FINECO
BANK

DISCLOSURE BY INSTITUTIONS

ACCORDING TO REGULATION (EU) NO. 575/2013 AS AT DECEMBER 31, 2018

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

FINECO. SIMPLIFYING BANKING.

FinecoBank S.p.A. - Member of UniCredit

Contents

"FinecoBank Banca Fineco S.p.A."
in abbreviated form "FinecoBank S.p.A.", or "Banca Fineco S.p.A." or "Fineco Banca S.p.A."
Company controlled by UniCredit S.p.A., UniCredit Banking Group, Register of Banking Groups no. 2008.1, Member of the National Guarantee Fund and National Interbank Deposit Guarantee Fund, Italian Banking Association Code 03015, Tax Code and Milan Company Register no. 01392970404 – R.E.A. (Economic and Administrative Index) no. 1598155, VAT No. 12962340159

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 Asset Management DAC[1] (hereinafter, Fineco AM) on October 26, 2017, is a subsidiary of UniCredit S.p.A., an 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.

Any discrepancies between the figures presented in this document are due to the effect of rounding.

All amounts, unless otherwise specified, are expressed in thousands of euros.

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

[1] On May, 4th 2018 the company changed its name from "Fineco Asset Management Limited" to "Fineco Asset Management DAC".

Introduction

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

In accordance with the ECB "Guidance to banks on non-performing loans", published in March 2017, the table "Credit quality of forborne exposures" has been included in this disclosure.

For additional details on NPLs not included in the tables shown in the present disclosure, please refer to the Financial Statement.

References for ECB "Guidance to banks on non-performing loans"

TABLE NAME	CHAPTER
Credit quality of forborne exposures	Credit risk adjustments

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 (hereinafter "CRO") as the specific liaison, and this function been assigned the responsibilities related to credit risks, markets risks, operational risks and reputational risks.

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 and with the business model of the Bank.

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 on October 26, 2017, is a subsidiary of UniCredit S.p.A., an 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.

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 Own Funds (Total Capital).

With regard to the amount of transitional adjustments as at December 31, 2018, 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. For the year 2018 the only transitional adjustment in force is the one related to the actuarial losses calculated in accordance with article 473 of the CRR which are excluded at 20% (40% in 2017).

Regulation (EU) 2017/2395 published on 27 December 2017 amended Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State. In particular, the Regulation introduced the article 473a which provides, as an option, for the possibility of financial institutions adopting transitional rules in order to reintegrate within CET1 the adjustments resulting from the adopting of the impairment model according to the new accounting standard, using a phase-in period of 5 years starting in 2018.

In line with the choice made by the UniCredit Group, the Bank has not adopted the transition regime; therefore Own Funds, Risk Weighted Assets, Capital Ratios and Leverage Ratio already reflect the full impact of IFRS9 application.

Own funds, which amounted to €702,713 thousand as at December 31, 2018, consisted of Common Equity Tier 1 (CET1) and Additional Tier 1 capital, there were no Tier 2 items.

On January 31, 2018, FinecoBank issued an Additional Tier 1 Perp Non Call June 2023 notes issue (5.5 years, Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes). The issue of the financial instrument was authorized by the Board of Directors of FinecoBank on 23 January 2018. The financial instrument is a perpetual private placement[2], issued for a total of €200,000 thousand and entirely subscribed by UniCredit S.p.A.. The coupon for the first 5.5 years has been fixed at 4.82%. The decision to carry out an intra-group issuance had many advantages: effective cost savings relating, for example, to the underwriting syndicate, and shorter issue times so as not to miss the right moment, maximising the benefits of the transaction. In view of the particularly favorable market conditions and spread levels, the Bank decided to issue an Additional Tier 1 in order to improve the diversification of its investment portfolio.

[2] Unrated and unlisted

Own Funds

Transitional Own Funds disclosure template

	2018.12.31		2017.12.31	
	(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 Capital instruments and the related share premium accounts (A)	201,344		202,479	
of which: ordinary shares	*201,344*		*202,479*	
2 Retained earnings (B)	321,700		291,841	
3 Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) (C)	24,179		23,751	
5a Independently reviewed interim profits net of any foreseeable charge or dividend (D)	43,422		40,888	
6 **Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**590,645**		**558,959**	
Common Equity Tier 1 capital (CET1): regulatory adjustments				
7 Additional value adjustments (E)	(219)		(538)	
8 Intangible assets (net of related tax liabilities) (F)	(74,229)		(73,766)	
9 Transitional adjustment related to IAS 19 (G)	1,044		3,807	
16 Direct and indirect holdings by an institution of own CET1 instruments (H)	(14,003)		(2,414)	
20a Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative (I)	(525)		(718)	
20c of which: securitization positions	(525)		-	
26a Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468 (J)	-		(295)	
of which: filtered for unrealised gains (losses) on debt securities issued by European Union central governments	-		*(370)*	
of which: filtered for unrealised gains on debt and equity securities other than those issued by European Union central governments	-		*75*	
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)	
of which: filtered for unrealised gains on debt and equity securities other than those issued by European Union central governments	-		*(75)*	
28 Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(87,932)**		**(73,999)**	
29 Common Equity Tier 1 capital (CET1)	**502,713**		**484,960**	
36 Additional Tier 1 (AT1) capital before regulatory adjustments (J)	200,000		-	
43 Total regulatory adjustments to Additional Tier 1 (AT1) capital	**-**		**-**	
44 Additional Tier 1 (AT1) capital	**200,000**		**-**	
45 Tier 1 Capital (T1= CET1 + AT1)	**702,713**		**484,960**	
51 Tier 2 (T2) capital before regulatory adjustments	**-**		**-**	
57 Total regulatory adjustments to Tier 2 (T2) capital	**-**		**-**	

	2018.12.31		2017.12.31	
	(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)	**702,713**		**484,960**	
60 Total risk weighted assets	**2,376,033**		**2,335,013**	
Capital ratios and buffers				
61 Common equity tier 1 capital (as a percentage of total risk exposure amount)	**21.16%**		**20.77%**	
62 Tier 1 capital (as a percentage of total risk exposure amount)	**29.58%**		**20.77%**	
63 Total capital (as a percentage of total risk exposure amount)	**29.58%**		**20.77%**	
64 Institution specific capital buffer requirement (CET1 requirement in accordance with article 92 (1) (a)), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer (G-SII or O-SII buffer), (expressed as a percentage of risk exposure amount)	6.381%		5.750%	
65 of which: capital conservation buffer requirement	1.875%		1.250%	
66 of which: countercyclical buffer requirement	0.006%		0.0001%	
68 Common equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	14.78%		15.02%	
Amounts below the thresholds for deduction (before risk weighting)				
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 the 10% threshold and net of eligible short positions)	16,512		11,670	
73 Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below the 10% threshold and net of eligible short positions)	3,000		-	
75 Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liabilities (where the conditions in article 38 (3) are met)	26,291		27,377	
Applicable cap on the inclusion of provisions in Tier 2	-		-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)	-		-	

Note to the table "Transitional Own Funds disclosure template" (CRR Article 492, par. 3 and 4)

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 608,404,395 ordinary shares with a par value of € 0.33, totaling €200,773 thousand, the share premium reserve of €1,934 thousand, net of own CET1 instruments held by customers who simultaneously used a line of credit, even if not granted for this purpose, for an amount of €1,363 thousand, which in application of Art. 28 of CRR 575/2013 cannot be qualified as own funds.

B. The item comprises the legal reserve, the extraordinary reserve, the negative reserve recognized following the introduction of IFRS 9 and other net profit reserves. The change versus December, 31st 2017 is mainly due to:
   - the reserve allocation of profit from year 2017, for an amount of €40,888 thousand;
   - the transaction costs directly attributable to the issue of the AT1 in 2018 as well as the coupons paid, for an amount, net of related taxes, of €5,958 thousand;
   - the recognition of the negative reserve following the introduction of IFRS 9, for an amount of €-4,868 thousand.

C. Accumulated other comprehensive income (OCI) consists of: the net negative reserve for debt securities issued by central governments recognized in the "Financial assets designated at fair value through other comprehensive income", for an amount of €3,410 thousand, the negative reserve of Defined Benefit Obligations for an amount of €6,384 thousand. The item also includes the reserves related to Equity settled plans for an amount of €33,972 thousand.

D. The amount included in Own Funds as of December, 31st 2018, equal to €43,422 thousand, is calculated on 2018 net profit equal to €227,922 thousand, net of foreseeable dividends equal to €184,500 thousand. The net profit is included in CET1 capital following the authorization by the competent Authority according to CRR Article 26(2).

E. The item includes the filter on additional valuation adjustments (AVA), amounting to €219 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 €65,524 thousand and other intangible assets amounting to €8,705 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 -€6,384 thousand, included in item "3. Accumulated other comprehensive income" – is subject to a transitional adjustment of €1,044 thousand reported in the present item, equal to 20% of the amount calculated in accordance with CRR article 473.

H. The item includes treasury shares directly held for an amount equal to €13,960 thousand and treasury shares held synthetically of €43 thousand. The change versus December, 31st 2017 is mainly due to the purchase of own shares in relation to the "2017 PFA Incentive System" for personal financial advisors identified as "Key personnel" and to the "2015-2017 PFA PLAN" for selected personal financial advisors, net of the first tranche of shares assigned to personal financial advisors in relation to the "2015-2017 PFA PLAN".

I. The item includes the balance sheet amount of exposures in equity instruments relating to the Voluntary Scheme contribution made in 2017 as part of the intervention for the recovery of Caricesena, Carimi e Carismi (for additional details please see the 2018 Financial Statements – Part A – Accounting policies of notes to the accounts). The equity instruments represent an indirect exposure in junior and mezzanine debt under the securitization subscribed by the Voluntary Scheme, and therefore are deduced from Own Funds.

J. Additional Tier 1 capital is made by the bond Additional Tier 1 Perp Non Call June 2023 (5.5 years) (Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes) issued on January, 31st 2018. The financial instrument is a perpetual, private placement, issued for a total of €200 million, entirely subscribed by UniCredit S.p.A..

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

	ACCOUNTING FIGURES*	AMOUNTS RELEVANT FOR OWN FUNDS PURPOSES**	REF. OWN FUNDS TABLE
ASSET ITEMS			
90. Intangible assets, of which:	**98,307**	**(98,307)**	
Goodwill	*89,602*	*(89,602)*	*8*
Other intangible assets	*8,705*	*(8,705)*	*8*
100. Tax assets, of which:	**6,714**	**24,078**	
current tax assets	*467*	-	-
deferred tax assets that do not rely on future profitability	*4,033*	-	*21*
deferred tax assets that rely on future profitability	*28,977*	-	*21*
deferred tax liabilities	*(26,763)*	*24,078*	*8*
LIABILITY ITEMS			
110. Revaluation reserves, of which:	**(9,794)**	**(9,794)**	
Revaluation reserves for financial assets valued at fair value with impact on other comprehensive income	*(3,410)*	*(3,410)*	*3*
Revaluation reserves for net actuarial gains (losses)	*(6,384)*	*(6,384)*	*3*
130. Capital instruments	**200,000**	**200,000**	44
140. Reserves	**355,673**	**355,673**	2 e 3
150. Share premium reserve	**1,934**	**1,934**	1
160. Share capital	**200,773**	**200,773**	1
170. Treasury shares	**(13,960)**	**(13,960)**	16
180. Net Profit (Loss) for the year	**227,922**	**43,422**	5a
OTHER ELEMENTS OF OWN FUNDS			
Total other elements, of which:		**(1,106)**	
Own CET1 instruments held by customers who simultaneously used a line of credit		(1,363)	1
Transitional adjustments related to IAS19		1,044	9
Prudential filters (-) fair value adjustments		(219)	7
Prudential filters (-) deduction of the exposure in equity instruments to the Voluntary Scheme		(525)	20
Deductions of holdings of own Common Equity Tier 1 capital instruments synthetically held		(43)	16
TOTAL OWN FUNDS		**702,713**	

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

Own Funds

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

	2018.01.01/ 2018.12.31	2017.01.01/ 2017.12.31
Common Equity Tier 1 Capital - CET1		
Start of period	**484,960**	**438,121**
Instruments and Reserves		
Share capital and issue-premium reserves	(1,135)	299
of which: own CET1 instruments held by customers who simultaneously used a line of credit	*(1,363)*	-
Retained earnings	(11,029)	(90)
Accumulated other comprehensive income (OCI) and other reserves	427	2,385
Net profit of the period	43,422	40,888
Regulatory adjustments		
Additional regulatory adjustments	319	40
Intangible assets net of related liabilities	(462)	289
Transitional adjustments related to IAS19	(2,763)	(46)
Direct, indirect and synthetic holdings by an institution of own CET1 instruments	(11,589)	3,738
Exposure amount of the follow ing items w hich qualify for a RW of 1250%, where the institution opts for the deduction alternative: securitisation positions	193	(718)
Regulatory adjustments relating to unrealised gains and losses pursuant to Article 467 and 468	295	(477)
Regulatory adjustments applied to Common Equity Tier 1 in respect of amount subject to pre-CRR treatment	75	531
End of period	**502,713**	**484,960**
Additional Tier 1 – AT1		
Start of period	**-**	**-**
Additional Tier 1 issued in the period	200,000	-
End of period	**200,000**	**-**
TIER 2 – T2		
Start of period	**-**	**-**
End of period	-	
		-
TOTAL OWN FUNDS	**702,713**	**484,960**

Own Funds totaled €702,713 thousand, showing an increase of €217,753 thousand on December 31, 2017 mainly attributable to the combination of the following factors:

- the decrease in the item "Share capital and issue-premium reserves" by €1,135 thousand, mainly due to own CET1 instruments held by customers who simultaneously used a line of credit, even not grant for this scope, for €1,363 thousand, that according to the EU Regulation 575/2013 cannot be qualified as own funds, offset by capital increases during 2018 related to incentive systems;
- the decrease in the item "Retained earnings" by € 11,029 thousand, mainly due to the reduction in profit reserves as a consequence of the recognition of transaction costs directly attributable to the issue of the Additional Tier 1 instrument and the related coupons paid for an amount, net of related taxes, of €5,958 thousand, and the recognition of negative reserve following the introduction of IFRS 9, for an amount of €-4,868 thousand;
- the 2018 profits for an amount of €43,422 thousand, net of foreseeable dividends of €184,500 thousand. The net profit is included in CET1 capital following the authorization by the competent Authority according to CRR Article 26(2);
- the decrease in "Transitional adjustments related to IAS19" by € 2,763 thousand, due to the reduction of defined benefit obligations reserve on which the transitional adjustments are calculated and the progressive reduction of transitional adjustments applicable on own funds in 2018 (the positive prudential filter decreased to 20% in 2018 from 40% in the previous year);
- the negative change in "Direct, indirect and synthetic holdings by an institution of own CET1 instruments" by €11,589 thousand, mainly due to the purchase of 27,644 shares purchased in relation to the "2017 PFA Incentive System" for personal financial advisors identified as "Key personnel", for an amount of €258 thousand, and n. 1,971,871 shares purchased in relation to the "2015-2017 PFA PLAN" for selected personal financial advisors, for an amount of €19,885 thousand, net of the first tranche assigned to personal financial advisors in relation to the "2015-2017 PFA PLAN" in the period equal to 658,624 FinecoBank ordinary shares, held in the portfolio for an amount of €6,548 thousand. It is worth mentioning that the item as of December, 31st 2017 included UCITS units held in the Bank' portfolio amounting to €2,019 thousand, which during the period have been sold;
- the issuance of the Additional Tier 1 Perp Non Call June 2023 for an amount of €200 million.

Capital requirements

The Bank deems as a priority the activities 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 these minimum requirements, banks are required to meet the combined buffer requirement, according to the article 128(6) of EU Directive 2013/36/EU. Failure to comply with such combined buffer requirement triggers restrictions on distributions, requiring to apply the calculation of the Maximum Distributable Amount (MDA), and the need to adopt a capital conservation plan.

The combined buffer requirement applicable to FinecoBank includes the following buffers:

- Capital Conservation Buffer (CCB) according to the article 129 of CRDIV and considering the transitional rules defined with the update of Bank of Italy circular n. 285 published on October 2016: 1.875% for 2018 (2.5% for 2019);
- Institution specific Countercyclical Capital Buffer (CCyB) to be applied in periods of excessive credit growth, coherently with the article 160 of CRDIV (paragraphs 1 to 4) which for the Bank is equal to 0.006% as of 31 December 2018. This buffer is calculated depending on the geographical distribution of the relevant Bank's credit exposures and on the national authorities' decisions which define country-specific buffers.

It is worth mentioning that, within the decision of the Governing Council of the European Central Bank (ECB) on Pillar 2 prudential requirement that UniCredit and its subsidiaries have to meet, no Pillar 2 buffer has been required to FinecoBank. The decision is based on the SREP (Supervisory Review and Evaluation Process) performed by the European Central Bank, in application of article 16(2) of SSM (Single Supervisory Mechanism) Regulation.

Consequently, the "Total SREP Capital Requirement" (TSCR) applicable for FinecoBank corresponds to the minimum requirement of Pillar 1. Please, find below a scheme of FinecoBank transitional capital requirements and buffers applicable for 2018.

2018 Transitional capital requirements and buffers for FinecoBank

REQUIREMENTS	CET1	T1	TOTAL CAPITAL
A) Pillar 1 requirements	4.50%	6.00%	8.00%
B) Pillar 2 requirements	0.00%	0.00%	0.00%
C) TSCR (A+B)	**4.50%**	**6.00%**	**8.00%**
D) Combined Buffer requirement, of which:	1.881%	1.881%	1.881%
1. Capital Conservation Buffer (CCB)	1.875%	1.875%	1.875%
2. Institution-specific Countercyclical Capital Buffer (CCyB)	0.006%	0.006%	0.006%
E) Overall Capital Requirement (C+D)	**6.381%**	**7.881%**	**9.881%**

As at 31 December 2018, FinecoBank ratios are compliant with all the above requirements.

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). For the purposes of RWA calculation, the Bank uses external ratings exclusively with reference to exposures to sovereign, for which it uses the ratings provided by Fitch Ratings, Moody's and Standard & Poor's.

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.

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 the goal of generating income in excess of that necessary to remunerate risk (cost of equity). This goal is pursued by allocating capital according to specific risk profiles and ability to generate sustainable earnings, measured as EVA (Economic Value Added), which is the main performance indicator related to TSR (Total Shareholder Return).

Capital requirements

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 dynamically manages its capital base by monitoring regulatory capital ratios, anticipating the appropriate changes necessary to achieve its defined targets, and optimising the composition of its assets and equity.

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.

EU OV1 – Overview of RWAs

			RWAs		MINIMUM CAPITAL REQUIREMENTS
			2018.12.31	2017.12.31	2018.12.31
	1	**Credit risk (excluding CCR)**	**1,468,531**	**1,328,387**	**117,483**
Article 438(c)(d)	2	Of which the standardised approach	1,468,531	1,328,387	117,483
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	-	-	-
Article 107, Article 438(c)(d)	6	**CCR**	**211,422**	**189,278**	**16,914**
Article 438(c)(d)	7	Of which mark to market	1,432	1542	115
Article 438(c)(d)	8	Of which original exposure	-	-	-
	9	Of which the standardised approach	-	-	-
	10	Of which internal model method (IMM)	-	-	-
Article 438(c)(d)	11	Of which risk exposure amount for contributions to the default fund of a CCP	867	379	69
Article 438(c)(d)	12	Of which CVA	844	593	68
Article 438(e)	13	**Settlement risk**	**138**	**24**	**11**
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**	**19,063**	**51,857**	**1,525**
	20	Of which the standardised approach	19,063	51,857	1,525
	21	Of which IMA	-	-	-
Article 438(e)	22	**Large exposures**	**-**	**-**	-
Article 438(f)	23	**Operational risk**	**603,651**	**697,025**	**48,292**
	24	Of which basic indicator approach	-	-	-
	25	Of which the standardised approach	-	-	-
	26	Of which advanced measurement approach	603,651	697,025	48,292
Article 437(2), Article 48 and Article 60	27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**73,228**	**68,442**	**5,858**
Article 500	28	Floor adjustment			
	29	**Total**	**2,376,033**	**2,335,013**	**190,083**

The sum of the RWA amounts at lines 1, 6 and 27 (net of line 12 “Of which: CVA”), equal to €1,752,337 thousand, is consistent with the amount of item A.1 “Weighted amounts” in the “Capital Adequacy” template.

Total RWAs at line 29, amounting to €2,376,033 thousand, is consistent with item C.1 “Risk-weighted assets” in the “Capital Adequacy” template.

Capital requirements

Credit and Counterparty risk

PORTFOLIO	2018.12.31 EXPOSURE TO CREDIT AND COUNTERPARTY RISK	2018.12.31 RISK-WEIGHTED ASSETS	2018.12.31 CAPITAL REQUIREMENT	2017.12.31 EXPOSURE TO CREDIT AND COUNTERPARTY RISK	2017.12.31 RISK-WEIGHTED ASSETS	2017.12.31 CAPITAL REQUIREMENT
Total IRB approach	-	-	-	-	-	-
Central governments or central banks	8,848,779	72,949	5,836	4,040,518	80,911	6,473
Public-sectors entities	165,058	-	-	-	-	-
Multilateral development banks	101,271	-	-	-	-	-
International organisations	286,961	-	-	-	-	-
Institutions	12,525,106	29,851	2,388	14,656,637	28,597	2,288
Corporates	176,112	176,112	14,089	194,078	194,064	15,525
Retail	1,391,004	1,043,253	83,460	1,347,655	1,010,741	80,859
Secured by mortgages on immovable property	856,848	300,295	24,024	515,982	180,847	14,468
Exposures in default	2,788	2,812	225	2,779	2,798	224
Items associated with particularly high risk	6,652	9,978	798	-	-	-
Equity instruments	9,100	13,599	1,088	5,006	5,006	400
Other exposures	102,627	102,621	8,210	90,818	90,812	7,265
Total standardised approach	**24,472,306**	**1,751,470**	**140,118**	**22,964,224**	**1,585,135**	**126,811**
Exposures to central counterparties in the form of pre-financed contributions to the default fund		**867**	**69**		**379**	**30**
Risk assets - Credit and counterparty risk	**24,472,306**	**1,752,337**	**140,187**	**22,964,224**	**1,585,514**	**126,841**

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

PORTFOLIO	2018.12.31				2017.12.31			
	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	CAPITAL REQUIREMENT
Total IRB approach	-	-	-	-	-	-	-	-
Central governments or central banks	72,949	5,836	-	-	72,270	5,782	-	-
Institutions	8,591	687	21,260	1,701	9,625	770	18,972	1,518
Corporates	149,615	11,969	26,497	2,120	166,069	13,285	27,995	2,240
Retail	881,299	70,504	161,954	12,956	869,405	69,552	141,336	11,307
Secured by mortgages on immovable property	300,295	24,024	-	-	180,847	14,468	-	-
Exposures in default	2,812	225	-	-	2,796	224	2	-
Items associated with particularly high risk	9,978	798	-	-	-	-	-	-
Equity instruments	13,599	1,088	-	-	5,006	400	-	-
Other exposures	102,621	8,210	-	-	90,812	7,265	-	-
Total standardised approach	**1,541,759**	**123,341**	**209,711**	**16,777**	**1,396,830**	**111,746**	**188,305**	**15,065**
Exposures to central counterparties in the form of pre-financed contributions to the default fund	**867**	**69**			**379**	**30**		
Risk assets - Credit and counterparty risk	**1,542,626**	**123,410**	**209,711**	**16,777**	**1,397,209**	**111,776**	**188,305**	**15,065**

Capital requirements

Capital adequacy

CATEGORY/AMOUNT	NON-WEIGHTED AMOUNTS		WEIGHTED/REQUIRED AMOUNTS	
	2018.12.31	2017.12.31	2018.12.31	2017.12.31
A. RISK ASSETS				
A.1 Credit and counterparty risk	**24,472,374**	**22,964,224**	**1,752,337**	**1,585,514**
1. Standardised approach	24,472,374	22,964,224	1,752,337	1,585,514
2. Internal rating method	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**140,187**	**126,841**
B.2 Risk of adjustment of valuation of credit			**68**	**47**
B.3 Settlement risk			**11**	**2**
B.4 Market risk			**1,525**	**4,149**
1. Standardised approach			1,525	4,149
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			**48,292**	**55,762**
1. Basic Indicator Approach			-	-
2. Standardised approach			-	-
3. Advanced measurement approach			48,292	55,762
B.6 Other calculation elements			**-**	**-**
B.7 Total prudential requirements			**190,083**	**186,801**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,376,033	2,335,013
C.2 Common Equity Tier 1 Capital/Risk-weighted assets (CET1 capital ratio)			21.16%	20.77%
C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			29.58%	20.77%
C.4 Own funds/Risk-weighted assets (Total capital ratio)			29.58%	20.77%

Capital requirements

Total capital requirements

TYPE OF RISK	APPROACH USED	CAPITAL REQUIREMENTS 2018.12.31	CAPITAL REQUIREMENTS 2017.12.31
1. On-balance-sheet risk assets	Standardised approach	123,287	111,647
2. Guarantees issued and commitments to disburse funds	Standardised approach	54	100
3. Derivative contracts	Current value approach	115	123
4. Securities financing transactions	CRM - Comprehensive method with regulatory adjustments for volatility	16,662	14,941
Capital requirements credit and counterparty risk		**140,118**	**126,811**
Capital requirements for exposures to central counterparties in the form of pre-funded contributions to the default fund		**69**	**30**
Market risk			
1. Foreign-exchange risk	Standardised approach	-	1,090
2. Debt securities position risk	Standardised approach	763	1,691
3. Equity securities position risk	Standardised approach	663	722
4. Position risk on commodities	Standardised approach	97	-
5. CIU position risk	Standardised approach	2	646
Capital requirements for market risk		**1,525**	**4,149**
1. Concentration risk	Standardised approach	-	-
Capital requirements for concentration risk		**-**	**-**
1. Risk of credit valuation adjustment	Standardised approach	68	47
Capital requirements for risk of credit valuation adjustment		**68**	**47**
1. Settlement risk	Standardised approach	11	2
Capital requirements for settlement risk		**11**	**2**
1. Operational risk	Advanced measurement approach	48,292	55,762
Capital requirements for operational risk		**48,292**	**55,762**
Total capital requirements		**190,083**	**186,801**

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 1.875% in 2018, and 2.5% in 2019).

The Bank's specific countercyclical capital buffer as at December 31, 2018 was 0.00585%, corresponding to around €139 thousand.

Amount of institution-specific countercyclical capital buffer

	FIGURES AS AT DECEMBER 31, 2018
Total risk exposure amount	2,376,033
Institution specific countercyclical buffer rate	0.00585%
Institution specific countercyclical buffer requirement	139

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	SUM OF LONG AND SHORT POSITIONS OF TRADING BOOK EXPOSURES FOR SA	VALUE OF TRADING BOOK EXPOSURES FOR INTERNAL MODELS	EXPOSURE VALUE FOR SA	EXPOSURE VALUE FOR IRB	OF WHICH: GENERAL CREDIT EXPOSURES	OF WHICH: TRADING BOOK EXPOSURES	OF WHICH: SECURITISATION EXPOSURES	TOTAL	OWN FUNDS REQUIREMENTS WEIGHTS	COUNTERCYCLICAL CAPITAL BUFFER RATE
Breakdown by country												
Abu Dhabi	156	-	17	-	-	-	5	-	-	5	0.004%	0.004%
Saudi Arabia	14	-	-	-	-	-	1	-	-	1	0.001%	0.001%
Argentine	235	-	-	-	-	-	10	-	-	10	0.007%	0.007%
Australia	5	-	12	-	-	-	-	-	-	-	0.000%	0.000%
Austria	283	-	-	-	-	-	20	-	-	20	0.015%	0.015%
Belgium	31	-	90	-	-	-	2	-	-	2	0.002%	0.002%
Bermuda	396	-	12	-	-	-	32	-	-	32	0.024%	0.024%
Brazil	16	-	444	-	-	-	1	1	-	2	0.002%	0.002%
Bulgaria	4	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Canada	95	-	1	-	-	-	6	-	-	6	0.004%	0.004%
Cile	4	-	-	-	-	-	-	-	-	-	0.000%	0.000%
China	10	-	-	-	-	-	1	-	-	1	0.000%	0.000%
Cisgiordania Striscia di Gaza	-	-	70	-	-	-	-	-	-	-	0.000%	0.000%
Città del Vaticano	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Colombia	3	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Costa Rica	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Croatia	29	-	-	-	-	-	2	-	-	2	0.001%	0.001%
Curacao	-	-	12	-	-	-	-	-	-	-	0.000%	0.000%
Denmark	2	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Ecuador	3	-	6	-	-	-	-	-	-	-	0.000%	0.000%
Ethiopia	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Finland	-	-	94	-	-	-	-	5	-	5	0.004%	0.004%
France	3,724	-	3,941	-	-	-	297	10	-	307	0.232%	0.232%
Georgia	3	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Germany	630	-	24,252	-	-	-	49	39	-	88	0.067%	0.067%
Ghana	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Japan	9	-	-	-	-	-	1	-	-	1	0.000%	0.000%
Greece	6	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Hong Kong	17	-	-	-	-	-	1	-	-	1	0.001%	0.001%
India	7	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Ireland	9,570	-	4,419	-	-	-	1,128	3	-	1,131	0.852%	0.852%
Cayman Islands	-	-	1,494	-	-	-	-	24	-	24	0.018%	0.018%
British Virgin Islands	-	-	1	-	-	-	-	-	-	-	0.000%	0.000%
Istrael	19	-	326	-	-	-	1	-	-	1	0.001%	0.001%
Italy	2,487,649	-	362,891	-	-	-	127,046	241	-	127,286	96.106%	96.106%
Jersey	-	-	2,294	-	-	-	-	-	-	-	0.000%	0.000%
Kazakhstan	11	-	-	-	-	-	1	-	-	1	0.001%	0.001%
Kenya	22	-	-	-	-	-	1	-	-	1	0.001%	0.001%
Kuwait	2	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Latvia	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Lebanon	3	-	4	-	-	-	-	-	-	-	0.000%	0.000%
Liberia	-	-	5	-	-	-	-	-	-	-	0.000%	0.000%
Lithuania	6	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Luxembourg	23,380	-	3,418	-	-	-	1,864	3	-	1,866	1.409%	1.409%
Malawi	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Malaysia	257	-	-	-	-	-	7	-	-	7	0.005%	0.005%
Malta	8	-	113	-	-	-	1	-	-	1	0.000%	0.000%
Marocco	3	-	111	-	-	-	-	-	-	-	0.000%	0.000%
Mexico	10	-	160	-	-	-	1	-	-	1	0.000%	0.000%
Moldova	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Namibia	15	-	-	-	-	-	1	-	-	1	0.001%	0.001%
Norway	3	-	-	-	-	-	-	-	-	-	0.000%	0.000%
New Zeland	3	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Holland	450	-	30,732	-	-	-	36	13	-	49	0.037%	0.037%
Panama	5	-	6	-	-	-	-	-	-	-	0.000%	0.000%
Paraguay	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Poland	5	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Portugal	43	-	202	-	-	-	3	16	-	19	0.014%	0.014%
Principality of Monaco	230	-	239	-	-	-	14	-	-	14	0.010%	0.010%
Qatar	20	-	33	-	-	-	1	-	-	1	0.001%	0.001%
United Kingdom	8,548	-	2,505	-	-	-	681	1	-	681	0.515%	0.515%
Czech Republic	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Romania	111	-	-	-	-	-	7	-	-	7	0.005%	0.005%
Russia	542	-	13	-	-	-	21	-	-	21	0.016%	0.016%
San Marino	17	-	-	-	-	-	1	-	-	1	0.001%	0.001%
Serbia	-	-	100	-	-	-	-	-	-	-	0.000%	0.000%
Singapore	9	-	-	-	-	-	1	-	-	1	0.000%	0.000%
Slovakia	-	-	14	-	-	-	-	-	-	-	0.000%	0.000%
Spain	89	-	1,020	-	-	-	5	1	-	6	0.005%	0.005%
United States of America	7,120	-	190,696	-	-	-	569	169	-	737	0.557%	0.557%
South Africa	49	-	2	-	-	-	3	-	-	3	0.002%	0.002%
Sweden	605	-	5	-	-	-	45	-	-	45	0.034%	0.034%
Switzerland	579	-	1,290	-	-	-	28	22	-	50	0.038%	0.038%
Thailand	32	-	-	-	-	-	2	-	-	2	0.001%	0.001%
Tunisia	6	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Turkey	6	-	11	-	-	-	-	-	-	-	0.000%	0.000%
Ukraine	4	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Uganda	2	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Uruguay	6	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Venezuela	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Vietnam	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
TOTAL	**2,545,135**	**-**	**631,060**	**-**	**-**	**-**	**131,896**	**548**	**-**	**132,440**		

Credit risk adjustments

Section A – General qualitative information on credit risk

Definitions of impaired exposures

According to Bank of Italy regulations, set out in Circular no. 272 of July 30, 2008 as amended, impaired exposures 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:

- bad loans: on- and off-balance sheet exposures to insolvent borrowers, even if the insolvency has not been recognised in a court of law, or borrowers in a similar situation. The valuation is generally carried out on an analytical basis (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 bad 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 bad 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 with respect to the individual debtor. 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 (standardized banks). Past-due and/or overdrawn impaired exposures are valued 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 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 or as performing loans. Exposures classified as unlikely to pay and identified as forborne, may only be reclassified to unimpaired loans after at least one year has passed from the time of the forbearance and the conditions established in paragraph 157 of the EBA Implementing and Technical Standards have been met.

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".

Description of the methods used to determine impairment losses

Loans and debt instruments classified in the items financial assets at amortised cost, financial assets at fair value through other comprehensive income and the relevant off-balance sheet exposures, are subjected to an impairment calculation in accordance with IFRS 9.

These instruments are classified in stage 1, stage 2 or stage 3 depending on their absolute or relative credit rating, compared to the initial disbursement. In particular:

- Stage 1: this includes newly originated or acquired credit exposures and exposures that have not suffered a significant deterioration in credit risk compared to the date of first recognition;
- Stage 2: this includes credit exposures that are performing but which have suffered a significant deterioration in credit risk compared to the date of first recognition;
- Stage 3: this includes impaired credit exposures.

For Stage 1 exposures, the impairment is equal to the expected loss calculated on a time frame of up to one year. For Stage 2 and 3 exposures, the impairment is equal to the expected loss calculated on a timeframe equivalent to the residual duration of the related exposure.
In order to meet the standard, the Group has developed specific models to calculate the expected loss. These models draw on the PD, LGD and EAD criteria used for regulatory purposes, to which specific directions are made to ensure full cohesion with the accounting standard. In this regard, forward-looking information has also been included with the elaboration of specific scenarios.

Expected loss is calculated for the institutional counterparties common to the Group, using the methods and credit parameters developed at centralized level.
As the retail counterparties do not have internal rating systems at their disposal, they use proxies. Segmentation by product type is carried out and the PD is replaced by the average decay rate observed by the transition matrixes defining the change to classified. This approach is based on the assumption that when there are no changes in the criteria adopted to assess the creditworthiness of the individual counterparties, the quality of the future credit will be consistent with the quality of the credit found in the time series available. To implement the requirements of the IFRS9 rule, the proxies of the parameters are corrected using forward looking information, entirely in line with the Group's approach as described below.
A key aspect of the new accounting model required to calculate the expected loss is the Stage Allocation model, the aim of which is to transfer exposures between Stage 1 and Stage 2 (as Stage 3 is equivalent to that of impaired exposures).
The Stage Allocation valuation model is based on a combination of relative and absolute elements. The main elements were:

- the comparison at transaction level between the PD value at the time of disbursement and the value on the reporting date, both qualified according to internal models at fixed thresholds to take into account all the key variables of each transaction that may influence the Bank's expectations about ongoing changes in PD (e.g. age, maturity, level of PD at the time of disbursement) ;
- absolute elements such as the backstops provided for by the regulation (e.g. 30 day Expired);
- other internal findings (forborne classification).

With reference to debt instruments, the Bank has opted to apply the low credit risk exemption on investment grade securities, in full accordance with the provisions of the accounting standard.
The criteria for determining the write-downs of receivables are based on the discounting of expected cash flows of principal and interest. In line with the business model, these can also refer to market operations; for determining the present value of cash flows, the basic requirement is the identification of estimated collections, the timing of payments and the discounting rate used. In particular, the amount of the loss on impaired exposures classified as bad loans and unlikely to pay according to the categories specified below, 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.
For all fixed-rate positions, the interest rate determined in this manner is also held constant in future years, while for floating rate positions the interest rate is updated according to contractual terms. If the original interest rate is not directly available, or if finding it would be excessively onerous, the interest rate that best approximates the original one is applied, including through practical expedients that do not affect the substance and ensure consistency with international accounting standards.
Recovery times are estimated on the basis of business plans or forecasts based on historical recovery experience observed for similar classes of loans, taking into account the customer segment, type of loan, type of security and any other factors considered relevant.

Parameters and definitions of risk level used in the calculation of value adjustments

As mentioned above the Group has developed specific models to calculate the expected loss, which draw on the PD, LGD and EAD criteria, as well as the effective interest rate.
These models are used for calculating value adjustments of all the institutional counterparties common to the Group, for the most part made up of FIBS (Financial Institutions, Banks and Sovereigns) counterparties.
Specifically:

- PD (Probability of Default) expresses the percentage of estimated loss, and hence the expected recovery rate whenever a credit position default event occurs (for example 1 year);
- LGD (Loss Given Default) expresses the percentage of estimated loss, and hence the expected recovery rate whenever a credit position default event occurs;
- EAD (Exposure at Default) expresses the measurement of the exposure at the time of the credit position default event;
- Effective Interest Rate is the discount rate expressing the time value of the money.

These parameters are calculated on the basis of identical parameters used for regulatory purposes, with specific adjustments made to ensure full cohesion, net of the various regulatory requirements, between the accounting treatment and the regulatory treatment. The main adjustments are made in order to:

- remove the conservatism which is only required for regulatory purposes;
- introduce point-in-time adjustments to replace the through-the-cycle adjustments required for regulatory purposes;
- include forward-looking information;
- extend the credit risk parameters to a multi-year perspective.

Credit risk adjustments

With regard to the lifetime PD, the through-the-cycle PD curves obtained by adapting the cumulative non-compliance rates are adjusted to reflect point-in-time provisions and forward-looking provisions with regard to the portfolio noncompliance rates.
The rate of recovery incorporated in the through-the-cycle LGD was adapted in order to remove the conservatism margin and to reflect the latest trends in recovery rates, and expectations about future trends discounted to the actual interest rate or its best approximation.

Forward-looking information used in calculating value adjustments

The credit loss expected from the parameters described in the forgoing paragraph considers macroeconomic forecasts by applying multiple scenarios to the forward looking components.
The process defined to include macroeconomic scenarios is also fully consistent with the macroeconomic forecasting processes used by the Group for further risk management purposes (such as the processes used to translate macroeconomic forecasts into expected credit losses based on the EBA Stress Test and the ICAAP Framework) and was also drawn from the independent work of UniCredit Research.
Specifically, the Group has selected three **macroeconomic** scenarios for the determination of the forward looking component, a baseline scenario, a positive scenario and an adverse scenario. The base scenario is the central scenario of reference and is therefore considered the most probable realization. Positive and adverse scenarios represent alternatives, respectively better and worse.

Classification of exposures in risk

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	8,848,779	7,769,638
18 Public-sectors entities	165,058	116,215
19 Multilateral development banks	101,271	50,608
20 International organisations	286,961	111,104
21 Institutions	12,421,366	13,785,752
22 Corporates	239,637	230,114
23 Of which: SMEs	51	833
24 Retail	2,647,348	2,391,237
25 Of which: SMEs	3,835	959
26 Secured by mortgages on immovable property	856,848	747,775
27 Of which: SMEs	-	44
28 Exposures in default	2,950	2,922
29 Items associated with particularly high risk	6,652	1,663
32 Collective investment undertakings	-	120
33 Equity exposures	9,100	9,009
34 Other exposures	102,627	97,633
35 Total standardised approach	**25,688,597**	**25,313,790**
36 Total	**25,688,597**	**25,313,790**

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	INTERNATIONAL EUROPEAN BODIES	FRANCE	IRELAND	AUSTRIA	GERMANY	BELGIUM	OTHER EUROPEAN COUNTRIES	AMERICA	ASIA	OTHER GEOGRAPHICAL AREAS	TOTAL
Total IRB approach	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Central governments or central banks	8,781,193	4,267,101	3,411,725	-	291,214	213,516	208,562	127,433	181,983	79,660	67,586	-	-	8,848,779
Public sector entities	165,058	-	114,519	-	-	-	-	50,539	-	-	-	-	-	165,058
Multilateral development banks	101,271	-	-	101,271	-	-	-	-	-	-	-	-	-	101,271
International organisations	286,961	-	-	286,961	-	-	-	-	-	-	-	-	-	286,961
Institutions	12,421,366	12,410,858	-	-	3,678	-	-	255	-	6,574	-	-	-	12,421,366
Corporates	238,253	193,385	-	-	3,651	6,544	167	548	-	33,958	1,384	-	-	239,637
Retail	2,646,363	2,643,983	43	-	62	33	26	108	37	2,071	415	429	141	2,647,348
Secured by mortgages on immovable property	856,328	855,590	-	-	-	-	-	-	-	739	134	387	-	856,849
Exposures in default	2,949	2,934	-	-	1	-	-	-	-	13	1	-	-	2,950
Items associated with particularly high risk	6,652	6,652	-	-	-	-	-	-	-	-	-	-	-	6,652
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Claims on institutions and corporates with a short term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	3,008	7	-	-	-	3,000	-	-	-	2	6,086	5	-	9,099
Other exposures	102,627	102,627	-	-	-	-	-	-	-	-	-	-	-	102,627
Total standardised approach	**25,612,029**	**20,483,137**	**3,526,287**	**388,232**	**298,606**	**223,093**	**208,755**	**178,883**	**182,020**	**123,017**	**75,606**	**821**	**141**	**25,688,597**
Total	**25,612,029**	**20,483,137**	**3,526,287**	**388,232**	**298,606**	**223,093**	**208,755**	**178,883**	**182,020**	**123,017**	**75,606**	**821**	**141**	**25,688,597**

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, United Kingdom, Sweden, Switzerland, Russia, Netherlands, Bulgaria, 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, Albania, Hungary, Estonia, Vatican City, Slovenia, Belarus and Macedonia.

The column “Other geographical areas” groups together exposures in the following countries: Australia, South Africa, Ethiopia, Marocco, Nigeria, New Zealand, Tunisia, Ghana, Gambia, Kenya, Lybia, Egypt, Uganda and Malawi.

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

	AGRICULTURE, FORESTRY AND FISHING	MINING AND QUARRYING	MANUFACTURING	ELECTRICITY, GAS, STREAM 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	-	-	-	-	-	-	-	-	-	-	-	-	-	8,848,779	-	-	-	-	**8,848,779**
8 Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9 Public-sectors entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10 Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11 International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12 Institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13 Corporates	-	-	3	-	-	-	1	-	-	188	-	-	517	-	-	-	-	37	**746**
14 Retail	47	-	87	1	-	91	1,005	19	84	60	15	7	23,512	-	18	804	255	464	**26,469**
15 Secured by mortgages on immovable property	-	-	-	-	-	-	-	-	-	-	-	-	3,987	-	-	134	72	-	**4,193**
16 Exposures in default	-	-	2	-	-	5	7	1	3	-	-	-	138	-	-	1	1	4	**162**
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,007	**3,007**
22 Other exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
23 Total standardised approach	**47**	**-**	**92**	**1**	**-**	**96**	**1,013**	**20**	**87**	**248**	**15**	**7**	**28,154**	**8,848,779**	**18**	**939**	**328**	**3,512**	**8,883,356**
24 Total	**47**	**-**	**92**	**1**	**-**	**96**	**1,013**	**20**	**87**	**248**	**15**	**7**	**28,154**	**8,848,779**	**18**	**939**	**328**	**3,512**	**8,883,356**

The exposures reported above are consistent with the exposures reported in template EU CRB-B, net of €12,948,811 thousand of exposures to “Financial and insurance assets”, €3,645,871 thousand of exposures to “Households”, €101,271 thousand of “Activities of extraterritorial organizations and bodies”, €6,652 thousand exposures versus Voluntary Scheme and €102,627 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 120 “Other assets” (net of tax assets), 80 “Property, plant and equipment” and 60 “Changes in fair value of portfolio hedged financial assets” 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	269,664	521,473	3,338,483	4,692,544	26,615	8,848,779
8 Regional governments or local authorities	-	-	-	-	-	-
9 Public-sectors entities	-	-	114,519	50,539	-	165,058
10 Multilateral development banks	-	-	-	101,271	-	101,271
11 International organisations	-	-	29,890	257,071	-	286,961
12 Institutions	1,927,279	2,654,596	6,960,216	623,244	-	12,165,335
13 Corporates	157,228	67,841	-	34	-	225,103
14 Retail	861,213	306,222	317,075	137,532	1,130	1,623,172
15 Secured by mortgages on immovable property	-	-	-	856,848	-	856,848
16 Exposures in default	756	766	1,168	28	77	2,795
17 Items associated with particularly high risk	-	-	-	-	6,652	6,652
18 Covered bonds	-	-	-	-	-	-
19 Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
20 Collective investment undertakings	-	-	-	-	-	-
21 Equity exposures	-	-	-	-	9,100	9,100
22 Other exposures	6	-	-	-	102,621	102,627
23 Total standardised approach	**3,216,146**	**3,550,898**	**10,761,351**	**6,719,111**	**146,195**	**24,393,701**
24 Total	**3,216,146**	**3,550,898**	**10,761,351**	**6,719,111**	**146,195**	**24,393,701**

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 120 “Other assets” (net of tax assets), 80 “Property, plant and equipment” and 60 “Changes in fair value of portfolio hedged financial assets” 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, 2018.

Credit risk adjustments

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

	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)					
15 Total IRB approach	-	-	-	-	-	-	-
16 Central governments or central banks	-	8,850,434	1,655	-	-	1,330	8,848,779
18 Public-sectors entities	-	165,086	28	-	-	-	165,058
19 Multilateral development banks	-	101,271	-	-	-	-	101,271
20 International organisations	-	286,961	-	-	-	-	286,961
21 Institutions	-	12,430,834	9,468	-	-	1,164	12,421,366
22 Corporates	9	240,036	406	-	-	191	239,639
23 Of which: SMEs	-	51	-	-	-	-	51
24 Retail	24,043	2,658,894	32,647	-	-	9,791	2,650,290
25 Of which: SMEs	-	3,860	25	-	-	-	3,835
26 Secured by mortgages on immovable property	-	858,841	1,993	-	-	-	856,848
27 Of which: SMEs	-	-	-	-	-	-	-
28 Exposures in default	24,059	-	21,109	-	-	-	2,950
29 Items associated with particularly high risk	-	6,652	-	-	-	-	6,652
33 Equity exposures	6	9,100	-	-	-	-	9,106
34 Other exposures	-	102,627	-	-	-	-	102,627
35 Total standardised approach	**24,058**	**25,710,736**	**46,197**	**-**	**-**	**12,476**	**25,688,597**
36 Total	**24,058**	**25,710,736**	**46,197**	**-**	**-**	**12,476**	**25,688,597**
37 Of which: Loans	23,898	5,770,901	37,335	-	-	10,822	5,757,464
38 Of which: Debt securities	-	18,226,721	8,812	-	-	1,644	18,217,909
39 Of which: Off-balance sheet exposures	155	1,294,791	49	-	-	10	1,294,897

Please note that, in order to avoid double counting of exposures, the amount indicated in row 35 "Total with standardized approach" 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 120 “Other assets” (net of tax assets), 80 “Property, plant and equipment” and 60 “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	2	47	2	-	-	-	47
2 Mining and quarrying	-	-	-	-	-	-	-
3 Manufacturing	7	92	6	-	-	3	93
4 Electricity, gas, steam and air conditioning supply	-	1	-	-	-	-	1
5 Water supply	-	-	-	-	-	-	-
6 Construction	24	92	20	-	-	3	96
7 Wholesale and retail trade	39	1,009	35	-	-	5	1,013
8 Transport and storage	6	19	5	-	-	1	20
9 Accommodation and food service activities	11	84	9	-	-	2	86
10 Information and communication	1	249	1	-	-	-	249
11 Real estate activities	-	15	1	-	-	1	14
12 Professional, scientific and technical activities	-	6	-	-	-	-	6
13 Administrative and support service activities	507	31,470	3,822	-	-	7	28,155
14 Public administration and defence, compulsory social security	-	8,850,434	1,655	-	-	1,330	8,848,779
15 Education	2	18	2	-	-	-	18
16 Human health services and social work activities	4	942	5	-	-	-	941
17 Arts, entertainment and recreation	5	328	6	-	-	1	327
18 Other services	44	3,507	40	-	-	-	3,511
19 Total	**652**	**8,888,313**	**5,609**	**-**	**-**	**1,353**	**8,883,356**

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	**24,057**	**25,634,161**	**46,188**	**-**	**-**	**12,472**	**25,612,030**
2 Italy	24,001	20,504,343	45,207	-	-	11,791	20,483,137
3 Spain	2	3,527,004	719	-	-	535	3,526,287
4 International European Bodies	-	388,232	-	-	-	-	388,232
5 France	8	298,624	25	-	-	10	298,607
6 Ireland	-	223,137	44	-	-	42	223,093
7 Austria	-	208,755	1	-	-	-	208,754
8 Germany	-	178,887	4	-	-	2	178,883
9 Belgium	-	182,021	1	-	-	1	182,020
10 Other European countries	46	123,158	187	-	-	91	123,017
11 America	1	75,611	7	-	-	2	75,605
12 Asia	-	823	2	-	-	1	821
13 Other geographical areas	-	141	-	-	-	-	141
14 Totale	**24,058**	**25,710,736**	**46,197**	**-**	**-**	**12,475**	**25,688,597**

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.

Credit risk adjustments

EU CR1-D – Ageing of past-due exposures

	GROSS CARRYING VALUES:				
	<= 30 DAYS	> 30 DAYS <= 90 DAYS	> 90 DAYS <= 180 DAYS	> 180 DAYS <= 1 YEAR	> 1 YEAR
Loans	9,777	2,104	1,433	2,386	19,635
Debt securities	-	-	-	-	-
Total exposures	**9,777**	**2,104**	**1,433**	**2,386**	**19,635**

The table above provides an ageing analysis of total exposures recognised in the balance sheet. With the introduction of IFRS 9, the time bucket "> 60 days / ≤ 90 days" is not requested anymore.

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	18,226,883	-	-	-	-	-	-	(8,983)	-	-	-	-	-
2 Loans and advances	6,029,796	12,123	224	23,935	23,935	23,935	326	(16,314)	(2)	(21,118)	(258)	-	-
3 Off-balance sheet exposures	1,294,946	-	72	155	155	155	-	(49)	-	-	-	-	-

Credit quality of forborne exposures

	GROSS CARRYING AMOUNT/NOMINAL AMOUNT OF EXPOSURES WITH FORBEARANCE MEASURES				ACCUMULATED IMPAIRMENT, ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK AND PROVISIONS		COLLATERAL RECEIVED AND FINANCIAL GUARANTEES RECEIVED ON FORBORNE EXPOSURES	
	PERFORMING FORBORNE	NON-PERFORMING FORBORNE			ON PERFORMING FORBORNE EXPOSURES	ON NON-PERFORMING FORBORNE EXPOSURES		OF WHICH COLLATERAL AND FINANCIAL GIUARANTEES RECEIVED ON NON-PERFORMING EXPOSURES WITH FORBEARANCE MEASURES
			OF WHICH DEFAULTED	OF WHICH IMPAIRED				
1 **Loans and advances**	**224**	**326**	**326**	**326**	**(2)**	**(258)**	**-**	**-**
2 Central banks	-	-	-	-	-	-	-	-
3 General governments	-	-	-	-	-	-	-	-
4 Credit institutions	-	-	-	-	-	-	-	-
5 Other financial corporations	-	-	-	-	-	-	-	-
6 Non-financial corporations	-	-	-	-	-	-	-	-
7 Households	224	326	326	326	-	(258)	-	-
8 **Debt securities**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
9 **Loan commitments given**	**72**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
10 **Total**	**296**	**326**	**326**	**326**	**- (2)**	**(258)**	**-**	**-**

The forborne exposures detailed in the table above are attributable to the country Italy.

Credit risk adjustments

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	**21,043**	**-**
2 Increases due to amounts set aside for estimated loan losses during the period	4,458	-
3 Decreases due to amounts reversed for estimated loan losses during the period	(1,601)	-
4 Decreases due to amounts taken against accumulated credit risk adjustments	(2,782)	-
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	**21,118**	**-**
10 Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	(23)	-
11 Specific credit risk adjustments directly recorded to the statement of profit or loss	134	-

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

The initial assets shown in the table refer to the provisions for write-downs recognized as of 1 January 2018 following changes to the opening balances following the entry into force of IFRS 9 (the balance of IAS 39 at 31 December 2017 was €21,460 thousand). The change in the provision as at January 1, 2018 of write-downs refers mainly to default interest, for an amount of 590 thousand euro. In fact, starting from January 1, 2018, default interest is recognized in the gross value only if no impairments have been recorded on the original exposures and are considered recoverable by the bank. Previously default interest was represented both in gross exposures and in the related depreciation fund.

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

	GROSS CARRYIN VALUE OF DEFAULTED EXPOSURES
1 Opening balance	**23,723**
2 Loans and debt securities that have defaulted or impaired since the last reporting period	6,465
3 Returned to non-defaulted status	(875)
4 Amounts written off	(2,916)
5 Other changes	(2,462)
6 Closing balance	**23,935**

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

The initial assets shown in the table refer to the financial assets recorded at January 1, 2018 after the reclassifications following the entry into force of IFRS 9 (the balance of IAS 39 at December 31, 2017 was equal to €24,313 thousand). In particular, the gross exposure at 1 January 2018 was reduced by the amount of default interest (non-performing loans for €587 thousand, unlikely to pay for €2 thousand and past due exposures for €1 thousand), as, as of 1 January 2018, default interest is recognized in the gross value only if no impairments have been recorded on the original exposures and are considered recoverable by the Bank.

“Other changes” includes collections recognised in 2018 for a total of €3,359 thousand.

Remuneration and incentive systems and practices

1. Governance and 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 or remuneration policies.
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 2018 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:

(i) 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;

(ii) 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;

(iii) monitors the implementation of the decisions adopted by the Board and specifically verifies that the performance targets are actually achieved;

(iv) examines any share-based or cash incentive plans for employees and financial advisors of the Company and strategic staff development policies;

(v) 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;

(vi) 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;

(vii) ensures the involvement of the relevant business functions in the process of drawing up and monitoring remuneration and incentive policies and practices;

(viii) provides an adequate reporting on the activities carried out by the Corporate Bodies, including the Shareholders' Meeting

In 2018 the Remuneration Committee met 11 times. The meetings had an average duration of two hours. From the beginning of 2019 and until the approval of the present 2019 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 35.000 € for 2018), 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 2018 the Head of *Human Resources* has been always invited to Committee's meetings. The Chairman has also invited the Head of *Legal & Corporate Affairs* for the matters within the competence, 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 2018 Incentive Systems evaluation while the Compliance Officer has been invited, among the others, to participate in the discussions related to the Identified Staff definition.

The Chairman has also invited the *Internal Audit*[3] function to the meeting related to the annual audit performed on FinecoBank remuneration policies and practices.

During 2018 the key activities of the Remuneration Committee included:

MAIN COMMITTEE'S ACTIVITIES IN 2018	
January	▪ 2018 Employees Identified Staff and related 2018 Incentive System ▪ 2018-2020 LTI for the Employees ▪ 2018-2020 LTI for the Financial Advisors Identified Staff ▪ 2018-2020 LTI for selected Financial Advisors Non Identified Staff ▪ 2018 Incentive System for PFA Identified Staff ▪ New Contest "Qualità"
February	▪ "2014-2017 Multi-year Plan Top Management" implementation ▪ Bonus Pool 2017 and 2017 and previous years Incentive Systems implementation ▪ 2018 Performance goals of Employees Identified Staff ▪ 2018 Incentive System Rules for Employees Identified Staff ▪ 2018-2020 LTI for Employees Rules ▪ 2018 PFAs Identified Staff definition ▪ Stock Granting "2015-2017 Plan PFA" implementation ▪ 2017 Bonus Pool and 2017 and previous years Incentive Systems implementation for PFAs Identified Staff ▪ 2018 Incentive System Rules for PFAs Identified Staff ▪ 2018-2020 LTI Rules for PFAs Identified Staff ▪ 2018-2020 LTI Rules for PFAs Non Identified Staff ▪ 2017 Incentive Plans and Additional Future Program for PFAs implementation ▪ 2018 Incentive Plans for PFAs ▪ 2018 FinecoBank Compensation Policy ▪ Identified Staff Salary Review ▪ Report on Corporate Governance and Ownership Structures - for the section related to the Directors remuneration
April	▪ New "Contest Qualità"
May	▪ Review of the "Additional Future Program" Rules for PFAs ▪ 2018-2020 LTI for Employees – grant of shares to the beneficiaries
July	▪ New "Contest Qualità" ▪ Report to the Board of Committee's activities in the 1H of 2018
October	▪ New "Contest Qualità"
November	▪ Identified Staff Salary Review
December	▪ 2019 Guidelines for PFAs Incentive System

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

	▪ Compliance Breaches Committee ▪ Selection of the Independent Advisor of the Committee in 2019 ▪ Report to the Board of Committee's activities in the 2H of 2018

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 2018.

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 2018 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%	C
Elena Biffi		X	X	X	100%	M
Enrico Cotta Ramusino		X		X	100%	M
N. Comittee 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 The Role of Company Control Functions: *Compliance*, *Risk Management* and *Audit*

Key contributions in 2018 of FinecoBank *Compliance* function, for all aspects that fall within its perimeter, included:

- validation of the 2018 Compensation Policy submitted to the Board of Directors for subsequent approval of the Shareholders' Meeting on April 11th, 2018;
- validation of the 2018 Incentive System for employees of FinecoBank belonging to *Identified Staff*;
- validation of the 2018 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 14/2018*);
- participation in specific initiatives of *Human Resources* function (e.g.: review of definition of *Identified Staff* for the application of Incentive System).

In 2019, 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 2018 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 2018 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 by Delegated Regulation (EU) No 604/2014. Furthermore, a *follow up* of the previous audit recommendation was performed. Main audit results were presented to the Remuneration Committee on 1st March 2019.

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

1. employees belonging to the Identified Staff at 31/12/2018, with the exception of one resource for which Audit verified the compliance with the regulation of the severance paid by the Bank, following the consensual resolution of the employment relationship;

2. a sample of 212 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 2018 (19% ca of the overall population as on 31/12/2018);

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 75% ca of 2018 total incentives.

The Internal Audit "good" evaluation was based on the overall correct application of the 2018 "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 nonrecurring, higher than Euro 750,000, as well as of the Managers coordinating Financial Advisors that manage 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.

2. Continuous Monitoring of Market Trends and Practices

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 2019 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 2019 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)
- Intesa SanPaolo
- UBI Banca
- 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. Compensation paid to Members of the Administrative and Auditing Bodies, to General Managers and to other Executives with strategic responsibilities

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 of them take part in any incentive plans based on stock options or, generally, based on financial instruments.

BENEFICIARY	REMUNERATION COMPONENT	APPROVED BY	AMOUNT (€)[4]	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[5] ▪ € 50.000 for Board Committees ▪ € 20.000 and € 15.000 for the Chairman and member of the Supervisory Board[6] ▪ € 300 as attendance fee for partecipating to each meeting of[7]: - 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. 3and 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[8]: ▪ € 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	
Executives with strategic responsabilities[9]	Fixed and variable compensation	Board of Directors	2018 Compensation level: ▪ € 850.000 fixed + € 850.000 variable for the CEO and GM ▪ € 1.416.053 fixed + € 1.813.166 bonuses for the other 4 Executives	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

[4] 2018-2020 LTI Plan is not included since it is long term performance and it has not been evaluated.
[5] Total compensation for the entire Board of Directors (Executive Directors included) approved by the Shareholders' Meeting is equal to Eur 370.000.
[6] 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".
[7] Even if these meetings held in the same day
[8] 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.
[9] 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 & Private Banking as well as the Chief Financial Officer.

			with strategic responsabilities	the maximum ratio between variable and fixed remuneration component.

Further details on compensation of Executives with strategic responsibilities

For 2018, 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[10].
→ *More information regarding our performance management and evaluation are provided further in chapter 5.3.1*

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. 2018 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 2018 incentive plan implementation and outcomes are provided further in chapter 5.2.*

The Chief Executive Officer and General Manager, on top of 2018 Incentive System, benefits also from:
"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"
"Long Term Incentive Plan 2018-2020"
→ *More information regarding the plans above mentioned are provided further in chapters 6 and in the Annexes.*

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, HR and Manager in charge for preparing financial statement 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.

[10] 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 definition of 2019 *Identified Staff*, pursuant to the European criteria foreseen in the *European Banking Authority Regulatory Technical Standard* (RTS)[11], followed a structured and formalized assessment process both at Group and local level, based on the guidelines provided by the Group functions *Human Capital* with the contribution of *Risk Management* and *Compliance*, to guarantee a unique and common approach at Group level.

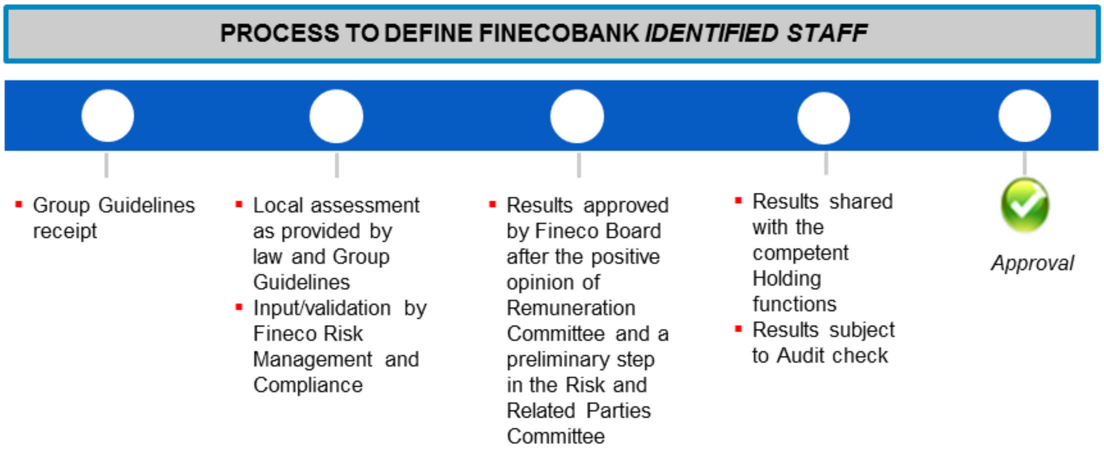
In line with the regulatory provisions, the criteria used to define the Identified Staff are those defined by the aforementioned European standards, and incorporated into the national legislation (Circular 285 of the Bank of Italy). In line with the Group guidelines, FinecoBank - for the purposes of identifying the Identified Staff - adopts the additional criterion for the "band" for Employees, including all Employees with band 5 (Senior Vice President)[12] or higher, in the risk takers category.

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.

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[13].

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.

[11] 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.
[12] According to Global Job Model
[13] 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.



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 14 employees and 8 Financial Advisors[14] for 2019[15].

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 other positions that are responsible at local level for strategic decisions which may have a relevant impact on the Bank's risk profile[16] .

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 2018 are disclosed in chapter 6 and in the Annexes .*

As a result of the analysis and as approved by the Board of Directors upon Remuneration Committee proposal as shown above, the following categories of Financial Advisors have been identified for 2019 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.

Pursuant to the regulatory requirement and the process defined at EU level[17] the exclusion from Identified Staff of 17 PFA whose total remuneration in 2018 is equal or exceeds € 500,000 is submitted to the European Central Bank and to Bank of Italy.

[14] Vs 16 Employees and 7 Financial Advisors identified in 2018
[15] Identified Staff data refers to the population at the date of February 2019, providing for an ex-ante definition, in line with regulatory requirements.
[16] The list of FinecoBank and Group Identified Staff includes also the Fineco Asset Management DAC CEO
[17] ECB Decision (EU) 2015/2218 dated November 20th 2015; EBA RTS chapter 4, §4

4.2 Implementation and Outcomes of 2018 Incentive Systems

4.2.1 2018 Incentive System for employees belonging to *Identified Staff*

The 2018 Incentive System, approved by FinecoBank Board of Directors on January 9th, 2018, provides - in continuity with 2017 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.

2018 Group and Local Entry Conditions

For the purpose of alignment with regulatory requirements, specific indicators are set at both local and Group level to measure profitability, solidity and liquidity on an annual basis that act as access conditions. In particular, the indicators and thresholds that are defined as access conditions for the 2018 Incentive System - which confirm, reduce or cancel immediate and deferred payments - are as follows:

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%

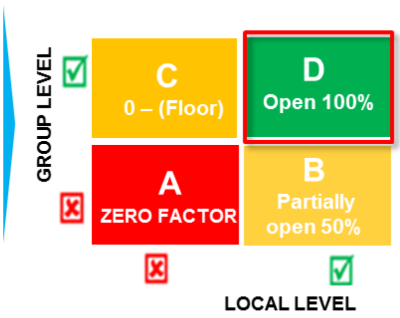
- *Net Operating Profit adjusted* to measure the profitability, is the NOP excluding income from buy-back of own debt and from the fair value accounting of own liabilities.
- *Net Profit* to measure profitability considering the results stated in the balance sheet excluding any extraordinary item as 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.
- *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 1st 2019, the relevant entry conditions have been achieved both at Group and local level, confirming the theoretical[18] FinecoBank bonus pool.

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

GROUP	ENTRY CONDITIONS	RESULT
	Net Profit ≥ 0 €/mln	✓
	NOP Adjusted ≥ 0 €/mln	✓
	CET 1 Ratio Transitional > 10,43%	✓
	Liquidity Coverage Ratio > 101%	✓
	NSFR > 101%	✓

FINECO	ENTRY CONDITIONS	RESULT
	Net Profit ≥ 0 €/mln	✓
	NOP Adjusted ≥ 0 €/mln	✓
	CET 1 Ratio Transitional > 10,43%	✓
	Liquidity Coverage Ratio > 101%	✓
	NSFR > 101%	✓



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"[19], carried out by the Fineco CRO on the basis of a specific methodology defined at Group level.

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, 2018 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 5th, 2019, has approved the allocation of a total number of shares equal to 168,897 to be assigned in 2021, 2022, 2023 and 2024.

On the same date, the Board of Directors also approved the implementation - in 2019 - of the Incentive Systems 2014, 2015, 2016, 2017 and the "2014-2017 Multi-year Plan Top Management Plan"[20].

Focus on CEO and General Manager performance evaluation

The Board of Directors, upon positive opinion of Remuneration Committee, assessed the 2018 performance of FinecoBank CEO and General Manager as *Exceeds Expectations.* Below the details of the individual scorecard assessment

[19] The CRO Dashboard 2018 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 2018).
[20] The data relating to the assignments are included in the information reported in chapter 6 of the Annual Compensation Report and in the Annexes

GOAL	RESULT	ASSESSMENT				
		Below	Almost meets	Meets	Exceeds	Greatly exceeds
ROAC *vs. budget*	Bdg 40% - Result 41,59%					
EVA *vs. budget*	Bdg 189.078 k€ - Result 194.309 k€					
Operating Costs *vs. budget*	Bdg -247.190 k€ - Result -245.763 k€					
Net New Clients *vs target*	Target: NET 73.397 - Result: NET 77.959					
Net Sales of Guided Products *vs. budget*	Bdg 5.069.004 k€ - Result 2.755.242 K€					
New business EL *vs. budget*	Target 0,35% - Result 0,30%					
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* *- Retention rate or voluntary turnover*	Outstanding results in terms of: - pay for performance: fully consistent in 2018 (2017 payout) vs actual business results and individual performance; - gender pay gap: no significant gap in 2018. Furthermore, Succession Plan presented to FinecoBank Board on 11/12/2018, shows full coverage of managerial positions. In addition several initiatives have been put in place in order to foster gender diversity, inclusion and work-life balance within the organization. As regards work-life balance, the "Maggiortempo" project launch has to be highlighted, supporting all the colleagues in the everyday tasks, giving back time to people. Voluntary turnover shows a very low rate of 3% ca, proving that Fineco confirms to be considered a "great place to work"					
Tone from the top on Compliance Culture *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*	-Tone from the top activities have been all well carried out and ad hoc communication on compliance culture within the Bank as well as on staff integrity and behavioral expectations - Overall findings as at 4Q 2018 show no critical aspects.					

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[21].

4.2.2 2018 Incentive System for Financial Advisors Identified Staff

The 2018 Incentive System PFA, approved by FinecoBank Board of Directors on January 10h 2018, 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 2018 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.

[21] For the picture presenting the total remuneration package of CEO and General Manager, see the Executive Summary section.

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.

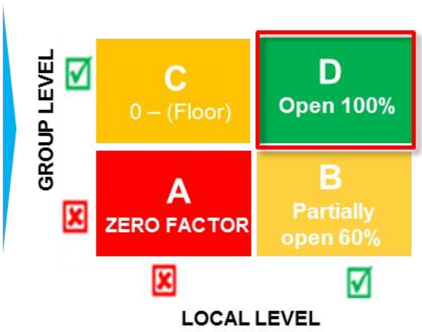
2018 Entry Conditions at Group and Local level

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[22] and thresholds for 2018 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 > 10.43% 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%

According to the actual results, verified and approved by the Board of Directors of FinecoBank on February 5th 2019, the relevant entry conditions have been achieved both at local and Group level, confirming the theoretical[23] FinecoBank PFA bonus pool

	ENTRY CONDITIONS	RESULT
GROUP	CET 1 Ratio Transitional > 10,43%	✓
	Liquidity Coverage Ratio > 101%	✓
	NSFR > 101%	✓
	ENTRY CONDITIONS	RESULT
FINECO	Net Profit ≥ 0 €/mln	✓
	NOP Adjusted ≥ 0 €/mln	✓
	CET 1 Ratio Transitional > 10,43%	✓
	Liquidity Coverage Ratio > 101%	✓
	NSFR > 101%	✓



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"[24], carried out by the Fineco CRO on the basis of a specific methodology defined at Group level.

Evaluation and pay-out for Identified Staff

In line with FinecoBank governance, 2018 evaluations and pay-outs for PFA Identified Staff have been approved by the Board of Directors, based on the positive opinion of Remuneration Committee.

[22] For the KPIs definition see chapter 5.2.1

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

[24] The CRO Dashboard 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 2018). The assessment methodology is the one used for Employees

On the basis of the resolutions of the Board of Directors of 5 February 2019, the total number of shares serving the 2018 Incentive System for Financial Advisors is 17,300 to be assigned in 2021, 2022, 2023.

On the same date, the Board of Directors also approved the implementation - in 2019 - of the Incentive Systems 2015, 2016 and 2017[25].

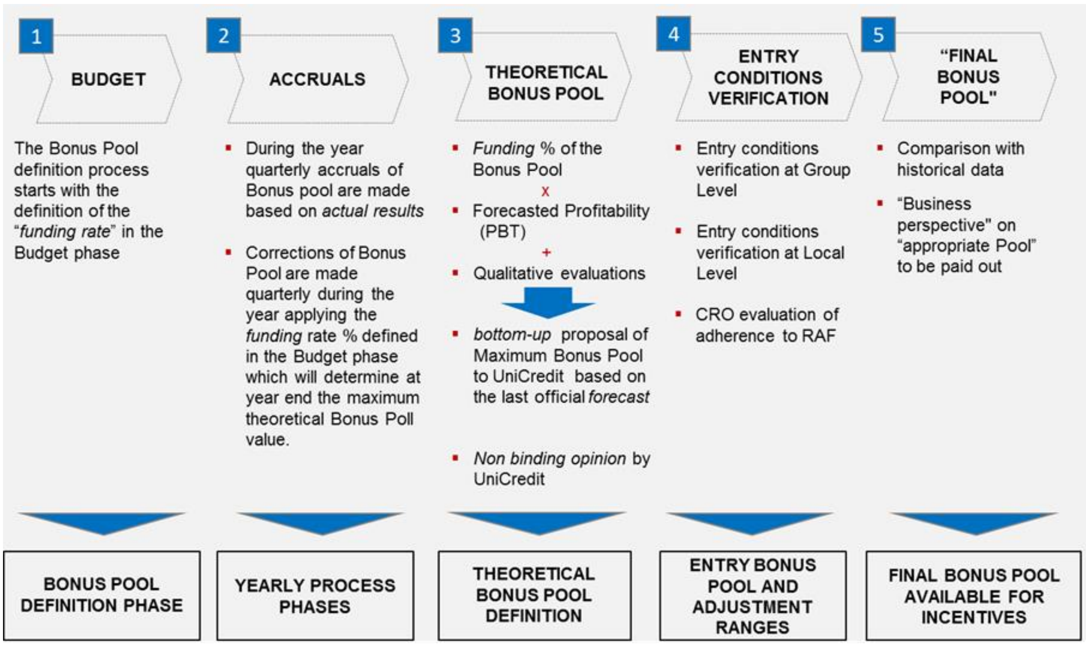
4.3 2019 Incentive System for employees belonging to *Identified Staff*

As in the past years, the 2019 Incentive System, as approved by the Board of Directors of FinecoBank on January 10th, 2019, 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[26], 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 1 year for upfront and 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 2019 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



* *Risk Appetite Framework*

[25] The data relating to the assignments are included in the information reported in chapter 6 of the Annual Compensation Report and in the Annexes.

[26] In compliance with sector regulations, the Chief Executive Officer of Fineco Asset Management DAC - Identified Staff of the Company, the Bank and the Group - is the beneficiary of the FAM Incentive System 2019, for which the use UCITS compliant instruments is envisaged.

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

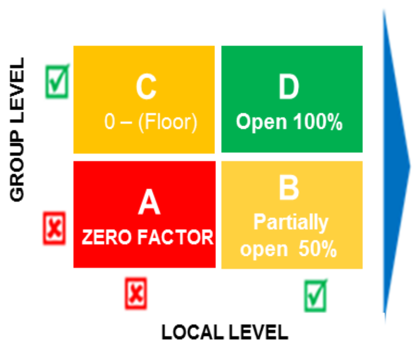
- Consistency with FinecoBank performance and sustainability is ensured through specific "Entry Conditions" set at both Group and local level;
- application of a *Zero Factor*/*malus* clause in case specific profitability, liquidity and capital thresholds are not reached at Group and local level;
- the 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 2019 – 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 Fully Loaded > 11.1% and	Common Equity Tier 1 Fully Loaded > 11.1% and
Liquidity Coverage Ratio > 101% (2019 RAF limit) and	Liquidity Coverage Ratio > 101% (2019 RAF limit) and
Net Stable Funding Ratio > 101% (2019 RAF limit)	Net Stable Funding Ratio >101% (2019 RAF limit)

Compared to the 2018 system, the Capital indicator is changed in a more conservative sense, moving from the CET1 Ratio Transitional to the CET1 Fully Loaded Ratio, in line with the recommendations of the European Central Bank.

The matrix of access conditions and the related effects on the Fineco Bonus Pool follow the same logic as 2018, 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.

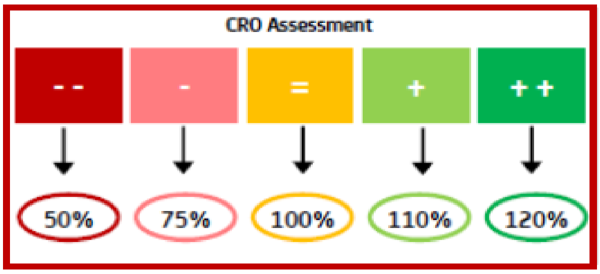
The CRO dashboard (defined in coherence with the FinecoBank and Group Risk Appetite Framework) includes KPIs taken from FinecoBank Risk Appetite Framework, measured with reference to the respective relevant thresholds (*limit*, *trigger* and *target*). Here below a sample of the content of the dashboard

SAMPLE

DIMENSION		2019			
		INDICATORS	**Target**	**Trigger**	**Lim...**
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	ELOR	--	--	--

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 2018 Incentive System, as follows.



The fully positive "++" rating can only be granted in the case of positive EVA at the end of the financial year (or EVA> 0 if the budget is equal to 0). As provided in the 2018 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.).
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.

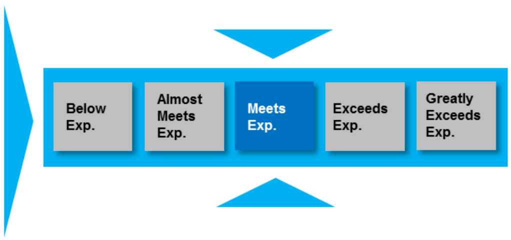
Individual bonus allocation

- 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 2019 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[27] of Group Competency Model[28]. 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 5.3.1.*
- the goals appraisal system is based on a 5 values scale with a descriptive outcome (from "*Below Expectations*" to "*Greatly Exceeds Expectations*").

Sample of 2019 Scorecard

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 2019 evaluation



For the individual bonus allocation the 2019 Incentive System provides a prior verification of the completion -by the beneficiaries- of the mandatory Compliance training.

Bonus payment

- As approved by the Board of Directors on January 10, 2019, compared to the payment structure, the Identified Staff will be divided into 4 groups according to the regulations.
- Payment of the incentives will be made through immediate and deferred tranches - in cash or in Fineco ordinary shares - over a period of up to 6 years:
  - in 2020 the first portion of the overall incentive ("1st tranche") will be paid in cash, after verifying the compliance and adherence at the individual level of compliance rules and principles of conduct and behavior[29];
  - the remaining amount of the total incentive will be paid in several installments in cash and / or Fineco free ordinary shares in the period:
    - 2021-2025 for the CEO / DG, and for the other roles foreseen by the legislation (eg first reports of the CEO and DG)
    - 2021-2023 for other Identified Staff
- Payment systems, in particular, are based on two time horizons (4 and 6 total years) differentiated on the basis of the target population and of the total amount of variable remuneration received in the performance year, according to the schemes described below.

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[27] *See also chapter 5.3.1*
[28] *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.*
[29] Considering also the seriousness of possible internal / external inspections (ie Audit, Bank of Italy, Consob and / or similar authorities), and in general, according to the paragraph "Focus on violation for non-compliance, individual Malus and Claw- back "

- For CEO/GM and other roles provided by law[30] with "significant amount" of total variable pay in the performance year [31] (> 430,000 €) a 5 years payout scheme applies with an overall payout structure of 6 years, with 60% of bonus deferred

	2020	2021	2022	2023	2024	2025
Cash	20% upfront		12% deferred			12% deferred
Shares		20% upfront		12% deferred	12% deferred	12% deferred

- For the other roles provided by law[32] with not significant amount of total variable remuneration (≤ 430,000€) a 5 years payout scheme applies with an overall payout structure of 6 years, with 50% of bonus deferred

	2020	2021	2022	2023	2024	2025
Cash	25% upfront		10% deferred			10% deferred
Shares		25% upfront		10% deferred	10% deferred	10% deferred

- For other identified staff with significant amount of total variable remuneration a 3 years payout scheme applies with an overall payout structure of 4 years, with 60% of bonus deferred;

	2020	2021	2022	2023
Cash	20% upfront	5% deferred	5% deferred	20% deferred
Shares		20% upfront	15% deferred	15% deferred

- At last, for other identified staff with non significant amount of total variable remuneration a 3 years payout scheme applies with an overall payout structure of 4 years, with 40% of bonus deferred.

	2020	2021	2022	2023
Cash	30% upfront			20% deferred
Shares		30% upfront	10% deferred	10% deferred

Every tranche will be subject to the *Zero Factor* related to the year of competence and to the verification of the compliance of individual behaviours.

- all the instalments are subject to the application of claw-back conditions;
- in coherence with 2018, a minimum threshold[33] 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 2020, 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 2019 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;

[30] For instance the first reporting line of Management Body (CEO) and responsible of main business areas.
[31] Threshold of € 430,000 defined at Group level according to the provisions of the law, equal to 25% of the total remuneration of the Italian High Earners according to the latest EBA report available (Benchmarking and High Eaners Report).
[32] See note 48.
[33] Equal to Euro 75,000 that will be paid in cash.

4.3.1 Comprehensive performance measurement

The 2019 Incentive System, described in the chapter 5.3, 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.

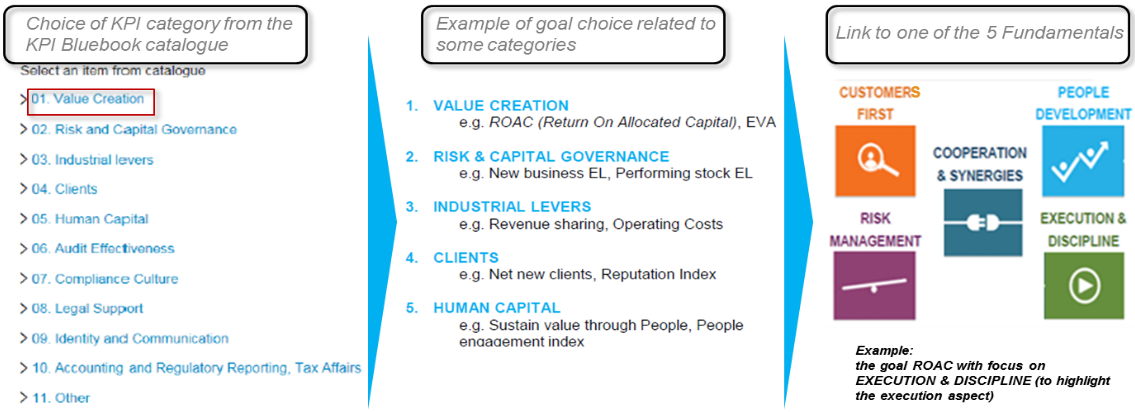
A specific process is performed annually at Group level with the involvement of key relevant functions (*Human Capital, Finance, Risk Management, Compliance, Group Sustainability, Audit, Group Stakeholder Insight*) to review the so-called *KPI Bluebook*.

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)
- the selection of goals for the Company Control Functions, HR and Manager in charge for preparing financial statements 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* (as shown above) is pre-set, conferring a specific qualitative connotation to the goal itself.

2019 CEO and general manager scorecard

2019 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 2018, also for 2019, 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.

#	GOAL NAME	PERIMETER	REFERENCE TARGET	LINK TO 5 FUNDAMENTALS	RISK CORRELATION SUSTAINABILITY GOAL
1	ROAC / EVA	FinecoBank	vs. budget	*Execution & Discipline*	
2	New Business EL %	FinecoBank	vs. target	*Risk Management*	
3	OPEX	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. target	*Customers First*	
5	Net sales of Guided Products	FinecoBank	vs. budget	*Execution & Discipline*	
6	New Strategic Plan preparation	FinecoBank	vs. qualitative assessment based on: • contribution to the preparation of the new MYP • development of Proof of Concepts on the effective implementation of new technologies (e.g.: Artificial Intelligence, big data, etc.) in own domain	*Execution & Discipline*	
7	Gender balance and pay gap	FinecoBank	vs. qualitative assessment based on: • Group-wide % of women in EVP roles vs. 2019 target • Y/Y delta on % of women in VP, FVP, SVP roles • Y/Y delta on gender pay-gap	*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 Control Functions, HR and Manager in charge for preparing financial statements.

4.4 2018 - 2020 Long Term Incentive Plan for employees

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) and the 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[34], 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 and malus conditions

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.

The indicators of capital and liquidity (Common Equity Tier 1 Ratio Fully Loaded[35], Liquidity Coverage Ratio and Net Stable Funding Ratio) will be calculated annually, while a "cumulative" assessment of profitability indicators is envisaged.

In 2019 - in line with the provisions for the short-term Incentive System and in accordance with the provisions of the Plan Regulations - the Capital and Liquidity Conditions CET1 Ratio Fully Loaded, LCR and NSFR have been changed for the year of performance.

[34] 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.

[35] 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.

Performance		Deferral	
Entry Conditions		**Malus**	
Group	**Fineco**	**Group**	**Fineco**
Σ 2018-2020 NOP Adj >0	Σ 2018-2020 NOP Adj >0	Σ NOP Adj >0	Σ NOP Adj >0
Σ 2018-2020 Net Profit >0	Σ 2018-2020 Net Profit >0	Σ Net Profit >0	Σ Net Profit >0
CET 1 Fully loaded > 11,1%*	CET 1 Fully loaded > 11,1%**	CET 1 Fully loaded > 11,1%*	CET 1 Fully loaded > 11,1%**
LCR > RAF Limit (101%) *	LCR > RAF Limit (101%)**	LCR > RAF Limit (101%) *	LCR > RAF Limit (101%)**
NSFR > RAF Limit (101%)*	NSFR > RAF Limit (101%)**	NSFR > RAF Limit (101%)*	NSFR > RAF Limit (101%)**

1) if the annual access conditions at the Group level are not achieved, a bonus reduction of 10% per year is envisaged (a reduction of 30% if the cumulative Group conditions are not met). Therefore, the maximum reduction envisaged for failure to achieve Group conditions - annual and / or cumulative - is equal to 30%.
2) In the event that Fineco's cumulative conditions are not met, the bonus will be canceled
3) If Fineco's annual conditions are not met, a pro-rata bonus reduction is expected

1) in the event of failure to meet the conditions at Group level (both cumulated and annual), a deferred portion is expected to be reduced, in any case not more than 30% (see attachment)
2) If Fineco's cumulative conditions are not met, the deferred portion is expected to be reset
3) If Fineco's annual conditions are not met, it is provided the zeroing of the deferred portion for the year of competence

* In line with the Group RAF 2019 (Trigger for CET1, Limit for LCR and NSFR). In the event of more restrictive regulatory changes in the performance years of the Plan, the defined thresholds will be updated accordingly
** Values aligned to those of the Group. In the event of more restrictive regulatory changes in the performance years of the Plan, the defined thresholds will be updated 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[36].

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[37] 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 payout

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.

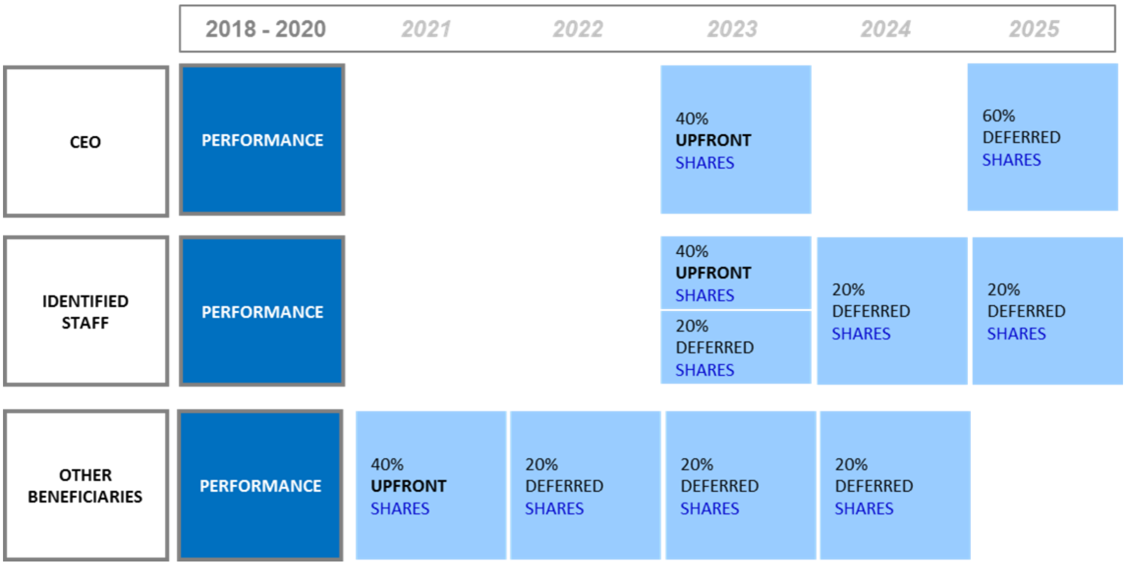
Within the aforementioned limits, it is planned, in detail:

[36] See par. 3.2, section II
[37] See paragraphs 5.3 and 5.5

- 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[38], according to the payment schemes shown below.



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[39].

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 (905,066) of shares to be allocated in the respective instalments – at the conditions stated above - has been 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 executed the Shareholders Meeting resolution related to the Plan.

The Plan provides for an impact on FinecoBank share capital of approximately 0.1%, 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 to 0.8% ca.; 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.

[38] The Bank reserves the possibility to assign different instruments from the FinecoBank ordinary shares, where requested by law.
[39] 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.

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.

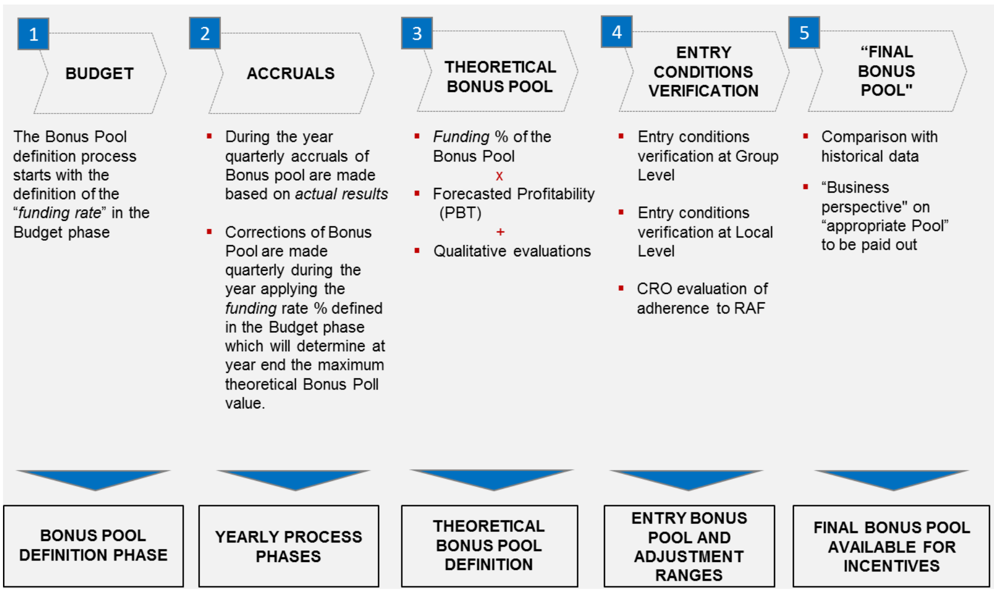
4.5 2019 Incentive System for Financial Advisors Identified Staff

Given the differences in the forms of remuneration and in the modalities of its generation (see paragraph 4.2, Section II), 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 2019 System for PFA Identified Staff – as approved by the Board on January 10th 2019 - 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 4 years;
- distribution of share[40] 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 (1 year for upfront and 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 2019 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 phase

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.

[40] 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 2019 – 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 e
	Net Profit ≥ 0 e
Common Equity Tier 1 Fully Loaded > 11.1% e	Common Equity Tier 1 Fully Loaded > 11.1% e
Liquidity Coverage Ratio > 101% (2019 RAF limit) e	Liquidity Coverage Ratio > 101% (2019 RAF limit) e
Net Stable Funding Ratio > 101% (2019 RAF limit)	Net Stable Funding Ratio >101% (2019 RAF limit)

Compared to the 2018 system, the Capital indicator is changed in a more conservative sense, moving from the CET1 Ratio Transitional to the CET1 Fully Loaded Ratio, in line with the recommendations of the European Central Bank.

The Entry Conditions matrix and related effects on Fineco Bonus Pool follows the same logics provided in 2018, 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 2018 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[41].

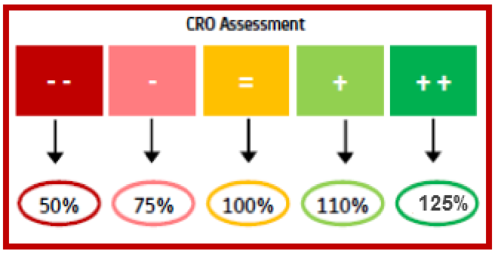
To activate the "multiplier" the CRO dashboard assessment is confirmed, pursuant to the defined methodology.

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*)[42].

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 2018 Incentive System, as follows:



The fully positive "++" rating can only be granted in the case of positive EVA at the end of the financial year (or EVA> 0 if the budget is equal to 0). As provided in the 2018 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 payment

For the Financial Advisors belonging to the Identified Staff, the payment mechanism provides for a 3 year deferral. The payment of the potential bonus 2019 will therefore take place over a maximum period of 4 years. In particular:

- in 2020 the first portion of the overall incentive ("1st tranche") will be paid in cash, after verifying the compliance and adherence at the individual level of compliance rules and principles of conduct and behavior[43];
- over the period 2021-2023 the remaining amount of the total incentive will be paid in several installments in cash and / or Fineco 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 the compliance rules and the principles of conduct and behavior.

The payment systems, in particular, are differentiated on the basis of the total amount of variable remuneration[44] received in the performance year, according to the schemes described below:

[41] 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.
[42] See paragraph 5.3.
[43] Considering also the seriousness of possible internal / external inspections (i.e. Audit, Bank of Italy, Consob and / or similar local authorities).
[44] The definition of the overall variable remuneration threshold (> € 430,000) follows the same logic described in the 2019 Incentive System for Employees Identified Staff.

- For roles with significant amount of total variable remuneration, a 3 years payout scheme applies with an overall payout structure of 4 years, with 60% of bonus deferred;

	2020	2021	2022	2023
Cash	20% upfront	5% deferred	5% deferred	20% deferred
Shares		20% upfront	15% deferred	15% deferred

- For roles with non significant amount of total variable remuneration, a 3 years payout scheme applies with an overall payout structure of 4 years, with 40% of bonus deferred

	2020	2021	2022	2023
Cash	30% upfront			20% deferred
Shares		30% upfront	10% deferred	10% deferred

- all the instalments are subject to the application of claw-back conditions, as legally enforceable;
- in coherence with 2018, a minimum threshold[45] 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 2020, 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 2019 performance achievements;
- free Fineco ordinary shares that will be allocated will be freely transferable;
- the 2019 Incentive System provides for an expected impact on FinecoBank share capital of approximately 0.03%, 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 0.8% ca. However, the 2019 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 2019 Incentive System for PFA[46] 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);
- 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[47] in comparison with the group overall goal[48];
- percentage of achievement of individual net sales goal and percentage of net sales of asset under management in comparison with the individual goal[49];
- value generated by the requalification of assets in liquidity and asset under custody in Guided Products.

For the purpose of evaluating individual performance, the Scorecard provides a specific indicator to reflect the quality of the work of the Financial Advisor.

Finally, the payment of the bonus is subject to the preliminary verification of compliance with anti-money laundering regulation.

[45] Equal to Euro 75,000 that will be paid in cash.

[46] Always taking into account the individual compliance condition, as described above.
[47] Guided products refer to high added value products and developed services, considering the different customers risk profiles.
[48] For the Financial Advisors with managerial positions with more than 5 PFA coordinated.
[49] For PFAs and Financial Advisors with managerial position and less than 5 PFA coordinated.

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[50], 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[51].

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

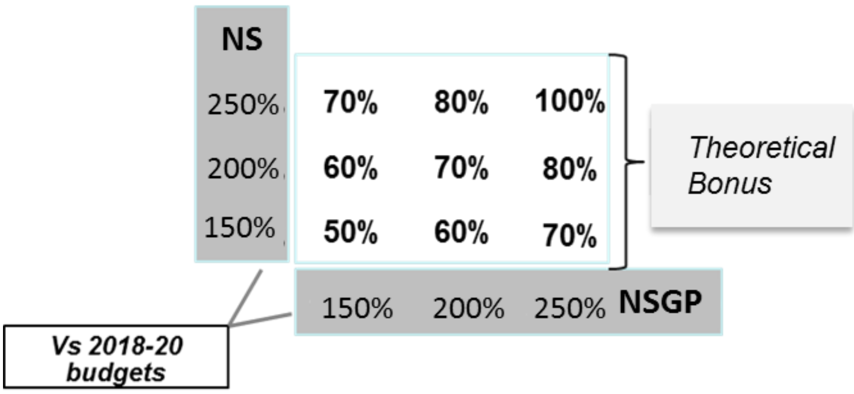
- three-year performance targets (2018-2020) linked to Total Net Sales (NS), Net Sales of Guided Products (NSGP) and, for PFAs and Group Managers, also to the ratio between Guided Products (GP) as at December 31st 2020, on Total Financial Asset (TFA) as at December 31st 2019;
- entry conditions based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

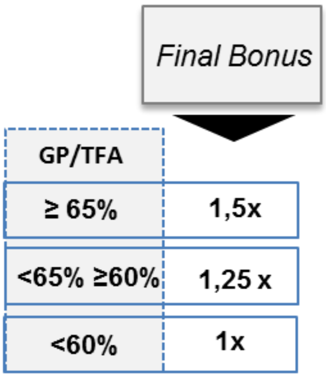
Performance indicators work in a general "matrix" logic with different specificities, depending on the target population (PFA / Group Manager and Area Manager) as shown below.

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[52].

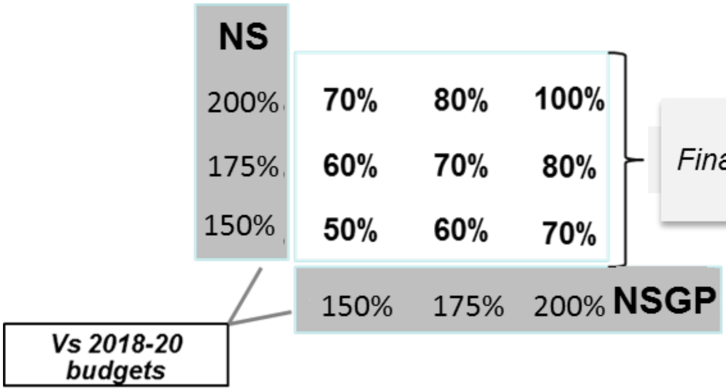


[50] Group Managers and Area Managers (Financial Advisors with accessory assignment of other PFAs coordination)
[51] Identified pursuant to the regulation in place at the time
[52] Group Manager that at December 31st 2020 have reached the personal targets as described in the matrix, in order to access 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 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



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[53]



Malus and entry conditions

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

Individual and Bank entry conditions

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[54], 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.

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.

[53] 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.

[54] Measured at 31/12/2020 as "cumulated" within the Plan performance years

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 Net Profit >0
CET 1 Fully loaded > 11,1%*	CET 1 Fully loaded > 11,1%**
LCR > RAF Limit (101%) *	LCR > RAF Limit (101%)**
NSFR > RAF Limit (101%)*	NSFR > RAF Limit (101%)**

1) In the event of failure to reach the annual access conditions at Group level, a reduction of the bonus of 5% per year is proposed.
2) In the event that Fineco's cumulative conditions are not met, the bonus will be canceled
3) If Fineco's annual conditions are not met, a pro-rata bonus reduction is expected

Deferral – ***Malus***

Group	Fineco
	Σ NOP Adj >0
	Σ Net Profit >0
CET 1 Fully loaded > 11,1%*	CET 1 Fully loaded > 11,1%**
LCR > RAF Limit (101%) *	LCR > RAF Limit (101%)**
NSFR > RAF Limit (101%)*	NSFR > RAF Limit (101%)**

1) In case of failure to reach the access conditions at Group level, a reduction of the deferred portion of 5% is proposed
2) If Fineco's cumulative and annual conditions are not met, the deferred portion will be zeroed

* In line with the Group RAF 2019 (Trigger for CET1, Limit for LCR and NSFR). In the event of more restrictive regulatory changes in the performance years of the Plan, the defined thresholds will be updated accordingly
** Values aligned to those of the Group. In the event of more restrictive regulatory changes in the performance years of the Plan, the defined thresholds will be updated accordingly

In 2019 - in line with the provisions for the short-term Incentive System and in accordance with the Plan Regulations - the Capital and Liquidity conditions CET1 Fully Loaded Ratio, LCR and NSFR were changed for the year of performance.

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[55].

[55] See paragraph 3.2.

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[56] 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[57].

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.

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[56] See paragraphs 5.3 and 5.5

[57] 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.

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 0.8% ca. 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.

5. Compensation Data

5.1 2018 Compensation Outcomes

Employees

Euro/ 000

Population	No.	Fix	2018 Variable				Deferred variable from previous exercises*****				Variable paid in 2018 from previous exercises *****	
			Upfront		Deferred		Vested in 2018		Unvested			
			€	Shares	€	Shares****	€	Shares	€	Shares	€	Shares
Chief Executive Officer and General Manager (CEO) *	1	850	170	-	255	425	85	1.737	452	2.674	226	2.394
Non-executives Directors**	8	753	-	-	-	-	-	-	-	-	-	-
Executives with strategic responsibilities***	5	1.622	363	-	544	906	149	3.006	791	4.646	396	4.167
Other Identified staff	10	1.710	421	-	159	285	42	134	221	447	478	279

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

** Included member employee of Unicredit Group. The fix amount of member employee 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".

*** Included an Executive with strategic responsibilities whose the employment relationship termination occurred during the year

**** 2018-2020 LTI Plan is not included since it is long-term performance and it has not been evaluated

***** 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	No.	Fix	2018 Variable				Deferred variable from previous exercises**				Variable paid in 2018 from previous exercises **	
			Upfront		Deferred		Vested in 2018		Unvested			
			€	Shares	€	Shares***	€	Shares	€	Shares	€	Shares
Identified Staff belonging to business functions *	6	2.357	520	-	780	1.299	218	4.421	1.158	6.821	629	6.125
Identified Staff belonging to support functions	7	1.223	234	-	178	317	58	395	224	829	270	528
Identified Staff belonging to control functions	3	601	200	-	-	-	-	61	82	117	200	188

* 10 % of the amount of the CEO has been paid by UniCredit S.p.A.. Included also an Executive with strategic responsibilities whose the employment relationship termination occurred during the year

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

*** 2018-2020 LTI Plan is not included since it is long-term performance and it has not been evaluated

The vested component refers to cash and equity awards to which the right matured in 2018 as the performance conditions were achieved:

- vested cash payments refer to 2017 Group Incentive System;

- vested equity payments refer to 2014, 2015, 2016 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 2018 and for which any potential future gain has not been yet realized and remains subject to future performance:

- unvested cash payments refer to 2015, 2016 and 2017 Group Incentive System;

- unvested equity payments refer to 2014, 2015, 2016, 2017 Group Incentive System and “2014-2017 Multi-year Plan Top Management”.

The value of the shares shown as 2018 variable and deferred variable from previous exercises is calculated considering:

-for 2014, 2015, 2016, 2017, 2018 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 4th to February 4th, 2019;

-for 2014 Group Incentive System based on UniCredit shares, the arithmetic mean of the official closing prices of UniCredit ordinary shares from January 22nd to February 22nd, 2019.

Variable paid in 2018 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 and to the “2014-2017 Multi-year Plan Top Management”.

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 4 Executives with strategic responsibilities (included an Executive with strategic responsibilities whose the employment relationship termination occurred during the year) for 2018 have been rewarded with more than 1 mln Euros.

In the end, it is underlined that in 2018 any non standard remuneration has been paid for the Identified Staff.

Severance defined in 2018 for an Identified Staff amounted to € 1,623,194.

Financial Advisor

Euro/ 000

Population	No.	Fix*	2018 Variable **				Deferred variable from previous exercises **				Variable paid in 2018 from previous exercises **	
			Upfront		Deferred		Vested in 2018		Unvested			
			€	Shares	€***	Shares***	€	Shares****	€	Shares****	€	Shares****
Personal Financial Advisors belonging to Identified Staff	7	4.503	186	0	71	178	117	350	87	556	345	355

* Recurring remuneration (benefits and other compensations in kind included)
** Non-recurring remuneration
*** 2018-2020 LTI Plan is not included since it is long-term performance and it has not been evaluated
****Equity and Phantom share

The vested component refers to cash, equity and phantom shares awards to which the right matured in 2018 as the performance conditions were achieved. In particular:
- vested cash payments refer to 2015 Group Incentive System PFA and 2017 Group Incentive System PFA for Financial Advisors and Managers of the Network Identified Staff;
- vested equity and phantom share payments refer to 2015 Group Incentive System PFA, 2016 Group Incentive System PFA and "2015-2017 Plan PFA" for Financial Advisors and Managers of the Network Identified Staff.

The unvested component refer to cash, equity and to Phantom shares to which the right did not matured in 2018 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 2016 Group Incentive System PFA and to 2017 Group Incentive System PFA for Financial Advisors and Managers of the Network Identified Staff;
- the unvested phantom shares refer to 2015 Group Incentive System PFA for Financial Advisors and Managers of the Network Identified Staff;
- the unvested equity refer to 2016 Group Incentive System PFA, 2017 Group Incentive System PFA and to "2015-2017 Plan PFA" for Financial Advisors and Managers of the Network Identified Staff.

The value of the shares shows as 2018 variable is calculated considering the arithmetic mean of the official closing prices of Fineco ordinary shares from February 6th to March 6th 2019 The value of the shares / Phantom shares shown as deferred variable from previous exercises is calculated considering the arithmetic mean of the official closing prices of Fineco ordinary shares from January 4th to February 4th, 2019.

Variable paid in 2018 from previous exercises includes pay-outs based on actual performance achievements related to 2015 Group Incentive System PFA, to 2016 Group Incentive System PFA, 2017 Group Incentive System PFA and to "2015-2017 Plan PFA" for Financial Advisors and Managers of the Network Identified Staff.

5.2 2018 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	75%	25%
Support function	91%	9%
Overall Company	88%	12%

5.3 Benefit 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 defined benefit plans and defined contribution plans. In most cases, benefits are paied out once retirement requirements are satisfied: in the first ones the benefit's calculation is known in advance, while in defined contribution plans the benefit depends on allocated asset management results.

Complementary pension plans are external pension funds, legally autonomous from the Group. These plans are closed and do not allow new subscriptions, the only exception is represented by the defined contribution plan section of the "Fondo Pensione per il Personale delle Aziende del Gruppo UniCredit".

Within this section subscribers can distribute 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 purposes.

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, 2018, 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, 2018, compared against the figures at December 31, 2017, 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 RATIO EXPOSURES 2018.12.31	CRR LEVERAGE RATIO EXPOSURES 2017.12.31
	On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	24,557,540	22,132,423
2	(Asset amounts deducted in determining Tier 1 capital)	(74,973)	(77,041)
3	**Total on-balance sheet exposures (excluding derivatives and SFT) (sum of lines 1 and 2)**	**24,482,567**	**22,055,382**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	6,183	5,214
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	17,609	17,504
UE-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)	(2,171)	(11,061)
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)**	**21,621**	**11,657**
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1,055,918	202,754
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(906,706)	-
14	CCR exposure for SFT assets	27,452	13,491
UE-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	-	-
UE-15a	(Exempted CCP leg of client-cleared SFT exposure)		
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**176,664**	**216,245**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	1,303,905	3,161,632
18	(Adjustments for conversion to credit equivalent amounts)	(925,288)	(2,371,510)
19	**Off-balance sheet exposures (sum of lines 17 and 18)**	**378,617**	**790,122**
	Exempted exposures in accordance with Article 429 (7) and (14) of Regulation (EU) No 575/2013		
UE19-a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)	(12,404,281)	(14,517,544)
UE19-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	702,713	484,960
21	Total leverage ratio exposure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	12,655,188	8,555,862
22	**Leverage ratio**	**5.55%**	**5.67%**
	Choice on transitional arrangements and amount of derecognised fiduciary items		
UE-23	Choice on transitional arrangements for the definition of the capital measure	Transitorio	Transitorio
UE-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No. 575/2013	-	-

Leverage

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 AMOUNTS 2018.12.31	APPLICABLE AMOUNTS 2017.12.31
1	Total assets as per published financial statements	24,713,575	22,340,391
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	14,798	6,443
5	Adjustments for securities financing transactions	27,452	13,491
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	378,617	790,122
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)	(12,404,281)	(14,517,544)
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	(74,973)	(77,041)
8	**Leverage ratio exposure**	**12,655,188**	**8,555,862**

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 RATIO EXPOSURES 2018.12.31	CRR LEVERAGE RATIO EXPOSURES 2017.12.31
UE-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:**	**12,432,978**	**8,295,683**
UE-2	Trading book exposures	3,367	6,117
UE-3	Banking book exposures, of which:	12,429,611	8,289,566
UE-4	Covered bonds	-	-
UE-5	Exposures treated as sovereigns	9,013,837	6,151,267
UE-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	388,232	-
UE-7	Institutions	72,694	58,843
UE-8	Secured by mortgages of immovable properties	856,848	515,982
UE-9	Retail exposures	1,623,172	1,190,851
UE-10	Corporate	225,103	172,969
UE-11	Exposures in default	2,795	2,778
UE-12	Other exposures (e.g. equity, securitisations and other non-credit obligation assets)	246,930	196,876

The figures are stated net of exempted intercompany exposures.

Leverage

Qualitative 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, equals to 5.55% slightly decreasing from 5.57% as at December 31, 2017.

It is worth mentioning that during 2018 the Bank issued an Additional Tier 1 bond for an amount of €200 million, computable in Tier 1, whose benefit in terms of ratio was absorbed by the increase in exposure measure of the financial Leverage ratio. Exposure measure, in fact, grew by €4,099,336 thousand mainly due to the growth in customer deposits, which leads to an increase in the balance sheet assets, and to the reduction of the intragroup 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 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.

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

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 applies the netting to the repurchase agreements and reverse repurchase agreements executed on the MTS market.

With regard to off-balance sheet offsetting, the Bank uses offsetting instruments mainly on derivatives, repurchase agreements and securities lending with institutional counterparties. The objective is to reduce the risk and obtain benefits in terms of lower capital absorption through the netting agreements signed with the specific counterparties, whose effectiveness depends on the selection of assets suitable to be considered eligible for mitigation purposes. Relations with institutional counterparties are regulated by standardized and recognized contracts on the market such as ISDA Master Agreements, Global Master Stock Lending 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 depend 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.

Use of risk mitigation techniques

As regards the assessment of property guarantees, specific processes and procedures have been defined and implemented, in order to ensure the valuation of the property by an independent expert. The valuation of assets is carried out by external technicians included in the Register of Engineers, Architects, Surveyors or industrial experts and is therefore not subject to conflicts of interest.

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: maximum Loan to Value at 80% or 60% for liquidity loans (non-mortgage);
- UCITS: the applied margin range between 60% and 75%, depending on the riskiness of the instrument.

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..

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, residential and, residually, 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.

Use of risk mitigation techniques

EU CR3 – CRM techniques – Overview

	EXPOSURES UNSECURED – CARRYING AMOUNT	EXPOSURES TO BE SECURED	EXPOSURES SECURED BY COLLATERAL	EXPOSURES SECURED BY FINANCIAL GUARANTEES	EXPOSURES SECURED BY CREDIT DERIVATIVES
1 Total loans	4,105,372	1,886,992	1,886,992	-	-
2 Total debt securities	18,217,900	-	-	-	-
3 Total exposures	**22,323,272**	**1,886,992**	**1,886,992**	**-**	**-**
4 Of which defaulted	2,775	42	42	-	-

Exposures secured include exposures secured by immovable property for an amount of €856,856 thousand.

The Bank considered as eligible CRM techniques, in accordance with part three, title II, chapter 4 of the CRR, a total of €660,852 thousand of collateral, consisting mainly of UCITS units and equity instruments.

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

	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST CCF AND CRM		RWA AND RWA DENSITY	
	ON-BALANCE-SHEET AMOUNT	OFF-BALANCE-SHEET AMOUNT	ON-BALANCE-SHEET AMOUNT	OFF-BALANCE-SHEET AMOUNT	RWA	RWA DENSITY
1 Central governments or central banks	8,848,779	-	8,848,779	-	72,949	0.8%
3 Public-sectors entities	165,058	-	165,058	-	-	0.0%
4 Multilateral development banks	101,271	-	101,271	-	-	0.0%
5 International organisations	286,961	-	286,961	-	-	0.0%
6 Institutions	12,165,335	256,032	12,165,334	256,030	8,591	0.1%
7 Corporates	225,103	14,534	149,300	316	149,615	100.0%
8 Retail	1,623,172	1,024,177	1,174,584	481	881,299	75.0%
9 Secured by mortgages on immovable property	856,848	-	856,848	-	300,295	35.0%
10 Exposures in default	2,795	155	2,788	-	2,812	100.9%
11 Exposures associated with particularly high risk	6,652	-	6,652	-	9,978	0.0%
15 Equity exposures	9,100	-	9,100	-	13,599	149.4%
16 Other exposures	102,627	-	102,627	-	102,621	100.0%
17 Total	**24,393,701**	**1,294,898**	**23,869,302**	**256,827**	**1,541,759**	**6.4%**

RWAs show an increase of €144,931 thousand compared to December 31, 2017, 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

It 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.

Glossary

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 honor 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)

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).

Glossary

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.

Glossary

NSFR - Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) is structured to ensure that long-term assets are financed with at least a minimum amount of stable liabilities in relation to their respective liquidity risk profiles. The NSFR is aimed at limiting the excessive use of short-term wholesale deposits in periods of abundant market liquidity and encouraging a better assessment of liquidity risk based on all balance sheet and off-balance sheet items. The NSFR is defined as the ratio between the available amount of stable funding and the mandatory amount of stable funding.

NPLs – Non performing loans

Non-Performing Loans (NPLs) are exposures to entities that, due to a worsening of their economic and financial situation, are not able to fulfill all or part of their contractual obligations. In accordance with the Implementing Technical Standards of the European Banking Authority (EBA), these are exposures for which the following criteria are met: (i) significant exposures past due for more than 90 days; (ii) exposures for which the bank deems the full compliance of the debtor unlikely without recourse to actions such as the enforcement of guarantees, regardless of the existence of an overdue amount or the number of expired days. The definitions of impaired loans adopted by the Bank of Italy are those that are harmonized at the level of the Supervisory Mechanism in line with the indications of the EBA and identify three sub-classes of impaired loans: "non-performing loans", "unlikely to pay" and "past due exposures"

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 unfavorably 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.

Glossary

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.

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.

Bad 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.

TSR – Total Shareholder Return

It is the full reward, in terms of capital gain and dividends, that a shareholder gets from holding one share.

Declaration of the nominated official in charge of drawing up company accounts

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 5, 2019

Lorena Pelliciari

Annex 1 - Capital instruments main features templates

Capital instruments main features templates*

*'N/A' if the information is not applicable

1	Issuer	FinecoBank S.p.A.	FinecoBank S.p.A.
2	Unique identifier	XS1764695018	IT0000072170
3	Governing laws of the instrument	English law, with the exception of the provisions on the status of securities (position in the hierarchy of subordination (ranking) and waivers of compensation rights (set-off / netting)) and on the contractual recognition of the powers of bail-in statutes, governed by Italian law	Italian law
	Regulatory treatment		
4	Transitional CRR rules	Additional Tier 1 capital	Common Equity Tier 1
5	Post-transitional CRR rules	Additional Tier 1 capital	Common Equity Tier 1
6	Eligible at: Solo; consolidated; Solo and consolidated	Solo	Solo
7	Instrument type	Bond - Art. 51 CRR	Ordinary shares
8	Amount recognised in regulatory capital (€ million)	200	201
9	Nominal amount of instrument	200	201
9a	Issue price	100	N/A
9b	Redemption price	100	N/A
10	Accounting classification	Shareholders equity	Shareholders equity
11	Original date of issuance	31/01/2018	N/A
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity
14	Issuer call subject to prior Supervisory approval	YES	N/A
15	Optional call date, contingent call date and redemption amount	First optional early repayment date: 03/06/2023. 100% refund of the principal amount plus interest accrued on the repayment date "Regulatory call - Capital Event": 100% repayment of the principal amount plus accrued interest on the redemption date. "Tax event": 100% refund of the principal amount plus interest accrued on the repayment date "Repurchases": the Issuer may repurchase the Notes, also for market making purposes, in any case with the authorization of the competent authority.	N/A
16	Subsequent call date, if applicable	Every 3 June and 3 December following the first optional early repayment date	N/A
	Coupon/dividends		
17	Fixed or floating dividend/coupon	Fixed	Floating
18	Coupon rate and any related index	4.82% at year until 3 June 2023; subsequently reset every 5 years to the 5-year Mid-Swap Rate + 445.5 bps	N/A
19	Existence of dividend stopper	NO	NO
20a	Fully discretionary, partially discretionally or mandatory (in terms of timing)	Fully discretionary. Insufficiency of elements of distributable capital; Distributions exceeding the Maximum Distributable Amount; "Loss Absorption Event"; Option at full discretion of the issuer	Fully discretionary
20b	Fully discretionary, partially discretionally or mandatory (in terms of amount)	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NO	N/A
22	Non cumulative or cumulative	Non cumulative	N/A
23	Convertible or non convertible	Not convertible	N/A
24	If convertible, conversion trigger(s)	-	N/A
25	If convertible, fully or partially	-	N/A
26	If convertible, conversion rate	-	N/A
27	If convertible, mandatory or optional conversion	-	N/A
28	If convertible, specify instrument type convertible into	-	N/A
29	If convertible, specify issuer of instruments it converts into	-	N/A
30	Write-down features	YES	N/A
31	If write-down, write-down triggers	Capital shortfall	N/A
32	If write-down, full or partial	Partial	N/A
33	If write-down, permanent or temporary	Temporary	N/A
34	If temporary write-down, description of write-up mechanism	If the Issuer has a positive net income, the Issuer may, in its total discretion and without prejudice to the Maximum Distributable Amount, increase the prevailing Principal Amount of the Bonds on a pro-quota basis with similar Additional Tier 1 instruments.	N/A
35	Position in subordination hierarchy in liquidation	Tier 2	Additional Tier 1
36	Non-compliant transitioned features	NO	NO
37	Non-compliant transitioned features	-	-

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