
- exposures for which the Bank has assessed that the debtor is unlikely to pay its credit obligations, without the enforcement and realisation of collateral, regardless of the existence of any past due and/or overdrawn impaired exposures or of the number of days past due.

Based on the Bank of Italy Circular 272, impaired assets are classified into the following categories:

- **non-performing loans** – formally impaired loans, being exposure to insolvent borrowers, even if the insolvency has not been recognised in a court of law, or borrowers in a similar situation (including by verifying statistically and automatically defined coverage levels for certain loan portfolios below a predefined threshold) or, for individually insignificant amounts, on a flat basis by type of homogeneous exposures;

- **unlikely to pay** - on- and off-balance sheet exposures which do not meet the borrower's condition for classification as non-performing loans and for which, in the absence of actions such as the enforcement of collateral, the debtor's ability to fully meet its credit obligations (principal and/or interest) is assessed as unlikely. This assessment is made independently of any past due and unpaid amount (or instalment).

  The classification of an exposure as unlikely to pay is not necessarily tied to evident issues (non-repayment), but is rather linked to indicators of a potential default of the borrower. The "unlikely to pay" exposures are measured individually (including by verifying statistically defined coverage levels for some loan portfolios below a predefined threshold) or by applying a percentage on a flat basis by type of homogeneous exposures;
- **past due and/or overdrawn impaired exposures -** on-balance sheet exposures, other than those classified as non-performing or unlikely to pay that are past due or overdrawn at the reporting date. The past due and/or overdrawn impaired exposures may be determined, alternatively, with respect to the individual debtor or the individual transaction. Specifically, they represent the total exposure to any borrower not included in the "unlikely to pay" categories, which at the balance-sheet date has expired facilities or unauthorised overdrafts that are more than 90 days past due and meet the requirements set out by supervisory regulations for their classification under the "past due exposures" category (TSA banks).

  Past-due and/or overdrawn impaired exposures are valued at a flat rate on a historical/stochastic basis by applying where available the risk rating referred to Loss Given Default (LGD) under Regulation (EU) No. 575/2013 (CRR) on prudential requirements for credit institutions and investment firms.

  The Bank assesses past due and/or overdrawn impaired exposures with respect to the individual debtor. Total exposure is recognised in this category if, at the reporting date, either of the following amounts, whichever is larger, is equal to or more than 5%:

- the expired/overdrawn portion out of the entire exposure as at the reporting date

and

- the average of the past-due and/or overdrawn portions out of the entire exposure, as measured daily in the last preceding quarter.

Past-due and/or overdrawn exposures of more than 90 days but below the 5% threshold, and therefore classified as performing loans, amounted to €101 thousand at the end of 2017.

The EBA standards also introduced the definition of forborne exposures, i.e. exposures in respect of which forbearance measures have been extended, consisting of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties").

Forbearance is defined by the EBA standards as:

- a modification of the previous terms and conditions of a contract the debtor is considered unable to comply with due to its financial difficulties ("troubled debt") to allow for sufficient debt service ability, that would not have been granted had the debtor not been in financial difficulties;
- a total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been in financial difficulties.

Forborne exposures may be classified in the impaired loans category (non-performing, unlikely to pay, impaired past due and overdrawn) or as performing loans. The accounting policies regarding provisions and assessments of forborne exposures are in accordance with the general principle set out by IAS 39, with the clarifications given above regarding renegotiated loans classified as unlikely to pay.

The Bank is currently part of the work groups coordinated by the Parent Company for the implementation of the new "EBA Guidelines on the application of the definition of default", which will lower, for example, the above threshold from 5% to 1%.

<u>Description of the methods used to determine impairment losses</u>

Loans and receivables with banks and with customers are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised on the date of contract signing, which normally coincides with the date of disbursement to the borrower. These items include debt instruments with the above characteristics (including the primary component of structured instruments after the embedded derivative has been unbundled) or that are subject to portfolio reclassification in accordance with the rules of IAS 39.

After initial recognition at fair value, which is usually the price paid including transaction costs and income directly attributable to the acquisition or issuance of the financial asset (even if not yet paid), a loan or receivable is measured at amortised cost, which can be adjusted to take account of any write-downs/write-backs resulting from the valuation process.

A gain or loss on loans and receivables is recognised in profit or loss:

- when a loan or receivable is written off, in item 100.a) "Gains (losses) on disposal";

or

- when a loan or receivable is impaired (or written back after an impairment), in item 130.a) “Net value adjustments for impairment of receivables”.

Specific adjustments

Loans and receivables are reviewed in order to identify those that, following events occurring after initial recognition, show objective evidence of possible impairment. These impaired loans are reviewed and analysed periodically at least once a year.

A loan or receivable is deemed impaired when it is considered that it will probably not be possible to recover all the amounts due according to the contractual terms, or equivalent value.

Allowances for impairment of loans and receivables are based on the present value of expected cash flows of principal and interest; in determining the present value of future cash flows, the basic requirement is the identification of estimated collections, the timing of payments and the discount rate used.

In particular, the amount of the loss on impaired exposures classified as non-performing and unlikely to pay according to the categories specified above, is the difference between the carrying value and the present value of estimated cash flows discounted at the original interest rate of the financial asset. If the original interest rate is not readily found, or if finding it would be excessively onerous, the best approximation is used.

For all fixed-rate positions, the rate determined in this manner was also held constant in future years, while for variable-rate positions the interest rate is updated in relation to the variable-rate component, keeping the original spread constant.

Recovery times are estimated on the basis of any repayment schedules agreed with the borrower or included in a business plan or in forecasts based on historical recovery experience observed for similar classes of loans, taking into account the type of loan, the type of security and any other factors considered relevant.

Any subsequent change with respect to initial expectations of the amount or timing of expected cash flows of principal and interest causes a change in allowances for impairment and is recognised in profit or loss in item 130.(a)"Impairment losses on loans and receivables".

Value adjustments of impaired loans are classified as specific in the relevant income statement item even when the calculation is flat-rate or statistical.

When the reasons for the impairment no longer exist, and this assessment is objectively attributable to an event such as an improvement in the debtor's credit worthiness occurred after the impairment, a reversal is made in the same profit or loss item, within the amount of the amortised cost that there would have been if there had been no impairments.

Derecognition of a loan or receivable in its entirety is made when the loan or receivable is deemed to be irrecoverable or is written off. Write-offs are recognised directly in profit or loss under item 130.a) "Impairment losses on loans and receivables" and reduce the amount of the principal of the loan or receivable. Reversals of all or part of amounts previously written off are recognised in the same item.

General adjustments

The collective assessment of performing loans is used for groups of loans for which individually there are no indicators of impairment: to these portfolios a latent impairment can be attributed, according to the method described below, inter alia on the basis of the risk factors used under CRR prudential regulation. Each loan with similar characteristics in terms of credit risk - in relation to loan type, the borrower's sector of economic activity, geographical location, type of security or other relevant factors - is assessed in terms of its PD (Probability of Default) and LGD (Loss Given Default); these are uniform for each class of loan.

The methods used combine the CRR prudential regulation recommendations and IFRS. The latter exclude future loan losses not yet sustained, and instead include losses already sustained even if they were not manifest at the time of measurement, on the basis of past experience of losses on assets having a similar risk profile to the assets being measured.

The parameter for the average period from deterioration of a borrower's financial condition and its classification as an impaired loan is the Loss Confirmation Period.

The portfolio valuation is the product of the risk factors derived from the parameters used under CRR prudential regulation requirements, with a one-year time horizon, and the above loss confirmation periods (LCP) expressed as part of a year and diversified according to classes of loans and receivables on the basis of customer segments/portfolios characteristics. The Bank assumes the loss confirmation period as equal to a maximum of 12 months, at which existing accounting provisions and expected losses are equivalent.

If these indicators are not available, estimated value and standard loss percentages, based on internal historical series and sectoral studies, shall be used.

The Bank has set out the methodological framework and operational infrastructure to implement the new accounting standard IFRS 9, which will become effective as of January 1, 2018.

Classification of exposures in risk categories

The classification into different risk categories is made according to the guidelines of the EBA standards (Implementing Technical Standards - Implementing Regulation (EU) No. 680/2014 of the European Commission) and Bank of Italy Circular 272.

Section B – General quantitative information on credit risk

EU CRB-B – Total and average net amount of exposures

	Net value of exposures at the end of the period	*Average net exposure over the period*
15 Total IRB approach	-	-
16 Central governments or central banks	6,051,344	5,154,562
17 Regional governments or local authorities	-	-
18 Public-sectors entities	99,924	47,459
19 Multilateral development banks	-	1
20 International organisations	-	-
21 Institutions	16,261,463	16,426,382
22 Corporates	185,405	141,903
23 Of which: SMEs	185	1,143
24 Retail	1,958,864	1,582,777
25 Of which: SMEs	-	43
26 Secured by mortgages on immovable property	515,982	300,728
27 Of which: SMEs	-	10
28 Exposures in default	2,905	3,709
29 Items associated with particularly high risk	-	-
30 Covered bonds	-	-
31 Claims on institutions and corporates with a short-term credit assessment	-	-
32 Collective investment undertakings	-	-
33 Equity exposures	5,006	4,281
34 Other exposures	90,818	114,248
35 Total standardised approach	**25,171,711**	**23,776,050**
36 Total	**25,171,711**	**23,776,050**

(Amounts in € thousand)

The net value of exposures refers to on-balance-sheet and off-balance-sheet exposures to credit risk, as defined by the CRR, and therefore excludes exposures to counterparty risk.

EU CRB-C – Geographical breakdown of exposures

	Net value					
	Europe	*Italy*	*Spain*	*Other European countries*	*Other geographical areas*	*Total*
6 Total IRB approach	-	-	-	-	-	-
7 Central governments or central banks	5,986,673	3,565,208	2,362,769	58,696	64,671	6,051,344
8 Regional governments or local authorities	-	-	-	-	-	-
9 Public-sectors entities	99,924	-	99,924	-	-	99,924
10 Multilateral development banks	-	-	-	-	-	-
11 International organisations	-	-	-	-	-	-
12 Institutions	16,261,463	16,251,268	-	10,195	-	16,261,463
13 Corporates	184,188	128,711	-	55,477	1,217	185,405
14 Retail	1,957,872	1,954,596	54	3,222	992	1,958,864
15 Secured by mortgages on immovable property	515,700	515,575	-	125	282	515,982
16 Exposures in default	2,904	2,895	-	9	1	2,905
17 Items associated with particularly high risk	-	-	-	-	-	-
18 Covered bonds	-	-	-	-	-	-
19 Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
20 Collective investment undertakings	-	-	-	-	-	-
21 Equity exposures	505	5	-	500	4,501	5,006
22 Other exposures	90,818	90,748	-	70	-	90,818
23 Total standardised approach	**25,100,047**	**22,509,006**	**2,462,747**	**128,294**	**71,664**	**25,171,711**
24 Total	**25,100,047**	**22,509,006**	**2,462,747**	**128,294**	**71,664**	**25,171,711**

(Amounts in € thousand)

The columns provide the significant geographical areas in which FinecoBank has material exposures. Exposures equal to or less than 0.5% of total exposures have been included in “Other European countries” and “Other geographical areas”.

The column “Other European countries” groups together exposures in the following countries: Poland, Luxembourg, France, United Kingdom, Sweden, Switzerland, Ireland, Germany, Russia, Netherlands, Austria, Bulgaria, Belgium, Portugal, Georgia, San Marino, Principality of Monaco, Norway, Malta, Croatia, Denmark, Turkey, Greece, Romania, Moldavia, Lithuania, Slovak Republic, Serbia, Ukraine, Latvia, Finland, Cyprus, Czech Republic, Kosovo, Hungary, Estonia, Vatican City, Slovenia, Belarus and Macedonia.

The column "Other geographical areas" groups together exposures in the following countries: United States of America, Saudi Arabia, Malaysia, Bermuda, Canada, Argentina, India, Australia, Thailand, Brazil, South Africa, China, Abu Dhabi, New Zealand, Uruguay, Hong Kong, Mexico, Panama, Ethiopia, South Korea, Morocco, Singapore, Kenya, Cayman, Nigeria, Columbia, Tunisia, Kuwait, Ecuador, Israel, Paraguay, Kazakhstan, Lebanon, Japan, Vietnam, Ghana, Venezuela, Chile, Myanmar, Costa Rica, Qatar, Indonesia, Pakistan, Afghanistan, British Virgin Islands, Dominican Republic, Egypt, Rwanda, Uganda, Peru and Uzbekistan.

EU CRB-D – Concentration of exposures by industry or counterparty types

	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Information and communication	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence, compulsory social security	Education	Human health services and social work activities	Arts, entertainment and recreation	Other services	**Total**
6 Total IRB approach	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
7 Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	6,051,344	-	-	-	-	**6,051,344**
8 Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
9 Public-sectors entities	-	-	-	-	-	-	-	-	-	-	-	-	-	99,924	-	-	-	-	**99,924**
10 Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
11 International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
12 Institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
13 Corporates	-	-	71	-	-	4	193	65	1	357	2	2	1,544	-	-	-	-	9	**2,248**
14 Retail	37	-	58	-	-	66	491	30	72	29	-	5	16,508	-	10	781	41	285	**18,413**
15 Secured by mortgages on immovable property	-	-	-	-	-	-	-	-	-	-	-	-	2,324	-	-	147	-	-	**2,471**
16 Exposures in default	-	-	2	-	-	2	6	-	2	-	-	-	83	-	-	-	1	4	**100**
17 Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
18 Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
19 Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
20 Collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
21 Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
22 Other exposures	-	-	-	-	-	-	-	-	-	-	-	-	572	-	-	-	-	-	**572**
23 Total standardised approach	**37**	**-**	**131**	**-**	**-**	**72**	**690**	**95**	**75**	**386**	**2**	**7**	**21,031**	**6,151,268**	**10**	**928**	**42**	**298**	**6,175,072**
24 Total	**37**	**-**	**131**	**-**	**-**	**72**	**690**	**95**	**75**	**386**	**2**	**7**	**21,031**	**6,151,268**	**10**	**928**	**42**	**298**	**6,175,072**

(Amounts in € thousand)

The exposures reported above are consistent with the exposures reported in template EU CRB-B, net of €16,347,774 thousand of exposures to "Financial and insurance assets", €2,558,644 thousand of exposures to "Households" and €107 thousand of "Non-classifiable" exposures, as well as €90,114 thousand of exposures that cannot be associated to a specific counterparty, such as, for example, some of the assets recognised in the balance sheet under item 150 of Assets.

EU CRB-E – Maturity of exposures

	Net exposure value					
	On demand	*<= 1 year*	*> 1 year < = 5 years*	*> 5 years*	*No stated maturity*	*Total*
6 Total IRB approach	-	-	-	-	-	-
7 Central governments or central banks	251,208	12,169	3,533,105	2,253,926	936	6,051,344
8 Regional governments or local authorities	-	-	-	-	-	-
9 Public-sectors entities	-	-	99,924	-	-	99,924
10 Multilateral development banks	-	-	-	-	-	-
11 International organisations	-	-	-	-	-	-
12 Institutions	2,010,562	2,603,393	7,440,209	1,676,145	150,084	13,880,393
13 Corporates	94,464	78,517	2	-	-	172,983
14 Retail	546,988	268,674	256,737	117,458	994	1,190,851
15 Secured by mortgages on immovable property	-	-	-	515,981	-	515,981
16 Exposures in default	696	633	1,356	34	59	2,778
17 Items associated with particularly high risk	-	-	-	-	-	-
18 Covered bonds	-	-	-	-	-	-
19 Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
20 Collective investment undertakings	-	-	-	-	-	-
21 Equity exposures	-	-	-	-	5,006	5,006
22 Other exposures	6	-	-	-	90,812	90,818
23 Total standardised approach	**2,903,924**	**2,963,386**	**11,331,333**	**4,563,544**	**247,891**	**22,010,078**
24 Total	**2,903,924**	**2,963,386**	**11,331,333**	**4,563,544**	**247,891**	**22,010,078**

(Amounts in € thousand)

The net value of exposures refers to on-balance-sheet exposures to credit risk, as defined by the CRR, and therefore excludes off-balance-sheet exposures and exposures to counterparty risk.
The column “No stated maturity” reports exposures that by their nature have no stated maturity, such as, for example, some of the assets recognised in the balance sheet under item 150 of Assets.

Comparable disclosures of financial liabilities are provided in Part E – Information on risks and hedging policies of the Financial Statements at December 31, 2017.

EU CR1-A – Credit quality of exposures by exposure class and instrument

	Gross carrying values of						
	Defaulted exposures (a)	*Non-defaulted exposures (b)*	*Specific credit risk adjustments (c)*	*General credit risk adjustment(d)*	*Accumulated write-offs (e)*	*Credit risk adjustment charges over the period (f)*	*Net values (a+b-c-d-e)*
15 Total IRB approach	-	-	-	-	-	-	-
16 Central governments or central banks	-	6,051,344	-	-	-	-	6,051,344
17 Regional governments or local authorities	-	-	-	-	-	-	-
18 Public-sectors entities	-	99,924	-	-	-	-	99,924
19 Multilateral development banks	-	-	-	-	-	-	-
20 International organisations	-	-	-	-	-	-	-
21 Institutions	-	16,261,463	-	-	-	-	16,261,463
22 Corporates	-	185,503	98	-	-	1	185,405
23 Of which: SMEs	-	185	-	-	-	-	185
24 Retail	24,365	1,968,663	31,259	-	-	7,199	1,961,769
25 Of which: SMEs	-	-	-	-	-	-	-
26 Secured by mortgages on immovable property	-	517,158	1,176	-	-	-	515,982
27 Of which: SMEs	-	-	-	-	-	-	-
28 Exposures in default	24,365	-	21,460	-	-	5,142	2,905
29 Items associated with particularly high risk	-	-	-	-	-	-	-
30 Covered bonds	-	-	-	-	-	-	-
31 Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
32 Collective investment undertakings	-	-	-	-	-	-	-
33 Equity exposures	-	5,006	-	-	-	-	5,006
34 Other exposures	-	90,818	-	-	-	-	90,818
35 Total standardised approach	**24,365**	**25,179,879**	**32,533**	**-**	**-**	**7,200**	25,171,711
36 Total	**24,365**	**25,179,879**	**32,533**	**-**	**-**	**7,200**	**25,171,711**
37 Of which: Loans	24,232	4,931,864	32,533	-	-	-	4,923,563
38 Of which: Debt securities	6	16,707,766	-	-	-	7,200	16,707,772
39 Of which: Off-balance sheet exposures	127	3,161,504	-	-	-	-	3,161,631

(Amounts in € thousand)

Please note that, in order to avoid double counting of exposures, the amount indicated in row 35 "Total with standardized method" does not include the amount indicated in row 28, as defaulted exposures and their value adjustments have been reallocated to the exposure class before default and refer exclusively to the "Retail" exposure class. “Other exposures” primarily include exposures recognised in items 150 “Other assets” (net of tax assets), 110 “Property, plant and equipment” and 90 “Changes in fair value of portfolio hedged financial assets” of Assets.

EU CR1-B – Credit quality of exposures by industry or counterparty types

	Gross carrying values of		*Specific credit risk adjustments (c)*	*General credit risk adjustment(d)*	*Accumulated write-offs (e)*	*Credit risk adjustment charges over the period (f)*	*Net values (a+b-c-d-e)*
	Defaulted exposures (a)	*Non-defaulted exposures (b)*					
1 Agriculture, forestry and fishing	1	37	1	-	-	14	37
2 Mining and quarrying	-	-	-	-	-	-	-
3 Manufacturing	6	130	5	-	-	4	131
4 Electricity, gas, steam and air conditioning supply	-	-	-	-	-	-	-
5 Water supply	-	-	-	-	-	-	-
6 Construction	10	70	8	-	-	4	72
7 Wholesale and retail trade	35	686	31	-	-	14	690
8 Transport and storage	1	95	1	-	-	-	95
9 Accommodation and food service activities	6	73	4	-	-	4	75
10 Information and communication	-	386	-	-	-	-	386
11 Real estate activities	-	2	-	-	-	-	2
12 Professional, scientific and technical activities	1	6	-	-	-	-	7
13 Administrative and support service activities	359	24,279	3,607	-	-	249	21,031
14 Public administration and defence, compulsory social security	-	6,151,268	-	-	-	-	6,151,268
15 Education	2	10	2	-	-	-	10
16 Human health services and social work activities	-	930	2	-	-	-	928
17 Arts, entertainment and recreation	5	41	4	-	-	-	42
18 Other services	44	294	40	-	-	3	298
19 Total	**470**	**6,178,307**	**3,705**	**-**	**-**	**292**	**6,175,072**

(Amounts in € thousand)

The exposures reported above are consistent with the exposures reported in template “EU CRB-D – Concentration of exposures by industry or counterparty types”.

EU CR1-C – Credit quality of exposures by geography

	Gross carrying values of		Specific credit risk adjustments (c)	General credit risk adjustment(d)	Accumulated write-offs (e)	Credit risk adjustment charges over the period (f)	Net values (a+b-c-d-e)
	Defaulted exposures (a)	*Non-defaulted exposures (b)*					
1 Europe	**24,364**	**25,108,213**	**32,531**	**-**	**-**	**7,198**	**25,100,046**
2 Italy	24,334	22,517,177	32,507	-	-	7,183	22,509,004
3 Spain	2	2,462,747	2	-	-	2	2,462,747
4 Other European countries	28	128,289	22	-	-	13	128,295
5 Other geographical areas	**1**	**71,666**	**2**	**-**	**-**	**1**	**71,665**
6 Total	**24,365**	**25,179,879**	**32,533**	**-**	**-**	**7,199**	**25,171,711**

(Amounts in € thousand)

The exposures reported above are consistent with the exposures reported in template "EU CRB-C – Credit quality of exposures by geography", to which reference should be made for the methods used for determining the significant geographical areas in which FinecoBank has material exposures.

EU CR1-D – Ageing of past-due exposures

	Gross carrying values:					
	<= 30 days	*> 30 days <= 60 days*	*> 60 days <= 90 days*	*> 90 days <= 180 days*	*> 180 days <= 1 year*	*> 1 year*
1 Loans	5,174,417	850	1,526	1,095	1,858	20,747
2 Debt securities	16,707,766	-	-	-	-	-
3 Total exposures	**21,882,183**	**850**	**1,526**	**1,095**	**1,858**	**20,747**

(Amounts in € thousand)

The table above provides an ageing analysis of total exposures recognised in the balance sheet.

EU CR1-E – Non-performing and forborne exposures

	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
					Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne		
1 Debt securities	16,707,766	-	-	-	-	-	-	-	-	-	-	-	-
2 Loans and advances	5,200,494	1,764	183	24,313	24,313	24,313	298	(11,073)	(1)	(21,460)	(218)	81	-
3 Off-balance sheet exposures	3,327,618	-	-	127	127	-	-	-	-	-	-	-	-

(Amounts in € thousand)

EU CR2-A – Changes in the stock of general and specific credit risk adjustments

		Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
1	***Opening balance***	**18,711**	**-**
2	Increases due to amounts set aside for estimated loan losses during the period	5,147	-
3	Decreases due to amounts reversed for estimated loan losses during the period	(1,459)	-
4	Decreases due to amounts taken against accumulated credit risk adjustments	(939)	-
5	Transfers between credit risk adjustments	-	-
6	Impact of exchange rate differences	-	-
7	Business combinations, including acquisitions and disposals of subsidiaries	-	-
8	Other adjustments	-	-
9	***Closing balance***	**21,460**	**-**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	(22)	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-	-

(Amounts in € thousand)

Changes in the stock of credit risk adjustments shown above refer to adjustments held against loans and debt securities that are defaulted or impaired.

EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities

		Gross carrying value of defaulted exposures
1	***Opening balance***	**22,370**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	6,538
3	Returned to non-defaulted status	(1,327)
4	Amounts written off	(939)
5	Other changes	(2,329)
6	***Closing balance***	**24,313**

(Amounts in € thousand)

Changes in stock shown above refer to adjustments held against loans and debt securities that are defaulted or impaired.

“Other changes” includes ” collections recognised in 2017 for a total of €3,593 thousand.

Remuneration and incentive systems and practices

Qualitative Information

1. Governance & Compliance

1.1 Remuneration Committee

The Remuneration Committee, established by the Board of Directors' resolution on April 11th, 2017, performs a strategic role in supporting Board of Directors' oversight of FinecoBank Compensation Policy and plans design.

According to the internal provisions approved by the Board of Directors, ruling the functioning and competencies of corporate bodies and related information flows (hereinafter the "Corporate Governance Rules"), this Committee is composed by 3 non-executive members, Mr. Gianmarco Montanari, Ms. Elena Biffi and Mr. Enrico Cotta Ramusino.

As provided by law, at least a Committee Member has adequate knowledge and experience in finance or accounting topics.

The FinecoBank Board of Directors verified the Directors independence requirements pursuant to art. 148 TUF and art. 3 of the Corporate Governance Code. Pursuant to this, with reference to the Remuneration Committee members:

- Mr. Gianmarco Montanari and MS Elena Biffi resulted Independent Directors pursuant to art. 148 TUF and art. 3 of Corporate Governance Code;

- Mr. Enrico Cotta Ramusino resulted independent pursuant to art. 148 TUF.

The Committee meetings held in 2017[2] have been coordinated by the Chairman Mr Gianmarco Montanari.

In performing its duties and if important and suitable, also availing itself with the support of an external consultant, The Remuneration and Committee:

A. presents proposals or issues opinion to the Board for the definition of a general remuneration policy for the CEO, the General Manager, and other Managers with Strategic Responsibilities and the identified staff, also with reference to the identification process, so that the Board is also able to prepare the Report on Remuneration to be presented to the Shareholders' Meeting on an annual basis and to periodically assess the suitability, overall consistency and effective application of the general remuneration policy approved by the Board;
B. presents proposals or issues opinion to the Board relating to the overall remuneration of the CEO, the General Manager, and other Managers with Strategic Responsibilities, and the identified staff and for determining criteria for the remuneration of the Company's senior management, including the relevant performance targets related to the variable component of the remuneration;

[2] From January 1st to April 10th 2017 the tasks of the Remuneration Committee have been performed by the Remuneration and Appointments Committee, whose Chairman was Mr Gianluigi Bertolli.

C. monitors the implementation of the decisions adopted by the Board and specifically verifies that the performance targets are actually achieved;
D. examines any share-based or cash incentive plans for employees and financial advisors of the Company and strategic staff development policies;
E. directly supervises the correct application of the remuneration rules related to the persons in charge of the Company's control functions, in close liaison with the Board of Statutory Auditors;
F. cooperates with the other Committees, in particular with the Risk and Related Parties Committee, which, with reference to the remuneration and incentive policies, examines whether the incentives provided by the remuneration system take into account the risks, share capital and liquidity, provided that this does not affect the tasks assigned to the Remuneration Committee, with which adequate coordination must be ensured;
G. ensures the involvement of the relevant business functions in the process of drawing up and monitoring remuneration and incentive policies and practices;
H. provides an adequate reporting on the activities carried out by the Corporate Bodies, including the Shareholders' Meeting .

In 2017 the Remuneration Committee met 11 times[3]. The meetings had an average duration of two hours. From the beginning of 2018 and until the approval of the present 2018 Compensation Policy, 3 meetings of the Committee have been held this year. Minutes are taken of each meeting and placed on record by the Secretary designated by Committee itself.

From the approval of "Corporate Goverance Rules", the Chairman of the Committee provided time by time the information on the Committee meetings to the subsequent Board meeting.

From December 2014 on the Committee, by means of its budget assigned for the year (amounting to 30.000€ for 2017), has started a collaboration with an external advisor - whose independence has been previously verified - who is invited to the Committee's meeting when required.

The Committee may, when it deems it appropriate, invite other individuals from within the Company to attend the meetings, in relation to the corporate functions and organizations concerned by the issues at hand, including members of other committees within the Board of Directors, or external parties. The Committee shall meet when convened by its Chairman, whenever he/she deems necessary, or upon the request of one of its members. In any case the Committee has always been able to access the information and the Company Functions necessary to perform its activities.

In 2017 the Head of *Human Resources* has been always invited to Committee's meetings. The Chairman has also invited the Head of *Legal & Corporate Affairs* to introduce Corporate Governance topics (see for instance the results of the Board of Directors' self-evaluation process[4]) and the Head of *Network Controls, Monitoring and Service Department* for topics related to PFA network (see for instance the Incentive Systems and related rules for the PFA population). In addition to the aforementioned Functions, the Chairman invited - to specific Committee's meetings and for topics in the respective competence perimeters – the CRO, CFO and Compliance Officer of FinecoBank. In particular the CRO and CFO participated in the meetings regarding the 2017 Incentive Systems evaluation while the Compliance Officer has been invited, among the others, to participate in the discussions related to the Identified Staff definition.

[3] Of which 5 as Remuneration and Appointments Committee and 6 as Remuneration Committee.
[4] Submitted to Remuneration and Appointments Committee, in place until April 2017.

The Chairman has also invited the *Internal Audit*[5] function to the meeting related to the annual audit performed on FinecoBank remuneration policies and practices.

During 2017 the key activities of the Remuneration Committee included:

MAIN COMMITTE'S ACTIVITIES IN 2017	
January (as Remuneration and Appointments Committee)	▪ 2017 Identified Staff definition and 2017 Incentive System for Employees Identified Staff ▪ 2017 Incentive System for PFAs Identified Staff; ▪ New Contest "Qualità".
February (as Remuneration and Appointments Committee)	▪ Bonus Pool 2016 and execution of 2016 and previous Incentive Systems for Employees Identified Staff; ▪ 2017 Performance goals for Employees Identified Staff ▪ Share based plans "2014-2017 Multi-year Plan Top Management" and "2014 Plan Key People" execution and update of the Rules of "2014-2017 Multi-year Plan Top Management" ▪ Identification of Financial Advisors Identified Staff 2017 ▪ Bonus Pool 2016 and execution of 2016 and previous Incentive Systems for Financial Advisors Identified Staff ▪ Stock Granting Plan "2014 Plan PFA" execution and update on KPIs status of "2015-2017 Plan PFA" ▪ Execution of "2016 Incentive Plans" and "Additional Future Program" for Network PFAs and Manager and update of the Rules of "Additional Future Program" dedicated to Financial Advisors and Network Managers ▪ 2017 Incentive System for Financial Advisors and Network Managers and related Rules ▪ Directors requirements verification
March (as Remuneration and Appointments Committee)	▪ 2017 Compensation Policy ▪ 2017 Severance Policy ▪ Rules of 2017 Incentive System for Employees Identified Staff ▪ Rules of 2017 Incentive System for Financial Advisors Identified Staff ▪ Report on Corporate Governance and Ownership Structures - for the section related to the Directors remuneration ▪ Appointment of FinecoBank Chief Audit Executive ▪ Salary Review proposal for Identified ▪ New Contest "Qualità" prorogation. ▪ List of candidates for the role of FinecoBank Director
May (as Remuneration Committee)	▪ New edition of "Contest Qualità
June (as Remuneration Committee	▪ CRO Dashboard calculation methodology for Bonus Pool 2017 determination ▪ Salary review for the Head of Information Security and Fraud Management ▪ Share Ownership Guidelines Rules
July (as Remuneration Committee)	▪ New edition of "Contest Qualità"

The main topics discussed by the Committee are also submitted to the attention of the Board of Statutory Auditors, in advance over their submission to the Board of Directors.

Moreover, at least a member of the Board of Statutory Auditors, attended to the meetings of the Committee in 2017.

[5] Internal Audit function is outsourced in UniCredit and works based on a specific service contract.

We highlight that the Directors do not participate in the Committee meetings in which are made the proposals to the Board concerning their remuneration.

The following table summarizes the composition of the Committee in 2017 (both as Remuneration and Appointment Committee and as Remuneration Committee) and, in addition to the information on the independency of the members, provides details regarding their attendance to the meetings that have been called during the year.

Name	Executive	Non executive	Indip. Code	Indip. TUF	% (*)	(**)
Gianmarco Montanari		X	X	X	100% since April 11 2017, i.e. from the appointment	C
Elena Biffi		X	X	X	100% since April 11 2017, i.e. from the appointment	M
Enrico Cotta Ramusino		X		X	100% since April 11 2017, i.e. from the appointment	M
------------- Members terminated during the exercise -------------						
Gianluigi Bertolli		X	X	X	100% until April 11 2017, date of termination	C
Mariangela Grosoli		X	X	X	80% until April 11 2017, date of termination	M
Girolamo Ielo		X	X	X	100% until April 11 2017, date of termination	M
N. Committe's meetings: 11						
(*) in this column is indicated the percentage of participation of the directors in the Committee's meetings (n. of presences/n. of meetings held during the actual period in which the director was in charge, in the Exercise). (**) In this column is reported the qualification of the director in the Committee ("C" Chairman; "M" member)						

1.2 <u>The Role of Company Control Functions: *Compliance*, *Risk Management* and *Audit*</u>

Key contributions in 2017 of FinecoBank *Compliance* function, for all aspects that fall within its perimeter, included:

- validation of the 2017 Compensation Policy submitted to the Board of Directors for subsequent approval of the Shareholders' Meeting on April 11th, 2017;
- validation of the 2017 Incentive System for employees of FinecoBank belonging to *Identified Staff*;
- validation of the 2017 Incentive System for Financial Advisors of FinecoBank belonging to *Identified Staff*;
- preparation – in collaboration with the *Human Resources* function – and distribution of FinecoBank guidelines for the development and management of incentive systems for the population not belonging to *Identified Staff* (ref. *FinecoBank Internal Regulation 10/2017*);
- participation in specific initiatives of *Human Resources* function (e.g.: review of definition of *Identified Staff* for the application of Incentive System).

In 2018, the *Compliance* function will continue to operate in close co-ordination with the *Human Resources* function to support not only in the validation but also in the design and definition of compensation policy and processes.

The link between compensation and risk has been maintained in 2017 with the involvement of the *Risk Management* function in compensation design and the definition of an explicit framework to base remuneration within an overarching FinecoBank *Risk Appetite Framework*, which is consistent with Group *Risk Appetite Framework*, so that incentives to take risk are appropriately constrained by incentives to manage risk. In particular, the Board of Directors and Remuneration Committee draw upon the input of involved functions to define the link between profitability, risk and reward within FinecoBank incentive systems.

Internal Audit Report on the 2017 FinecoBank remuneration policies and practices

Internal Audit performed the annual audit on the Bank variable remuneration system, aimed at verifying the design, implementation and effects of the remuneration process, as well as its compliance with relevant regulatory requirements and Bank compensation policy.

The audit verified the payment and deferral phase of previous year incentive system, the bonus pool definition and distribution process and the procedures to respect the variable/fixed remuneration caps defined by the Bank remuneration rules.

The audit scope included also the Identified Staff definition process, with the aim to check its compliance with the requirements provided for by Delegated Regulation (EU) No 604/2014.

Furthermore, a *follow up* of the previous audit recommendations was performed.

Main audit results were presented to the Remuneration Committee on 28th February 2018.

The audit tests have been performed on a sample of population including the following groups within FinecoBank compensation policy:

1. all the Identified Staff;
2. a sample of 177 employees non-Identified Staff (the so called “below executives”), selected considering the roles to whom a bonus higher than € 5.000 has been granted in 2017 (16% ca of the overall population as on 31/12/2017);
3. Corporate Bodies members;
4. Bank’s Financial Advisors, with specific focus on categories of “non recurring” remuneration named “bonus on net sales” and “additional future program”, equal to the 65% ca of 2017 total incentives.

The Internal Audit “good” evaluation was based on the overall correct application of the 2017 “bonus pool” approach and Bank Remuneration Committee/Board of Directors relevant decisions.

With regard to the Personal Financial Advisors Network, the process provided the inclusion in the Identified Staff category of the Financial Advisors with a total remuneration, recurring and non-recurring, higher than Euro 750.000, as well as of the Managers coordinating Financial Advisors managing assets equal or higher than 5% of overall network assets, on the basis of quantitative criteria defined in the EU Regulation and of a qualitative criteria based on business risk (reduction of Bank’s profitability as a consequence of Advisors leaving and the subsequent loss of customers’ portfolios).

The Bank evaluation performed with the aim of excluding from the Identified Staff category roles with total compensation between Euro 500.000 and 750.000, subject to communication to ECB, is consistent with the internal accounting figures and with the risk profiles of Personal Financial Advisors activities.

In alignment with the audit results, further enhancements of the compensation process are going to be implemented for the next year.

2. <u>Continuous Monitoring of Market Trends and Practices</u>

Key highlights of the Compensation Policy defined this year with the support of external benchmarking and trends analysis provided by the independent external advisor to the Remuneration Committee include:

- the definition of Compensation Policy for the *Identified* Staff, both employees and Financial Advisors, with particular reference to the design of the 2018 incentive systems
- the pay recommendations based on specific benchmarking analysis versus our defined peer group to inform any decision.

The peer group used to benchmark compensation policy and practice with particular reference to employees *Identified Staff* has been defined by the Remuneration Committee upon proposal of the independent external advisor on the basis of criteria including: comparability of size, complexity and business model, presence in customer, talent and capital markets, risk and legal-social-economic environment.

The main peer group is subject to annual review to assure its continuing relevance. For 2017 it has been defined a national peer group that includes:

- Generali Group and Banca Generali
- Mediolanum Group
- BNL
- BPER
- Credem
- Banco BPM
- Mediobanca Group (CheBanca and Banca Esperia)
- Monte Paschi di Siena
- Intesa SanPaolo
- UBI Banca
- Carige
- Banca Finint Group
- Banco Posta
- Banca Iccrea Group

In addition to what mentioned above, for the Chief Executive Officer and General Manager and for the Executives with strategic responsibilities it will be realized a benchmark also with European market, based on a sample of European Banks.

3. <u>Compensation paid to Members of the Administrative and Auditing Bodies, to General Managers and to other Executives with strategic responsibilities</u>

The remuneration for members of the administrative and auditing Bodies of FinecoBank is represented only by a fix component, determined on the basis of the importance of the position and the time required for the performance of the tasks assigned.

This policy applies to non-Executive Directors and to the Supervisory Body members that are not employees of FinecoBank or other Legal Entities of UniCredit Group, as well as to Statutory Auditors.

The compensation paid to non-Executive Directors, to the Supervisory Body members and to the Statutory Auditors is not linked to the economic results achieved by FinecoBank and none[1] of them take part in any incentive plans based on stock options or, generally, based on financial instruments.

BENEFICIARY	REMUNERATION COMPONENT	APPROVED BY	AMOUNT (€)	REMARKS
Non-Executive Directors	Only fixed compensation	Shareholders' Meeting and Board of Directors of April 11th, 2017	Compensation for each year of activity: ▪ € 330.000 for the Board of Directors[1] ▪ € 50.000 for Board Committees ▪ € 20.000 and € 15.000 for the Chairman and member of the Supervisory Board[2] ▪ € 300 as attendance fee for partecipating to each meeting of[3]: - Board of Directors - Board Committees	The compensation is determined on the basis of the importance of the position and the time required for the performance of the tasks assigned
		Board of Directors of April 11th, 2017 , persuant to sect. 2389 of the Civil Code par. 3 and Articles of Association, heard the opinion of Statutory Auditors	▪ € 200.000 for each year of activity, split between: - Board Chairman - Board Vice Chairman	
Statutory Auditors	Only fixed compensation	Shareholders' Meeting of April 11th 2017	Compensation for each year of activity[4]: ▪ € 50.000 for the Chairman of Board of Statutory Auditors ▪ € 40.000 for each Standing Auditor ▪ € 300 as attendance fee for partecipating to each meeting of the Board of Directors[3]	
Executives with strategic responsabilities[5]	Fixed and variable compensation	Board of Directors	2017 Compensation level: ▪ € 850.000 fixed + € 850.000 variable for the CEO and GM ▪ € 1.647.976 fixed + € 1.487.976 bonuses for the other 5 Executives with strategic responsabilities	Fixed and variable remuneration components of the CEO/GM and of the other Executives with strategic responsibilities are balanced, through the ex-ante definition of the maximum ratio between variable and fixed remuneration component.

[1] Total compensation for the entire Board of Directors (Executive Directors included) approved by the Shareholders' Meeting is equal to Eur 370.000.
[2] With the resolution of the Board of Directors on April 11 2017, have been nominated as Chairman and as member of Corporate Governance 231/2001 external members persuant of the new Unicredit guidelines related to the update "modello di organizzazione, gestione e controllo ex D. Lgs. 231/2001".
[3] Even if these meetings held in the same day.
[4] Alternate Auditors do not receive any compensation unless they are actually asked to join the Board of Statutory Auditors in substitution of a standing member.
[5] The Board of Directors has identified as "Executives with strategic responsibilities" – to the ends of the application of all statutory and regulatory instructions – the Chief Executive Officer 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 Commercial PFA Network, the Head of Investment Services and Private Banking as well as the Chief Financial Officer.

<u>Further details on compensation of Executives with strategic responsibilities</u>

For 2017, according to our Compensation Policy, in line with regulatory provisions, it has been defined *ex-ante* the maximum ratio between variable and fix component of the compensation both for the Chief Executive Officer and General Manager (the sole executive director sitting on the Board of Directors and employee of the Company) and for the other Executives with strategic responsibilities.

The balance between variable and fixed components has been defined considering also the Company's strategic goals, risk management policies and other elements influencing firm's business.

With reference to the above table, for Executives with strategic responsibilities it is specified that:

- the fix component is defined taking into opportune consideration market information and in such a way to be sufficient to reward the activity rendered even if the variable part of the remuneration package were not paid due to non-achievement of performance goals;
- in line with the latest regulatory requirements, the Chief Executive Officer and General Manager – as well as the Executives with strategic responsibilities – have a balanced part of their remuneration linked to the overall profitability of FinecoBank and the Group, weighted by risk and cost of capital, as well as sustainability goals (based on capital and liquidity ratios) of FinecoBank and the Group.

The variable compensation considers the achievement of specific goals which are previously approved by the Board of Directors upon proposal of the Remuneration and Committee and having informed the Board of the Statutory Auditors.

In particular, *ex-ante* defined specific metrics that reflect categories of our FinecoBank *Risk Appetite Framework*, which is consistent with *Group Risk Appetite Framework*, align the remuneration of the Chief Executive Officer and General Manager and of the others Executives with strategic responsibilities to sustainable performance and value creation for the shareholders in a medium / long term perspective. Specific individual goals are set out taking into consideration the market practices and the role assigned within the Bank, through the systematic use of specific indicators aimed at strengthening the sustainability of business, such as, for example, risk and financial sustainability indicators and profitability measures[6]. More information regarding our performance management and evaluation are provided further in chapter 4.3.1

It is also foreseen the deferral in cash and shares of minimum 60% of the incentive. All the instalments are subject to the application of *malus* and/or claw-back conditions, if legally enforceable. 2017 Incentive System provides for 50% of the annual incentive to be deferred and paid in the five following years through the granting of Fineco shares. The number of such shares is set at the beginning of the deferral period, thus creating a link between the evolution of the share price and the actual value of the incentive. More information regarding the 2017 incentive plan implementation and outcomes are provided further in chapter 4.2.

The Chief Executive Officer and General Manager, on top of 2017 Incentive System, benefits also from:

- *“2013 Group Incentive System – Executive Vice President & Above” (hereinafter also “Group Incentive System 2013”)*
- *“2014 Incentive System” (hereinafter also “Group Incentive System 2014”)*
- *“2015 Incentive System” (hereinafter also “Group Incentive System 2015”)*
- *“2016 Incentive System” (hereinafter also “Group Incentive System 2015”)*
- *“2014-2017 Multi-year Plan Top Management”*

More information regarding the plans above mentioned are provided further in chapters 5 and in the Annexes to the 2018 Compensation Policy.

The measure and duration of the deferral are aligned with the provisions set by regulators and are consistent with the characteristics of the business and with the Company’s risk profiles.
For the Heads of the Company Control Functions the goals, pursuant to the provisions of Bank of Italy, are established by the Board of Directors in line with the tasks assigned to them and avoiding, unless good reasons exist, goals connected to the Bank’s performance.

[6] Since the CFO- included in the Executives with Strategic Responsibilities - cover also the activities related to the Finacial Statements – the individual goals are defined in coherence with the assigned tasks

Indemnities to directors in the event of resignations, dismissal or termination of employment following a public purchase offer (as per section 123/bis, paragraph 1, letter i), of TUF):

None of the Directors have contracts containing clauses envisaging the payment of indemnities, or the right to keep post-retirement benefits, in the event of resignations or dismissal / revocation without just cause or if the employment relationship is terminated following a public purchase offer. In case of early termination of the mandate, the ordinary law provisions would therefore apply.

The individual employment, as Executive, of the Chief Executive Officer and General Manager, Mr. Alessandro Foti, is today governed - also with regards to the event of resignations, dismissal / revocation or termination - by the ordinary provisions of the law and National Labor Agreement for Banking Industry Executives. In such context, the annual remuneration used to define the possible indemnity due in the above mentioned instances would include the fix remuneration, any other continuative compensation and the average of the variable pay (inclusive of the components paid in equity - such as for example free shares, restricted shares, performance shares - with the only exclusion of the valorisation of the stock options potentially assigned within long-term incentive plans) received in the last three years prior to the termination. The actual amount of such indemnity – in terms of months of compensation considered – is then bound to vary depending on the events which led to the termination and on the relationship's duration and is anyway subjected to provisions of the "Severance Policy" of FinecoBank approved by Shareholders' Meeting.

Non-executive Directors do not receive, within incentive plans, stock options or others equities. For the Chief Executive Officer and General Manager no specific provisions are provided with reference to the right to keep, in case of termination, the options received and the plans' provisions apply.

For none of the Directors currently in office, provisions exist regarding the establishment of advisory contracts for a term following the termination of the directorship, nor the right to keep post retirement perks. No agreements exist either providing compensation for non-competition undertakings.

4. Compensation Systems

4.1 Target population

FinecoBank, starting from 2014 conducted, in alignment with specific regulation, the annual self-evaluation process to define *Identified Staff* population, both employees and Financial Advisors, to whom, according to regulators, specific remuneration rules apply

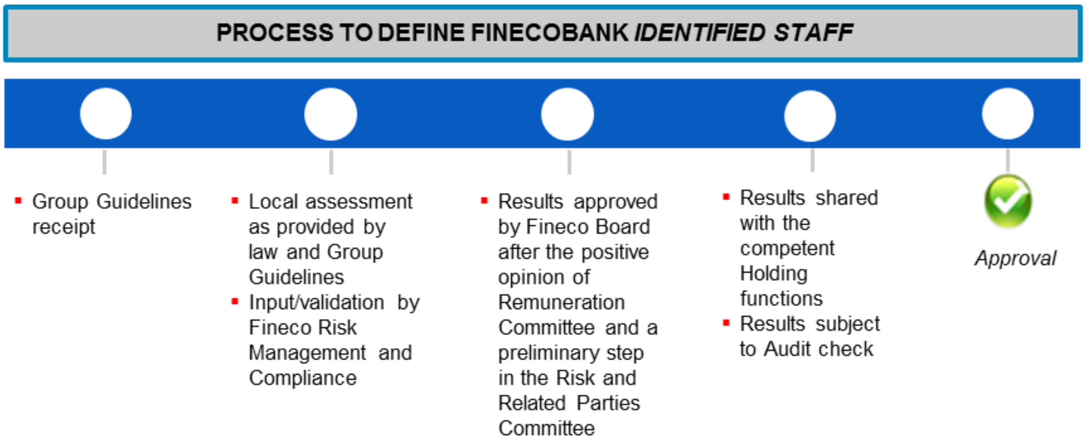
The identification of 2018 *Identified Staff*, pursuant to the European criteria foreseen in the *European Banking Authority Regulatory Technical Standard* (RTS)[7], followed a structured and formalized assessment process both at Group and local level, based on the guidelines provided by the Group functions *Human Resources* with the contribution of *Risk Management* and *Compliance*, to guarantee a unique and common approach at Group level.

The recognition of subjects with significant impact on risk, further to be finalized to the definition of Bank's Identified Staff, is subject to the consolidation activity performed By the Holding Company, for the definition of Group Identified Staff.

[7] *European Banking Authority* (EBA) *Regulatory Technical Standards* on criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile under Article 94 (2) of Directive 2013/36/EU.

This is valid, in particular for the Employees, while the PFAs are not included in the consolidation perimeter, as considered Identified Staff just at a Bank level[8].

As every year, the assessment performed took into account the role, the decision-making power, the effective responsibilities of the employees and of the Financial Advisors and, in addition, the total compensation level.



The result of the assessment process, submitted to Internal Audit scrutiny and documented into FinecoBank Compensation Policy, brought to the identification of a total number of 16 employees and 7 Financial Advisors for 2018[9].

Regarding the employees, as a result of the analysis and as approved by the Board of Directors upon Remuneration Committee proposal, the following categories of employees have been defined for 2018 as *Identified Staff*: Chief Executive Officer and General Manager, Executives with strategic responsibilities, executive positions in Company Control Functions (*Compliance, Risk Management and Human Resources*) and other positions that are responsible at local level for strategic decisions which may have a relevant impact on the Bank's risk profile.

Regarding the Financial Advisors, FinecoBank has applied a qualitative criteria to select those belonging to *Identified Staff*, on the basis of their impact on business risk (represented by the risk that the Bank's profitability decreases consequently to the exit of Advisors from the Network and the related loss of customers and assets), the only type of risk that the Bank considers attributable to PFA, due to the absence of power of attorney they have to assume any other kind of risks.

Compensation data and vehicles used for the target population in 2017 are disclosed in chapter 5 and in the Annexes to the 2018 Compensation Policy.

As a result of the analysis and as approved by the Board of Directors upon Remuneration Committee proposal, the following categories of employees have been identified for 2018 as *Identified Staff*:

- for the single PFA the criteria above mentioned has been applied selecting those Advisors who have a total yearly compensation higher/equal to Euro 750,000;
- for PFA who have a managerial role have been selected Managers that coordinate Advisors with a total asset higher/equal to 5% of the total asset of the PFA Network.

[8] The qualification of Group Identified Staff or local Identified Staff does not prejudice the application of all the criteria defined by the regulation for the Identified Staff remuneration.
[9] *Identified Staff* data refers to the population at the date of February 2018, providing for an *ex-ante* definition, in line with regulatory requirements.

Pursuant to the regulatory requirement and the process defined at EU level[10] the exclusion from Identified Staff of 17 PFA whose total remuneration in 2017 is equal or exceeds € 500.000 is submitted to the European Central Bank and to Bank of Italy.

4.2 Implementation and Outcomes of 2017 Incentive Systems

4.2.1 Incentive System for employees belonging to *Identified Staff*

The 2017 Incentive System, approved by FinecoBank Board of Directors on January 9th, 2017, provides - in total continuity with 2016 System - for a "*bonus pool*" approach which directly links bonuses with Company results at Group and local level, ensuring the link between profitability, risk and reward.

The System, implemented within the framework of our policy and governance, provides for the allocation of a performance related bonus in cash and/or free ordinary shares over maximum 6 years.

Bonus pool sizing

The bonus pool dimension is related to the actual profitability measure multiplied for the percentage of the bonus pool funding rate defined in the budgeting phase.

This calculation determines the so called "theoretical bonus pool" that, during the year of performance, has been adjusted based on the effective performance trend.

2017 Entry conditions at Group and local level

In order to align to regulatory requirements, specific indicators measuring annual profitability, solidity and liquidity results had been defined both local and Group level as Entry Conditions. In particular, metrics and thresholds for 2017 Incentive System as defined within the Entry Conditions that confirm, reduce or cancel upfront and deferred pay-outs are:

Group level	Local level
Net Operating Profit adjusted ≥ 0 and	Net Operating Profit adjusted ≥ 0 and
Net Profit ≥ 0 and	Net Profit ≥ 0 and
Common Equity Tier 1 ratio transitional ≥ 10,25% and	Common Equity Tier 1 ratio transitional ≥ 10,25% and
Liquidity Coverage Ratio ≥ 100% and	Liquidity Coverage Ratio ≥ 100%
Net Stable Funding Ratio ≥ 100%	

- **Net Operating Profit adjusted** to measure the profitability, is the NOP excluding income from buy-back of own debt and from the fair value accounting of own liabilities.
- **Net Profit** to measure profitability considering the results stated in the balance sheet excluding any extraordinary item as considered appropriate by the Board of Directors upon Remuneration Committee proposal.
- **Common Equity Tier 1 Ratio Transitional** to measure the bank's solidity in terms of highest quality common equity introduced by Basel 3, consistent with regulatory limits and conservation buffers.

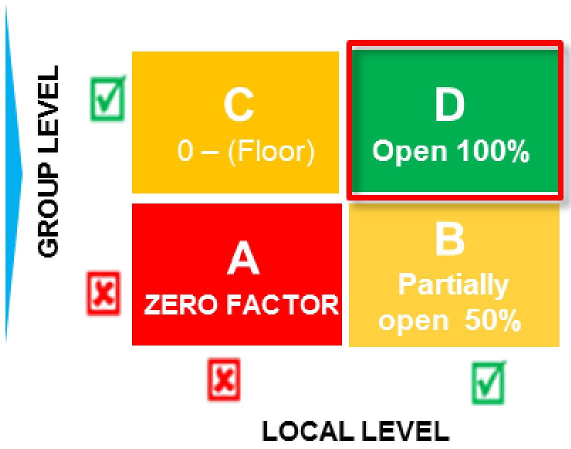
[10] ECB Decision (EU) 2015/2218 dated November 20th 2015; EBA RTS chapter 4, §4

- **Liquidity Coverage Ratio:** guarantees the maintenance of an adequate level of "high quality liquid assets" non binding in appropriate amount to cover the "net cash outflows" within 30 calendar days in a high stress scenario defined by the Authorities.
- **Net Stable Funding Ratio:** represents the ratio between the available amount of stable funding and the required amount of stable funding

According to the actual results, verified and approved by the Board of Directors of FinecoBank on February 6th, 2018, the relevant entry conditions have been achieved both at Group and local level, confirming the theoretical[11] FinecoBank bonus pool.

	ENTRY CONDITIONS	RESULT
GROUP	Net Profit ≥ 0 €/mln	✓
	NOP Adjusted ≥ 0 €/mln	✓
	CET 1 Ratio Transitional ≥ 10,25%	✓
	Liquidity Coverage Ratio ≥ 100%	✓
	NSFR ≥ 100%	✓

	ENTRY CONDITIONS	RESULT
FINECO	Net Profit ≥ 0 €/mln	✓
	NOP Adjusted ≥ 0 €/mln	✓
	CET 1 Ratio Transitional ≥ 10,25%	✓
	Liquidity Coverage Ratio ≥ 100%	✓



Bonus Pool Risk Adjustment

Once the entry conditions have been verified, the effective bonus pool for FinecoBank's employees was confirmed, also in light of the overall assessment of the performance of the s.c. "CRO dashboard"[12], carried out by the Fineco CRO on the basis of a specific methodology defined at Group level and approved by the Fineco Board of Directors in July 2017.

This method provides a quarterly monitoring of the progress of the indicators included in the Dashboard and an annual assessment.

Evaluation and pay-out for Identified Staff

In line with FinecoBank governance, 2017 evaluations and pay-outs for Chief Executive Officer and General Manager, Deputy General Managers, other Executives with strategic responsibilities and other *Identified Staff* have been approved by the Board of Directors, based on the positive opinion of Remuneration Committee.

The Board of Directors of FinecoBank on February 6th, 2018, has approved the allocation of a total number of shares equal to 142.290 to be assigned in 2020, 2021, 2022 and 2023.

[11] Calculated applying the funding rate percentage to the profitability results

[12] The CRO Dashboard 2017 is a set of indicators selected among the Risk Appetite Framework KPIs, plus a single indicator on operational risks; the threshold values have been approved by the Board of Directors at the beginning of the year (January 2017).

On the same date, the Board of Directors also approved the implementation - in 2018 - of the Incentive Systems 2014, 2015, 2016 and the "2014-2017 Multi-year Plan Top Management Plan".

Focus on the performance evaluation of the CEO and General Manager

The Board of Directors, upon positive opinion of Remuneration Committee, assessed the 2017 performance of FinecoBank CEO and General Manager as *Exceeds Expectations.* Below the details of the individual scorecard assessment.

GOAL	RESULT	ASSESSMENT				
		Below	Almost meets	Meets	Exceeds	Greatly exceeds
ROAC *vs. budget*	Bdg: 53,7% - Result ACT: 62,6%					▼
EVA *vs. budget*	Bdg: 162.423 k€ - Result: 193.901 k€					▼
Operating Costs *vs. budget*	Bdg: -241.205 k€ - Result: -233.100 k€			▼		
Net New Clients *vs target*	Target: IN 103.593 OUT -38.559 NET 65.034 STOCK EOP 1.184.231 Result: IN 114.509 OUT -30.744 NET 83.765 STOCK EOP 1.199.828				▼	
Net Sales of Guided Products *vs. budget*	Bdg 4.500.000 k€ - Result: 4.559.314 k€			▼		
New business EL *vs. budget*	Bdg 0,38% - Result: 0,27%					▼
Sustain value through people *Qualitative assessment based on:* *- Y/Y delta on Pay for Performance metrics on variable and fix pay* *- Y/Y delta on Gender Pay Gap / Gender Balance dashboard / Gender Diversity Initiatives/ Succession Planning / Building up a sustainable Talent Management Support* *- People Engagement Index*	Outstanding results have been achieved in terms of: - pay for performance: fully consistent in 2017 - gender pay gap: no gap in 2017 Furthermore, Succession Plan presented to FinecoBank Board on 5/12/2017, shows full coverage of managerial positions. In addition several initiatives have been put in place in order to: • improve Executives capability to respond and communicate Gender Balance issues • ensure for all development\Training initiatives equal opportunity and exposure for all Female • ensure for all nomination for the managerial position balanced shortlist in terms of gender People Engagement Index results remain excellent 81% (previous year result 83%)				▼	
Tone from the top on Compliance Culture *Qualitative assessment based on:* *- Scope, kind and numbers of documented initiatives - pre-committed with CEO Office / Country's CEO, aimed at promoting staff integrity / customer protection / trustworthiness* *- The overall status of findings or proceedings in place (internal or external) considering the trend, type, severity and the timely completion of the related remediation actions*	- Several initiatives and ad hoc communication on compliance culture within the Bank as well as on staff integrity and behavioral expectations - Overall 2017 finding # decreasing from 2016 by 33% with no major findings open			▼		

Considering the performance assessment and the results of the KPIs in the Entry Conditions, the Board of Directors approved for the CEO and General Manager a bonus amounting to Euro 850.000.

4.2.2 Incentive System for Financial Advisors belonging to *Identified Staff*

The 2017 Incentive System PFA, approved by FinecoBank Board of Directors on January 9h 2017, takes into consideration all the national and international regulatory requirements for the sales networks incentives and directly links bonuses with the objectives of growth in the medium and long term, in a general framework of overall sustainability. In the same way as for the Employees, the 2017 PFA System is based on a Bonus Pool approach which directly links bonuses with Company results at Group and local level, ensuring the link between profitability, risk and reward.

The System, implemented within the framework of our policy and governance, provides for the allocation of a performance related bonus in cash and/or shares over 5 years.

Bonus pool sizing

The bonus pool dimension is related to the actual profitability measure multiplied for the percentage of the bonus pool funding rate defined in the budgeting phase.

This calculation determines the so called “theoretical bonus pool”, that, during the year of performance, has been adjusted based on the effective performance trend.

2017 Entry conditions at Group and local level

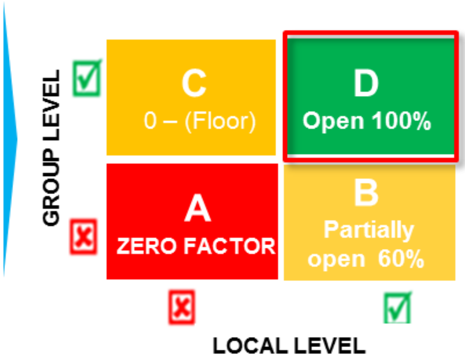
In order to align to regulatory requirements, specific indicators measuring annual profitability, solidity and liquidity results had been set both local and Group level as Entry Conditions. In particular, metrics and thresholds for 2017 PFA Incentive System as defined within the Entry Conditions that confirm, reduce or cancel upfront and deferred pay-outs are:

Group level	**Local level**
	Net Operating Profit adjusted ≥ 0 and
	Net Profit ≥ 0 and
Common Equity Tier 1 ratio transitional ≥ 10,25% and	Common Equity Tier 1 ratio transitional ≥ 10,25% and
Liquidity Coverage Ratio ≥ 100% and	Liquidity Coverage Ratio ≥ 100%
Net Stable Funding Ratio ≥ 100%	

According to the actual results, verified and approved by the Board of Directors of FinecoBank on February 6th 2018, the relevant entry conditions have been achieved both at local and Group level, confirming the theoretical[13] FinecoBank PFA bonus pool.

[13] Calculated applying the funding rate percentage to the profitability results.

	ENTRY CONDITIONS	RESULT
GROUP	CET 1 Ratio Transitional ≥ 10,25%	✓
	Liquidity Coverage Ratio ≥ 100%	✓
	NSFR ≥ 100%	✓
	ENTRY CONDITIONS	**RESULT**
FINECO	Net Profit ≥ 0 €/mln	✓
	NOP Adjusted ≥ 0 €/mln	✓
	CET 1 Ratio Transitional ≥ 10,25%	✓
	Liquidity Coverage Ratio ≥ 100%	✓



Bonus Pool Risk Adjustment

Once the entry conditions have been verified, the effective bonus pool for FinecoBank's Financial Advisors was confirmed, also in light of the overall assessment of the performance of the s.c. "CRO dashboard"[14], carried out by the Fineco CRO on the basis of a specific methodology defined at Group level and approved by the Fineco Board of Directors in July 2017.

Evaluation and pay-out for Identified Staff

In line with FinecoBank governance, 2017 evaluations and pay-outs for PFA *Identified Staff* have been approved by the Board of Directors, based on the positive opinion of Remuneration Committee.

The Board of Directors of FinecoBank on February 6th, 2018, has approved the allocation of a total number of shares equal to 27.644 to be assigned in 2020, 2021 and 2022.

On the same date, the Board of Directors also approved the implementation - in 2018 - of the 2015 and 2016 Incentive Systems.

4.2.3 Share-based Plan "2015 - 2017 PFA Plan" for Financial Advisors

In 2014, on the occasion of the request for admission to the listing on the Italian Stock Exchange by the Company and subject to the successful outcome, the FinecoBank Shareholders' Meeting approved the "2015-2017 Plan PFA", which provides for the allocation in 2018 of a number of Fineco shares to be assigned in three tranches in 2018, 2019 and 2020 respectively, once verified:

- the entry conditions valid from year to year (in 2017 Net Profit ≥ 0 and Common Equity Tier 1 ≥ 10.25%);

- the individual compliance and the existence of the agency relationship;

- the results of the performance of the beneficiaries in terms of Net Sales and Net Sales of Guided Products[15] cumulated in the three-years of performance (2015-2017).

[14] The CRO Dashboard 2017 is a set of indicators selected among the Risk Appetite Framework KPIs, plus a single indicator on operational risks; the threshold values have been approved by the Board of Directors at the beginning of the year (January 2017). The assessment methodology is the one used for Employees.
[15] Guided products refer to high added value products and developed services, considering the different customers risk profiles

Evaluation and pay-out for Identified Staff

In line with the governance of FinecoBank, and based on the conditions listed above, the valuations and payments referred to the Plan have been approved by the Board of Directors on February 6th 2018, upon positive opinion of the Remuneration Committee.

4.3 Incentive System for employees belonging to *Identified Staff*

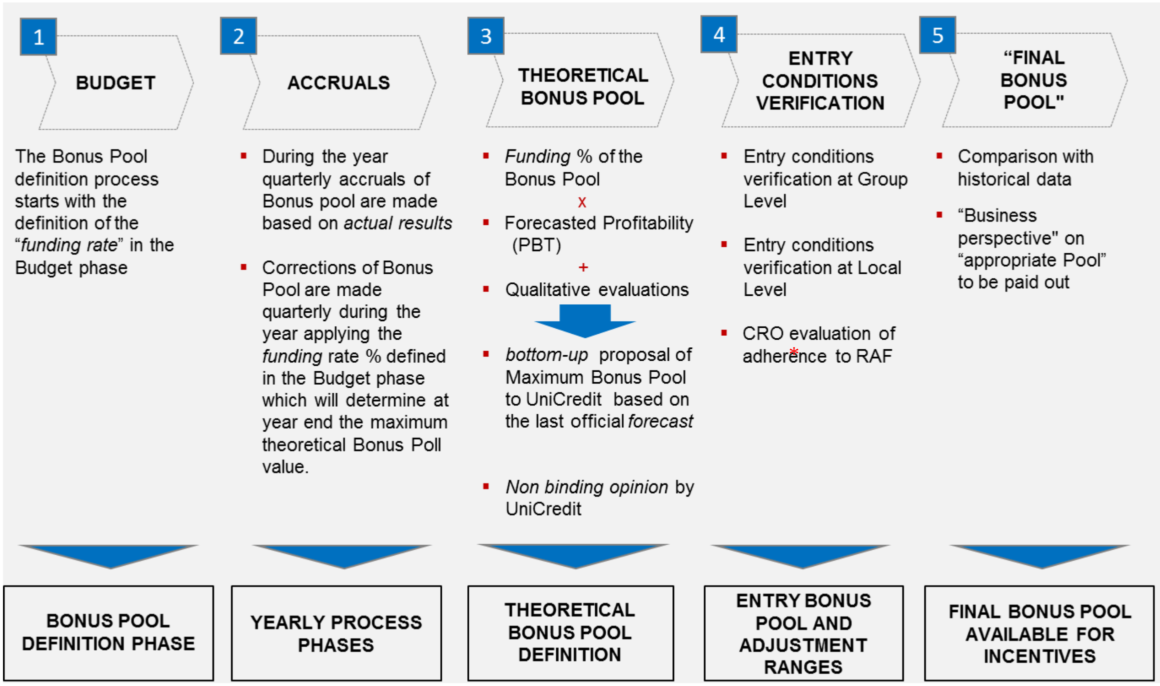
As in the past years, the 2018 Incentive System, as approved by the Board of Directors of FinecoBank on January 10th, 2018, is based on a "*bonus pool*" approach which takes into consideration the national and international regulatory requirements and directly links bonuses with Company results at Group and local level, ensuring the link between profitability, risk and reward.

In particular, the system provides for:

- allocation of a variable incentive defined on the basis of the determined bonus pool, of the individual performance appraisal and of the internal benchmarking on similar roles as well as compliant with the ratio between fixed and variable remuneration approved by the Shareholder's Meeting;
- definition of a balanced structure of "upfront" (following the moment of performance evaluation) and "deferred" payments, in cash and/or in shares[16], to be paid over a period of up to maximum 6 years;
- distributions of share payments which take into account the applicable regulatory requirements regarding the application of share retention periods. In fact the payment structure defined requires a retention period on shares (of 2 years for upfront shares and of 1 year for deferred shares);
- risk adjusted measures in order to guarantee long-term sustainability, regarding Company financial position and to ensure compliance with regulations;
- a *malus* clause (Zero Factor) which applies in case specific thresholds (profitability, capital and liquidity) are not met at both Group and FinecoBank level. In particular, the bonus pool of 2018 will be zeroed, while previous systems deferrals could be reduced from 50% to 100% of their value, based on final effective results.

The bonus pool process includes the following steps:

[16] The Company reserves the right to assign instruments other than the free ordinary shares of FinecoBank, if this is required by law.



* *Risk Appetite Framework*

BUDGET

- Bonus pool process starts with the definition of the "funding rate" during budgeting phase. The funding rate for FinecoBank is a percentage of the Net Operating Profit (net of Provisions for Risk and Charges, corresponding to Profit Before Tax) considering: historical data analysis, expected profitability, business strategy and previous year pool. The bonus pool is submitted for approval to the Board of Directors of FinecoBank.

ACCRUALS

- During the year of performance, quarterly accruals are based on the actual results;
- on a quarterly basis bonus pool is adjusted applying the % of *funding rate* fixed during budgeting phase that set by the end of the year the maximum theoretical bonus pool.

THEORETICAL BONUS POOL, ENTRY CONDITIONS VERIFICATION AND RISK ADJUSTMENT

- Consistency with FinecoBank performance and sustainability is ensured through specific "Entry Conditions" set at both Group and local level;
- application of a *Zero Factor/malus* clause in case specific profitability, liquidity and capital thresholds are not reached at Group and local level;
- the distribution is risk adjusted in order to guarantee sustainability with respect to FinecoBank *Risk Appetite Framework*;
- the bonus pool is proposed by FinecoBank on the basis of the year forecast – risk-adjusted – both at Group and local level.

The Entry Conditions are the mechanism that determines the possible application of Zero Factor on the basis of performance indicators in terms of profitability, capital and liquidity defined at both Group and local level. The entry conditions defined for 2018 – working also as malus conditions for the previous incentive systems deferrals - are reported in the following table

Group level	Local level
Net Operating Profit adjusted ≥ 0 and	*Net Operating Profit adjusted ≥ 0 and*
Net Profit ≥ 0 and	*Net Profit ≥ 0 and*
Common Equity Tier 1 Ratio Transitional > 10,43% and*	*Common Equity Tier 1 Ratio Transitional > 10,43%** and*
Liquidity Coverage Ratio > 101% and*	*Liquidity Coverage Ratio > 101%** and*
*Net Stable Funding Ratio > 101%**	*Net Stable Funding Ratio > 101%***

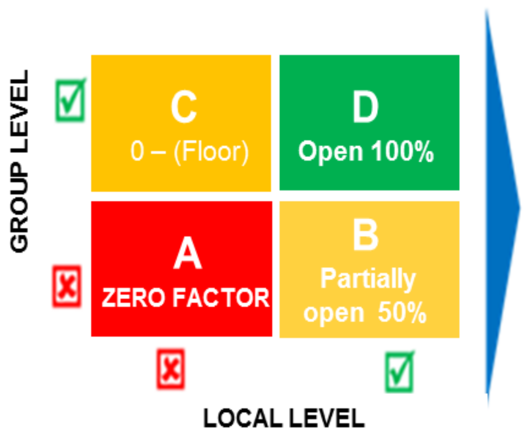
* In line with 2018 Group RAF (Trigger for CET1, Limit for LCR and NSFR). In case of amendments to the RAF parameters, the thresholds will be modified accordingly
** Values aligned with the Group ones. In case of amendments to RAF parameters, the thresholds will be modified accordingly.

In particular, the indicators (or the relative thresholds) that have been modified or added compared to the 2017 System are highlighted.

In this regard, we highlight the addition - at Fineco level - of a liquidity indicator (Net Stable Funding Ratio) mirroring the one used at Group level.

It should also be noted that the thresholds for the capital and liquidity indicators have been changed in a more restrictive sense, increased compared to last year

The Entry Conditions matrix and related effects on Fineco Bonus Pool follows the same logics provided in 2017, as shown below:



A. In case the Entry Conditions are not met both at Group and Local level, a Zero Factor is determined for the Identified Staff, while for the rest of population a portion of pool could be kept for retention purposes or to guarantee the competition on the market

B. In case the Entry Conditions are not met at Group Level, it is possible to have a pool at local level, if results are achieved, considering also the multiplier effect and the discretion of Remuneration Committee and Board.

C. In case the Entry Conditions are not met at Local Level, but are met at Group Level, a minimum pool ("floor") for retention purposes can be set up.

D. In case the Entry Conditions are met both at Group and Local Level, the bonus pool can be confirmed or increased, with the possibility to award the extra performance, considering –also in this case – the multiplier effect and the discretion of Remuneration Committee and Board.

In the "matrix" logic, in the hypotheses described in the boxes A and B (Entry Conditions not met at Group Level) the bonus for the CEO and General Manager of FinecoBank is zeroed.

To activate the "multiplier" the CRO dashboard assessment is confirmed, pursuant to the defined methodology.

The CRO dashboard (defined in coherence with the FinecoBank and Group Risk Appetite Framework) includes KPIs taken from FinecoBank Risk Appetite Framework (plus one indicator related to operational risk), measured with reference to the respective relevant thresholds (*limit*, *trigger* and *target*). Here below a sample of the content of the dashboard.

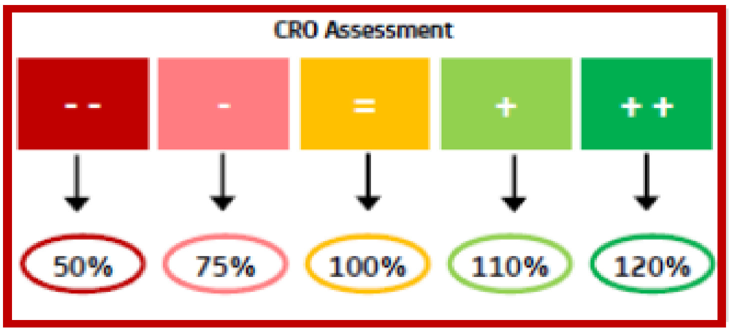
SAMPLE

DIMENSION		2018			
		KPIs	Target	Trigger	Limit
Pillar 1 KPIs	Capital	CET1 Ratio (%)			
	Liquidity	LCR (%)			
		NSFR (%)			
Managerial KPIs	Risk & Return	ROAC Return on Allocated Capital (%)			
	Credit	EL stock (%)			
		EL new business (%)			
		Coverage on Impaired (%)			
Specific Risk KPIs	Interest Rate Risk on Banking Book	EV Sensitivity (%)			
	Operational	Op. Losses / Operating income			

The "multiplier" effect deriving from the evaluation of overall CRO dashboard outcome made by the FinecoBank CRO – and verified by the FinecoBank Remuneration Committee and by the FinecoBank Board – applies to the bonus pool in the cases described in the boxes D and B.

The dashboard evaluation is carried out pursuant to a methodology defined at Group level by the Risk Management function and approved by the FinecoBank Board of Directors

The bonus pool corrections ranges deriving from the CRO Dashboard assessment are not modified compared to the 2017 Incentive System, as follows.



As provided in the 2017 System, a further range of discretion up to +20% is in the faculty of Remuneration Committee and Board of Directors, while no limits to downward discretionally the bonus pool with respect to theoretical value is foreseen.

In any case, as requested by regulations as per Bank of Italy provisions, the final evaluation of sustainable performance parameters and the alignment between risk and remuneration will be assessed by Remuneration Committee and defined under the governance and accountability of the Board of Directors.

The Board of Directors does not take into account, when deciding bonus, balance sheet extraordinary items which do not impact operational performance, regulatory capital and liquidity (e.g. goodwill impairment, extraordinary contributions to deposit guarantee schemes, etc.).

Moreover, following potential changes in current regulations and/or in relation to potential extraordinary and/or unpredictable contingencies which can impact the Group, the Company or the market in which it operates, the Board of Directors, having heard the opinion of Remuneration Committee, maintains the right to amend the system and relevant rules.

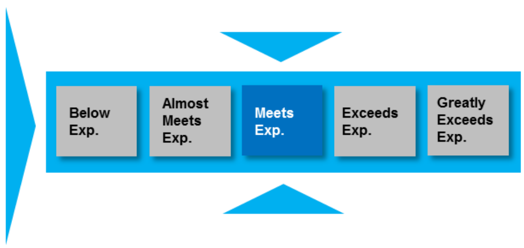
INDIVIDUAL BONUS ALLOCATION

- Individual bonus will be allocated to beneficiaries considering bonus pool, the individual performance appraisal, the internal benchmarking analysis on similar roles and the maximum ratio between variable and fix compensation as approved by Shareholder's Meeting;
- individual performance appraisal is based on 2018 performance screen: a minimum of 5 and maximum 8 goals of which 4-6 selected from the catalogue of main key performance indicators ("*KPI Bluebook*") and linked to the 5 Fundamentals of Group Competency Model[17]. Goals selected from the KPI Bluebook reflect the Bank and Group strategy and have a weight of 70% on the individual performance screen. In the individual performance screen can be provided up to 2 further "individual" goals", linked to the individual specific activity. The "individual" goals weigh 30% of the performance screen. Competencies and behaviours considered as relevant can be taken into account by the manager for the overall performance appraisal. Further details in chapter 4.3.1;
- the goals appraisal system is based on a 5 values scale with a descriptive outcome (from "*Below Expectations*" to "*Greatly Exceeds Expectations*").

Sample of 2018 Performance Screen

GOAL NAME	PERIMETER	REFERENCE TARGET	LINK TO 5 FUNDAMENTALS	KPI BB/ CUSTOM	RISK CORRELATION SUSTAINABILITY GOAL
GOAL 1	FinecoBank	vs budget	*Execution & Discipline*	KPI BB	S RISK ADJUSTED
GOAL 2	FinecoBank	vs budget	*Risk Management*	KPI BB	S RISK ADJUSTED
GOAL 3	FinecoBank	vs budget	*People Development*	KPI BB	S
GOAL 4	FinecoBank	vs qualitative assessment	*Customers First*	KPI BB	S
GOAL 5	FinecoBank	vs previous years	*Cooperation and Synergies*	Custom	
GOAL 6	FinecoBank	vs target	*Risk Management*	Custom	

Sample of 2018 evaluation



[17] *Group Competency Model* represents the framework in which the Executives are assessed within the *Executive Development Plan* process. The 5 Fundamental are: *Customers First, Execution & Discipline, Cooperation and Synergies, Risk management, People Development*.

For the purposes of bonus individual allocation, the 2018 Incentive System provides also a preliminary check on the completion – by the System beneficiaries – of the Compliance mandatory trainings.

BONUS PAYOUT

- As approved by the Board of Directors of January 10th, 2018, with reference to pay-out structure, the *Identified Staff* population will be differentiated into two clusters, using a combined approach of banding and compensation:
  - CEO/GM and other roles provided by law: 5 years deferral scheme;
  - Other identified Staff: 3 years deferral scheme.

REGULATORY REQUIREMENTS

In line with regulatory requirements:
- 5-year deferral period maintained only for Top Management and selected key senior roles. In general a deferral period from 3 to 5 years is required, and the request for 5 years is limited to «high earners", Top Management and Head of key business lines as well as the direct reports to strategic supervisory, management and control bodies
- minimum 50% of bonus to be allocated in shares or other financial instruments
- minimum 40% of bonus to be paid out under a deferral period (minimum 60% for specific positions and particularly high amounts)
- 2 years minimum retention period for the upfront shares and shorter retention period (1 year) for the deferred shares

- The pay-out of incentives will be done through upfront and deferred instalments, in cash or in Fineco ordinary shares, up to a maximum 6-year period:
  - in 2019 the first instalment (1st tranche) of the total incentive will be paid in cash in absence of any individual values /compliance breach[18];
  - over the period 2020-2024 the remaining part of the overall incentive will be paid in cash and/or Fineco ordinary shares; each further 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;

	2018	2019	2020	2021	2022	2023	2024
CEO/GM AND OTHER ROLES PROVIDED BY LAW	PERFORMANCE YEAR	20% UPFRONT CASH	10% DEFERRED CASH	20% UPFRONT SHARES	10% DEFERRED SHARES	10% DEFERRED SHARES	20% DEFERRED CASH 10% DEFERRED SHARES
OTHER IDENTIFIED STAFF	PERFORMANCE YEAR	30% UPFRONT CASH	10% DEFFERED CASH	30% UPFRONT SHARES	10% DEFERRED CASH 10% DEFERRED SHARES	10% DEFERRED SHARES	

  - All the instalments are subject to the application of claw-back conditions;

[18] Considering also the seriousness of any internal/external findings (e.g. Audit, Bank of Italy, Consob and/or analogous local authorities).

- in coherence with 2017, a minimum threshold[19] will be introduced, below which no deferral mechanisms will be apply;
- the number of shares to be allocated in the respective instalments shall be defined in 2019, on the basis of the arithmetic mean of the official closing market price of Fineco ordinary shares during the month preceding the Board resolution that evaluates 2018 performance achievements;
- free Fineco ordinary shares that will be allocated will be freely transferable;
- the payment structure has been defined in line with Bank of Italy provisions requiring a share retention period for upfront and deferred shares. In particular, the implementation of the share retention periods may be carried out in line with the fiscal framework, either via the allocation of restricted shares or the promise of shares that shall subsequently be allocated at the end of the intended retention period;
- the 2018 Incentive System provides for an expected impact on FinecoBank share capital of approximately 0,08%, assuming that all free shares for employees have been distributed. The current overall dilution for all other outstanding FinecoBank equity-based plans both for Employees and Financial Advisors equals 1,14%;
- the beneficiaries cannot activate programs or agreements that specifically protect the value of unavailable financial instruments assigned within the incentive plans. Any form of coverage will be considered a violation of compliance rules and imply the consequences set out in the regulations, rules and procedures.

4.3.1 Comprehensive Performance Measurement

The 2018 Incentive System, described in the chapter 4.3, is supported by an annual performance measurement framework assuring coherence, consistency and clarity of performance objectives with business strategy, and encouraging and rewarding desired behaviours and risk orientation. Our performance management process ensures that to all *Identified Staff* are assigned at the beginning of the year their own individuals goals and includes a rigorous review of their goals achievements.

A specific process is performed annually at Group level with the involvement of key relevant functions (*Human Resources, Finance, Risk Management, Compliance, Group Sustainability, Audit, Group Stakeholder and Service Intelligence*) to review the so-called *KPI Bluebook*.

The *KPI Bluebook* serves as the framework for the definition of performance goals coherent, high quality based, aligned to business strategy, compliant with regulatory requirements and consistent with our corporate values and Group Competency model. Therefore it supports the employees and their managers in the definition of individual Performance Screen.

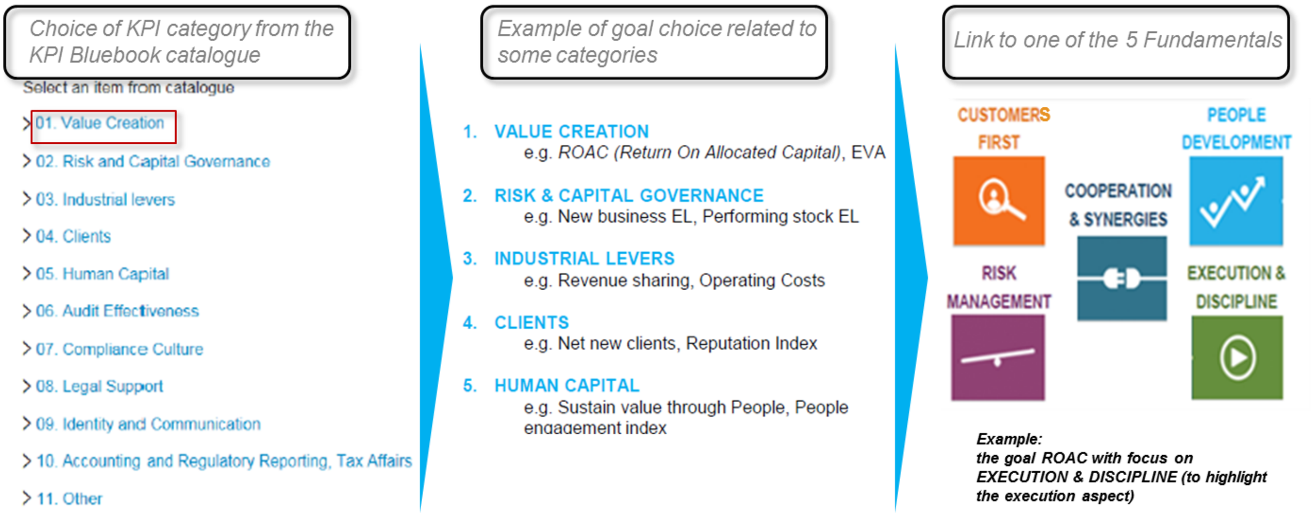
KPI Bluebook includes a list of indicators certified at Group level, as well as specific guidelines related to:

- the selection of goals based on yearly priorities and customizable goals for Business/Division
- the use - among the KPIs selected from the KPI Bluebook - of risk-adjusted goal (e.g. select at least one KPI belonging to “Risk category” or related to risk management / risk-adjusted profitability)
- the use - among the KPIs selected from the KPI Bluebook - of sustainability objectives (e.g. at least half of the goals should be related to sustainability)
- the definition of the target of reference, in case objectives not included in certified list are selected (e.g. use clear and pre-defined parameters for future evaluation of performance)

[19] Equal to Euro 75.000 that will be paid in cash.

- the selection of goals for the Company Control Functions, in order to ensure their independence (e.g. avoid KPI linked to economic measure).

The *KPI Bluebook* maps 11 categories of drivers that include a list of goals (KPI Dashboard):



The 11 categories represent financial and non-financial performance and are mapped into the different clusters of business of the Group (Asset Gathering included) to help identifying the most relevant standardized KPIs (all certified by relevant Group functions) for each role assigned, with specific focus on risk-adjusted, sustainability-driven metrics and economic measures. For each KPI included in the catalogue a link to one of the "5 fundamentals" of the *Group Competency Model*[20] (as shown above) is pre-set, conferring a specific qualitative connotation to the goal itself.

2018 Chief Executive Officer and General Manager Performance Screen

2018 KPIs defined and approved by FinecoBank Board of Directors as the core drivers of performance for FinecoBank Chief Executive Officer and General Manager include goals related to Bank profitability, with particular focus on risk, consistency with *Risk Appetite Framework* and sustainability. In continuity with 2017, also for 2018 a specific KPI has been provided, with reference to *"Tone from the top*" related to integrity towards conduct principles and spread of compliance culture among the organization.

[20] *Group Competency Model* represents the framework in which the Executives are assessed within the *Executive Development Plan* process. The 5 Fundamental are: *Customers First, Execution & Discipline, Cooperation and Synergies, Risk management, People Development*.

#	GOAL NAME	PERIMETER	REFERENCE TARGET	LINK TO 5 FUNDAMENTALS	RISK CORRELATION SUSTAINABILITY GOAL
1	ROAC	FinecoBank	vs. budget	*Execution & Discipline*	
2	EVA	FinecoBank	vs budget	*Risk Management*	
3	Operating Costs	FinecoBank	vs. budget Operating costs as reported in reclassified P&L, i.e.: Staff expenses + Other Administrative Expenses (direct + indirect) - Expenses Recovery + Depreciations.	*Execution & Discipline*	
4	Net new clients	FinecoBank	vs. previous years	*Customers First*	
5	Net sales of Guided Products	FinecoBank	vs budget	*Execution & Discipline*	
6	New Business EL %	FinecoBank	vs. target	*Risk Management*	
7	Sustain value through People	FinecoBank	vs. qualitative assessment based on: • Y/Y delta on Pay for Performance metrics on variable and fix pay • Y/Y delta on Gender Pay Gap / Gender Balance dashboard / Gender Diversity Initiatives • Succession Planning / Building up a sustainable Talent Management Support • Retention rate or voluntary turnover	*People Development*	
8	Tone from the top on conduct and compliance culture	FinecoBank	vs. qualitative assessment based on: • Scope, kind and numbers of documented initiatives - pre-committed with EMC, aimed at promoting staff integrity / customer protection / trustworthiness • The overall status of findings or proceedings in place (internal or external) considering the trend, type, severity and the timely completion of the related remediation actions	*Risk Management*	

For the other *Identified Staff* of FinecoBank KPIs that include profitability and risk management are reflected also in their Performance Screens, with differences given by the relevant activities. It is understood in any case the rule pursuant to which no economic goals must be provided for the Company Control Functions.

4.4 <u>2018-2020 share based Long Term Incentive Plan (LTI) for Employees</u>

With the aim of rewarding, motivating and retaining selected Bank Employees, in line with the 2020 objectives of Fineco in terms of value creation, sustainability and risk, a long-term equity plan has been defined, also in order to align the long-term interests of the Bank's Management with the long-term value creation for shareholders.

The beneficiaries of the Plan are selected Employees with "key roles" within the organization (about 65 resources, including Managers with Strategic Responsibilities).

The Heads of the Company Control Functions (CRO, Head of Compliance, Head of Human Resources) are excluded from the Beneficiaries of the Plan.

The structure of the Plan, described below in detail, provides for:

- performance goals at Bank level such as the EVA, the Cost/Income and the Cost of Risk on commercial loans;
- Entry and malus conditions of profitability, capital and liquidity defined at FinecoBank and Group level;
- specific individual compliance and claw-back conditions;

- a risk adjustment linked to the annual assessment of the CRO Dashboard, evaluated according to the methodology defined by Group Risk Management;
- individual bonuses defined taking into account the roles of the beneficiaries;
- a payment structure over a multi-year period defined according to the categories of beneficiaries, in line with the regulatory provisions.

PERFORMANCE GOALS

The performance targets, as defined above, will be assessed in relation to specific targets and will have a specific percentage weight on the total bonus and their valuation (with the exception of the Cost of Risk for which an "on-off" threshold is envisaged) will be based on progressive thresholds, which will correspond to increasing percentages of bonuses from 0 to 100% with a linear progression[21], as shown below.

	KPI	PERIMETER	WEIGHT	TARGET	ASSESSMENT CRITERIA	
					Threshold	*Payout*
VALUE CREATION	EVA	FINECO	*50%*	2020	≥ 200 M€	100%
					180 M – 200 M€	0 - 100%
					≤ 180 M€	0%
INDUSTRIAL SUSTAINABILITY	COST/ INCOME RATIO	FINECO	*35%*	2020	≤ 39%	100%
					42% - 39%	0 - 100%
					≥ 42%	0%
RISK	CoR*	FINECO	*15%*	2020	≤ 40 bps	100%

*Calculated on commercial loans

ENTRY CONDITIONS AND MALUS

In order to comply with current regulations, are defined:

- appropriate Fineco and Group Entry Conditions that will be measured within the performance period of the Plan and may confirm, reduce or cancel the individual bonus as detailed below,

and

- appropriate Fineco and Group malus conditions measured during the deferral period, which may confirm, reduce or cancel the deferred shares, as detailed below.

In full compliance with the regulations in force, and for the purposes set out above, specific Group and Fineco indicators have been identified to measure profitability, capital strength and liquidity.

[21] For example, with EVA at 12/31/2020 equal to 190 million, the payment of the corresponding bonus portion would be equal to 50% of what is expected in case of EVA equal to 200 million.

The indicators of capital and liquidity (Common Equity Tier 1 Ratio Fully Loaded[22], Liquidity Coverage Ratio and Net Stable Funding Ratio) will be calculated annually, while a "cumulative" assessment of profitability indicators is envisaged.

Performance

Entry Conditions

Group	Fineco
Σ 2018-2020 NOP Adj >0	Σ 2018-2020 NOP Adj >0
Σ 2018-2020 NP >0	Σ 2018-2020 NP >0
CET 1 Ratio Fully loaded > 10,4%*	CET 1 Ratio Fully loaded > 10,4%**
LCR > 101%*	LCR > 101%**
NSFR > 101%*	NSFR > 101%**

1) In case annual entry conditions at Group Lever are not satisfied, is provided a reduction of bonuses of 10% per year (30% reduction in case of non achievement of Group cumulated conditions). Thus the maximum reduction provided in case of non achievement of Group conditions – annual or cumulated – is 30%.
2) In case of non achievement of the cumulated Fineco conditions, bonuses are zeroed.
3) In case of non achievement of Fineco annual conditions, bonuses will be reduced pro-quota.

Deferral

Malus

Group	Fineco
Σ NOP Adj >0	Σ NOP Adj >0
Σ NP >0	Σ NP >0
CET 1 Ratio Fully loaded > 10,4%*	CET 1 Ratio Fully loaded > 10,4%**
LCR > 101%*	LCR > 101%***
NSFR > 101%*	NSFR > 101%***

1) In case of non achievement of conditions at Group level (both annual and cumulated), it is provided a reduction of deferred portion, in any case not higher than 30%
2) In case of non achievement of Fineco cumulated conditions the deferred portion will be zeroed.
3) In case of non achievement of the annual Fineco conditions, it is provided the zeroing of the deferred portion for the year of competence

* In line with Group RAF 2018 (Trigger for CET1, Limit for LCR and NSFR). In case of more restrictive amendments provided by law in the Plan performance years, the thresholds will be modified accordingly.
** Values in line with Group ones. In case of more restrictive amendments provided by law in the Plan performance years, the thresholds will be modified accordingly.

Each payment related to the Plan is subject to the preliminary compliance check of individual behaviors.

The bonus payment is subject to claw-back.

RISK ADJUSTMENT

For the purposes of the appropriate Plan correction for the Bank's Risk, the results of the annual CRO Dashboard assessments for the purposes of short-term incentive systems will be taken into consideration for each year of the Plan's performance. The presence of several 'neutral' annual assessments or negative assessments will result in a proportional reduction of individual bonuses, as shown below

[22] It's the Class 1 Capital of the Institution expressed in percentage of the overall amount of the risk exposure. It's the CET1 requirement recommended by ECB in its communication on variable remuneration.

% BONUS	100%	75%	50%	25%	0%
CRO DB ASSESSMENT	1 'neutral' assessment and 2 positive assessments (or 3 positive assessments)	≥2 'neutral' assessments	1 negative assessment	2 negative assessments	3 negative assessments

BONUS PAYMENT

Maximum bonuses have been defined on the basis of the categories of beneficiaries of the Plan. The amounts were established in line with the applicable regulatory provisions and the FinecoBank Compensation Policy.

Individual bonuses - in particular - confirm compliance with the maximum limits for the variable remuneration envisaged for the Plan Beneficiaries, also taking into account the short-term variable remuneration attributable in each year of performance.

Within the aforementioned limits, it is planned, in detail:

- for the Chief Executive Officer and General Manager, a maximum percentage impact of the bonus relating to the Plan equal to 50% of the maximum variable remuneration attributable in each year of performance;
- for the other Executives with Strategic Responsibilities, a maximum percentage of the bonus of the Plan equal to 30% of the maximum variable remuneration attributable in each year of performance.

For the other Beneficiaries the target bonus is defined individually, always in compliance with the maximum limits set by the regulations and FinecoBank Compensation Policy.

As mentioned, the bonuses will be paid entirely in Fineco free ordinary shares[23], according to the payment schemes shown below.

	2018 - 2020	2021	2022	2023	2024	2025
CEO	PERFORMANCE			40% UPFRONT SHARES		60% DEFERRED SHARES
IDENTIFIED STAFF	PERFORMANCE			40% UPFRONT SHARES 20% DEFERRED SHARES	20% DEFERRED SHARES	20% DEFERRED SHARES
OTHER BENEFICIARIES	PERFORMANCE	40% UPFRONT SHARES	20% DEFERRED SHARES	20% DEFERRED SHARES	20% DEFERRED SHARES	

[23] The Bank reserves the possibility to assign different instruments from the FinecoBank ordinary shares, where requested by law.

For the Beneficiaries of the Plan included in Identified Staff holding periods on the shares are provided, equal to two years for the upfront shares, assigned after the end of the performance period, and one year for deferred shares.

For the other Beneficiaries the assignments of the shares and their availability are concomitant during the deferral period.

The evaluation of the results and the conditions for the individual assignment of the shares will be carried out by the Board of Directors, upon the proposal of the Remuneration Committee, according to the established governance[24]

The Board of Directors does not take into account, when deciding bonus, balance sheet extraordinary items which do not impact operational performance, regulatory capital and liquidity (e.g. goodwill impairment, extraordinary contributions to deposit guarantee schemes, etc.).

The maximum number of shares to be allocated in the respective instalments – at the conditions stated above - shall be defined in 2018, on the basis of the arithmetic mean of the official closing market price of Fineco ordinary shares during the month preceding the Board resolution that will execute the Shareholders Meeting resolution related to the Plan.

The Plan provides for an expected impact on FinecoBank share capital of approximately 0,3%, assuming that all free shares for employees have been distributed. The current overall dilution for all other outstanding FinecoBank equity-based plans both for Employees and Financial Advisors equals 1,14%.

The beneficiaries cannot activate programs or agreements that specifically protect the value of unavailable financial instruments assigned within the incentive plans. Any form of coverage will be considered a violation of compliance rules and imply the consequences set out in the regulations, rules and procedures.

Moreover, following potential changes in current regulations and/or in relation to potential extraordinary and/or unpredictable contingencies which can impact the Group, the Company or the market in which it operates, the Board of Directors, having heard the opinion of Remuneration Committee, maintains the right to amend the Plan and relevant rules.

<u>4.5 2018 Incentive System for Financial Advisors belonging to *Identified Staff*</u>

Given the differences in the forms of remuneration and in the modalities of its generation, also for the PFA population in FinecoBank, mirroring what is designed for the Employees, is provided a specific Incentive System based on a bonus pool approach, which takes into account the national and international regulatory requirements and directly links bonuses with Company results at Group and local level, ensuring the link between profitability, risk and reward.

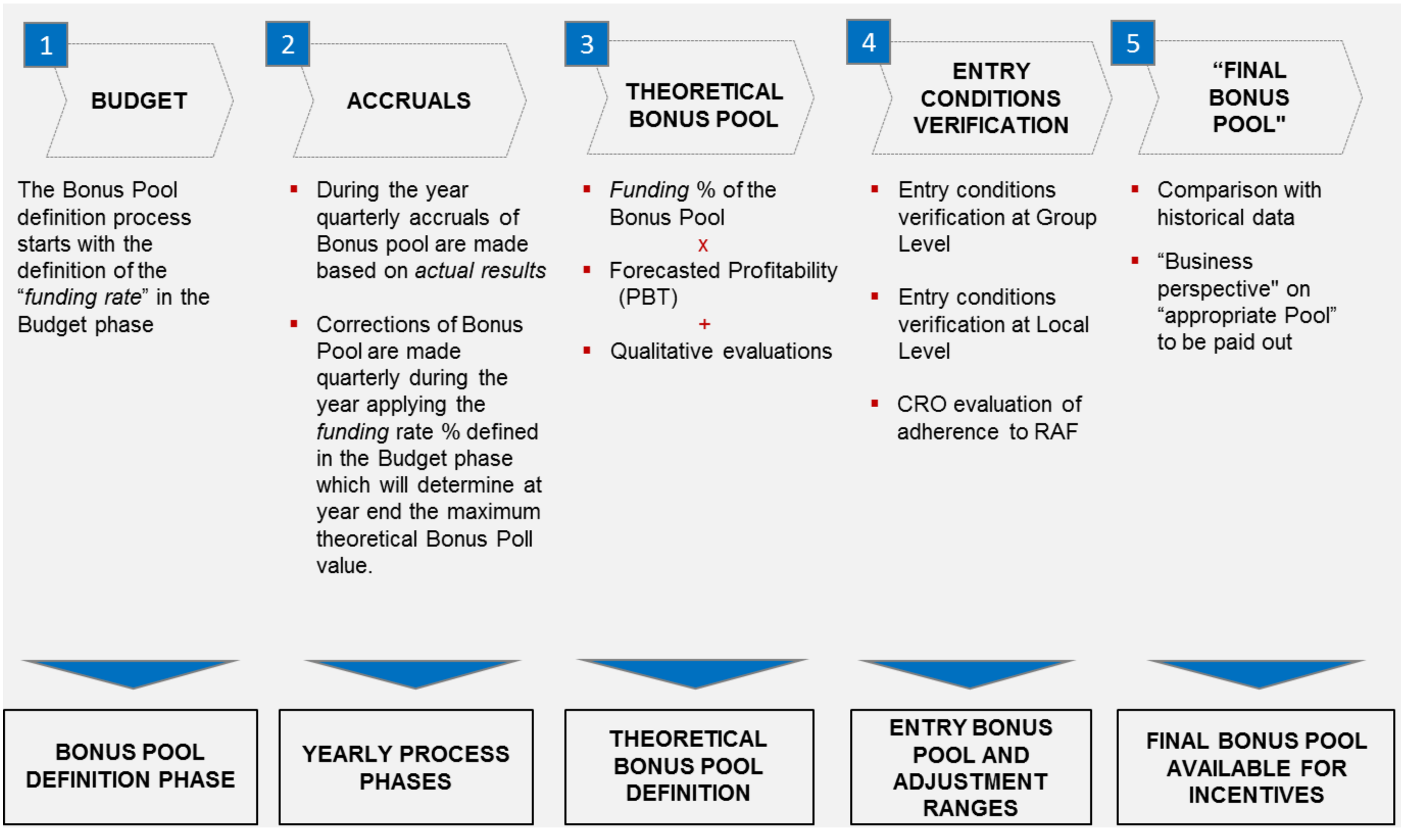
In particular, the 2018 System for PFA Identified Staff – as approved by the Board on January 10th 2018 - provides for:

- allocation of a variable incentive defined on the basis of the determined bonus pool, of the individual performance appraisal as well as compliant with the ratio between fixed and variable remuneration approved by the Shareholder's Meeting;
- definition of a balanced structure of "upfront" (following the moment of performance evaluation) and "deferred" payments, in cash and/or in shares, to be paid over a period of up to maximum 5 years;

[24] It is provided the possibility for the Remuneration Committee and the Board of Directors to increase bonuses up to 20% (within the maximum bonuses provided by the Plan) or to reduce the bonuses without limits, considering indicators as the Total Shareholders Return (absolute and relative) or other indicators, as the market context and trends on remuneration, or events with reputational impacts. The correction "in positive" does not apply in case of non-achievement of Group entry conditions, as described in this paragraph.

- distribution of share[25] payments which take into account the applicable regulatory requirements regarding the application of share retention periods. In fact the payment structure defined requires a retention period on shares (of 2 years for upfront shares and of 1 year for deferred shares);
- risk adjusted measures in order to guarantee long-term sustainability, regarding Company financial position and to ensure compliance with regulations;
- a *malus* clause (Zero Factor) which applies in case specific thresholds (profitability, capital and liquidity) are not met at both Group and local level. In particular, the bonus pool of 2018 will be zeroed, while previous systems deferrals could be reduced from 50% to 100% of their value, based on final effective results

In coherence with what previously described for the Employees, also for the PFA the process of bonus pool definition includes the following steps:



BUDGET

- Bonus pool process starts with the definition of the "funding rate" during budgeting phase. The funding rate for FinecoBank is a percentage of the Net Operating Profit (net of Provisions for Risk and Charges, corresponding to Profit Before Tax) considering: historical data analysis, expected profitability, business strategy and previous year pool. The bonus pool is submitted for approval to the Board of Directors of FinecoBank.

[25] Unlike what happens in the Incentive System for Employees, the FinecoBank shares used for the purposes of payments to the PFA, are not generated by a free capital increase, but are purchased directly on the market, pursuant to section 2357 of Italian Civil Code.

ACCRUALS

- During the year of performance, quarterly accruals are based on the actual results;
- on a quarterly basis the bonus pool is adjusted applying the % of *funding rate* fixed during budgeting phase that set by the end of the year the maximum theoretical bonus pool.

THEORETICAL BONUS POOL, ENTRY CONDITIONS VERIFICATION AND RISK ADJUSTMENT

- Consistency with FinecoBank performance and sustainability is ensured through specific "Entry Conditions" set at both Group and local level;
- application of a *malus* clause in case specific profitability, liquidity and capital thresholds are not reached at Group and local level;
- the distribution is risk adjusted in order to guarantee sustainability with respect to FinecoBank *Risk Appetite Framework*;
- the bonus pool is proposed by FinecoBank on the basis of the year forecast – risk-adjusted – both at Group and local level.

The Entry Conditions are the mechanism that determines the possible application of the Zero Factor on the basis of performance indicators in terms of capital and liquidity defined at both Group and local level (at local level is considered also the profitability). The entry conditions provided for 2018 – working also as malus conditions for the deferrals of previous years incentive systems - are reported in the following table:

Group level	Local level
	Net Operating Profit adjusted ≥ 0 and
	Net Profit ≥ 0 and
Common Equity Tier 1 Ratio Transitional > 10,43% and*	*Common Equity Tier 1 Ratio Transitional > 10,43%** and*
Liquidity Coverage Ratio > 101% and*	*Liquidity Coverage Ratio > 101%** and*
*Net Stable Funding Ratio >101%**	*Net Stable Funding Ratio >101%***

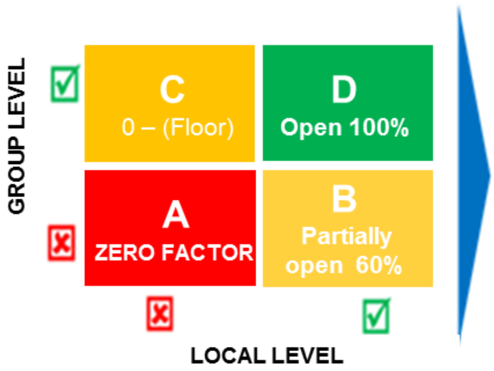
* In line with 2018 Group RAF (Trigger for CET1, Limit for LCR and NSFR). In case of amendments to RAF parameters, the defined thresholds will be modified accordingly.
** Values aligned with Group ones. In case of amendments to RAF parameters, the defined thresholds will be modified accordingly.

In particular, the indicators (or the relative thresholds) that have been modified or added compared to the 2017 System are highlighted.

In this regard, we highlight the addition - at Fineco level - of a liquidity indicator (Net Stable Funding Ratio) mirroring the one used at Group level.

It should also be noted that the thresholds for the capital and liquidity indicators have been changed in a more restrictive sense, increased compared to last year.

The Entry Conditions matrix and related effects on Fineco Bonus Pool follows the same logics provided in 2017, as shown below:



- **A.** In case the Entry Conditions are not met both at Group and Local level, a Zero Factor is determined for the Identified Staff, while for the rest of population a portion of pool could be kept for retention purposes or to guarantee the competition on the market
- **B.** In case the Entry Conditions are not met at Group Level, it is possible to have a pool at local level, if results are achieved, considering also the multiplier effect and the discretion of Remuneration Committee and Board.
- **C.** In case the Entry Conditions are not met at Local Level, but are met at Group Level, a minimum pool ("floor") for retention purposes can be set up.
- **D.** In case the Entry Conditions are met both at Group and Local Level, the bonus pool can be confirmed or increased, with the possibility to award the extra performance, considering – also in this case – the multiplier effect and the discretion of Remuneration Committee and Board.

In continuity with the 2017 System, in case the pool is in the box "B" the starting percentage of bonus pool is higher than the one provided for the Employee's System[26].

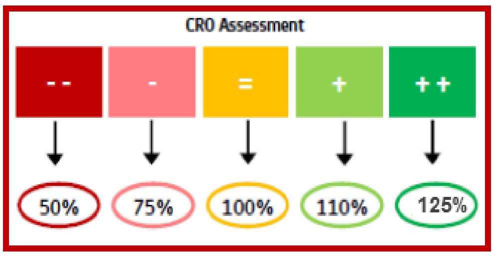
To activate the "multiplier" the CRO dashboard assessment is confirmed, pursuant to the defined methodology.

The CRO dashboard (defined in coherence with the FinecoBank and Group Risk Appetite Framework) includes KPIs taken from FinecoBank Risk Appetite Framework (plus one indicator related to operational risk), measured with reference to the respective relevant thresholds (*limit*, *trigger* and *target*).

The "multiplier" effect deriving from the evaluation of overall CRO dashboard outcome made by the FinecoBank CRO – and verified by the FinecoBank Remuneration Committee and by the FinecoBank Board – applies to the bonus pool in the cases described in the boxes D and B.

The dashboard evaluation is carried out pursuant to a methodology defined at Group level by the Risk Management function and approved by the FinecoBank Board of Directors, as for the Employees System.

The bonus pool corrections ranges deriving from the CRO Dashboard assessment are not modified compared to the 2017 Incentive System, as follows.



[26] The choice is due to the necessity of retention for Financial Advisors (tied to FinecoBank by an agency agreement) and consequently to safeguard a Company asset.

As provided in the 2017 System, a further range of discretion up to +20% is in the faculty of Remuneration Committee and Board of Directors, while no limits to downward discretionally the bonus pool with respect to theoretical value is foreseen.

In any case, as requested by regulations as per Bank of Italy provisions, the final evaluation of sustainable performance parameters and the alignment between risk and remuneration will be assessed by Remuneration Committee and defined under the governance and accountability of the Board of Directors.

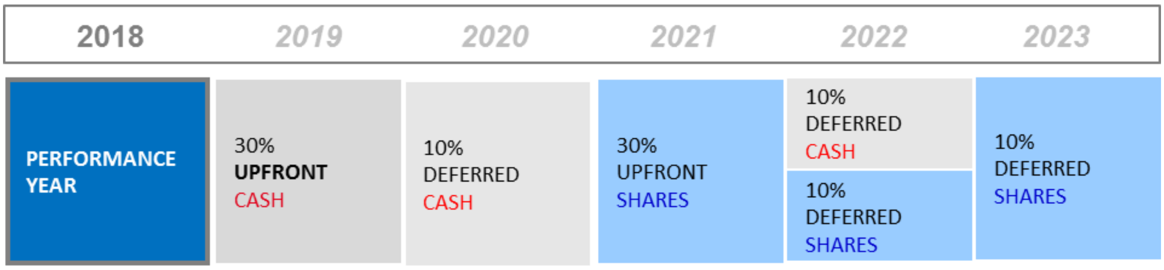
The Board of Directors does not take into account, when deciding bonus, balance sheet extraordinary items which do not impact operational performance, regulatory capital and liquidity (e.g. goodwill impairment, extraordinary contributions to deposit guarantee schemes, etc.).

Moreover, following potential changes in current regulations and/or in relation to potential extraordinary and/or unpredictable contingencies which can impact the Group, the Company or the market in which it operates, the Board of Directors, having heard the opinion of Remuneration Committee, maintains the right to amend the system and relevant rules.

BONUS PAYOUT

For the Financial Advisors included in the Identified Staff, a payout mechanism with a 3 years deferral is provided. The possible 2018 bonus will be paid up to a maximum 5 years period. In particular:

- in 2019 will be paid in cash the 1st tranche of the overall bonus, in absence of any individual values /compliance breach[27];
- in the period 2020–2023 the remaining part of the overall incentive will be paid in cash and/or Fineco ordinary shares; each further 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;



- all the instalments are subject to the application of claw-back conditions, as legally enforceable;
- in coherence with 2017, a minimum threshold28 will be introduced, below which no deferral mechanisms will be apply;
- the number of shares to be allocated in the respective instalments shall be defined in 2019, on the basis of the arithmetic mean of the official closing market price of Fineco ordinary shares during the month after the Board resolution that verifies the 2018 performance achievements;
- free Fineco ordinary shares that will be allocated will be freely transferable;

[27] Considering also the seriousness of any internal/external findings (e.g. Audit, Bank of Italy, Consob and/or analogous local authorities).
[28] Equal to Euro 75.000 that will be paid in cash.

- the 2018 Incentive System provides for an expected impact on FinecoBank share capital of approximately 0,05%, assuming that all free shares for Financial Advisors have been assigned. The current overall dilution for all other outstanding FinecoBank equity-based plans both for Employees and Financial Advisors equals 1,14%. However, the 2018 PFA Incentive System does not have a proper dilution impact as the FinecoBank shares awarded are purchased on the market and are not generated through a free capital increase.

The beneficiaries cannot activate programs or agreements that specifically protect the value of unavailable financial instruments assigned within the incentive plans. Any form of coverage will be considered a violation of compliance rules and imply the consequences set out in the regulations, rules and procedures.

4.5.1 Comprehensive performance measurement

Taking into account the specificities of the PFA business, and in continuity with the previous years Incentive Plans in terms of business objectives, for the purposes of the 2018 Incentive System for PFA[29] the performance assessment of Financial Advisors included in the Identified Staff will be based on the following indicators:

- total net sales goal (difference between the invested and disinvested assets by FinecoBank customers);
- net sales of asset under management goal;
- development activities (for instance planned and structured meeting with customers);
- percentage of achievement of the overall group goal by the managed Financial Advisors and percentage of sales in Guided Products[30] in comparison with the group overall goal[31];
- percentage of achievement of individual net sales goal and percentage of net sales of asset under management in comparison with the individual goal[32];
- value generated by the requalification of assets in liquidity and asset under custody in Guided Products.

4.6 2018 - 2020 Long Term Incentive Plan (LTI) for Financial Advisors Identified Staff

With the aim of rewarding, motivating and retaining selected Financial Advisors and Network Managers[33], in line with the commercial goals of the three-year period 2018 - 2020 and with the aim of creating value for Shareholders, a long-term plan has been defined. in cash and Fineco shares.

The Plan is dedicated to Financial Advisors who will be qualified as Identified Staff in the year 2020. At the moment, 15 beneficiaries are estimated[34].

The Plan - whose characteristics are described below in detail - provides:

- three-year performance targets (2018-2020) linked to Total Net Sales (NS), Net Sales of Guided Products (NSGP) and, for PFAs and Group Managers, also to the ratio between Guided Products (GP) as at December 31st 2020, on Total Financial Asset (TFA) as at December 31st 2019;
- entry conditions based on individual FinecoBank and Group performance;

[29] Always taking into account the individual compliance condition, as described above
[30] Guided products refer to high added value products and developed services, considering the different customers risk profiles
[31] For the Financial Advisors with managerial positions with more than 5 PFA coordinated
[32] For PFAs and Financial Advisors with managerial position and less than 5 PFA coordinated
[33] Group Managers and Area Managers (Financial Advisors with accessory assignment of other PFAs coordination)
[34] Identified pursuant to the regulation in place at the time

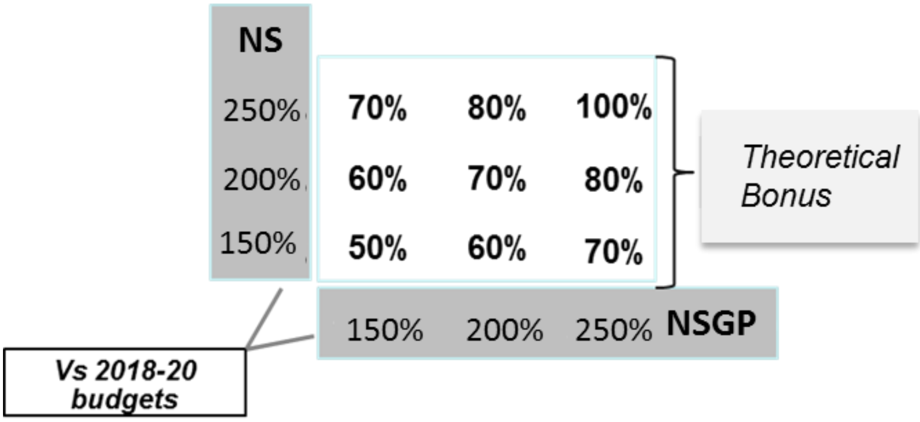
- malus conditions of capital, liquidity and profitability at FinecoBank lavel and of Group capital and liquidity;
- specific individual compliance and claw-back conditions;
- a risk adjustment linked to the annual evaluation of the CRO Dashboard, assessed according to the methodology defined at Group level.
- a balanced structure of "upfront" and "deferred" payments, in the form of cash and/or shares (which will be purchased on the market).

PERFORMANCE GOALS

Performance goals are defined on the basis of increasing targets as a percentage of the cumulative budget for the three-year period of the Plan, in terms of Total Net Sales (NS) and Net Sales of Guided Products (NSGP). Through the evaluation system, as described below, the Plan aims at rewarding the extra performance towards the defined goals.

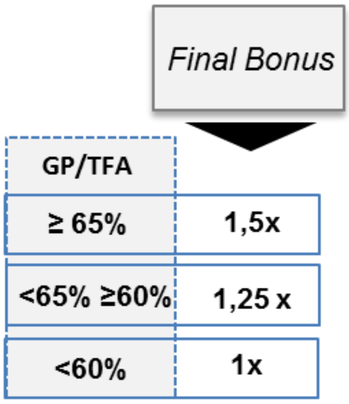
Performance indicators work in a general "matrix" logic with different specificities, depending on the target population (PFA / Group Manager and Area Manager) as shown below.

For Group Manager and PFA population, increasing bonuses are expected up to a theoretical maximum when 250% of the cumulated budgets in terms of Total Net Sales and Net Sales of Guided Products are reached[35].

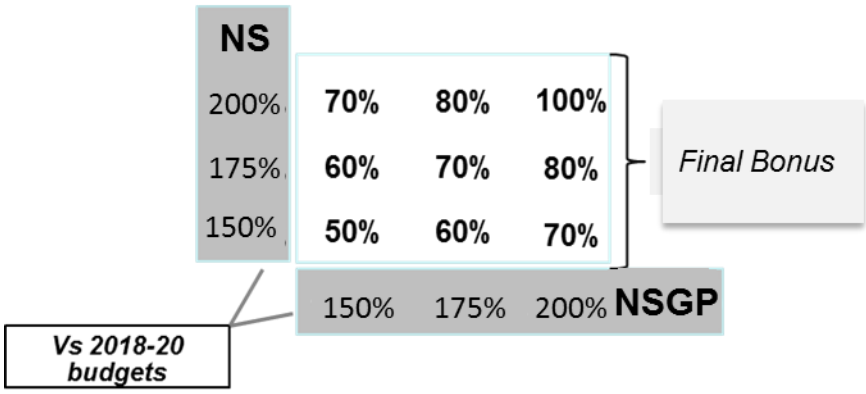


For the purposes of determining the final maximum bonus a "multiplier" is also provided based on the ratio between Guided Products and Total Financial Asset, as shown below

[35] Group Manager that at December 31st 2020 have reached the personal targets as described in the matrix, in order to access the bonus shall have also achieved the goal of 100% of Total Net Sales and Net Sales of Guide Products in the period of the coordinated PFAs.



For the Area Managers the performance evaluation follows the same logics with targets "vs budget" measured in a different way, as shown below. Differently from Group Manager and PFAs, in facts, the further multiplier is not provided[36]



MALUS AND ENTRY CONDITIONS

For the purposes of the Plan, specific entry conditions are defined at individual, Bank and Group level as detailed below.

<u>Individual and Bank entry conditions</u>

In order to access the bonus, is provided at individual level the achievement of specific thresholds in terms of Net Sales of Asset under Management[37], namely:

- Net Sales of Asset under Management >150% of individual target for PFAs e Group Managers with individual portfolios
- Net Sales of Asset under Management >100% of group target for Area Managers and Group Managers with group portfolio.

[36] The multiplier is not provided for Area Manager in consideration of the scope of the role and considering challenging the achievement of the over-performance in terms of Total Net Sales and Net Sales of Guided Products. .
[37] Measured at 31/12/2020 as "cumulated" within the Plan performance years

In addition to the above individual conditions, in order to access the bonus, it is provided at Bank level the achievement of a EVA threshold equal or higher than € 180 Mio.

Entry and Malus conditions at Bank and Group level

In order to comply with regulatory provisions, are defined:

- specific “Entry Conditions” at Fineco and Group level that will be measured within the Plan performance years and can confirm, reduce or cancel the individual bonuses pursuant to what is detailed below, and
- specific Fineco and Group Malus conditions measured within the deferral period that can confirm, reduce or cancel the deferred portions, pursuant to what is detailed below.

For these purposes, specific Group and Fineco capital and liquidity indicators and Fineco profitability indicators have been defined.

Capital and liquidity indicators (*Common Equity Tier 1 Ratio Fully Loaded, Liquidity Coverage Ratio* and *Net Stable Funding Ratio*) will be assessed yearly, while is provided a “cumulated” assessment of the profitability indicators (*Net Operating Profit Adjusted* and *Net Profit*).

Below is shown the functioning mechanism of entry and malus conditions provided by the Plan

Performance

Entry Conditions

Group	Fineco
	Σ 2018-2020 NOP Adj >0
	Σ 2018-2020 NP >0
CET 1 Ratio Fully loaded > 10,4%*	CET 1 Ratio Fully loaded > 10,4%**
LCR >101%*	LCR >101%**
NSFR >101%*	NSFR >101%**

1) In case the annual conditions are not achieved at Group level, it is provided a bonus reduction by 5% per year
2) In case the cumulated Fineco conditions are not achieved, bonuses are zeroed
3) In case of non achievement of annual Fineco conditions, bonuses are reduced pro-quota.

Deferral

Malus

Group	Fineco
	Σ NOP Adj >0
	Σ NP >0
CET 1 Ratio Fully loaded > 10,4%*	CET 1 Ratio Fully loaded > 10,4%**
LCR >101%*	LCR >101%**
NSFR >101%*	NSFR >101%**

1) In case of non achievement of the conditions at Group level, is provided a reduction of the deferred portion by 5%
2) In case of non achievement of the cumulated and annual Fineco conditions, the deferred portion is zeroed.

* In line with Group RAF 2018 (Trigger for CET1, Limit for LCR and NSFR). In case of more restrictive amendments provided by law in the Plan performance years, the thresholds will be modified accordingly.
** Values in line with Group ones. In case of more restrictive amendments provided by law in the Plan performance years, the thresholds will be modified accordingly.

The conditions must all be met for the purpose of awarding the maximum bonus (including deferrals).

The verification - in every year of performance of the Plan and in each year of bonus assignment - of the persistence of the agency relationship remains valid

Each payment related to the Plan is subject to prior verification of the compliance of the behavior at individual level.

The bonus payment is subject to claw - back.

RISK ADJUSTMENT

For the purposes of the appropriate Plan correction for the Bank's Risk, the results of the annual CRO Dashboard assessments for the purposes of short-term incentive systems will be taken into consideration for each year of the Plan's performance. The presence of several 'neutral' annual assessments or negative assessments will result in a proportional reduction of individual bonuses, as shown below:

% BONUS	100%	75%	50%	25%	0%
CRO DB ASSESSMENT	1 'neutral' assessment and 2 positive assessments (or 3 positive assessments)	≥2 'neutral' assessments	1 negative assessment	2 negative assessments	3 negative assessments

BONUS PAYMENT

A maximum bonus target of equal amount has been defined for all the participants of the plan, in line with the provisions of the applicable regulatory provisions and the FinecoBank Compensation Policy.

Individual bonuses - in particular - confirm compliance with the maximum limits for the variable remuneration envisaged for the Plan Beneficiaries, also taking into account the short-term variable remuneration attributable to each year of performance.

The bonuses will be paid 40% in cash and 60% in Fineco shares, according to the payment scheme shown below:

2018 - 2020	2021	2022	2023	2024	2025
PERFORMANCE	20% UPFRONT CASH	20% DEFERRED CASH	20% UPFRONT SHARES	20% DEFERRED SHARES	20% DEFERRED SHARES

- In 2021 the first installment of the total incentive will be paid in cash once verified the compliance at the individual level with rules and principles of conduct and behavior, considering the severity of any internal / external inspections (ie Audit, Consob and / or similar local authorities);
- in 2022-2025 the remaining amount of the total incentive will be paid in several installments in cash and shares; each individual tranche will be subject to the application of the Zero Factor relating to the year of competence and to the verification of compliance by each beneficiary with rules and the principles of conduct and behavior.

As per regulations, there are periods of unavailability on the shares assigned equal to two years for the shares allocated upfront and one year for deferred shares.

The evaluation of the results and the conditions for the individual awarding of bonuses will be carried out by the Board of Directors, upon the proposal of the Remuneration Committee, according to the established governance[38].

The Board of Directors does not take into account, when deciding bonus, balance sheet extraordinary items which do not impact operational performance, regulatory capital and liquidity (e.g. goodwill impairment, extraordinary contributions to deposit guarantee schemes, etc.).

the maximum number of shares to be assigned with the third, fourth and fifth tranches of the bonus shall be defined in 2021, on the basis of the arithmetic mean of the official closing market price of Fineco ordinary shares during the month after the Board resolution that verifies the performance achievements in 2020.

the Plan provides for an expected impact on FinecoBank share capital of approximately 0,08%, assuming that all free shares for Financial Advisors have been assigned. The current overall dilution for all other outstanding FinecoBank equity-based plans both for Employees and Financial Advisors equals 1,14%. However, the Plan does not have a proper dilution impact as the FinecoBank shares awarded are purchased on the market and are not generated through a free capital increase.

The beneficiaries cannot activate programs or agreements that specifically protect the value of unavailable financial instruments assigned within the incentive plans. Any form of coverage will be considered a violation of compliance rules and imply the consequences set out in the regulations, rules and procedures.

Moreover, following potential changes in current regulations and/or in relation to potential extraordinary and/or unpredictable contingencies which can impact the Group, the Company or the market in which it operates, the Board of Directors, having heard the opinion of Remuneration Committee, maintains the right to amend the system and relevant rules.

[38] It is possible for the Remuneration Committee and the Board of Directors to increase bonuses up to 20% (within the maximum bonus provided by the Plan) or to correct them in negative without limits, in the presence of extraordinary conditions and taking into account elements such as for example behaviors with significant reputational impact. The 'positive' correction does not apply if the Group entry conditions are not reached, as described in this paragraph.

Quantitative Information

5. Compensation Data

5.1 2017 Compensation Outcomes

Employees

Euro/ 000

Population as of 31/12/2017	No.	Fix	2017 Short Term Variable				Deferred variable from previous exercises***				Variable paid in 2017 from previous exercises ***	
			Upfront		Deferred		Vested in 2017		Unvested			
			€	Shares	€	Shares	€	Shares	€	Shares	€	Shares
Chief Executive Officer and General Manager (CEO) *	1	850	170	-	255	425	56	2.371	282	4.041	395	1.425
Non-executives Directors**	13	707	-	-	-	-	-	-	-	-	-	-
Executives with strategic resposibilities	5	1.648	298	-	446	744	98	4.120	493	7.004	552	2.310
Other Identified staff	8	1.404	394	-	116	210	14	271	147	385	428	359

* 10 % of the amount has been paid by UniCredit S.p.A.

** Including members of the BoD whose office ended in 2017, members appointed and confirmed by the BoD on 11/04/2017 and members employees of Unicredit Group. The fix amount of members employees of Unicredit Group has been defined In compliance with the in force policy "Policy in materia di struttura, composizione e remunerazione degli Organi Sociali delle Società di Gruppo".

*** The shares amounts related to UniCredit Group Incentive System Plans are expressed with convertion rate and after Capital increase resolved on March, 13th 2017

Euro/ 000

Population as of 31/12/2017	No.	Fix	2017 Short Term Variable				Deferred variable from previous exercises**				Variable paid in 2017 from previous exercises **	
			Upfront		Deferred		Vested in 2017		Unvested			
			€	Shares	€	Shares	€	Shares	€	Shares	€	Shares
Identified Staff belonging to business functions *	5	2.178	436	-	653	1.089	144	6.059	722	10.295	888	3.485
Identified Staff belonging to support functions	6	1.140	226	-	164	290	24	520	118	949	324	479
Identified Staff belonging to control functions	3	583	200	-	-	-		183	82	187	163	129

* 10 % of the amount of the CEO has been paid by UniCredit S.p.A.

** The shares amounts related to UniCredit Group Incentive System Plans are expressed with convertion rate and after Capital increase resolved on March, 13th 2017

The vested component refers to cash and equity awards to which the right matured in 2017 as the performance conditions were achieved:

- vested cash payments refer to 2016 *Group Incentive System*;
- vested equity payments refer to 2013, 2014,2015 *Group Incentive System* and to "*2014-2017 Multi-year Plan Top Management*".

The unvested component refer to cash and equity awards for which the right did not matured in 2017 and for which any potential future gain has not been yet realized and remains subject to future performance:

- unvested cash payments refer to 2015 and 2016 *Group Incentive System*;
- unvested equity payments refer to *2014,2015, 2016 and* "*2014-2017 Multi-year Plan Top Management*".

The value of the shares shown as 2017 short term variable and deferred variable from previous exercises is calculated considering:

- for *2014, 2015, 2016, 2017 Group Incentive System* and for *"2014-2017 Multi-year Plan Top Management"*, the arithmetic mean of the official closing prices of Fineco ordinary shares from January 5th to February 5th, 2018;
- for *2014 and 2013 Group Incentive System* based on UniCredit shares, the arithmetic mean of the official closing prices of UniCredit ordinary shares from January 23th to February 23th, 2018.

Variable paid in 2017 from previous exercises includes pay-outs based on demonstrated multi-year performance achievements related to Group Incentive Systems plans based on Fineco and UniCredit shares, to the "*2014-2017 Multi-year Plan Top Management"* and to the "*2014 Plan Key People*".

All stock options granted under existing Group LTI plans represent zero gain for the beneficiaries as long as the entry conditions will not allow the exercise.

The Chief Executive Officer and General Manager and 3 Executives with strategic responsibilities for 2017 have been rewarded with more than 1 mln Euros.

In the end, it is underlined that in 2017 any non standard remuneration has been paid for the Identified Staff.

It is underlined that in 2017 no Severance has been paid to or agreed with Identified Staff.

Financial Advisors

Euro/ 000

Population as of 31/12/2017	No.	Fix*	2017 Short Term Variable **				Deferred variable from previous exercises **				Variable paid in 2017 from previous exercises **	
			Upfront		Deferred		Vested in 2017		Unvested			
			€	Shares	€	Shares	€	Shares ***	€	Shares ***	€	Shares
Personal Financial Advisors belonging to Identified Staff	7	4.608	311	0	107	268	34	355	97	656	344	124

* Recurring remuneration
** Non-recurring remuneration
*** Phantom Share

The vested component refers to cash, equity and phantom shares awards to which the right matured in 2017 as the performance conditions were achieved. In particular:

- vested cash payments refer to "*2016 Group Incentive System PFA*" for Financial Advisors and Managers of the Network;
- vested equity and phantom share payments refer to "*2015 Group Incentive System PFA"* and "2015-2017 *Plan PFA*" for Financial Advisors and Managers of the Network.

The unvested component refer to cash, equity and to Phantom shares to which the right did not matured in 2017 and for which any potential future gain has not been yet realized and remains subject to future performance. In particular:

-the unvested cash payment refer to "*2015 Group Incentive System PFA*" and to "*2016 Group Incentive System PFA*" for Financial Advisors and Managers of the Network.

-the unvested phantom shares refer to "*2015 Group Incentive System PFA"* for Financial Advisors and Managers of the Network

-the unvested equity refer to "*2016 Group Incentive System PFA*" and to "2015-2017 Plan PFA" for Financial Advisors and Managers of the Network.

The value of the shares / Phantom shares shown as 2017 short term variable and deferred variable from previous exercises is calculated considering the arithmetic mean of the official closing prices of Fineco ordinary shares from January 5th to February 5th, 2018.

Variable paid in 2017 from previous exercises includes pay-outs based on actual performance achievements related to "*2014 Plan PFA*", to "*2015 Group Incentive System PFA*", to "*2016 Group Incentive System PFA"* and to the "2014 Contest" plan for Financial Advisors and Managers of the Network.

5.2 2017 Compensation Policy

Total compensation policy for non-Executive Directors, *Identified Staff* and for the overall employee population demonstrates in particular how:

- remuneration of the non-Executive Directors, as approved by the Shareholders' Meeting, does not include variable performance-related pay;
- *Identified Staff* are offered opportunities for variable compensation in line with their strategic role, regulatory requirements and our pay for performance culture;
- the general employee population is offered a balanced pay-mix in line with the role, scope and business or market context of reference.

	COMPENSATION PAY-MIX	
	FIX AND OTHER NON - PERFORMANCE RELATED PAY	VARIABLE PERFORMANCE - RELATED PAY
NON-EXECUTIVE DIRECTORS		
Chairman and Vice Chairman	100%	0%
Directors	100%	0%
Statutory Auditors	100%	0%
OVERALL EMPLOYEE POPULATION		
Business areas	77%	23%
Support function	92%	8%
Overall Company	89%	11%

5.3. Benefits Data

Our employees enjoy welfare, healthcare and life balance benefits that supplement social security plans and minimum contractual requirements. These benefits are intended to provide substantial guarantees for the well-being of staff and their family members during their active careers as well as in retirement.

In Italy, among the complementary pension plans, there are both defined performance funds (whose performances, which come to fruition once the retirement requirements are reached, are known in advance as they are set by the fund statute) and defined contribution plans (whose performances depend on the results of the asset management).

Complementary pension plans can also be classified as external or internal pension funds, where external funds are legally autonomous from the Group, while internal funds are accounting items entered into UniCredit S.p.A.'s balance sheet, whose creditor counterparts are the employees enrolled (both active and retired).

Both these categories are closed and, as such, they do not allow new subscriptions. The only exception is represented by the individual capitalization section of the "Fondo Pensione per il Personale delle Aziende del Gruppo UniCredit". Within this section subscribers can distribute their contribution – depending on their own risk appetite – among four investment lines (Insurance, Short, Medium and Long Term) characterized by different risk / yield ratios. In addition, always in this section, the enrolled employees may open complementary pension plan positions in favour of their family members dependent for tax purpose.

Leverage

The Basel III supervisory regulations introduced obligations on the calculation, reporting, and publication of the leverage ratio, forming an additional regulatory requirement to risk-based indicators.
The leverage ratio has the following objectives:

- restricting the build-up of leverage in the banking sector;
- enhancing capital requirements with a further, simple and non risk-based measure.

The ratio is calculated in accordance with the rules laid down by “Commission Delegated Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regard to the leverage ratio”.

This disclosure is also provided in accordance with the provisions of “Commission Implementing Regulation (EU) 2016/200 of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions, according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council”.

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Article 429 of the CRR defines the leverage ratio as the Bank’s capital measure divided by that institution's total exposure measure and shall be expressed as a percentage ratio between:

- Tier 1 capital;
- the total exposure of the Bank, equal to the sum of the exposure values of all assets and off-balance sheet items not deducted from Tier 1 capital.

On August 10, 2016, the European Central Bank (ECB) published the document “Addendum to the ECB Guide on options and discretions available in Union law” which establishes the ECB’s approach on several options and discretions provided by Regulation (EU) No 575/2013 of the European Parliament and of the Council (CRD IV) and Directive 2013/36/EU of the European Parliament and of the Council (CRD IV) and granted to the competent authorities. In particular, it was established that the ECB, in exercising the discretions pursuant to Article 429, paragraph 7 of the CRR (exclusion of intercompany exposures from the leverage ratio calculation), will assess the requests from the supervised entities, taking account of certain specific aspects, highlighted in the document, to ensure the prudent implementation of the applicable regulatory framework. In particular, the assessment is aimed at ensuring that the leverage ratio accurately measures the degree of leverage, controls the risk of excessive leverage and constitutes an adequate protection mechanism for the risk weighted capital requirements, also taking due account of the orderly flow of capital and liquidity within the group at national level. In addition, when the exemption is granted, it is considered fundamentally important to avoid the "risk of excessive leverage" described in the regulations from being concentrated within a subsidiary of the group being assessed.
As at December 31, 2017, as required by Circular No. 285 of the Bank of Italy, Part Two, Chapter 12, Section III Exercise of national discretion, exposures to the UniCredit Group companies based in Italy and weighted at 0% pursuant to Article 113, par. 6 of the CRR have not been included in the calculation of total exposure, in accordance with Article 429 (7) of the CRR 575/2013 amended by the Delegated Regulation (EU) 2015/62. The choices made by

the Bank of Italy of general scope apply to banks other than those subject to direct supervision by the European Central Bank (less significant institutions – LSI) and, unless otherwise indicated by the latter, also the banks subject to its direct supervision ("significant institutions – SI"), including FinecoBank. The European Central Bank obviously still maintains jurisdiction for the significant banks for the discretions whose exercise requires a case-by-case assessment (usually carried out through specific administrative procedures).

The total exposure includes (article numbers refer to the CRR):

- Derivatives measured according to the mark-to-market method as per Article 274;
- Security Financing Transactions (SFTs) – exposure to which is calculated as sum of counterparty risk (i.e. exposure less collateral and the accounting value of the transaction;
- "Off-balance" sheet exposures – measured at nominal value, after deducting credit risk adjustments converted with credit conversion factors relating to financial leverage, as per article 111;
- Other Assets different to derivatives and SFTs – measured at the carrying amount net of additional value adjustments and other Own Funds reductions relative to the asset item as per article 111.

The qualitative and quantitative disclosure given below is provided according to the rules and templates set out in the final draft of the aforementioned ITS on the Disclosure.

The following figures refer to the Leverage Ratio calculated by applying the transitional rules.

Quantitative Information

Leverage ratio common disclosure

The following table shows the leverage ratio at December 31, 2017, compared against the figures at December 31, 2016, and the extent of the total exposure in the main categories, according to CRR articles 451(1)(a), 451(1)(b) and 451(1)(c).

		CRR leverage exposures 12.31.2017	*CRR leverage exposures 12.31.2016*
	On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	22,132,423	20,895,413
2	(Asset amounts deducted in determining Tier 1 capital)	(77,041)	(74,633)
3	**Total on-balance sheet exposures** (excluding derivatives and SFT) (sum of lines 1 and 2)	**22,055,382**	**20,820,780**
	Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	5,214	3,561
5	Add-on amounts for PFE associated with *all* derivatives transactions	17,504	13,623
EU-5a	Exposure determined under Original Exposure Method	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(11,061)	(7,849)
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**11,657**	**9,335**
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	202,754	87,401
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposure for SFT assets	13,491	4,504
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-	-
15	Agent transaction exposures	-	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**216,245**	**91,905**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	3,161,632	1,681,762
18	(Adjustments for conversion to credit equivalent amounts)	(2,371,510)	(338,246)
19	**Off-balance sheet exposures (sum of lines 17 and 18)**	**790,122**	**1,343,516**
	Exempted exposures in accordance with Article 429 (7) and (14) of Regulation (EU) No 575/2013		
EU19-a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)	(14,517,544)	(16,963,292)
EU19-b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	-	-
	Capital and total exposure measure		
20	**Tier 1 capital**	484,960	438,121
21	**Total exposure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	8,555,862	5,302,244
22	**Basel III leverage ratio**	**5.67%**	**8.26%**
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No. 575/2013	-	-

(Amounts in € thousand)

Summary reconciliation of accounting assets and leverage ratio exposures

The table reconciles the leverage ratio denominator with figures reported under the relevant accounting standards, as required by Article 451(1)(b) of the CRR.

		Applicable amount 12.31.2017	*Applicable amount 12.31.2016*
1	Total consolidated assets as per published financial statements	22,340,391	20,986,376
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-
4	Adjustments for derivative financial instruments	6,443	5,774
5	Adjustments for securities financing transactions (i.e. repos and similar secured lending)	13,491	4,504
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	790,122	1,343,516
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	(14,517,544)	(16,963,292)
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-	-
7	Other adjustments	(77,041)	(74,634)
8	**Leverage ratio exposure**	**8,555,862**	**5,302,244**

(Amounts in € thousand)

Item 7 “Other adjustments” includes deductions from Tier 1 relative to balance-sheet assets (transitional arrangements).

Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

For exposures other than Derivatives and SFTs, the table provides the breakdown by class of counterparty, according to the provisions of article 451(1)(b) of the CRR.

		CRR leverage exposures 12.31.2017	*CRR leverage exposures 12.31.2016*
UE-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:**	**8,295,683**	**5,212,216**
UE-2	Trading book exposures	6,117	3,029
UE-3	Banking book exposures, of which:	8,289,566	5,209,187
UE-4	Covered bonds	-	-
UE-5	Exposures treated as sovereigns	6,151,267	4,040,518
UE-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-	3
UE-7	Exposures to institutions	58,843	75,594
UE-8	Secured by mortgages of immovable properties	515,982	917
UE-9	Retail exposures	1,190,851	793,209
UE-10	Corporate	172,969	89,371
UE-11	Exposures in default	2,778	3,664
UE-12	Other exposures (e.g. equity, securitisations and other non-credit obligation assets)	196,876	205,911

(Amounts in € thousand)

The figures are stated net of exempted intercompany exposures.

Quantitative disclosure

The qualitative disclosure required under Article 451(1) letter d) of the CRR is provided below.

Description of the factors that had an impact on the leverage ratio during the period

The Leverage Ratio, calculated in accordance with the transitory provisions, fell to 5.67% from 8.26% as at December 31, 2016.

The drop was driven by growth in customer deposits, which raised the amount of balance-sheet assets, and by the reduction in intercompany exposures exempted from the calculation of the ratio.

Processes used to manage the risk of excessive leverage

The Group's Risk Appetite Framework is the foundation for the management of the UniCredit Group and FinecoBank's risks. The Framework sets out governance mechanisms, processes, instruments and procedures for the overall management of the Bank's risks. Leverage risk is covered by the Risk Appetite Framework and therefore is subject to the control procedures and mechanisms set out therein.

The quantitative instruments for measuring leverage risk derive from the Risk Appetite Framework, which also includes the Leverage Ratio. This KPI has its own targets, triggers and limits that are regularly monitored through reporting processes. The results of periodic monitoring and the reports are submitted to the Board of Directors.

The Risk Appetite process sets out governance processes, management engagement and escalation processes to be used in normal operating conditions and under stress. Escalation processes are activated at the appropriate organisational level to ensure an adequate reaction when triggers or limits are exceeded.

Issues of maturity mismatches and asset encumbrance are closely monitored and managed. The control mechanisms in place ensure prompt identification of potential risks including the risk of excessive leverage.

The risk deriving from a maturity mismatch is monitored through the use of the Net Stable Funding Ratio (NSFR), calculated on a quarterly basis. The ratio is given by the amount of available stable funding relative to the amount of required stable funding, calculated by applying specific weights to on-balance-sheet and off-balance-sheet amounts. Instructions for calculating the ratio are provided in the documents "Basel III: the net stable funding ratio" and "Instructions for Basel III monitoring" issued by the Basel Committee for Banking Supervision (BCBS). The Net Stable Funding Ratio is included in the set of granular liquidity limits and as such it is subject to the relative specific escalation processes.

Asset encumbrance trends are monitored through counterbalancing capacity. The sum of counterbalancing capacity and aggregate incoming and outgoing cash flows within one year (primary gap) represents the operational maturity ladder, which for each maturity bucket indicates the excess of encumbered assets compared to the bank's accumulated liquidity needs.

The operational maturity ladder is part of the set of granular liquidity limits and as such is subject to specific escalation processes.

Use of risk mitigation techniques

The Bank, consistent with the "Revised Framework of International Convergence of Capital Measures and Rules" (Basel II, as amended), is firmly committed to satisfying the requirements for recognition of Credit Risk Mitigation (hereafter "CRM") techniques for regulatory capital purposes, of the different instruments relating to the Standardised approach.

In this regard, specific projects have been completed and actions have been carried out for implementing the Group's internal regulations and for bringing processes and IT systems into compliance.

The Bank has implemented the regulatory requirements on CRM by issuing specific internal Guidelines, prepared in compliance with supervisory regulations. The Guidelines have several objectives:

- to facilitate the optimal management of collateral and guarantees;
- to maximise the mitigating effect of collateral and guarantees on defaulted receivables;
- to attain a positive impact on Group capital requirements, ensuring that CRM practices meet minimum "Basel III" requirements;
- to define general rules for eligibility, valuation, monitoring and management of collateral and guarantees and to detail special rules and requirements for specific collateral/guarantees.

Collateral and guarantees are accepted only to support loans and they cannot serve as a substitute for the debtor's ability to meet obligations. Accordingly, they have to be evaluated in the credit application along with the assessment of the creditworthiness and the repayment capacity of the debtor.

Any collateral/guarantee can be considered adequate if it is consistent with the underlying credit exposure and, for guarantees, when there are no relevant risks towards the protection provider.

In general, operative instructions and related processes are particularly severe, aiming at ensuring the formal and substantive establishment of each collateral/guarantee acquired.

<u>Policies and processes for on- and off-balance sheet netting, and an indication of the extent to which the Bank makes use of netting</u>

On-balance-sheet netting agreements for mutual claims between the credit institution and a counterparty can qualify as eligible collateral providing they are legally effective and enforceable in all relevant jurisdictions, also in the event of the insolvency or bankruptcy of the counterparty, and where the following conditions are met:

- they permit the netting of profits and losses on the transactions specified in the master netting agreement, leaving a single net amount owed by one party to the other;
- they satisfy the minimum requirements to qualify as financial collateral (measurement and monitoring requirements).

The Bank uses netting agreements mainly in relation to off-balance sheet transactions, such as repurchase agreements and securities lending with institutional counterparties.

The effectiveness of the hedging agreements made with specific counterparties depends on the selection of suitable assets qualifying as a form of mitigation. Dealings with institutional counterparties are governed by standard contracts recognised by the market, such as ISDA Master Agreements and Global Master Repurchase Agreements.

Policies and processes for collateral valuation and management

The Bank has implemented a collateral management system in order to ensure a clear and effective process of measuring, monitoring and managing all types of guarantees intended to mitigate credit risk.

The assessment of the collateral value is based on the current market price or the estimated amount which the underlying asset could reasonably be liquidated for (i.e. pledged financial instrument or mortgaged real estate fair value).

In particular, the valuation methods of financial instruments depends on their type:

- securities listed on a recognised stock exchange are valued at the market price (the price of the most recent trading session);
- UCITS units are valued at the price corresponding to the daily value published by the management company per unit.

The valuation of the lien collateral must be adjusted to ensure that is always sufficient also based on the market volatility of the underlying instruments. Haircuts may also take account of the possible foreign exchange volatility. In case of currency mismatch between the credit facility and the collateral, an additional haircut is applied. Possible mismatches between the maturity of the exposure and that of the collateral are also considered in the adjusted collateral value.

The margins accepted by the Bank as collateral are identified on the basis of formal criteria, differentiated by the type of instrument:

- Equity instruments: the Bank accepts equity instruments that are listed on major national and international stock market indices and are sufficiently capitalised and liquid; generally, a margin of 50% is considered;
- Bonds: the Bank accepts bonds of “investment grade” that are sufficiently liquid; the margin applied takes into consideration the issuer, credit rating and maturity; margins vary between 65% and 85%;
- Mortgage loans: a haircut of 80% (Loan to Value) or 60% for liquidity loans (non-mortgage).

The Bank has regulations in place setting out rules for the eligibility, measurement and management of collateral, which ensure that collateral is legally effective and enforceable and promptly realizable under the Italian legal system. The value of collateral is monitored on a daily basis under the first-level collateral management and monitoring process. For real estate collateral, the principles and rules are described in the policy on the granting of residential mortgages with property collateral to current account holders of FinecoBank S.p.A. The valuation of the assets is performed by external technical experts included in the Register of Engineers, Architects and Surveyors or industrial experts who are not therefore susceptible to conflict of interest.

With reference to the system of limits on credit exposures, the Bank has set out a framework of delegated operating limits that are diversified by type of transaction and by secured or unsecured technical form.

Description of the main types of collateral accepted

The collateral accepted in support of credit products granted by the Bank primarily includes debt securities, equities, and UCITS units and, residually, residential and commercial mortgages.

In order to be considered eligible for risk mitigation, the general requirements according to Supervisory Regulations must be met, along with the specific requirements for the Standardised approach.

The Parent Company provides specific guidelines for the eligibility of all kinds of collateral and the Bank defines the list of eligible collateral, according to uniform Group methods and procedures and in compliance with all domestic legal and supervisory requirements and specific local requirements.

Main types of guarantor and credit derivative counterparty and their creditworthiness

No data to report.

Information about market or credit risk concentrations within the credit risk mitigation instruments used

There is concentration risk when the major part of collateral financial assets (at portfolio level) are concentrated in a small number of collateral types, of protection arrangements, or when it is provided by a small group of specific providers of collateral (a single entity or reference industrial sector) or when there is lack of proportion in the volume of collateral taken.

As mentioned, the valuation of the lien collateral is based on its actual value, i.e. the market value for the financial instruments listed in a regulated market. The resulting value is subject to percentage haircuts, differentiated based on the financial instruments used as security and the concentration of the instrument in the customer's portfolio provided as security.

EU CR3 – CRM techniques – Overview

	Exposures unsecured – Carrying amount	*Exposures secured – Carrying amount*	*Exposures secured by collateral*	*Exposures secured by financial guarantees*	*Exposures secured by credit derivatives*
1 Total loans	3,995,691	1,172,269	1,171,485	44	-
2 Total debt securities	16,707,766	-	-	-	-
3 Total exposures	**20,703,457**	**1,172,269**	**1,171,485**	**44**	**-**
4 Of which defaulted	2,772	81	81	-	-

(Amounts in € thousand)

The Bank considered as eligible CRM techniques, in accordance with part three, title II, chapter 4 of the CRR, a total of €240,920 thousand of collateral, consisting mainly of equity instruments.

EU CR4 – Standardised approach – Credit risk exposure and CRM effects

	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount	*Off-balance-sheet amount*	*On-balance-sheet amount*	*Off-balance-sheet amount*	*RWAs*	*RWA density*
1 Central governments or central banks	6,051,344	-	6,051,344	-	72,270	1.2%
2 Regional governments or local authorities	-	-	-	-	-	0.0%
3 Public-sectors entities	99,924	-	99,924	-	-	0.0%
4 Multilateral development banks	-	-	-	-	-	0.0%
5 International organisations	-	-	-	-	-	0.0%
6 Institutions	13,880,393	2,381,070	13,880,393	681,067	9,625	0.1%
7 Corporates	172,983	12,422	165,966	117	166,068	100.0%
8 Retail	1,190,851	768,013	1,157,705	1,502	869,405	75.0%
9 Secured by mortgages on immovable property	515,981	-	515,982	-	180,847	35.0%
10 Exposures in default	2,778	127	2,778	-	2,796	100.6%
11 Items associated with particularly high risk	-	-	-	-	-	0.0%
12 Covered bonds	-	-	-	-	-	0.0%
13 Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	0.0%
14 Collective investment undertakings	-	-	-	-	-	0.0%
15 Equity exposures	5,006	-	5,006	-	5,006	100.0%
16 Other exposures	90,818	-	90,818	-	90,812	100.0%
17 Total	**22,010,078**	**3,161,632**	**21,969,916**	**682,686**	**1,396,829**	**6.2%**

(Amounts in € thousand)

RWAs show an increase of €504,378 thousand compared to December 31, 2016, mainly in relation to the “Retail” and “Secured by mortgages on immovable property” exposure classes, due to higher lending in relation to current account overdraft facilities, personal loans and mortgage loans.

Glossary

AMA (Advanced Measurement Approach)

Applying this methodology, operational risk requirement is obtained using calculation models based on operational loss data and other evaluation elements collected and processed by the Bank. Admittance threshold and specific suitability requirements have been established for the use of the standard and advanced approaches. For the AMA approach the requirements regard the measurement system, as well as the management system.

Risk-weighted assets

See the item “RWA - Risk-Weighted Assets”.

Banking book

Used in relation to financial instruments, particularly securities, this term identifies the portion of those portfolios intended for "proprietary" activities.

Basel 2

International agreement on the capital requirements of banks in relation to the risks assumed by them. This agreement has been adopted, at national level, by the respective competent supervisory authorities, including the Bank of Italy. The new prudential regulations, which came into force in Italy in 2008, are based on three pillars.

- Pillar 1: while the objective of a level of capitalisation equivalent to 8% of the risk-weighted exposures remains unchanged, a new set of rules has been established for measuring the typical risks associated with banking and financial activities (credit risk, counterparty risk, market risk and operational risk) which provides for alternative calculation methods characterised by different levels of complexity, with the ability to use internally developed models subject to prior authorization by the Supervisory Authority;
- Pillar 2: requires banks to have processes and tools for determining the adequate level of total internal capital (Internal Capital Adequacy Assessment Process - ICAAP) for covering all types of risk, including risks other than those covered by the overall capital requirement (Pillar I), within the framework of an evaluation of current and future exposure that takes account of strategies and of changes in the reference context. It is the Supervisory Authority's task to examine the ICAAP process, formulate an overall judgement and, where necessary, apply the appropriate corrective measures;
- Pillar III: introduces obligations to publish information concerning capital adequacy, exposure to risks, and the general characteristics of the systems used for identifying, measuring and managing those risks.

Basel 3

International agreement amending Basel 2 adopted in December 2010, containing amendments to the prudential rules on the capital and liquidity of banks, with the gradual entry into force of the new capital requirements from January 1, 2014 until December 31, 2019. These rules have been implemented at European level through the CRD IV “Package”.

Economic capital

Capital level that is required by a bank to cover the losses that may occur with at a time horizon of one year and a certain probability or confidence level. Economic Capital is a measure of the variability of the Expected Loss of the portfolio and depends on the degree of diversification of the portfolio itself.

Internal Capital

Represents the amount of capital required to cover potential losses and is required to support the business activities and positions held. Internal Capital is the sum of the aggregated Economic Capital and a cushion that considers the effects of the cycle and model risk.

Common Equity Tier 1 or CET 1

The Common Equity Tier 1 under Basel 3, mainly consisting of ordinary paid-up capital, the related share premium, operating profit, reserves and other regulatory adjustments, as provided for by the CRR regulation and the Supervisory Regulations (both during the transitional period and fully loaded).

Tier 1 Capital

The most reliable and liquid part of a bank's capital, as defined by the regulatory rules.

CFO

Chief Financial Officer.

Countercyclical capital buffer

The countercyclical capital buffer consisting of Common Equity Tier 1 pursuant to Supervisory Regulations, according to the concept contained in Articles 128 and 130 of the CRD IV, equal to the risk weighted assets, calculated in accordance with Article 92, paragraph 3, of the CRR by the Company's countercyclical capital buffer, determined according to the criteria established by the Supervisory Regulations at an amount ranging from 0% to 2.5%.

CRD (Capital Requirements Directives)

EU Directives 2006/48 and 2006/49, adopted by Bank of Italy circular 263/2006 of December 27, 2006 as amended. The CRD IV "Package" has replaced the two aforementioned Directives and consists of the EU Directive 2013/36 on the taking up of the business of credit institutions and prudential supervision and the EU Regulation 575/2013 on prudential requirements, adopted by the Bank of Italy circular 285 of December 17, 2013 as amended.

Impaired loans

Loans and receivables are reviewed periodically in order to identify those that, following events occurring after initial recognition (at market value, which is, usually, equal to the amount paid including transaction costs and income directly attributable to the disbursement of the credit) show objective evidence of possible impairment. These include a loans to which the status of non-performing, unlikely to pay and past due has been assigned, according to the Bank of Italy rules in line with the IAS/IFRS (q.v.).

CRM - Credit Risk Mitigation

Credit Risk Mitigation is a set of techniques, ancillary contracts to the loan or other instruments (e.g. securities, guarantees), which reduces credit risk capital requirements.

CRO

Chief Risk Officer.

Default

A party's declared inability to honour its debts and/or the payment of the associated interest.

EAD – Exposure At Default

Relating to the on-balance and off-balance sheet positions, EAD is defined as the estimation of the future value of an exposure at the time of the debtor's default. Only banks that meet the requirements for adopting the "IRB – Internal Rating Based" advanced approach are allowed to estimate EAD (q.v.). Other banks are required to refer to regulatory estimations.

EBA European Banking Authority

The European Banking Authority is an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector.

ECB

European Central Bank. The ECB is the central bank for Europe's single currency, the euro.

Expected Losses

The losses recorded on average over a one year period on each exposure (or pool of exposures).

Non-performing exposures

According to the EBA Implementing Technical Standards, non-performing exposures are all on-balance-sheet and off-balance-sheet exposures that satisfy either or both of the following criteria:

(i) material exposures which are more than 90 days past due;

(ii) exposures for which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Past-due and/or overdrawn impaired exposures

i.e. on-balance sheet exposures, other than those classified as non-performing or unlikely to pay that are past due or overdrawn at the reporting date. The past due and/or overdrawn impaired exposures may be determined, alternatively, with respect to the individual debtor or the individual transaction. Specifically, they represent the total exposure to any borrower not included in the unlikely to pay and non-performing loans categories, who at the reporting date has expired facilities or unauthorised overdrafts that are more than 90 days past due and meet the requirements set out by local supervisory regulations for their classification under the "past due exposures" category (TSA banks) or "defaulted exposures" (IRB banks).

EVA (Economic Value Added)

EVA is an indicator of the value created by a company. It expresses the ability to create value in monetary terms, as it is equal to the difference between net operating profit and the cost of invested capital.

Fair value

The price at which an asset can be traded or a liability settled in a free-market transaction between independent parties at arm’s length.

Own funds or Total Capital

The own funds of a bank consist of a series of regulatory defined items (excluding the negative items to be deducted), classified based on capital quality and loss absorbing capacity. From January 1, 2014, after the CRR came into force, Own Funds consists of the sum of Tier 1 capital and Tier 2 capital.

Forbearance/Forborne exposures

According to the EBA Implementing Technical Standard, forborne exposures are exposures in respect of which forbearance measures have been extended, consisting of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments (“financial difficulties”).

IAS/IFRS

International accounting standards issued by the International Accounting Standard Board (IASB), a private international body established in April 2001, involving representatives of the accounting professions of the principal countries and, as observers, the European Union, IOSCO (International Organization of Securities Commissions) and the Basel Committee. This body is the successor of the International Accounting Standards Committee (IASC), set up in 1973 to promote harmonization of the rules for the preparation of company accounts. When the IASC became the IASB, it was decided, among other things, to name the new accounting principles "International Financial Reporting Standards" (IFRS). At international level, work is currently underway to harmonize the IAS/IFRS with the US GAAP – United States Generally Accepted Accounting Principles (q.v.).

ICAAP – Internal Capital Adequacy Assessment Process

See "Basel 2 – Pillar 2".

Impairment

Within the framework of the IAS/IFRS (q.v.), this refers to the loss of value of a balance sheet asset, recorded when the book value is greater than the recoverable value, i.e. the sum that can be obtained by selling or using the asset.

Unlikely to pay

On-balance and off-balance sheet exposures that meet the definition of unlikely to pay, which do not meet the conditions to be classified as bad loans. The classification as “unlikely to pay” derives from the assessment of the debtor’s unlikeliness (without actions such as realisation of collateral) to repay fully his credit obligation (principal and/or interest). This assessment is made independently of any past due and unpaid amount (or instalment). The classification of an exposure as unlikely to pay is not necessarily tied to evident issues (non-repayment), but is rather linked to indicators of a potential default of the borrower.

IRB – Internal Rating Based

Method for determining the capital needed to cover credit risk within the framework of Pillar 1 of Basel 2 (q.v). The rules are applied to the exposures of the banking book. Furthermore, in the IRB methods the risk weightings of the assets are determined on the basis of the bank's own internal evaluations of the debtors (or, in some cases, of the transactions). Using systems based on internal ratings, the banks determine the weighted risk exposure. The IRB methods consist of a basic method and an advanced method, which differ in terms of the risk parameters that the bank must estimate: in the basic method, the banks use their own estimates for "PD – Probability of Default" and the regulatory values for the other risk parameters; in the advanced method, the banks use their own estimates for "PD – Probability of Default ", "LGD – Loss Given Default", "CCF – Credit Conversion Factors" and, where provided for, "M - Maturity" (q.v.). The use of IRB methods for the calculation of capital requirements is subject to authorization from the Bank of Italy.

Maturity Ladder

Instrument for managing and monitoring short-term liquidity (operational liquidity), which, by offsetting assets and liabilities whose maturity falls within each individual time band, enables the identification of mismatches (periodic and cumulative) between incoming and outgoing cash flows and, therefore, to calculate the net financial requirement (or surplus) over the period of the year.

KPI - "Key Performance Indicators"

Set of indicators used to evaluate the success of a particular activity or process.

LCP

Loss Confirmation Period.

LGD – Loss Given Default

Expected value (which may be conditional upon adverse scenarios) of the ratio, expressed as a percentage, between the loss giving rise to the default and the amount of exposure at the time of the default ("EAD - Exposure At Default", q.v.).

PD – Probability of Default

Default Probability of a counterparty entering into a situation of "default" (q.v.) within a period of one year.

Tier 1 Capital Ratio

The percentage of a bank's Tier 1 Capital to its risk weighted assets "RWA – Risk Weighted Assets" (q.v.).

Rating

Evaluation of the quality of a company or its issues of debt securities on the basis of the company's financial soundness and prospects. This evaluation is made either by specialist agencies or by the bank on the basis of internal models.

Credit risk

The risk that an unexpected change in the credit rating of a counterparty, the value of the collateral they have provided, or of the amount used in the event of insolvency generates an unexpected change in the lending position of the Bank.

Credit counterparty risk

The risk that the counterparty in a transaction in financial instruments may enter default before settling all the agreed cash flows.

Liquidity risk

The risk of the company being unable to meet its payment commitments due to the inability to liquidate assets or obtain sufficient funding from the market (funding liquidity risk) or due to the difficulty/inability to easily liquidate positions in financial assets without significantly and unfavourably affecting the price because of insufficient depth or temporary malfunction of the financial market (market liquidity risk).

Market risk

Consists of the effect that changes in market variables (interest rates, securities prices, exchange rates, etc.) can cause to the economic value of the portfolio, when it includes assets held in the trading book, as well as those posted in the banking book, both on the operations characteristically involved in commercial banking and in the choice of strategic investments.

Operational risk

The risk of losses due to errors, violations, interruptions, or damage caused by internal processes, personnel, systems or by external events. This definition includes legal and compliance risks, but excludes strategic and reputational risk. For example, losses arising from the following can be defined as operational: internal or external fraud, employment practices and workplace safety, customer claims, product distribution, fines and penalties for regulatory breaches, damage to the Company's physical assets, business disruption and system failures, and management of processes.

Countercyclical capital buffer

The countercyclical capital buffer consisting of Common Equity Tier 1 pursuant to Supervisory Regulations, according to the concept contained in Articles 128 and 130 of the CRD IV, equal to the risk weighted assets, calculated in accordance with Article 92, paragraph 3, of the CRR by the Company's countercyclical capital buffer, determined according to the criteria established by the Supervisory Regulations at an amount ranging from 0% to 2.5%.

Capital conservation buffer

According to the definition contained in Article 128 of the CRD IV, this is a capital reserve whose establishment is required by the regulations – as also specified in the Supervisory Provisions – aimed at providing banks of a high quality capital buffer to be used in periods of market strain to prevent malfunctions of the banking system and avoid disruptions in the credit granting process, amounting, when fully loaded, to 2.5% of risk-weighted assets, calculated in accordance with Article 92, sub-section 3, of the CRR on an individual and consolidated basis.

ROAC – Return on Allocated Capital

An indicator calculated as ratio of net profit to the average allocated/absorbed capital. It shows the earning capacity in percentage terms for allocated/absorbed capital units.

RWA – Risk Weighted Assets

It is the value of on-balance sheet and off-balance sheet risk-weighted assets on the basis of different weighting factors according to the class in which the exposure is classified and its credit quality, in accordance with the banking regulations issued by the regulatory authorities for the calculation of the solvency ratios.

Non-performing loans

Exposures to borrowers in a state of insolvency (even when not recognized in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the bank (i.e. irrespective of whether there are any – secured or personal – guarantees covering the exposures).

Trading Book

Positions held for trading are those held intentionally for a subsequent sale in the near term and/or assumed with the intention of benefiting, in the short term, from the differences between buying and selling prices, or other price or interest rate interest variations.

The undersigned Lorena Pelliciari, as Nominated Official in charge of drawing up Company Accounts of FinecoBank S.p.A.

DECLARES

that, pursuant to article 154-bis of the “Consolidated Law on Financial Intermediation”, the information disclosed in this document corresponds to the accounting documents, books and records.

Milan, February 6, 2018

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