FINECO

BANK

FINECOBANK GROUP PUBLIC DISCLOSURE - PILLAR III

AS AT 31 DECEMBER 2019

FINECO. SIMPLIFYING BANKING.

Contents

“FinecoBank Banca Fineco S.p.A.”
or in abbreviated form “FinecoBank S.p.A.”, or “Banca Fineco S.p.A.” or “Fineco Banca S.p.A.”.
Bank enrolled in the Register of Banks and Parent Company of the FinecoBank Banking Group – enrolled in the Register of Banking Groups at No. 3015, Member of the National Guarantee Fund and National Interbank Deposit Guarantee Fund.
Tax Code and Milan Companies Register no. 01392970404 – R.E.A. (Economic and Administrative Index) no. 1598155, VAT No. 12962340159

Introduction

The FinecoBank Group public disclosure (Pillar III) has been 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), subsequently updated by Directive (EU) 2019/878 (so called CRD V) and Regulation (EU) 2019/876 of the European Parliament and of the Council (so-called CRR 2), partially already applicable.

The Directive and the Regulation transpose into European Union legislation the framework known as Basel III, defined by the Basel Committee on Banking Supervision in order to strengthen banks' ability to absorb shocks arising from financial and economic tensions, regardless of their origin, to improve risk management and governance of banks, as well as to strengthen their transparency and disclosure. 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 and subsequent update).

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. This public disclosure obligation aims to integrate the minimum capital requirements (Pillar 1) and the prudential control process (Pillar 2), through the identification of a set of disclosure transparency requirements that allow market participants to have relevant, complete and reliable information about capital adequacy, risk exposure and the general characteristics of the systems responsible for identifying, measuring and managing these risks.

The Bank of Italy Circular No. 285 "Supervisory Provisions for Banks" of 17 December 2013 (and subsequent updates), which in Chapter 13 of Part Two (public disclosure) regulates the matter, does not lay down specific rules for the preparation and publication of Pillar III, but refers to the provisions for this purpose set out in the CRR, in the Regulations of the European Commission whose preparation may be delegated to the EBA (European Banking Authority) and in the EBA Guidelines.

The topic is therefore regulated:

- by the CRR, Part 8 “Disclosure by institutions” (art. 431–455) and Part 10, Title I, Chapter 3 “Transitional provisions for disclosure of own fund” (art. 492);

- by European Commission Regulations, the preparation of which may be delegated to EBA, containing the regulatory or implementing technical standards to govern the uniform formats for the publication of the different types of information. In particular, reference is made to the guidelines published by EBA on:

- disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (EBA/GL/2016/11, version 2);
- on materiality, proprietary and confidentiality and on disclosure frequency (EBA/GL/2014/14);
- disclosure of own funds requirements for institutions according to CRR (Commission Implementing Regulation 1423/2013)
- disclosure of the leverage ratio for institutions, according to CRR (Commission Implementing Regulation EU 2016/200)
- disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Article 440 of CRR (EBA/RTS/2014/17 transposed by the Commission Delegated Regulation EU 2015/1555);
- disclosure of encumbered and unencumbered assets (EBA/GL/2014/03 and EBA RTS/2017/03 transposed by the Commission Delegated Regulation EU 2017/2295);
- LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of CRR (EBA/GL/2017/01);
- uniform disclosures under Article 473a of CRR as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds (EBA/GL/2018/01);
- disclosure of non-performing and forborne exposures (EBA/GL/2018/10).

Finally, this Disclosure takes into account the indications contained in the document "Enhancing the risk disclosures of banks" prepared by the international Enhanced Disclosure Task Force - EDTF established under the auspices of the Financial Stability Board (FSB) and published in 2012. This document contains a number of recommendations aimed at enhancing banks' disclosure transparency on risk profiles for which investors have highlighted the need for clearer and more complete information.

In accordance with the proportionality principle, which takes into account the level and complexity of the activities carried out, as well as the business models and risk management systems used, some information is requested only to banks that assume the status of significant entities or banks of global or local systemic importance. This document has been prepared in accordance with the indications of the EBA guidelines in compliance with the proportionality principle and publishing only information that is material and not exclusive or confidential in accordance with Article 432 of the CRR.

In line with Article 433 of the CRR, FinecoBank S.p.A., parent company of FinecoBank Banking Group (hereafter “Group”), publishes its public disclosure on a consolidated basis at least annually, together with the financial statement documents.

Any discrepancies between data disclosed in this document are due to the effect of rounding. All amounts, unless otherwise specified, are expressed in thousands of euros.

Please note that the disclosure of the Group is prepared in accordance with a formal policy (Internal Regulation) adopted in the application of the CRR Article 431 (3) that sets out the internal controls and procedures.

Introduction

The key elements of this policy are:

• identification of roles and responsibilities of the corporate bodies, departments and Legal Entities involved in the process of producing the disclosure

• identification of the information to be published (in accordance with EBA GL/2014/14 and EBA GL 2016/11 and CRR Article 432 and 433 and with the subsequent Regulation (EU) 2019/876 in relation with the requirements applicable as of 31 December 2019);

• approval by the Board of Directors;

• publication on the FinecoBank website.

Finally, for the publication of qualitative and quantitative information, FinecoBank has adopted, firstly, the models provided by the EU Regulations or by the applicable EBA Guidelines mentioned above, secondly, the models contained in the EBA Guidelines "GL/2016/11" and, lastly, the free models. In this regard, in coherence with the 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.

Introduction

Cross reference to EBA requirements: EBA/GL/2016/11[1]

TABLE	QUALITATIVE INFORMATION	QUANTITATIVE INFORMATION	CHAPTER
EBA Guidelines 2016/11			
EU OVA	Institution risk management approach		Risk management objectives and policies
EU OV1		Overview of RWAs	Capital requirements
EU CRA	General qualitative information about credit risk		Risk management objectives and policies
EU CRB-A	Additional disclosure related to the credit quality of assets		Credit risk: credit risk adjustments
EU CRB-B		Total and average net amount of exposures	Credit risk: credit risk adjustments
EU CRB-C		Geographical breakdown of exposures	Credit risk: credit risk adjustments
EU CRB-D		Concentration of exposures by industry or counterparty types	Credit risk: credit risk adjustments
EU CRB-E		Maturity of exposures	Credit risk: credit risk adjustments
EU CR1-A		Credit quality of exposures by exposure class and instrument	Credit risk: credit risk adjustments
EU CR2-A		Changes in the stock of general and specific credit risk adjustments	Credit risk: credit risk adjustments
EU CR2-B		Changes in the stock of defaulted and impaired loans and debt securities	Credit risk: credit risk adjustments
EU CRD	Qualitative disclosure requirements on institutions' use of external credit ratings esterni under the stardardised approach for credit risk		Credit risk: use of ECAIs
EU CRC	Qualitative disclosure requirements related to CRM techniques		Credit risk:use of risk mitigation techniques
EU CR3		CRM techniques - Overview	Credit risk:use of risk mitigation techniques
EU CR4		Standardised approach - Credit risk exposures and CRM effects	Credit risk:use of risk mitigation techniques
EU CR5		Standardised approach	Credit risk:use of risk mitigation techniques
EU CCRA	Qualitative disclosure requirements related to CCR		Counterparty risk
EU CCR1		Analysis of CCR exposures by approach	Counterparty risk
EU CCR2		CVA capital charge	Counterparty risk
EU CCR3		Standardised approach - CCR exposures by regulatory portfolio and risk	Counterparty risk
EU CCR8		Exposures to CCPs	Counterparty risk
EU CCR5-A		Impact of netting and collateral held on exposure values	Counterparty risk
EU CCR5-B		Composition of collateral for exposures to CCR	Counterparty risk
EU MRA	Qualitative disclosure requirements related to market risk		Risk management objectives and policies

[1] The templates of the EBA Guidelines 2016/11 replaced by the EBA Guidelines 2018/10 are not exposed in the table

Cross reference to EBA requirements: EBA/GL/2014/03 and EBA RTS/2017/03 transposed by Delegated Regulation of the European Commission (EU) 2017/2295; EBA/GL/2017/01; EBA/GL/2018/10, EBA/RTS/2014/17 transposed by Delegated Regulation 2015/1555

TABLE	QUALITATIVE INFORMATION	QUANTITATIVE INFORMATION	CHAPTER
EBA Guidelines 2014/03 (Delegated Regulation 2017/2295)			
Template A		Encumbered and unencumbered assets	Encumbered and unencumbered assets
Template B		Collateral received	Encumbered and unencumbered assets
Template C		Sources of encumbrance	Encumbered and unencumbered assets
Template D	Accompanying narrative information		Encumbered and unencumbered assets
EBA Guidelines 2017/01			
Tabella EU LIQA	Information of liquidity risk		Liquidity risk
Template EU LIQ1	Qualitative information on LCR, which complements the "LCR disclosure template"	LCR disclosure template	Liquidity risk
EBA Guidelines 2018/10			
Template 1		Credit quality of forborne exposures	Credit risk: credit risk adjustments
Template 3		Credit quality of performing and non-performing exposures by past due days	Credit risk: credit risk adjustments
Template 4		Performing and non-performing exposures and related provisions	Credit risk: credit risk adjustments
Template 5		Quality of non-performing exposures by geography	Credit risk: credit risk adjustments
Template 6		Credit quality of loans and advances by industry	Credit risk: credit risk adjustments
Template 9		Collateral obtained by taking possession and execution processes	Credit risk: credit risk adjustments
EBA RTS/2014/17 (Delegated Regulation 2015/1555)			
Table 1		Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer	Capital buffers
Table 2		Amount of institution-specific countercyclical capital buffer	Capital buffers

Cross reference to information required by Part Eight of CRR

ARTICLE	CONTENT	CHAPTER
435	Risk management objectives and policies	Risk management objectives and policies / Liquidity risk
436	Scope of application	Scope of application
437	Own Funds	Own funds, Annex 1
438	Capital requirements	Capital requirements
439	Exposure to counterparty credit risk	Counterparty risk
440	Capital buffers	Capital buffers
441	Indicators of global systemic importance	Not applicable
442	Credit risk adjustments	Credit risk: credit risk adjustments
443	Unencumbered assets	Encumbered and unencumbered assets
444	Use of ECAIs	Credit risk: use of ECAIs
445	Exposure to market risk	Market risk
446	Operational risk	Operational risk
447	Exposures in equities not included in the trading book	Exposures in equities not included in the trading book
448	Exposure to interest rate risk on positions not included in the trading book	Exposure to interest rate risk on positions not included in the trading book
449	Exposure to securitisation positions	Not applicable
450	Remuneration policy	Reference to the "Remuneration Report"
451	Leverage	Leverage
452	Use of the IRB Approach to credit risk	Not applicable
453	Use of credit risk mitigation techniques	Credit risk: Use of credit risk mitigation techniques
454	Use of the Advanced Measurement Approaches to operational risk	Not applicable
455	Use of Internal Market Risk Models	Not applicable

Risk Management objectives and policies

In order to ensure that business activities are in line with corporate strategies and policies and are based on sound and prudent management, FinecoBank, as the Parent Company of the FinecoBank Banking Group, has equipped the Group with a uniform system of internal controls that allows effective control over both the strategic choices of the Group as a whole and the managerial balance of the individual Group entities.

Specifically, in accordance with the provisions of the Supervisory Authorities, the Group's Internal Control System (ICS) consists of all the rules, functions, structures, resources, processes and procedures that aim to ensure that the following objectives are achieved:

- containment of risk within limits set out in the Group Risk Appetite Framework - “RAF”;
- verification of the implementation of the Bank’s strategies and policies;
- protection of the value of assets and preventing losses;
- effectiveness and efficiency of corporate processes;
- security and reliability of the Bank information and ICT procedures;
- prevention of the risk that the Group may be involved, even involuntarily, in illegal activities (with particular reference to those connected with money laundering, usury and terrorist financing);
- compliance of transactions with the law and supervisory regulations, as well as with the policies, regulations and internal procedures of the Bank and the FinecoBank Group.

From a methodological point of view, the Internal Control System of the Bank and Fineco AM, the only subsidiary, provides for three types of controls:

- first level controls ('line controls'): these are controls for individual activities and are carried out according to specific operational procedures based on a specific internal regulation. Monitoring and continuously updating these processes is entrusted to 'process supervisors' who are charged with devising controls able to ensure the proper performance of daily activities by the staff concerned, as well as the observance of any delegated powers. The processes subject to control relate to units that have contact with customers, as well as completely internal units;
- second level controls: these are controls related to daily operations connected with the process of measuring quantifiable risks and are carried out continuously by non-operating units. The Risk Management function controls market, credit and operational risks, as regards compliance with limits assigned to operating functions and the consistency of operations of individual production areas with established risk/return objectives; the Compliance unit is responsible for controls on non-compliance risks; for regulatory areas which already have types of control performed by the specialised structures, monitoring of compliance risk is assigned to these structures based on the 'Indirect Coverage' operating model;
- third level controls: these controls are typical of internal auditing, based on analysis of information obtained from databases or company reports, as well as on-site controls. This type of control aims to identify breaches of procedures and regulations, in addition to periodically assessing the completeness, adequacy, functioning (in terms of efficiency and effectiveness) and reliability of the internal control system and information system (ICT audit) at a set frequency based on the nature and level of the risks. These controls are assigned to the Internal Audit function, which has been internalised as of 10 May 2019; to verify the compliance of the behavior of the companies belonging to the Group with the guidelines of the Parent Company as well as the effectiveness of the internal control system, the internal audit function of FinecoBank, on a consolidated level, periodically carries out on-site controls on the components of the Group, taking into account the importance of the different types of risk assumed by the entities.

Institutional supervisory controls were also set up at the Parent Company: these refer to controls by the Bank's supervisory bodies, including in particular the Board of Statutory Auditors and the Supervisory Body pursuant to Italian Legislative Decree no. 231 of 8 June 2001.

Risk governance organization

The prerequisite for a complete and functional internal control system is the existence of an adequate business organisation to ensure sound and prudent management.

The internal control system of the Group provides for the involvement of the following control bodies and functions, each for their respective competences:

- the Board of Directors;
- the Chief Executive Officer and General Manager;
- the Board of Statutory Auditors;
- the Risk and Related Parties Committee;
- the Remuneration Committee;
- the Corporate Governance Appointments and Sustainability Committee;
- the Supervisory Body set up pursuant to Legislative Decree 231/01;
- and the corporate control functions (Risk Management, Compliance, Internal Audit) as well as other company functions with specific internal control duties.

Risk management objectives and policies

The corporate bodies and control functions collaborate and coordinate with each other both through specific information flows formalized in internal regulations, and through the establishment of managerial committees dedicated to control issues.

The Board of Directors of the Parent Company is tasked with setting the strategic policies and the guidelines for the organisational and operational structures, overseeing and monitoring their timely execution within the risk profiles of assigned. The Board of Directors is responsible for establishing and approving the methods through which risks are detected and assessed and for approving the risk management strategic direction and policies. The Board of Directors also verifies that the internal control structure is consistent with the risk tolerance established and approves policies for the management of risks.

The Chief Executive Officer and General Manager has been assigned specific powers by the Board of Directors in all the Group's areas of activity. These powers are to be exercised in accordance with the applicable regulations and within the limits of and the policies, instructions, limits, risk assumption procedures and using the operational methods governed by the applicable information notices. The Chief Executive Officer and General Manager puts in place the necessary measures to ensure the establishment and maintenance of an efficient and effective internal control system.

As Head of the Internal Control System, each year the Chief Executive Officer approves the document "Managerial Assessment of the Internal Control and Risk System" aimed at assessing the adequacy of the Group's risk management measures; in addition, as a member of the Board of Directors, he approves the Annual Report on the Group's Risk Exposures, a document prepared by the Parent Company's Risk Management that summarizes the Group's overall risk profile, with a particular focus on the risk indicators included in the Risk Appetite Framework.

With regards to risk management, the Board of Statutory Auditors is responsible for overseeing the completeness, adequacy, functionality and reliability of the Internal Control System and the Risk Appetite Framework.

The Risks and Related Parties Committee is made up of three non-executive and independent Directors, and has the task of supporting, with an adequate preliminary investigation, the assessments and decisions of the Board of Directors relating to the Internal Control and Risk System, as well as those relating to the approval of periodic financial reports.

The Remuneration Committee is composed of three non-executive and independent Directors and has the task of supporting, with an adequate preliminary activity, the assessments and decisions of the Board of Directors in the following main activities: in defining the general remuneration policy for the Chief Executive Officer, the General Manager, the other Executives with strategic responsibilities and the other identified Staff; in examining the stock or monetary incentive plans for employees and personal financial advisors of the Company and the Group and the strategic development policies of human resources.

The Corporate Governance, Appointments and Sustainability Committee, composed of three non-executive and independent Directors, has the task of supporting the Board of Directors in the following main activities: defining FinecoBank's corporate governance system and the Group's governance models/guidelines; appointing and co-opting directors and the Chief Executive Officer and/or General Manager and other Executives with strategic responsibilities; supervising sustainability issues related to FinecoBank's operations and the dynamics of interaction with all stakeholders.

The Compliance function presides over the management of the risk of non-compliance, i.e. the risk of incurring judicial or administrative sanctions, significant financial losses or damage to reputation because of violations of mandatory rules or self-regulation.

The validation function, placed in the staff of the Chief Risk Officer, is in charge of subjecting the Group's internal models to validation.

The CRO Department is responsible for credit operations and risk management. The disclosure, at various levels, is provided by the various Bodies (Chief Executive Officer and General Manager, Board of Directors, Risk and Related Parties Committee). In relation to the Basel Pillar 2 instructions, reputational and business risk and, in collaboration with the CFO, liquidity risk are also monitored and reported.

The CRO and the CFO are responsible for proposing the Group Risk Appetite Framework and setting risk management strategies and policies, in line with the Bank’s strategies and objectives, coordinating and monitoring their implementation by the units responsible, also in the various company areas.

The CRO Department ensures the control of the Group’s overall risk profile by monitoring the various types of risk exposure, in accordance with the methods established by the Board of Directors.

The Risk Management Unit prevents and monitors different components of the Group risks; its tasks and responsibilities are described in details in the following paragraph.

For further information on the Group's governance please refer to the “Report on Corporate Governance and Ownership Structures” available for consultation in the “Governance” section of the Bank's website at: www.finecobank.com. In particular, the “Report on Corporate Governance and Ownership Structures” includes the information required by paragraph 2 of art. 435 of the CRR point a) (the number of directorships held by members of the management body), point b) (the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise), point c) (the policy on diversity), point d) (whether or not the institution has set up a separate risk committee and the number of times the risk committee has met and point e) (the description of the information flow on risk to the management body).

Risk Management objectives and policies

Organisation of the risk control function

The Risk Management Unit, which reports to the CRO, carries out controls of credit, market and operational risks to which the Group is exposed. The Risk Management function also monitors business, reputational and liquidity risk. The Risk Management Unit supports the CRO, in the area of responsibility of the Department, in monitoring and reporting to the Strategic Supervision and Management Bodies.

In particular, Group Risk Management:

- is involved in the definition of the RAF, the risk governance policies and the various phases that make up the risk management process, as well as in setting the operating limits for the assumption of the various types of risk. In this context, it has, inter alia, the task of proposing the quantitative and qualitative parameters necessary for the definition of the RAF, which also refer to stress scenarios and, in the event of changes to the internal and external operational context of the bank, the adjustment of these parameters;
- verifies the adequacy of the RAF;
- continuously checks the adequacy of the risk management and operating limits process;
- develops and maintains risk control models;
- ensures the effective implementation of the IT risk assessment methodology, supporting and coordinating the individual functions involved, each as far as it is concerned, during the ICT risk assessment process; defines common operational risk assessment metrics consistent with the RAF, coordinating with the compliance function, with the ICT function and with the business continuity function;
- defines methods of assessment and control of reputational risks, coordinating with the compliance function with the most exposed corporate functions and functions;
- assists the corporate bodies in assessing strategic risk by monitoring significant variables;
- develops and applies indicators capable of highlighting anomalous and inefficient situations of risk measurement and control systems;
- analyses the risks of new products and services. In particular, the identification of risks relating to new products and services is guaranteed by the permanent participation of the CRO and the Head of Risk Management in the products committee;
- verifies the correct performance of performance monitoring on individual credit exposures;
- constantly monitors the actual risk assumed by the Group and its consistency with the risk objectives as well as compliance with the operating limits assigned to the operating structures in relation to the assumption of the various types of risk.

The function monitors and reports to the corporate bodies (Chief Executive Officer and General Manager, Board of Directors, Audit Committee and Board of Statutory Auditors) and to the Risk and Related Parties Committee. The information provided to the corporate bodies is represented by the Quarterly Report on the Group's risk exposures; specific reports are also prepared for the Risk and Related Parties Committee with information, including management information, in relation to the performance of "key risk indicators" and consequent corrective measures.

The function is articulated in relation to the individual risk considered most important for the Group:

- credit risks, including counterparty risk and country risk, are the responsibility of the Credit Risk Team;

- market risks, including liquidity risk, interest rate risk and exchange rate risk, are the responsibility of the Market Risk Team;

- operational risks, including reputational and IT risks, are the responsibility of the Operational and Reputational Risks Team.

Risk culture

As indicated in the Risk Appetite Framework, the Group adopts a strategic approach to using a robust business model with a low risk appetite in order to create the foundations for sustainable profit and a return on the cost of capital, guaranteeing continuity in generating revenues. The Group's ambition is to achieve this result with the support of an optimal Internal Control System, with procedures that are effective and efficient at managing every risk.

To internalise these principles and values, and adopt a risk culture in day-to-day activities, numerous initiatives have been adopted, and in particular:

- Managerial Committees have been set up to ensure a risk awareness disseminated at all levels of the organisation, with the involvement of both business and control structures (so-called ”tone from the top”);
- incentive mechanisms have been adopted that consider a weighting for risks related to the annual performance of a subset of RAF indicators (so called “CRO Dashboard”);
- ongoing relations are maintained with the Chief Risk Officers of Group Companies, to share information on the risk profile and on development plans, to improve their evolution and risk management;
- induction activities are held regularly with the Board of Directors and issues concerning risks are investigated in-depth with the Risks and Related Parties Committee;
- employees are given the chance to take part in the Risk Academy, in association with competence centers for learning and training, in order to develop and standardise an understanding and knowledge of risk.

Definition of risk appetite and processes for the management of relevant risks

The Risk Appetite Framework is an integral part of the Internal Control System. It is the reference framework that defines – consistently with the maximum risk that can be assumed, the business model and the strategic plan – the risk appetite, tolerance thresholds, risk limits, risk governance policies and the necessary processes for calculating and implementing them.

The main objectives of the risk appetite are to:

- explicitly assess the risks, and their interconnections at local and Group level, that the Group decides to assume (or avoid) in a long-term perspective;
- specify the types of risk that the Group intends to assume, setting targets, triggers and limits under both normal operating and stress conditions;
- ensure a risk-return profile 'ex-ante' consistent with sustainable long-term growth, as defined by the return forecasts of the strategic plan/budget;
- ensure that the business develops within the risk tolerance set by the Board of Directors, in compliance with national and international regulations;
- support discussions on future policy options concerning the risk profile;
- guide the vision of internal and external stakeholders towards a risk profile consistent with the strategic plan;
- provide qualitative descriptions for risks that are difficult to quantify (e.g. strategic, reputational, compliance) to strategically guide the review of processes and the internal control system.

The Risk appetite is defined consistently with the Group’s business model. For this reason, the Risk Appetite is incorporated in the budget and Multi Year Plan process.

The risk appetite includes a statement and a set of KPIs. The Statement sets out the Group's positioning in terms of strategic objectives and associated risk profiles, while the KPIs are designed measure the Group's in the following categories quantitatively:

- Pillar 1 KPIs: regulatory requirements, to include the KPIs required by the Supervisory Authority (e.g., capital and liquidity requirements such as LCR and NSFR);
- Managerial KPIs: to ensure alignment with the budget in terms of return on capital and credit quality;
- Specific Risk KPIs: to ensure control of all major risks (such as Pillar 2 capital adequacy, market risk, interest rate risk and operational risk).

One or more KPIs are identified for each of the above dimensions, to be able to measure the position of the Group in different ways quantitatively: absolute values, ratio between comparable measures and sensitivity analysis on defined parameters.

The Targets represent the amount of risk (overall and by type) that the Group is willing to take in pursuit of its strategic objectives. The triggers define the maximum deviation from the permitted risk appetite; the tolerance threshold is set to ensure sufficient margins for the Group to operate, even under stress conditions, within the maximum risk that can be taken.

The limits are the maximum level of risk that the Group is technically able to assume without violating the regulatory requirements or other constraints imposed by the shareholders or the supervisory authority.

The setting of the thresholds is evaluated on a case by case basis, also through managerial decisions by the Board of Directors, in compliance with the requirements of the regulations and the supervisory bodies.

The metrics are the subject of regular monitoring and reporting, at least quarterly. The monitoring is respectively carried out by the CRO Department and the CFO Department.

Relevant risk

Credit and counterparty risk

In its credit business activities the Group is exposed to the risk that its loans may, due to the deterioration of the debtor’s financial condition, not be repaid at maturity, thus resulting in a partial or full write-down. This risk is always inherent in traditional lending operations regardless of the form of the credit facility.

The main causes of default are attributable to the loss of the borrower's autonomous capacity to ensure repayment of the debt, as well as to the emergence of macro-economic and political circumstances that are reflected in the financial conditions of the debtor.

In addition to the risk associated with the granting and disbursement of credit, the Group is also exposed to counterparty risk. Counterparty risk is the risk that a counterparty to one of the transactions is in default prior to the final settlement of the cash flows involved in the transaction.

For example, counterparty risk may derive from:

- entering into derivative contracts;
- purchasing and selling securities, futures, or currencies;

- holding third-party securities.

The counterparties in these transactions or issuers of securities held by Group Legal Entities could default as a result of insolvency, political and economic events, lack of liquidity, operating problems or other reasons. Defaults of a large number of transactions, or one or more large transactions, could have a material adverse impact on the Group’s operations, financial condition and operating results.

Also, “Non Traditional Credit Risk” is generated by leverage/short transactions carried out with securities lending (securities lending transactions secured by money). Leverage/short transactions conducted through securities lending, also when there are automatic stop losses performed within the margins, can generate credit risk if the security lacks liquidity (for example, in the case of dramatic events that affect the normal functioning of markets) and/or the margin is insufficient. To anticipate such events, scenario analyses are conducted periodically to assess the impacts and implement appropriate mitigation policies.

The Group therefore controls and manages the specific risk of each counterparty as well as the overall risk of the loan portfolio through processes, structures and rules aimed at directing, controlling and standardising the assessment and management of this risk.

As mentioned above, the Credit Risk Team is responsible for the activities of directing and controlling credit risk and counterparty risk. In particular, it is responsible for:

- monitoring the credit granted to customers to control the level of risk to which the Group is exposed and promptly detect any anomalies;
- analysing the level of risk of single products;
- developing and feeding the calculation models of the rates of deterioration of retail customers for single ;
- ascertaining the level of predictability of automated credit assessment systems and proposing corrective action to the CRO;
- defining a reporting model for the Group specifying the rules for recording stocks and flows;
- correct development of the granting and management of credit, also through second-level controls;
- supporting the CFO Department in the impairment procedure by ensuring the correct classification of customers and assigning risk parameters at counterparty (institutional customers) or portfolio (retail customers) level;
- preparing the database used to calculate the economic capital for the group's credit risks, ensuring minimum data quality standards;
- systematically verifying compliance with the operating limits relating to margining activities and formulate scenario analyses (stress tests) to assess the sustainability of operations from an economic and capital perspective;
- supporting the CFO Department in the formulation of forecast and budget data relating to credit adjustments.

Market and liquidity risk

Market risk derives from the effect that changes in market variables (interest rates, securities prices, exchange rates, etc.) can cause to the economic value of the Group's portfolio, including both the assets held in the trading book (assets held for trading) as well as those in the banking book, i.e. the transactions connected to strategic investment choices.

The strategic approach of the Group is to maintain the minimum level of market risk compatible with business needs and the limits established by the Risk Appetite Framework approved by the Board of Directors.

No entity in the group engages in proprietary trading or speculative positions. For this reason the trading portfolio consists of financial instruments strictly related to the intermediation with retail customers. In particular, the movements are related to the buying and selling of OTC instruments or internalisation activities. The latter activity is permitted by MiFID regulations and allows the Bank to conclude transactions directly with customers (own account execution), thus significantly reducing execution costs.

Market risk in the banking book, however, mainly consists of credit spread risk, interest rate risk and exchange rate risk.

Credit spread risk mainly arises from investments in debt securities held for liquidity purposes. Market risk associated with the bond portfolio is monitored and subject to limits on the notional amount, the sensitivity to Economic Value and the Value at Risk.

The management of interest rate risk focuses on stabilising this second type of risk. The banking book interest rate risk measure covers the dual aspect of the value and the net interest income/expense of the Group. The Group measures and monitors interest rate risk daily, within the methodological framework and the corresponding limits or thresholds approved by the Board of Directors. These relate to the sensitivity of the net interest income and the economic value. Interest rate risk has an impact on all owned positions resulting from strategic investment decisions (banking book).

The third, exchange rate risk, is hedged through the matching of assets and liabilities denominated in currency or through spot transactions in foreign currencies.

Liquidity risk can be synthetically defined as the risk that the Group, also due to unexpected future events, is unable to meet its payment obligations or to efficiently match expected cash inflows and outflows.

The different types of liquidity risk managed by the Group are as follows:

- Short Term Liquidity Risk, which refers to the risk of non-conformity between the amounts and/or the maturities of cash inflows and cash outflows in the short term (below one year);;
- the risk of market liquidity, which is the risk that the Group can face a significant and adverse price change, generated by exogenous and endogenous factors that result in losses, in the sale of assets considered liquid. In the worst case, the Group may not be able to liquidate these positions;
- Structural Liquidity Risk is the inability to raise the necessary funds to maintain an adequate, stable and sustainable ratio between medium to long-term (over one year) assets and liabilities at reasonable pricing level, without affecting the daily operations or the financial condition of the Group;
- the risk of stress or contingency, which is linked to future and unexpected obligations (for example withdrawals from deposits) and may require the Group to have more liquidity than is considered necessary to manage the ordinary business;
- financing risk, which refers to the possibility that the Group may not be able to deal effectively with any planned cash outflows.

To address its exposure to liquidity risk, the Group invests the portion of liquidity that according to its internal analyses is persistent and stable (core liquidity) in medium/long-term investments. In contrast, the part of liquidity with a lower persistence profile (non-core liquidity) is used in liquid assets or assets readily convertible into cash, such as, for example, demand deposits, short-term loans or government bonds that can be used as a source of short-term financing with the central bank.

In order to establish the role of the various functions with regard to liquidity management, the Group has adopted a "Group Liquidity Policy", approved by the Board of Directors on 5 November 2019. The "Group Liquidity Policy" establishes the principles and rules that the Group applies in the ordinary and emergency management of liquidity, first and second level control activities and the Group's governance in this regard. It defines the roles and responsibilities of the Parent Company's internal bodies and functions, which include the involvement of the Treasury Team and the Risk Management Unit, and of the controlled company.

Annually, the Group assesses the adequacy of the liquidity risk management and governance system (ILAAP process) and reports to the supervisory authority under the terms set out in the relevant regulations.

The Market Risk Team is responsible for monitoring market and liquidity risks. Its tasks are to:

- monitor market, interest rate, exchange rate and liquidity risks based on defined and validated models;
- systematically verify compliance with the operating limits for trading activities, for the Value at Risk (VaR) in the Trading Book;
- systematically verify compliance with the operating limits for internalisation activities, for intraday VaR, Profit & Loss (P&L) at the end of the day and maximum exposure during the day and at the end of the da;
- prepare periodic reports on compliance with operating limits;
- identify liquidity risks in collaboration with the CFO;
- monitor the limits on the remunerated portfolio and the consistency of product pricing policies;
- monitor the effectiveness of exchange rate risk hedges, for Forex VaR;
- carry out level two controls on the correspondence to market conditions of transactions with Related Parties carried out by the Treasury Team and the Exchange Traded & OTC Markets Unit (investment in bonds, stock lending).

The Treasury Team, as part of the liquidity risk controls, defines, in coordination with the Planning Team, the investment plan, funding plan and contingency funding plan and carries out the first level controls, represented by the controls inherent in the operational processes and aimed at ensuring compliance with liquidity risk limits through the correct management from an operational and regulatory point of view.

The first level controls consist of the monitoring and analysis of regulatory and managerial liquidity metrics and in particular:

- in the daily analysis of the Operative Maturity Ladder report to ensure that the accumulated liquidity balance is positive in all time buckets;
- in the monthly monitoring of the Liquidity Coverage Ratio to verify compliance with both the regulatory limit and the limit and prudential trigger set internally, analysing any significant deviations due to endogenous or exogenous events where necessary;
- in the quarterly analysis of the Net Stable Funding Ratio index to verify that stable funding is adequately available and to assess any investment, modelling and funding transactions to ensure the consistency of the index with the triggers and limits defined in the Risk Appetite Framework.

At 31 December, there were no 'Contingent liquidity and funding needs', such as, for example, accelerated repayment clauses or the issue of additional guarantees relating to a downgrade of the Group.

Operational and reputational risk

Operational risk is the risk of losses due to errors, violations, interruptions, or damage caused by internal processes, personnel, financial advisors, 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, client claims, products distribution, fines and penalties due to regulation breaches, damage to the company's physical assets, business disruption and system failures, process management.

The Group measures exposure to Operational and Reputational Risks through a series of indicators called Key Risk Indicators (KRI), maintained by the Risk Management function. Currently there are 61 Key Risk Indicators divided into control areas (Payment Cards, Compliance, HR, Legal, Securities Operations, Payment Systems, Complaints, Risk Management, IT Systems, Security, Administration, Audits), any abnormal values of which are communicated to the Board of Directors through the Quarterly Report on the Group's risk exposures.

For IT risk, FinecoBank has defined and adopted a Group-wide approach that is not limited to the collection and analysis of economic losses. It also considers additional information, such as ICT incidents occurring and information concerning the riskiness of the Group's assets (hardware and software).

Although the Group uses the standardised method to calculate the regulatory requirement for operational risks, which currently does not provide for the use of loss data, the Parent Company still collects and classifies these for internal prevention and improvement purposes. In particular, loss data shall be classified according to the following event types:

1. Internal fraud;
2. External fraud;
3. Employment practices and workplace safety;
4. Customers, products and business practices;
5. Damage to property;
6. Business disruption and system failures;
7. Process management, execution and delivery.

Among the various event types, the most important one for the Group in terms of losses is internal fraud, which mainly takes the form of fraud perpetrated against customers by financial advisors belonging to the sales network. To mitigate this risk, in addition to the numerous remote controls carried out on the sales network by various structures of the Bank (Network Controls, Internal Audit, Compliance and Risk Management), an insurance policy was taken out on the infidelity of financial advisors.

The Operational Risk Management (ORM) team is responsible for monitoring operational and reputational risks. Its tasks are to:

- define the system for the mitigation and control of operational risks, in compliance with the provisions of external regulations and, in line with the instructions of the Board of Directors, with the Group's operational development;
- prepare regular reports on exposure to operational and reputational risks to inform and support management in its management activities;
- set up a system of Risk Indicators to prevent operational risks linked to human errors, shortcomings in internal procedures and incorrect execution of processes;
- verify that the operational loss data identified by the various areas of the Group are regularly and promptly recorded;
- carry out, in cooperation with the other company functions, scenario analyses to identify and prevent potentially high impact losses, even if they are unlikely;
- propose operational risk mitigation strategies to the Head of the Risk Management Unit and the CRO;
- provide training and support on operational risk control to Group structures;
- ensure that reputational risk is monitored within the perimeter defined by the Group;
- carry out systematic remote controls, using Risk Indicators, on the entire Network of Financial Advisors, to mitigate the risks of fraud linked to the work of financial advisors;
- implement and update the Anomaly Indicator management system also for new business activities and regulations;
- assess the effectiveness of insurance coverage on the infidelity of financial advisors, considering renewals, limits and deductibles;
- assess the operational and/or reputational risks resulting from major operations (e.g. major outsourcing), ensuring their consistency with the RAF;
- ensure the effective implementation of the ICT risk assessment methodology, supporting and coordinating the individual functions involved, each as far as concerns them, during the ICT risk assessment process.

In addition to the above controls, reputational risks are monitored through the risk assessment carried out by the risk control function throughout the definition, development and approval of Group products and with the participation of the Chief Risk Officer and of the Risk Management Unit to the Product Committee.

Other relevant risks

Although the types of risk described above represent the main categories, there are other types that the Group considers important. Within the scope of the Second Pillar of Basel regulations, the Group has identified other types of risk:

- **Business risk** is the distance between the Group's expected net result and any unforeseen and adverse variances. Firstly, it may be due to a significant deterioration of market conditions, changes to competition or the Group's cost structure;
- **Strategic risk** is the risk of suffering potential losses due to decisions or radical changes in the business environment, improper implementation of decisions, lack of responsiveness to changes in the business environment, which result in negative impacts to the risk profile, capital and earnings as well as the overall direction and scope of a bank over the long run;
- **Real Estate risk**, which is the potential loss resulting from fluctuations in the market values of the real estate portfolio. It does not consider the properties held as collateral, which are included within the credit risk.

In addition to the risks listed above, for the sake of completeness, we should mention the compliance risk, which is the risk of incurring court or administrative sanctions, significant financial losses or damage to reputation due to violations of mandatory rules (law or regulations) or self-regulation.

Following the identification of the significant risks, the best way to analyse them is established: in qualitative and quantitative terms. The quantitative measurement involves the calculation of Internal Capital. The latter is the capital set aside as a buffer against the potential losses inherent in the Group's business activities, and it takes into consideration all risk types that the Group has identified as measurable in terms of Economic Capital in line with Pillar II requirements.

Credit, market, operational, business and real estate risks are measured quantitatively through economic capital and periodic stress tests. Stress testing is one of the tools used to manage the relevant risks to assess the Group's vulnerability to exceptional but plausible events, providing additional information to the monitoring activities.

The Group is also exposed to cyber risk, which is the potential loss following the occurrence of accidental events or malicious actions inherent to the information system. For further details on the processes and activities for the governance and management of IT security and related risk, please refer to the FinecoBank Group's Non-Financial Consolidated Statement published on the FinecoBank website (https://www.finecobank.com).

Concerning environmental risk, please note that the Group, given its operating activities and business model, does not have significant exposures to environmental risks. The lending policy is based on granting credit to retail customers and investing mainly in central government financial instruments (government securities); exposures to the Corporate segment are residual and do not include any credit concessions. This protects the Group from the risk of harming the environment by granting loans to high-environmental-risk customers (eg. energy sector firms) and the risk of suffering the effect indirectly. The broad diversification of its retail portfolio (in individual and geographical terms) constitutes protection against declining customer solvency as a result of environmental factors, such as weather events or natural calamities

Scope of application

Name of the bank to which the disclosure requirements apply

FinecoBank S.p.A. Parent Company of FinecoBank Banking Group.

As provided for by Article 13 of Regulation (EU) No. 575/2013 ("CRR") subsequently updated by Regulation (EU) 2019/876 of the European Parliament and of the Council (so-called CRR 2), FinecoBank S.p.A. - as an "EU parent institution" - complies with the obligations set out in Part 8 on consolidated basis. This document therefore refers to the FinecoBank Banking Group registered in the Banking Groups Register, consisting of the Parent Company FinecoBank S.p.A. and Fineco Asset Management DAC (hereinafter Fineco AM), a UCITS management company under Irish law

FinecoBank S.p.A. assumed the role of "parent company in the EU" as the Parent Company of the FinecoBank Banking Group following its deconsolidation from the UniCredit Banking Group on 10 May 2019. Starting from that date, FinecoBank is required to prepare the report on capital adequacy and supervisory ratios on a consolidated basis. The figures as at 31 December 2018 reported in this document were determined on an individual basis, as FinecoBank was not required to report capital and supervisory ratios on a consolidated basis at that date by virtue of belonging to the UniCredit Banking Group.

More specifically, on 7 May 2019 UniCredit S.p.A. and FinecoBank S.p.A. announce that their respective Boards of Directors approved certain actions and procedures to be implemented by UniCredit S.p.A. and FinecoBank, in order to allow FinecoBank to operate as a fully independent entity from a regulatory, liquidity and operational standpoint, also potentially outside the UniCredit Group in the future, considering that at the same date FinecoBank enjoys limited synergies with the rest of the UniCredit Group.

On 8 May 2019 UniCredit S.p.A. announced that it has successfully completed the accelerated bookbuilding procedure for the sale to institutional investors of ca. 103.5 million ordinary shares held in FinecoBank, corresponding to ca. 17 percent of the Bank's existing share capital, whose settlement took place on May 10, 2019. UniCredit S.p.A. it also undertook a commitment not to dispose of the remaining shares of FinecoBank for a period of 120 days from the settlement date of the transaction, consequently may not, during this lock-up period and with certain exceptions in line with market practice, implement any deed of disposal of FinecoBank shares without the prior consent of J.P. Morgan and UBS Investment Bank on behalf of the Joint Bookrunners.

As a result of the aforementioned regulation, holding a minority stake in the Bank (equal to about 18 per cent of the share capital) and having renounced the exercise of the administrative rights provided for in Article 2364 of the Italian Civil Code, UniCredit S.p.A. announced that FinecoBank, and consequently its subsidiary Fineco Asset Management DAC (hereinafter, Fineco AM), was no longer part of the scope of the UniCredit Group starting on the same day.

On 8 July 2019 UniCredit S.p.A. has announced the launch of a placement of the remaining ordinary shares holding in FinecoBank, representing ca. 18.3 per cent of the Bank's share capital at that date, through an accelerated bookbuilding addressed to certain categories of institutional investors. In relation to the transaction, J.P. Morgan and UBS Investment Bank, after consulting UniCredit Corporate & Investment Banking, as Joint Bookrunners of the offer dated May 8, 2019, waived the lock-up commitment undertaken by UniCredit S.p.A..

On 9 July 2019 UniCredit S.p.A. has announced the successful completion of the accelerated bookbuild offering to institutional investors of approximately 111.6 million existing ordinary shares in FinecoBank S.p.A., at a price of € 9.85 per share, with the settlement scheduled for July 11, 2019.

Differences in the basis of consolidation for accounting and prudential purposes

The information contained in this document refers only to the "Banking Group", as defined by current supervisory regulations. There are no differences between the prudential and accounting scope of consolidation.

Substantial or legal impediments, current or foreseeable, that hinder the rapid transfer of capital resources or funds within the Group

“FinecoBank is a banking group subject to the prudential rules laid down in Directive (EU) 2019/878 of the European Parliament and of the Council (so-called CRD V) amending Directive 2013/36/EU on the "access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms" and Regulation (EU) 2019/876 of the European Parliament and of the Council (so-called CRR 2) amending Regulation (EU) No 575/2013 on "prudential requirements for credit institutions and investment firms". At present, the only subsidiary is Fineco AM, a company incorporated under Irish law which, although not subject to the CRR/CRD, is subject to local rules designed to preserve adequate capitalisation in relation to assets under management and operating expenses; therefore, the subsidiary's ability to distribute capital or dividends is subject to compliance with these rules in terms of capital requirements

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).

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.

FinecoBank 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.

The Group's prudential supervisory requirements as at 31 December 2019 were determined on the basis of the harmonised rules for banks and investment firms contained in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) of 26 June 2013 and subsequent Directives/Regulations amending their content, which transpose the standards defined by the Basel Committee on Banking Supervision (c.d. Basel III framework), collected and implemented by the Bank of Italy through Circular no. 285 of 17 December 2013 "Supervisory Provisions for Banks" and subsequent updates.

Own funds, which amounted to €1,083 thousand as at December 31, 2019, consisted of Common Equity Tier 1 (CET1) and Additional Tier 1 capital, there were no Tier 2 items. Own Funds include the portion of the profit for 2019 allocated to increase the value of reserves, amounting to 93.3 million euros, assuming that the conditions set out in art. 26, paragraph 2, of EU Regulation 575/2013 (CRR) are met.

On 11 July 2019 FinecoBank successfully completed the placement of the AT1, its first market issue of Additional Tier 1 instruments targeted at qualified investors, for a total amount of €300 million and a fixed coupon of 5.875% for the first 5 years compared to initial price guidance of 6.5%. This tightening compared to the initial price guidance is one of the most significant seen for this type of instrument, as a result of an overall demand equal to 9 times the offer. The issue recorded an order volume of €2.7 billion, demonstrating recognition of FinecoBank also in the fixed-income segment and allowing the Group to take advantage of favorable market conditions.

The investors who subscribed to the issue are institutional investors, mainly asset managers (around 69% of the total) and banks / private banks (15%). The issue was mainly placed with institutional investors from the United Kingdom/Ireland (35%), Italy (15%), France (13%), Switzerland (12%) and US Offshore (9%). BNP Paribas, UBS Europe SE and UniCredit Bank AG acted as joint bookrunners and joint lead managers.

The transaction is useful in allowing FinecoBank to be instantly compliant with the Leverage ratio requirement that will be mandatory from 28 June 2021, following the entry into force of Regulation (EU) 876/2019 ("CRR II"). Furthermore, this issuance guarantees the maintenance of a buffer with respect to the minimum requirement prescribed by CRR II.

The issue has the following characteristics: perpetual, public placement, intended to trade on Euronext Dublin’s non-regulated market, Global Exchange Market, notes rating of BB- (S&P Global Ratings), fully discretionary and non-cumulative semi-annual fixed rate coupon which is resettable every 5 years. The securities are subject to early redemption at the Issuer’s option, in accordance with the prevailing law, following prior approval of the competent authority, from 3 December 2024 or later, in particular every 6 months on the interest payment dates. In accordance with market standards, the issue provides for a temporary write-down of the notes if the Common Equity Tier 1 Capital Ratio of FinecoBank or of the FinecoBank Group falls below 5.125%.

Own funds disclosure template

	2019.12.31 (A) AMOUNT AT DISCLOSURE DATE	2018.12.31 (A) AMOUNT AT DISCLOSURE DATE
Common Equity Tier 1 (CET1) capital - instruments and reserves		
1 Capital instruments and the related share premium accounts (A)	201,471	201,344
of which ordinary shares	*201,471*	*201,344*
2 Retained earnings (B)	364,935	321,700
3 Accumulated other comprehensive income (and other reserves) (C)	33,658	24,179
5a Independently reviewed interim profits net of any foreseeable charge or dividend (D)	93,313	43,422
6 Common Equity Tier 1 (CET1) capital before regulatory adjustments	**693,377**	**590,645**
Common Equity Tier 1 capital (CET1): regulatory adjustments		
7 Additional value adjustments (E)	(506)	(219)
8 Intangible assets (net of related tax liabilities) (F)	(102,116)	(74,229)
9 Transitional adjustment related to IAS 19 (G)	-	1,044
16 Direct and indirect holdings by an institution of own CET1 instruments (H)	(7,402)	(14,003)
20a Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative (I)	(322)	(525)
21 Attività fiscali differite che derivano da differenze temporanee (importo superiore alla soglia del 10%, al netto delle relative passività fiscali per le quali sono soddisfatte le condizioni di cui all'articolo 38 (3))	(322)	(525)
28 Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(110,346)**	**(87,932)**
29 Common Equity Tier 1 capital (CET1)	**583,031**	**502,713**
36 Additional Tier 1 (AT1) capital before regulatory adjustments (J)	500,000	200,000
43 Total regulatory adjustments to Additional Tier 1 (AT1) capital	**-**	**-**
44 Additional Tier 1 (AT1) capital	**500,000**	**200,000**
45 Tier 1 Capital (T1= CET1 + AT1)	**1,083,031**	**702,713**
51 Tier 2 (T2) capital before regulatory adjustments	**-**	**-**
57 Total regulatory adjustments to Tier 2 (T2) capital	**-**	**-**

Own Funds

	2019.12.31	2018.12.31
	(A) AMOUNT AT DISCLOSURE DATE	(A) AMOUNT AT DISCLOSURE DATE
58 Tier 2 capital (T2)	**-**	**-**
59 Total capital (TC= T1+T2)	**1,083,031**	**702,713**
60 Total risk weighted assets	**3,216,787**	**2,376,033**
Capital ratios and buffers		
61 Common equity tier 1 capital (as a percentage of total risk exposure amount)	**18.12%**	**21.16%**
62 Tier 1 capital (as a percentage of total risk exposure amount)	**33.67%**	**29.58%**
63 Total capital (as a percentage of total risk exposure amount)	**33.67%**	**29.58%**
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)	7.022%	6.381%
65 of which: capital conservation buffer requirement	2.500%	1.875%
66 of which: countercyclical buffer requirement	0.022%	0.006%
68 Common equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	11.10%	14.78%
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)	12,075	16,512
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)	44,594	26,291
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)	-	-

The figures as at 31 December 2018 were determined on an individual basis, as on that date FinecoBank was not required to prepare the report relating to own funds and supervisory coefficients on a consolidated basis by virtue of belonging to the UniCredit banking group.

Notes to the table "Own Funds disclosure template" (Article 437, paragraph 1, points d) and e) of CRR)

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 608,913,600 ordinary shares with a par value of € 0.33, totaling € 200,941 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 € 1,404 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, reserves from profits of the subsidiary Fineco AM and other net profit reserves. The change versus December, 31st 2018 is mainly due to:

- the reserve allocation of profit from year 2018, for an amount of € 43.422 thousand;
- the coupons paid, net of related taxes, on Additional Tier 1 issued in 2018 and the transaction costs directly attributable to the issue of the AT1 in 2019 for an amount, net of related taxes, of € 13.571 thousand;
- the recognition of reserves from profits of the subsidiary Fineco AM, for an amount of € 13.133 thousand.

C. Accumulated other comprehensive income (OCI) consists of: the net positive 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 €3,159 thousand, which shows a positive change of € 6,569 thousand in 2019, the negative reserve of Defined Benefit Obligations for an amount of €2,157 thousand, which shows a positive change of € 4,226 thousand in 2019 due to the recognition of actuarial gains mainly attributable to the Supplementary customer indemnity provision and the provision for contractual payments. The item also includes the reserves related to Equity settled plans for an amount of €32,657 thousand.

D. The amount included in Own Funds as of December, 31st 2019, equal to €93,313 thousand, , is calculated on 2019 net profit equal to €288,365 thousand, net of foreseeable dividends equal to €195,052 thousand. The net profits is included in CET1 Capital assuming that the conditions set out in art. 26, paragraph 2, of EU Regulation 575/2013 (CRR) were met.

E. The item includes the filter on additional valuation adjustments (AVA), amounting to €506 thousand, calculated on the assets and liabilities reported in the financial statements, measured at fair value, determined using the simplified method.

F. The item comprises goodwill, net of deferred taxes, amounting to €65,120 thousand and other intangible assets, net of deferred taxes, amounting to €36,996 thousand. The change versus 31 December 2018 mainly reflects the exercise of the option for the purchase of the brand "Fineco" trademarks and other distinguishing marks, including Fineco domain names, on 28 November 2019 for an amount of €27.5 million plus VAT.

G. The item includes treasury shares directly held for an amount equal to €7,351 thousand and treasury shares held synthetically of €52 thousand. The change versus December, 31st 2018 is mainly due to the first tranche of shares assigned to personal financial advisors in relation to the "2016 PFA PLAN" and to the second tranche in relation to the "2015-2017 PFA PLAN".

H. 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 2019 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.

I. Additional Tier 1 capital is made by:

i. the bond Additional Tier 1 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.. The coupon for the first 5,5 years is fixed at 4.82%. During 2019, the coupon payment was recognized as a reduction of €6,989 thousand in the extraordinary reserve, net of the related taxes;

ii. the bond Additional Tier 1 issued on July, 11th 2019. The financial instrument is a perpetual, public placement, intended to trade on Euronext Dublin's non-regulated market, Global Exchange Market, notes rating of BB- (S&P Global Ratings), issued for a total of €300 million. The coupon for the first 5 years has been fixed at 5.875%. The transaction costs directly attributable to the issue and of the coupon were recognized as a reduction of respectively €1,764 thousand and €4,818 thousand in the extraordinary reserve, net of the related taxes.

Own Funds

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

	ACCOUONTING FIGURES*	AMOUNTS RELEVANT FOR OWN FUNDS PURPOSES**	REF. OWN FUNDS TABLE
ASSET ITEMS			
100. Intangible assets, of which:	**127,094**	**(127,094)**	
Goodwill	*89,602*	*(89,602)*	*8*
Other intangible assets	*37,492*	*(37,492)*	*8*
110. Tax assets, of which:	**23,444**	**24,978**	
deferred tax assets that do not rely on future profitability	*3,828*	*-*	*21*
deferred tax assets that rely on future profitability	*47,884*	*-*	*21*
deferred tax liabilities	*(28,268)*	*24,978*	*8*
LIABILITY ITEMS			
120. Revaluation reserves, of which:	**1,002**	**1,002**	
Revaluation reserves for financial assets valued at fair value with impact on other comprehensive income	*3,159*	*3,159*	*3*
Revaluation reserves for net actuarial gains (losses)	*(2,157)*	*(2,157)*	*3*
140. Capital instruments	**500,000**	**500,000**	36
150. Reserves	**397,592**	**397,592**	2 e 3
160. Share premium reserve	**1,934**	**1,934**	1
170. Share capital	**200,941**	**200,941**	1
180. Treasury shares	**(7,351)**	**(7,351)**	16
200. Net Profit (Loss) for the year	**288,365**	**93,313**	5a
OTHER ELEMENTS OF OWN FUNDS			
Total other elements, of which:		**(2,284)**	
Own CET1 instruments held by customers who simultaneously used a line of credit		(1,404)	1
Prudential filters (-) fair value adjustments		(506)	7
Prudential filters (-) deduction of the exposure in equity instruments to the Voluntary Scheme		(322)	20
Deductions of holdings of own Common Equity Tier 1 capital instruments synthetically held		(52)	16
TOTAL OWN FUNDS		**1,083,031**	

* The figures for the accounting consolidation and the regulatory consolidation are the same; 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)

	2019.01.01 / 2019.12.31	2018.01.01 / 2018.12.31
Common Equity Tier 1 Capital - CET1		
Start of period	**502,713**	**484,960**
Instruments and Reserves		
Share capital and issue-premium reserves	127	(1,135)
of which: own CET1 instruments held by customers who simultaneously used a line of credit	*(41)*	*(1,363)*
Retained earnings	(186)	(11,029)
Accumulated other comprehensive income (OCI) and other reserves	9,479	427
Net profit of the period	93,313	43,422
Regulatory adjustments		
Additional regulatory adjustments	(286)	319
Intangible assets net of related liabilities	(27,887)	(462)
Transitional adjustments related to IAS19	(1,044)	(2,763)
Direct, indirect and synthetic holdings by an institution of own CET1 instruments	6,600	(11,589)
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	202	193
Regulatory adjustments relating to unrealised gains and losses pursuant to Article 467 and 468	-	295
Regulatory adjustments applied to Common Equity Tier 1 in respect of amount subject to pre-CRR treatment	-	75
End of period	**583,031**	**502,713**
Additional Tier 1 – AT1		
Start of period	**200,000**	**-**
Additional Tier 1 issued in the period	300,000	200,000
End of period	**500,000**	**200,000**
TIER 2 – T2		
Start of period	**-**	**-**
	-	**-**
TOTAL OWN FUNDS		
TOTALE FONDI PROPRI	**1,083,031**	**702,713**

Own Funds totaled €1,083,031 thousand, showing an increase of €380,318 thousand on December 31, 2018 mainly attributable to the combination of the following factors:

- the decrease in the item "Share capital and issue-premium reserves" by €127 thousand, mainly due to the free share capital increases relating to employee incentive schemes carried out in 2019 for a total amount of €168 thousand (which at the same time reduced the available profit reserves), partially offset by the increase in CET1 own instruments held by customers who at the same time used a credit line, even if not granted for this purpose, for €41 thousand, which, according to art. 28 of European Regulation 575/2013, cannot be qualified as own funds;
- the decrease in the item "Retained earnings" by €186 thousand, mainly due to the reduction in profit reserves as a consequence of the recognition of the coupons paid, net of related taxes, related to the Additional Tier 1 issued in 2018 and of the direct transaction costs and the coupons related to the Additional Tier 1 instrument issued in 2019, for an amount equal to €-13,571 thousand; and the recognition of reserve from profits of the subsidiary Fineco AM, for an amount of €13,133 thousand;
- the 2019 profits for an amount of €93,313 thousand, net of foreseeable dividends of €195,052 thousand. The net profit is included in CET1 capital assuming satisfied the conditions set out in the CRR Article 26(2);
- the increase in the item "Accumulated other comprehensive income (OCI) and other reserves" by €9,479 thousand mainly related to the positive change in the net positive 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 €6,569 thousand and to the positive change in the negative reserve of Defined Benefit Obligations of € 4,226 thousand, mainly due to the recognition of actuarial gains mainly attributable to the Supplementary customer indemnity provision and the provision for contractual payments.
- the nagative change related to the item "Transitional adjustments related to IAS19" for an amount equal to €1,044 thousand, due to the end of the applicable transitional provisions regarding own funds (the positive prudential filter of 20% in 2018 is no longer applicable in 2019);
- the negative change in the item "Intangible assets net of related liabilities" for an amount equal to €27,187 thousand mainly related to the purchase of mainly attributable to the purchase of Fineco trademarks and other distinctive signs, including Fineco domain names, on 28 November 2019;

- the positive change in the item “Direct, indirect and synthetic holdings by an institution of own CET1 instruments” for an amount equal to €6,600 thousand mainly relating to the allocation, during 2019, of treasury shares relating to incentive schemes;
- the issuance of Additional Tier 1 Perp instruments on 11 July 2019 for an amount equal to €300 million.

Capital requirements

The Group 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 anticipating the appropriate actions necessary to achieve the targets.

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 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: starting from 2019 this buffer is equal to 2.5% of the total Group risk weighted assets;
- 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 0.022% as of 31 December 2019. This buffer is calculated depending on the geographical distribution of the relevant Group’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 (at that date the Bank was part of the UniCredit Group), 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 on UniCredit Group. Consequently, the "Total SREP Capital Requirement" (TSCR) applicable for FinecoBank corresponds to the minimum requirement of Pillar 1.

As at 31 December 2019, no SREP has been conducted on the Group since leaving the UniCredit Banking Group.

Please, find below a scheme of FinecoBank transitional capital requirements and buffers applicable for December 2019.

Capital requirements and buffers for FinecoBank Group in 2019 (Enhanced Disclosure Task Force – EDTF recommendation)

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:	2.522%	2.522%	2.522%
1. Capital Conservation Buffer (CCB)	2.500%	2.500%	2.500%
2. Institution-specific Countercyclical Capital Buffer (CCyB)	0.022%	0.022%	0.022%
E) Overall Capital Requirement (C+D)	**7.022%**	**8.522%**	**10.522%**

As at 31 December 2019, FinecoBank ratios are compliant with the above requirements.

To calculate regulatory requirements for credit, market risks and operational risks the Group applies standardised approaches, in accordance with Part Three, Title II, Chapter 2 and Part Three, Title III, Chapter 3 of Regulation (EU) No. 575/2013 (CRR).

The Group 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 Group 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 and its allocation are therefore extremely important in defining strategies, since on the one hand it represents the shareholders’ investment in the Group, 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.

Capital at risk is measured according to risk management techniques, for which risk capital is defined as economic capital, on the one hand, and supervisory regulations, for which risk capital is defined as regulatory capital, on the other.

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.

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 Group 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 capital monitoring and planning is performed by the Group 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 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.

With regard to Risk Weighted Assets, it should also be noted that, at the same time as the deconsolidation of FinecoBank from the UniCredit Group on 10 May 2019, FinecoBank and UniCredit S.p.A. have entered into a contract (Pledge Agreement) which provides for the granting by UniCredit S.p.A. of financial guarantees in favour of FinecoBank aimed at guaranteeing credit risk exposures deriving from UniCredit bonds and from the financial guarantees issued by FinecoBank in favour of the Italian Revenue Agency at the request of UniCredit S.p.A., until they are completely extinguished (the agreement also provided that exposures represented by current accounts were guaranteed until November 2019). These financial guarantees, which at December 31, 2019 are represented by securities issued by sovereign governments, mainly Italian government securities, meet the requirements of the applicable legislation to be eligible in the context of credit risk mitigation techniques (CRM), with consequent reduction of Risk-Weighted Assets and Large exposures, without therefore determining significant changes compared to 31 December 2018 (amount on an individual basis) since, on that date, by virtue of belonging to the UniCredit Group, Risk Weighted Assets towards UniCredit Group companies based in Italy were weighted at 0%. In January 2020, UniCredit S.p.A. replaced some of the bonds issued by sovereign states, pledged as collateral under the Pledge Agreement, with the "Impresa2 FRN 20/12/2061 Asset Backed" bond issued by Impresa Two S.r.l. as part of a securitisation transaction under Law 130/99 relating to trade receivables sold and repurchased by UniCredit S.p.A.. This bond meets the requirements of the applicable legislation to be eligible for credit risk mitigation (CRM) techniques, with a consequent reduction in risk weighted assets and exposure for the purposes of the Group's Large Exposures.

EU OV1 – Overview of RWAs

			RWA		CAPITAL REQUIREMENTS
			2019.12.31	2018.12.31	2019.12.31
	1	**Credit risk (excluding CCR)**	**1,933,808**	**1,468,531**	**154,706**
Article 438 (c) and (d)	2	Of which the standardised approach	1,933,808	1,468,531	154,706
Article 438 (c) and (d)	3	Of which the foundation IRB (FIRB) approach	-	-	-
Article 438 (c) and (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 and Article 438 (c) and (d)	6	**CCR**	**28,259**	**211,422**	**2,260**
Article 438 (c) and (d)	7	Of which mark to market	-	1,432	-
Article 438 (c) and (d)	8	Of which original exposure	-	-	-
	9	Of which the standardised approach	-	-	-
	10	Of which internal model method (IMM)	-	-	-
Article 438 (c) and (d)	11	Of which risk exposure amount for contributions to the default fund of a CCP	1,838	867	147
Article 438 (c) and (d)	12	Of which CVA	1,005	844	80
Article 438 (e)	13	**Settlement risk**	**26**	**138**	**2**
Article 449 (o)(i)	14	**Securitisation exposures in the banking book (after the cap)**	**-**	**-**	**-**
	15	Of which IRB approach	-	-	-
	16	Of which IRB supervisory formula approach (SFA)	-	-	-
	17	Of which internal assessment approach (IAA)	-	-	-
	18	Of which the standardised approach	-	-	-
Article 438 (e)	19	**Market risk**	**39,897**	**19,063**	**3,192**
	20	Of which the standardised approach	39,897	19,063	3,192
	21	Of which IMA	-	-	-
Article 438 (e)	22	**Large exposures**	**-**	**-**	**-**
Article 438 (f)	23	**Operational risk**	**1,103,312**	**603,651**	**88,265**
	24	Of which basic indicator approach	-	-	-
	25	Of which the standardised approach	1,103,312	-	88,265
	26	Of which advanced measurement approach	-	603,651	-
Article 437 (2), Article 48 e Article 60	27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**111,485**	**73,228**	**8,919**
Article 500	28	Floor adjustment			
	29	**Total**	**3,216,787**	**2,376,033**	**257,344**

The sum of the RWA amounts at lines 1, 6 and 27 (net of line 12 "Of which: CVA"), equal to €2,072,548 thousand, is consistent with the amount of item A.1 "Weighted amounts" in the "Capital Adequacy" template.

Total RWAs at line 29, amounting to €3,216,788 thousand, is consistent with item C.1 "Risk-weighted assets" in the "Capital Adequacy" template.

The increase in RWA compared to 31 December 2018 is mainly attributable to credit risk (excluding CCR) due to the growth in business, in particular lending to customers and investments in covered bonds, the purchase of the building where the Bank's registered office is located in Milan, Piazza Durante 11 and the recognition of assets representing the "right of use" of the assets leased by the Group, as required by IFRS 16, which came into force on 1 January 2019.

The reduction in the CCR can be explained by securities lending transactions with customers and secured by other securities (the so-called remunerated portfolio), as further investigations conducted in 2019 led to the conclusion that such transactions do not generate counterparty risk for the Group.

It should also be noted that for the purpose of determining the RWA relating to operational risk at 31 December 2019, the Group applied the Standardised Method, replacing the Advanced Measurement Method ("AMA") adopted previously, as a result of the deconsolidation from UniCredit Banking Group; this change in methodology has resulted in a consequent increase in RWA.

Capital requirements

Credit and Counterparty risk

PORTFOLIO	2019.12.31			2018.12.31		
	EXPOSURE TO CREDIT AND COUNTERPARTY RISK	RISK-WEIGHTED ASSETS	CAPITAL REQUIREMENT	EXPOSURE TO CREDIT AND COUNTERPARTY RISK	RISK-WEIGHTED ASSETS	CAPITAL REQUIREMENT
Total IRB approach	-	-	-	-	-	-
Central governments or central banks	14,075,686	127,206	10,177	8,848,779	72,949	5,836
Public-sectors entities	279,893	-	-	165,058	-	-
Multilateral development banks	465,887	-	-	101,271	-	-
International organisations	656,102	-	-	286,961	-	-
Institutions	572,645	97,290	7,783	12,525,106	29,851	2,388
Corporates	173,865	173,865	13,909	176,112	176,112	14,089
Retail	1,240,088	930,066	74,405	1,391,004	1,043,253	83,460
Secured by mortgages on immovable property	1,155,945	404,998	32,400	856,848	300,295	24,024
Exposures in default	3,502	3,506	280	2,788	2,812	225
Items associated with particularly high risk	2,307	3,461	277	6,652	9,978	798
Covered bonds	544,598	56,612	4,529	-	-	-
Collective investment undertakings (UCITS)	873	873	70	-	-	-
Equity instruments	8,697	8,697	696	9,100	13,599	1,088
Other exposures	264,143	264,137	21,131	102,627	102,621	8,210
Total standardised approach	**19,444,230**	**2,070,710**	**165,657**	**24,472,306**	**1,751,470**	**140,118**
Exposures to central counterparties in the form of pre-financed contributions to the default fund		**1,838**	**147**		**867**	**69**
Risk assets - Credit and counterparty risk	**19,444,230**	**2,072,548**	**165,804**	**24,472,306**	**1,752,337**	**140,187**

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

PORTFOLIO	2019.12.31				2018.12.31			
	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	127,206	10,177	-	-	72,949	5,836	-	-
Institutions	76,256	6,100	21,034	1,683	8,591	687	21,260	1,701
Corporates	172,175	13,774	1,690	135	149,615	11,969	26,497	2,120
Retail	927,374	74,190	2,692	215	881,299	70,504	161,954	12,956
Secured by mortgages on immovable property	404,998	32,400	-	-	300,295	24,024	-	-
Exposures in default	3,506	280	-	-	2,812	225	-	-
Items associated with particularly high risk	3,461	277	-	-	9,978	798	-	-
Covered bonds	56,612	4,529	-	-	-	-	-	-
Collective investment undertakings (UCITS)	873	70	-	-	-	-	-	-
Equity instruments	8,697	696	-	-	13,599	1,088	-	-
Other exposures	264,137	21,131	-	-	102,621	8,210	-	-
Total standardised approach	**2,045,294**	**163,624**	**25,416**	**2,033**	**1,541,759**	**123,341**	**209,711**	**16,777**
Exposures to central counterparties in the form of pre-financed contributions to the default fund	**1,838**	**147**			**867**	**69**		
Risk assets - Credit and counterparty risk	**2,047,132**	**163,771**	**25,416**	**2,033**	**1,542,626**	**123,410**	**209,711**	**16,777**

Capital requirements

Capital adequacy

CATEGORY/AMOUNT	NON-WEIGHTED AMOUNTS		WEIGHTED/REQUIRED AMOUNTS	
	2019.12.31	2018.12.31	2019.12.31	2018.12.31
A. RISK ASSETS				
A.1 Credit and counterparty risk	**19,444,377**	**24,472,374**	**2,072,548**	**1,752,337**
1. Standardised approach	19,444,377	24,472,374	2,072,548	1,752,337
2. Internal rating method	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**165,804**	**140,187**
B.2 Risk of adjustment of valuation of credit			**80**	**68**
B.3 Settlement risk			**2**	**11**
B.4 Market risk			**3,192**	**1,525**
1. Standardised approach			3,192	1,525
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			**88,265**	**48,292**
1. Basic Indicator Approach			-	-
2. Standardised approach			88,265	-
3. Advanced measurement approach			-	48,292
B.6 Other calculation elements			**-**	**-**
B.7 Total prudential requirements			**257,343**	**190,083**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			3,216,788	2,376,033
C.2 Common Equity Tier 1 Capital/Risk-weighted assets (CET1 capital ratio)			18.12%	21.16%
C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			33.67%	29.58%
C.4 Own funds/Risk-weighted assets (Total capital ratio)			33.67%	29.58%

The weighted amount reported under A.1 “Credit and counterparty risk - 1. Standardised approach” includes “Exposures to central counterparties in the form of pre-financed contributions to the Guarantee Fund”.

Capital requirements

Total capital requirements

TYPE OF RISK	APPROACH USED	CAPITAL REQUIREMENTS 2019.12.31	CAPITAL REQUIREMENTS 2018.12.31
1. On-balance-sheet risk assets	Standardised approach	163,483	123,287
2. Guarantees issued and commitments to disburse funds	Standardised approach	141	54
3. Derivative contracts	Current value approach	316	115
4. Securities financing transactions	CRM - Comprehensive method with regulatory adjustments for volatility	1,717	16,662
Capital requirements credit and counterparty risk		**165,657**	**140,118**
Capital requirements for exposures to central counterparties in the form of pre-funded contributions to the default fund		**147**	**69**
Market risk			
1. Foreign-exchange risk	Standardised approach	128	-
2. Debt securities position risk	Standardised approach	1,758	763
3. Equity securities position risk	Standardised approach	1,202	663
4. Position risk on commodities	Standardised approach	86	97
5. CIU position risk	Standardised approach	18	2
Capital requirements for market risk		**3,192**	**1,525**
1. Concentration risk	Standardised approach	-	-
Capital requirements for concentration risk		**-**	**-**
1. Risk of credit valuation adjustment	Standardised approach	80	68
Capital requirements for risk of credit valuation adjustment		**80**	**68**
1. Settlement risk	Standardised approach	2	11
Capital requirements for settlement risk		**2**	**11**
1. Operational risk	Advanced measurement approach	-	48,292
1. Operational risk	Standardised approach	88,265	
Capital requirements for operational risk		**88,265**	**48,292**
Total capital requirements		**257,343**	**190,083**

Capital buffers

Article 136 of the directive EU/2013/36 (Capital Requirements Directive, CRD4), and subsequent amendments, 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. On the basis of the analysis of reference indicators, the Bank of Italy has decided to maintain the countercyclical capital reserve ratio (relating to exposures to Italian counterparties) for the fourth quarter of 2019 at 0%.

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. 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 countercyclical capital buffer became fully effective on 1 January 2019 and may not exceed 2.5% (until 2018 there was a phase-in period and the countercyclical reserve coefficient could not exceed 1.875%).

The Group's specific countercyclical capital buffer as at December 31, 2019 was 0.022% at consolidated level, corresponding to around €705 thousand. There is no significant impact on the Group's capital surplus versus requirements.

Amount of institution-specific countercyclical capital buffer

	FIGURES AS AT DECEMBER, 31 2019
Total risk exposure amount	3,216,788
Institution specific countercyclical buffer rate	0.022%
Institution specific countercyclical buffer requirement	705

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

	GENERAL CREDIT EXPOSURES		TRADING BOOK EXPOSURES		SECURITIZATION 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 FOR 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 SECURITIZATION EXPOSURES	TOTAL	OWN FUNDS REQUIREMENTS WEIGHTS	COUNTERCYCLICAL CAPITAL BUFFER RATE
Breackdown by country												
Abu Dhabi	150	-	-	-	-	-	5	-	-	5	0.003%	0.000%
Afghanistan	-	-	4	-	-	-	-	-	-	-	0.000%	0.000%
Albania	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Andorra	-	-	20	-	-	-	-	-	-	-	0.000%	0.000%
Saudi Arabia	10	-	280	-	-	-	1	-	-	1	0.000%	0.000%
Argentine	129	-	2	-	-	-	4	-	-	4	0.003%	0.000%
Australia	3	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Austria	25,129	-	74	-	-	-	219	-	-	219	0.147%	0.000%
Belgium	123	-	101	-	-	-	4	1	-	5	0.004%	0.000%
Bermuda	671	-	44	-	-	-	54	-	-	54	0.036%	0.000%
Brazil	19	-	542	-	-	-	1	9	-	10	0.006%	0.000%
Bulgaria	3	-	30	-	-	-	-	-	-	-	0.000%	0.500%
Canada	34	-	3	-	-	-	2	-	-	2	0.001%	0.000%
Chile	3	-	-	-	-	-	-	-	-	-	0.000%	0.000%
China	46	-	9	-	-	-	3	-	-	3	0.002%	0.000%
Colombia	2	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Congo	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
South Korea	-	-	930	-	-	-	-	-	-	-	0.000%	0.000%
Croatia	8	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Curacao	-	-	39	-	-	-	-	-	-	-	0.000%	0.000%
Denmark	1	-	-	-	-	-	-	-	-	-	0.000%	1.000%
Ecuador	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Egypt	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Ethiopia	2	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Philippines	267	-	-	-	-	-	7	-	-	7	0.005%	0.000%
Finland	2	-	86	-	-	-	-	5	-	5	0.003%	0.000%
France	244,749	-	2,501	-	-	-	2,271	35	-	2,307	1.551%	0.250%
Georgia	3	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Germany	4,303	-	21,709	-	-	-	84	80	-	163	0.110%	0.000%
Ghana	4	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Japan	8	-	-	-	-	-	1	-	-	1	0.000%	0.000%
Greece	6	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Hong Kong	1	-	27	-	-	-	-	-	-	-	0.000%	2.000%
India	8	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Iraq	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Ireland	21,479	-	9,482	-	-	-	1,718	6	-	1,725	1.160%	1.000%
Cayman llands	-	-	11,170	-	-	-	-	3	-	3	0.002%	0.000%
British Virgin Islands	-	-	4	-	-	-	-	-	-	-	0.000%	0.000%
Israel	-	-	81	-	-	-	-	-	-	-	0.000%	0.000%
Italy	2,974,186	-	383,884	-	-	-	138,961	401	-	139,362	93.722%	0.000%
Jersey	-	-	1,313	-	-	-	-	1	-	1	0.000%	0.000%
Kazakhstan	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Kenya	3	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Kuwait	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Latvia	5	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Lebanon	2	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Liberia	-	-	20	-	-	-	-	-	-	-	0.000%	0.000%
Libia	4	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Lithuania	4	-	-	-	-	-	-	-	-	-	0.000%	1.000%
Luxembourg	27,272	-	3,552	-	-	-	2,175	7	-	2,182	1.468%	0.000%
Malaysia	226	-	-	-	-	-	6	-	-	6	0.004%	0.000%
Maldives	-	-	7	-	-	-	-	-	-	-	0.000%	0.000%
Malta	6	-	70	-	-	-	-	-	-	-	0.000%	0.000%
Maroc	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Mexico	19	-	-	-	-	-	1	-	-	1	0.001%	0.000%
Moldova	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Mongolia	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Norwey	1	-	8	-	-	-	-	1	-	1	0.000%	2.500%
New Zealand	2	-	22	-	-	-	-	-	-	-	0.000%	0.000%
Holland	528	-	57,399	-	-	-	42	67	-	109	0.073%	0.000%
Panama	2	-	21	-	-	-	-	-	-	-	0.000%	0.000%
Paraguay	4	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Perù	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Portugal	7,496	-	797	-	-	-	122	-	-	122	0.082%	0.000%
Principality of Monaco	2	-	244	-	-	-	-	-	-	-	0.000%	0.000%
Qatar	3	-	-	-	-	-	-	-	-	-	0.000%	0.000%
United Kingdom	23,165	-	4,387	-	-	-	781	11	-	792	0.533%	1.000%
Czech Republic	13	-	-	-	-	-	1	-	-	1	0.001%	1.500%
Dominican Republic	-	-	40	-	-	-	-	-	-	-	0.000%	0.000%
Romania	12	-	-	-	-	-	1	-	-	1	0.000%	0.000%
Russia	474	-	14	-	-	-	16	-	-	16	0.011%	0.000%
San Marino	8	-	13	-	-	-	-	-	-	-	0.000%	0.000%
Serbia	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Singapore	8	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Slovakia	-	-	29	-	-	-	-	-	-	-	0.000%	1.500%
Slovenia	-	-	34	-	-	-	-	-	-	-	0.000%	0.000%
Spain	53,023	-	2,779	-	-	-	426	7	-	434	0.292%	0.000%
United States of America	8,728	-	350,812	-	-	-	698	351	-	1,048	0.705%	0.000%
South Africa	47	-	8	-	-	-	3	-	-	3	0.002%	0.000%
Sweden	832	-	25	-	-	-	64	2	-	65	0.044%	2.500%
Switzerland	542	-	2,690	-	-	-	21	5	-	26	0.017%	0.000%
Taiwan	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Thailandia	6	-	11	-	-	-	-	-	-	-	0.000%	0.000%
Trinidad and Tobago	1	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Tunisia	2	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Turkey	5	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Ukraine	3	-	1	-	-	-	-	-	-	-	0.000%	0.000%
Uganda	3	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Uruguay	8	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Uzbekistan	2	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Venezuela	2	-	-	-	-	-	-	-	-	-	0.000%	0.000%
Vietnam	192	-	-	-	-	-	5	-	-	5	0.004%	0.000%
TOTAL	**3,394,017**	**-**	**855,318**	**-**	**-**	**-**	**147,697**	**992**	**-**	**148,689**		

Credit risk: credit risk adjustments

Definitions of impaired exposures

According to Bank of Italy regulations, set out in Circular no. 272 of 30th July 2008 as amended, impaired exposures correspond to the Non-Performing Exposures aggregate referred to in the Implementing Technical Standards issued by the European Banking Authority (EBA/ITS /2013/03/rev1 24/7/2014).

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.

The Group has pursued a substantial alignment by including in this definition also the concept of "default" governed by Art. 178 EU Regulation no. 575/2013 and that of "impaired" as defined in IFRS 9.

The aforementioned Circular 272 establishes that the impaired assets aggregate is divided into the following categories:

- Bad exposures, i.e., the on-balance-sheet and off-balance-sheet exposures to insolvent borrowers, even if the insolvency has not been recognised in a court of law. They are generally measured individually (including by verifying statistically defined coverage levels for some loan portfolios below a predefined threshold) or, for individually insignificant amounts, on a flat basis by type of homogeneous exposure.
- Unlikely to pay – on - and off-balance sheet exposures which do not meet the borrower's condition for classification as non-performing loans and for which, in the absence of actions such as the enforcement of collateral, the debtor's ability to fully meet its credit obligations (principal and/or interest) is assessed as unlikely. This assessment is made independently of any past due and unpaid amount (or instalment). The classification of an exposure as unlikely to pay is not necessarily tied to evident issues (non-repayment), but is rather linked to indicators of a potential default of the borrower. The "unlikely to pay" exposures are measured in the accounts 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. 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. With regard to their measurement, they are generally measured on an individual basis or by applying a percentage on a flat basis by type of homogeneous exposures and the resulting allowance may include the discounted cost due to renegotiation of the interest rate at a rate lower than the original contractual rate.
  Past due and/or overdrawn impaired exposures - on-balance sheet exposures, other than those classified as non-performing or unlikely to pay that are past due or overdrawn at the reporting date. The past due and/or overdrawn impaired exposures are determined with respect to the individual debtor. 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" (standardized method). Past-due and/or overdrawn impaired exposures are valued at a flat rate on a historical/stochastic.

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.

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.

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.

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 in the previous paragraph the models for calculating the expected loss are based on PD, LGD and EAD parameters, 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:

Credit risk: credit risk adjustments

- 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.

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.

Specifically, the forward looking component is defined by selecting three macroeconomic scenarios, 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 categories

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

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	14,075,686	12,097,910
18	Public-sectors entities	279,893	262,385
19	Multilateral development banks	465,887	373,433
20	International organisations	656,102	628,273
21	Institutions	7,884,632	9,514,678
22	Corporates	308,851	297,370
23	Of which: SMEs	6,137	4,469
24	Retail	3,154,590	2,927,749
25	Of which: SMEs	3,479	3,637
26	Secured by mortgages on immovable property	1,156,034	1,019,021
27	Of which: SMEs	111	90
28	Exposures in default	3,739	3,423
29	Items associated with particularly high risk	2,307	3,190
30	Covered bonds	544,598	324,560
32	Collective investment undertakings	873	763
33	Equity exposures	8,697	8,827
34	Other exposures	264,143	269,223
35	**Total standardised approach**	**28,806,032**	**27,730,805**
36	**Total**	**28,806,032**	**27,730,805**

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.

Please consider that for the calculation of the average net exposures for the period, for the first quarter of 2019 the Bank's individual figures were used, as, as previously mentioned, FinecoBank was not required to report capital adequacy and regulatory ratios on a consolidated basis at that date by virtue of belonging to the UniCredit Banking Group. However, it should be noted that this difference in the scope of consolidation does not affect the significance of the above exposures given the limited contribution of the subsidiary Fineco AM to the determination of the Group's exposures.

Credit risk: credit risk adjustments

The increase in exposures compared to 31 December 2018 is mainly due to business growth, in particular lending to customers and investments in covered bonds, the purchase of the building where the Bank's registered office is located in Milan, Piazza Durante 11 and the recognition of assets representing the "right of use" of the assets leased by the Group, as required by IFRS 16, which came into force on 1 January 2019. It should also be noted that, as a result of leaving the UniCredit Group, the Group has gradually reduced its exposure to UniCredit S.p.A., recognised in the Entities portfolio, increasing its exposures to central governments and central banks.

Credit risk: credit risk adjustments

EU CRB-C – Geographical breakdown of exposures

	NET VALUE															
	EUROPE	ITALY	SPAIN	INTERNATIONAL EUROPEAN BODIES	FRANCE	IRELAND	AUSTRIA	BELGIUM	GERMANY	PORTUGAL	OTHER EUROPEAN COUNTRIES	AMERICA	OF WHICH UNITED STATES OF AMERICA	ASIA	OTHER GEOGRAPHICAL AREAS	TOTAL
Total IRB approach	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Central governments or central banks	13,666,547	6,625,223	4,081,857	-	733,478	772,337	398,087	417,485	127,179	333,319	177,582	409,138	409,137	-	-	14,075,685
Public sector entities	279,893	-	121,573	-	-	-	-	-	158,320	-	-	-	-	-	-	279,893
Multilateral development banks	465,887	-	-	465,887	-	-	-	-	-	-	-	-	-	-	-	465,887
International organisations	656,102	-	-	656,102	-	-	-	-	-	-	-	-	-	-	-	656,102
Institutions	7,795,963	7,639,615	-	-	3,948	16,401	-	-	45,743	-	90,257	88,669	88,669	-	-	7,884,632
Corporates	308,172	246,070	-	-	4,317	19,288	236	-	601	-	37,659	680	9	-	-	308,852
Retail	3,153,574	3,151,734	42	-	76	26	21	29	154	42	1,451	333	45	543	140	3,154,590
Secured by mortgages on immovable property	1,155,101	1,154,059	-	-	-	-	-	103	-	-	939	125	-	807	-	1,156,033
Exposures in default	3,738	3,728	-	-	-	-	-	1	-	-	9	1	1	-	-	3,739
Items associated with particularly high risk	2,307	2,307	-	-	-	-	-	-	-	-	-	-	-	-	-	2,307
Covered bonds	544,598	200,473	52,985	-	240,387	-	24,876	-	3,587	7,459	14,832	-	-	-	-	544,598
Collective investments undertakings	873	-	-	-	-	867	-	-	-	-	5	-	-	-	-	873
Equity exposures	8	7	-	-	-	-	-	-	-	-	2	8,682	8,682	7	-	8,697
Other exposures	264,142	262,823	-	-	-	1,319	-	-	-	-	-	-	-	-	-	264,142
Total standardised approach	**28,296,905**	**19,286,039**	**4,256,457**	**1,121,989**	**982,206**	**810,238**	**423,220**	**417,618**	**335,584**	**340,820**	**322,736**	**507,628**	**-**	**1,357**	**140**	**28,806,030**
Total	**28,296,905**	**19,286,039**	**4,256,457**	**1,121,989**	**982,206**	**810,238**	**423,220**	**417,618**	**335,584**	**340,820**	**322,736**	**507,628**	**-**	**1,357**	**140**	**28,806,030**

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, United Kingdom, Switzerland, Norwey, Luxembourg, Sweden, Russia, Netherland, Romania, Hungary, San Marino, Principality of Monaco, Czech Republic, Croatia, Malta, Greece, Latvia, Georgia, Turkey, Lithuania, Bulgaria, Ukraine, Finland, Moldova, Serbia, Denmark, Albania, Andorra, Estonia, Cyprus.
The column “Other geographical areas” groups together exposures in the following countries: South African Rep., Libya, Ghana, Australia, Kenya, Uganda, New Zalanda, Tunisia, Ethiopia, Morocco, Congo, Egypt, Malawi, Zimbabwe, Nigeria, Algeria, Cameroon, Tanzania, South Africa.

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	-	-	-	-	-	-	-	-	-	-	-	-	-	13,048,202	-	-	-	-	**13,048,202**
13 Corporates	-	-	-	-	-	-	3	-	-	238	-	-	1,304	-	-	-	-	5	**1,550**
14 Retail	34	-	103	-	-	160	883	21	76	40	3	20	21,899	-	16	884	268	443	**24,850**
15 Secured by mortgages on immovable property	-	-	-	-	-	-	111	-	-	-	-	-	4,242	-	-	122	65	-	**4,540**
16 Exposures in default	1	-	1	-	-	4	10	1	2	-	-	-	286	-	-	1	-	1	**307**
21 Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	5	-	-	-	-	-	**5**
23 Total standardised approach	**35**	**-**	**104**	**-**	**-**	**164**	**1,007**	**22**	**78**	**278**	**3**	**20**	**27,736**	**13,048,202**	**16**	**1,007**	**333**	**449**	**13,079,454**
24 Total	**35**	**-**	**104**	**-**	**-**	**164**	**1,007**	**22**	**78**	**278**	**3**	**20**	**27,736**	**13,048,202**	**16**	**1,007**	**333**	**449**	**13,079,454**

The exposures reported above are consistent with the exposures reported in template EU CRB-B, net of €10,467,047 thousand of exposures to "Financial and insurance assets", €4,506,877 thousand of "Activities of extraterritorial organizations and bodies", €2,307 thousand exposures versus Voluntary Scheme and €265,189 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 130 "Other assets" (net of tax assets), 90 "Property, plant and equipment" and 60 "Changes in fair value of portfolio hedged financial assets" of Assets.

Credit risk: credit risk adjustments

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	1,265,006	1,128,035	3,146,953	8,512,185	23,506	14,075,685
8 Regional governments or local authorities	-	-	-	-	-	-
9 Public-sectors entities	-	-	148,202	131,691	-	279,893
10 Multilateral development banks	-	13,362	148,101	304,425	-	465,888
11 International organisations	-	-	69,912	586,190	-	656,102
12 Institutions	269,826	1,775,569	5,739,491	82,577	-	7,867,463
13 Corporates	193,800	83,485	-	-	6,483	283,768
14 Retail	1,096,290	340,286	351,041	125,478	1,407	1,914,502
15 Secured by mortgages on immovable property	-	-	-	1,155,923	-	1,155,923
16 Exposures in default	877	803	1,413	433	48	3,574
21 Equity exposures	-	-	-	-	8,697	8,697
22 Other exposures	5	-	-	-	264,137	264,142
23 Total standardised approach	**2,825,804**	**3,341,545**	**9,655,888**	**11,392,725**	**307,452**	**27,523,414**
24 Total	**2,825,804**	**3,341,545**	**9,655,888**	**11,392,725**	**307,452**	**27,523,414**

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 130 “Other assets” (net of tax assets), 90 “Property, plant and equipment” and 60 “Changes in fair value of portfolio hedged financial assets” of Assets. In line with Q&A 2016_2970, the compulsory reserve with the Bank of Italy has been reported in the bucket "on demand".

Comparable disclosures of financial liabilities are provided in Part E – Information on risks and hedging policies of the Financial Statements at December 31, 2019.

Credit risk: 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	-	14,076,954	1,269	-	-	424	14,075,685
18 Public-sectors entities	-	279,914	21	-	-	1	279,893
19 Multilateral development banks	-	465,888	-	-	-	-	465,888
20 International organisations	-	656,102	-	-	-	-	656,102
21 Institutions	-	7,884,825	192	-	-	147	7,884,633
22 Corporates	8	309,204	359	-	-	114	308,853
23 Of which: SMEs	-	6,152	15	-	-	9	6,137
24 Retail	24,949	3,165,740	32,763	-	-	9,307	3,157,926
25 Of which: SMEs	-	3,497	18	-	-	11	3,479
26 Secured by mortgages on immovable property	542	1,158,660	2,773	-	-	1,052	1,156,429
27 Of which: SMEs	-	111	-	-	-	-	111
28 Exposures in default	25,505	-	21,767	-	-	5,411	3,738
29 Items associated with particularly high risk	-	2,307	-	-	-	-	2,307
33 Equity exposures	6	8,697	-	-	-	-	8,703
34 Other exposures	-	264,143	-	-	-	-	264,143
35 Total standardised approach	**25,505**	**28,817,975**	**37,448**	**-**	**-**	**11,116**	28,806,032
36 Total	**25,505**	**28,817,975**	**37,448**	**-**	**-**	**11,116**	**28,806,032**
37 Of which: Loans	25,334	4,639,552	36,063	-	-	10,602	4,628,823
38 Of which: Debt securities	6	22,294,065	1,363	-	-	499	22,292,708
39 Of which: Off-balance sheet exposures	165	1,282,472	21	-	-	16	1,282,616

It should be noted that the exposures in default, which do not have a significant impact on the Group's overall exposures, have not changed significantly since 31 December 2018.

Please note that the amount indicated in row 28 is not included in the amount indicated in row 35 "Total with standardized approach", as defaulted exposures have been reallocated to the exposure class before default, in line with the EBA Q&A 2017_3481. The item “Other exposures” primarily include exposures recognised in items 130 “Other assets” (net of tax assets), 90 “Property, plant and equipment” and 60 “Changes in fair value of portfolio hedged financial assets” of Assets.

Template 1 (EBA/GL/2018/10) - 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 GUARANTEES RECEIVED ON NON PERFORMING EXPOSURES WITH FORBEARANCE MEASURES
			OF WHICH DEFAULTED	OF WHICH IMPAIRED				
1 **Loans and advances**	**98**	**674**	**674**	**674**	**1**	**492**	**-**	**-**
7 Households	98	674	674	674	1	492	-	-
9 **Loan commitments given**	**42**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
10 **Total**	**140**	**674**	**674**	**674**	**1**	**492**	**-**	**-**

Forborne exposures detailed in the table above are attributable to Italy.

Credit risk: credit risk adjustments

Template 3 (EBA/GL/2018/10) : Credit quality of performing and non-performing exposures by past due days

	GROSS CARRYING AMOUNT/NOMINAL AMOUNT											
	PERFORMING EXPOSURES			NON PERFORMING EXPOSURES								
		NOT PAST DUE OR PAST DUE <= 30 DAYS	PAST DUE > 30 DAYS <= 90 DAYS		UNLIKELY TO PAY THAT ARE NOT PAST DUE OR ARE PAST DUE <= 90 DAYS	PAST DUE > 90 DAYS <= 180 DAYS	PAST DUE > 180 DAYS <= 1 YEAR	PAST DUE > 1 YEAR <= 2 YEARS	PAST DUE > 2 YEARS <= 5 YEARS	PAST DUE > 5 YEARS <= 7 YEARS	PAST DUE > 7 YEARS	OF WHICH DEFAULTED
1 Loans and advances	**5,011,064**	**5,008,770**	**2,294**	**25,335**	**1,500**	**1,316**	**2,625**	**3,924**	**9,581**	**3,137**	**3,252**	**25,335**
2 Central banks	1,005,908	1,005,908	-	-	-	-	-	-	-	-	-	-
3 General governments	-	-	-	-	-	-	-	-	-	-	-	-
4 Credit institutions	314,656	314,656	-	-	-	-	-	-	-	-	-	-
5 Other financial corporations	247,406	247,406	-	12	-	1	-	-	5	6	-	12
6 Non-financial corporations	344	341	3	43	-	4	12	6	16	4	1	43
7 of which SMEs	53	50	3	39	-	4	12	5	14	4	-	39
8 Households	3,442,751	3,440,459	2,291	25,279	1,500	1,311	2,613	3,918	9,560	3,126	3,251	25,279
9 Debt securities	**22,294,055**	**22,294,055**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
10 Central banks	-	-	-	-	-	-	-	-	-	-	-	-
11 General governments	13,419,629	13,419,629	-	-	-	-	-	-	-	-	-	-
12 Credit institutions	8,874,426	8,874,426	-	-	-	-	-	-	-	-	-	-
13 Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
14 Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
15 Off-balance-sheet exposures	**1,491,686**	**-**	**-**	**165**								**165**
16 Central banks	-	-		-								-
17 General governments	-	-		-								-
18 Credit institutions	17,686	-		-								-
19 Other financial corporations	20,985	-		-								-
20 Non-financial corporations	90	-		-								-
21 Households	1,452,925	-		165								165
22 Total	**28,796,805**	**27,302,825**	**2,294**	**25,500**	**1,500**	**1,316**	**2,625**	**3,924**	**9,581**	**3,137**	**3,252**	**25,500**

As described above, defaulted exposures do not have a significant impact on the Group's total exposures, in fact the gross incidence of non-performing loans is 0.5% of total loans.

Template 4 (EBA/GL/2018/10) : Performing and non-performing exposures and related provisions

	GROSS CARRYING AMOUNT/NOMINAL AMOUNT						ACCUMULATED IMPAIRMENTS, ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK AND PROVISIONS						ACCUMULATED PARTIAL WRITE-OFF	COLLATERAL AND FINANCIAL GUARANTEES RECEIVED	
	PERFORMING EXPOSURES			NON PERFORMING EXPOSURES			PERFORMING EXPOSURES - ACCUMULATED IMPAIRMENT AND PROVISIONS			NON PERFORMING EXPOSURES - ACCUMULATED IMPAIRMENT, ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK AND PROVISIONS				ON PERFORMING EXPOSURES	ON NON-PERFORMING EXPOSURES
		OF WHICH STAGE 1	DI CUI STAGE 2		OF WHICH STAGE 2	OF WHICH STAGE 3		OF WHICH STAGE 1	DI CUI STAGE 2		OF WHICH STAGE 2	OF WHICH STAGE 3			
1 **Loans and advances**	**5,011,064**	**4,999,828**	**11,237**	**25,335**	**-**	**25,335**	**14,437**	**8,240**	**6,197**	**21,767**	**-**	**21,767**	**-**	**2,500,730**	**469**
2 Central banks	1,005,908	1,005,908	-	-	-	-	-	-	-	-	-	-	-	-	-
3 General governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4 Credit institutions	314,656	314,656	-	-	-	-	197	197	-	-	-	-	-	-	-
5 Other financial corporations	247,406	247,220	186	12	-	12	411	275	136	12	-	12	-	39	-
6 Non financial corporations	344	341	3	43	-	43	3	2	1	32	-	32	-	24	-
7 of which SMEs	53	50	3	39	-	39	2	1	1	27	-	27	-	-	-
8 Households	3,442,751	3,431,704	11,047	25,279	-	25,279	13,826	7,767	6,059	21,723	-	21,723	-	2,500,666	469
9 **Debt instruments**	**22,294,055**	**22,294,055**	**-**	**-**	**-**	**-**	**1,363**	**1,363**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
10 Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11 General governments	13,419,629	13,419,629	-	-	-	-	1,269	1,269	-	-	-	-	-	-	-
12 Credit institutions	8,874,426	8,874,426	-	-	-	-	94	94	-	-	-	-	-	-	-
13 Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14 Non financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15 **Off-Balance-sheet exposures**	**37,907**	**37,721**	**186**	**11**	**-**	**11**	**21**	**21**	**-**	**-**	**-**	**-**	**-**	**21,472**	**-**
16 Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17 General governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18 Credit institutions	17,170	17,170	-	-	-	-	2	2	-	-	-	-	-	-	-
19 Other financial corporations	14	14	-	-	-	-	-	-	-	-	-	-	-	-	-
20 Non financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21 Households	20,723	20,537	186	11	-	11	20	20	-	-	-	-	-	21,471	-
22 **Total**	**27,343,027**	**27,331,604**	**11,423**	**25,345**	**-**	**25,346**	**15,821**	**9,624**	**6,197**	**21,767**	**-**	**21,767**	**-**	**2,522,202**	**469**

It should be noted that in the table above, "off-balance sheet exposures" are shown only if measured in accordance with IFRS9, unlike Table 3 "Credit quality of performing and non-performing exposures by past due days" in which all are shown.

Credit risk: credit risk adjustments

Template 5 (EBA/GL/2018/10) : Quality of non-performing exposures by geography

	Gross carrying/nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non performing		Of which subject to impairment			
			Of which defaulted				
1 **On-balance-sheet exposures**	**27,330,454**	**25,335**	**25,335**	**27,330,422**	**37,566**	**-**	**-**
2 Italy	17,776,936	25,293	25,293	17,776,907	36,767		-
3 Spain	4,256,820	2	2	4,256,820	375		-
4 International bodies	1,121,990	-	-	1,121,990	-		-
5 France	1,025,077	-	-	1,025,077	37		-
6 European International bodies	808,089	-	-	808,089	58		-
7 United States	497,920	-	-	497,920	69		-
8 Austria	423,255	-	-	423,255	2		-
9 Belgium	417,611	3	3	417,611	3		-
10 Portugal	341,005	-	-	341,005	82		-
11 Germany	336,092	-	-	336,091	4		-
12 Other counties	325,658	37	37	325,657	169		-
13 **Off-balance-sheet exposures**	**1,491,851**	**165**	**165**			**21**	
14 Italy	**1,461,876**	**165**	**165**			**21**	
15 United Kingdom	**14,406**	**-**	**-**			**-**	
16 Switzerland	**11,848**	**-**	**-**			**-**	
17 Other counties	**3,721**	**-**	**-**			**-**	
18 Total	**28,822,305**	**25,500**	**25,500**	**27,330,422**	**37,566**	**21**	**-**

The above table represents the countries in which FinecoBank has material exposures. Exposures equal to or less than 0.5% of total exposures have been included in "Other countries".

"Other counties" of "On-balance sheet exposures" groups together exposures in the following countries: Poland, United Kingdom, Switzerland, Norway, Luxembourg, Sweden, Russia, Bermuda, Netherlands, Philippines, Thailand, Malaysia, Vietnam, Canada, Abu Dhabi, Argentina, Rep. South Africa, China, Hungary, San Marino, Brazil, Mexico, Romania, Czech Republic, Saudi Arabia, Croatia, India, Singapore, Uruguay, Colombia, Moldova, Malta, Bulgaria, Greece, Monaco, Latvia, Turkey, Libya, Paraguay, Ghana, Lithuania, Australia, Kazakhstan, Kenya, Georgia, Chile, Ukraine, Qatar, Uganda, Uzbekistan, Lebanon, Finland, Panama, Estonia, Venezuela, New Zealand, Tunisia, Ethiopia, Iraq, Iraq, Ecuador, Mongolia, Taiwan, Kuwait, Moroc, Peru, Hong Kong, Serbia, Japan, Trinidad and Tobago, Denmark, Congo, Albania, Egypt, Nicaragua, Afghanistan, Bolivia, Malawi, Zimbabwe, Cyprus, Bahrain, Israel, Pakistan, Martinique, Algeria, Indonesia, Nigeria, Cameroon, Belarus, Bosnia and Herzegovina, Puerto Rico, Tanzania, Sri Lanka, Costa Rica, South Korea, Bangladesh.
"Other counties" of "Off-balance sheet exposures" groups together exposures in the following countries: Bulgaria, France, Abu Dhabi, Romania, Ireland, Sweden, Czech Republic, Qatar, Russia, Canada, Thailand, Germany, Netherlands, Spain, China, San Marino, Luxembourg, Portugal, Chile, Brazil, Belgium, United States, Poland, South Africa, Norway, Austria, Croatia, Indonesia, India, Georgia, Argentina, Latvia, Mexico, Ecuador, Lebanon.

Template 6 (EBA/GL/2018/10) : Credit quality of loans and advances by industry

	Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non performing		Of which loans and advances subject to impairment		
			Of which defaulted			
1 Agriculture, forestry and fishing	**1**	**1**	**1**	**1**	**-**	**-**
3 Manufacturing	14	6	6	14	5	-
6 Construction	11	7	7	11	5	-
7 Wholesale and retail trade	24	9	9	24	8	-
8 Transport and storage	240	1	1	240	2	-
9 Accomodation and food service activities	10	3	3	10	2	-
10 Information and communication	9	2	2	9	2	-
12 Real estate activities	18	3	3	18	3	-
13 Professional, scientific and technical activities	20	6	6	20	4	-
14 Administrative and support service activities	29	2	2	29	2	-
16 Education	1	-	-	1	-	-
17 Human health services and social work activities	1	-	-	1	-	-
18 Arts, entertainment and recreation	9	1	1	9	1	-
19 Other services	1	-	-	1	-	-
20 Total	**386**	**43**	**43**	**386**	**34**	**-**

Template 9 (EBA/GL/2018/10) " Collateral obtained by taking possession and execution processes" is not shown because as at 31 December 2019 the Group had not recorded collateral obtained by taking possession in the financial statements.

Credit risk: 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	**-**	**(21.118)**
2 Increases due to amounts set aside for estimated loan losses during the period	-	(5.396)
3 Decreases due to amounts reversed for estimated loan losses during the period	-	1.648
4 Decreases due to amounts taken against accumulated credit risk adjustments	-	3.100
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	**-**	**(21.766)**
10 Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	-	10
11 Specific credit risk adjustments directly recorded to the statement of profit or loss	-	(149)

Changes in the stock of credit risk adjustments shown above refer to adjustments held against loans that are impaired. There are no impaired debt securities.

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

	GROSS CARRY IN VALUE OF DEFAULTED EXPOSURES
1 Opening balance	**23,937**
2 Loans and debt securities that have defaulted or impaired since the last reporting period	6,299
3 Returned to non defaulted status	(179)
4 Amounts written off	(3,248)
5 Other changes	(1,475)
6 Closing balance	**25,334**

Changes in stock shown above refer to adjustments held against loans that are impaired.
“Other changes” includes collections recognised in 2019 for a total of €2,496 thousand.

Credit risk: use of ECAI

For the purpose of determining credit risk weightings under the standardised approach, the Group adopts the ratings of the following external rating agencies: Moody's Investor Service, Standard & Poor's Rating Service and Fitch Ratings.
It should be noted that for the purposes of determining the capital requirement, in compliance with the regulations, where there are two assessments of the same client, the more prudent one is adopted, in the case of three assessments the intermediate one, if all the assessments are present, the second best one is adopted.
The following table shows the regulatory asset classes for which each ECAI is used with the characteristics of the reference ratings.

List of external rating agencies used

PORTFOLIOS	ECAI	FEATURES
Exposures versus central governments and central banks	**Moody's Investors Service; Standard & Poor's Rating Service; Fitch Ratings**	**Solicited and Unsolicited**
Exposures versus international organizations		
Exposures versus multilateral development banks		
Exposures versus covered bonds		

Process of transfer of the issuer or issue credit ratings to comparable assets not included in the regulatory trading book

In compliance with EU Regulation 575/2013 (CRR), the criteria have been defined, as described below, for the use of issue and issuer credit ratings for the assessment of exposure risks. In particular, the risk weighting assigned to the exposures has been determined, in general for all the regulatory portfolios, using the issue rating as the primary measure and then, when this is not available and the conditions established by the Regulation are met, through the use of the issuer rating.

For the quantitative disclosures required by Article 444(e) of the CRR, see Tables EU-CR4 Standardised approach – Credit risk exposure and CRM effects', EU-CCR3 Standardised approach – CCR exposures by regulatory portfolio and risk' and EU CR5 'Standardised Approach', shown in chapters 'Credit risk: use of risk mitigation techniques' and 'Counterparty risk'.

Credit risk: use of risk mitigation techniques

Credit risk mitigation is a recognised regulatory tool used by credit institutions to reduce the credit risk associated with their exposures. In accordance with Regulation 575/2013 (CRR), the Group recognises two main forms of credit risk mitigation: real credit protection and personal credit protection.

Real credit protection is a credit risk mitigation technique whereby the reduction of credit risk on the Group's exposure derives from the right, in the event of default by the counterparty or the occurrence of other specific credit-related events affecting the counterparty, to liquidate certain assets or certain amounts pledged as collateral.

Personal credit protection, on the other hand, is not based on the liquidation of assets pledged to secure the credit but arises from a third party's obligation to pay a certain amount in the event of the debtor's default or the occurrence of other specific events connected with the credit claim.

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

The Group uses forms of real credit protection both to mitigate a series of guaranteed products offered to its retail customers and to mitigate exposures functional to banking activities with institutional counterparties. The first category includes mortgages secured by a substantial first mortgage on residential property and current account overdrafts secured by a pledge on financial instruments.

Regarding exposures functional to the banking business, we should mention, by way of example, the 'Pledge Agreement', previously described, signed with the former Parent Company UniCredit SpA to cover exposures to the latter. This mitigation tool allows compliance with the regulatory limit on large exposures set out in Art. 395 of Regulation 575/2013 (CRR) also following the deconsolidation of FinecoBank SpA by the UniCredit Banking Group.

The Group has implemented the CRM (Credit Risk Mitigation) regulatory requirements by issuing the 'Collateral Management Policy', drawn up in compliance with the supervisory provisions. Such Guidelines pursue several objectives:

- to encourage the optimal management of collateral and guarantees;
- to maximise the mitigating effect of collateral and guarantees on defaulted loans and receivables;
- to abtain a positive impact on Group capital requirements, ensuring that CRM practices meet the minimum requirements of the prudential regulations;
- to define general rules for eligibility, valuation, monitoring and management of collateral (funded protection) and guarantees (unfunded protection) and to detail special rules and requirements for specific collateral/guarantees.

Policies and processes for, and an indication of the extent to which the entity makes use of, on- and offbalance sheet netting

In line with the provisions of the CRR Regulation, balance sheet netting of reciprocal claims between the company and its counterparty is considered eligible collateral if it is legally valid and enforceable in all relevant jurisdictions. This includes in the event of default or bankruptcy of counterparty, and if they meet the following operational conditions:

- provide for the netting of gains and losses on transactions cleared under the master agreement so that a single net amount is owed by one party to the other;
- fulfil the minimum requirements for recognition of financial collateral (valuation requirements and monitoring).

The Group applies balance sheet netting to repurchase agreements and reverse repurchase agreements executed on the MTS market.

Regarding off-balance sheet netting, the Group mainly uses netting instruments on derivatives, repurchase agreements and securities lending with institutional counterparties. The goal is to reduce risk and gain benefits in terms of lower capital absorption through netting agreements signed with specific counterparties, the effectiveness of which depends on the selection of suitable assets to be considered eligible for mitigation purposes. Relationships with institutional counterparties are governed by standardised and recognised market contracts such as the ISDA Master Agreement, Global Master Stock Lending Agreement and Global Master Repurchase Agreement.

Policies and processes for collateral valuation and management

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. fair value of the pledged financial instrument or the mortgaged real estate).

Regarding financial collateral, the generally accepted pledged financial instruments are:

- bond instruments listed on regulated markets and sufficiently liquid to be sold promptly if necessary;
- shares listed on regulated markets that are part of one of the world's leading stock indices;
- units and shares in mutual funds with at least daily listing.

Since these are always listed financial instruments, the financial collateral is assessed through the market price. To determine the extent of the credit line, this value is adjusted by an appropriate margin that protects the Group from foreseeable fluctuations in the value of the guarantee over time. In the case of current account overdrafts secured by pledge, the difference is determined based on the riskiness of the securities account given as collateral. All pledged financial instruments are monitored daily by the operating units to promptly detect any reduction in the value of the collateral on individual credit lines.

Please note that to mitigate exposures to the former Parent Company Unicredit SpA, the Bank, under the 'Pledge Agreement' described above, also accepts assets backed securitised (ABS) not subject to re-securitisation, which comply with the minimum requirements under the prudential regulations for CRM purposes. To this end, in January 2020, UniCredit SpA replaced some of the bonds issued by sovereign, pledged as collateral under the Pledge Agreement, with the 'Impresa2 FRN 20/12/2061 Asset Backed' bond issued by Impresa Two Srl as part of a securitisation transaction under Law 130/99 relating to trade receivables sold and repurchased by UniCredit SpA. This bond meets the requirements of the applicable legislation to be eligible for credit risk mitigation (CRM) techniques, with a consequent reduction in risk-weighted exposures and exposures relevant for the Large Exposures limits.

With specific reference to real estate guarantees, the Group accepts substantial first mortgages on residential properties located in Italy. The fair value of the latter is based on market data, analysis and evidence of appropriate comparisons, as well as the assessor's professional judgement. The appraisal is carried out by external technicians enrolled in the Register of Engineers, Architects, Surveyors or Industrial Surveyors aims to identify the degree of marketability of the properties offered as guarantee, for location, construction characteristics, type of property, quality of construction materials and state of maintenance.

The maximum amount that can be financed in relation to the value of the property is 80% (Loan To Value). However, this ratio may be reduced depending on the purpose of the loan (e.g. for liquidity mortgages, the maximum LTV is reduced to 60%).

The value of real estate guarantees is monitored through the exchange of data flow with an external supplier that has proven ability and reputation in the detection and measurement of market prices of Italian real estate assets. In line with the prudential provisions, if monitoring shows evidence of significant impairment, a new appraisal is carried out on the property.

The principles for the management of real estate guarantees are described in the policy on the granting of residential mortgages with property collateral to current account holders of FinecoBank SpA.

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 mitigation taken

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

The concentration of pledged assets is monitored by the following processes/mechanisms:

- the valuation of the lien collateral is based on fair 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 collateral and the concentration of the instrument in the customer's portfolio provided as collagteral;
- Risk Management performs periodic level two controls on credit concentration risk: in particular, an analysis is carried out for pledged credit facilities which takes into account the number of issuers and the amount of guarantees.

Credit risk: 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	2,495,128	2,505,067	2,504,928	-	-
2 Total debt securities	14,791,316	7,501,377	7,501,377	-	-
3 Total exposures	**17,286,444**	**10,006,444**	**10,006,305**	**-**	**-**
4 Of which defaulted	3,100	469	469	-	-

Exposures secured include exposures secured by immovable property for an amount of €1,156,339 thousand.

It should be noted that the remaining guarantees other than those represented by real estate have been considered eligible as CRM techniques pursuant to Part Three, Title II, Chapter 4 of the CRR, for the purpose of reducing capital requirements, for an amount of 8,450,215 thousand euros, consisting mainly of debt securities, units in O.I.C.R. and equity securities. The change from 31 December 2018 is mainly attributable to debt securities issued by sovereign, mainly Italian government bonds, granted by UniCredit S.p.A. to FinecoBank to guarantee the credit risk exposures represented by UniCredit bonds, until their natural maturity, under the "Pledge Agreement" described above.

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	14,075,686	-	14,075,686	-	127,206	0.9%
3 Public-sectors entities	279,893	-	279,893	-	-	0.0%
4 Multilateral development banks	465,887	-	465,887	-	-	0.0%
5 International organisations	656,102	-	656,102	-	-	0.0%
6 Institutions	7,867,464	17,168	366,087	2	76,256	20.8%
7 Corporates	283,768	25,084	171,900	274	172,174	100.0%
8 Retail	1,914,503	1,240,088	1,234,531	1,968	927,374	75.0%
9 Secured by mortgages on immovable property	1,155,923	111	1,155,923	22	404,998	35.0%
10 Exposures in default	3,574	165	3,500	2	3,506	100.1%
11 Exposures associated with particularly high risk	2,307	-	2,307	-	3,461	150.0%
12 Obbligazioni garantite	544,598	-	544,598	-	56,612	10.4%
14 Organismi di investimento collettivo del risparmio (O.I.C.R.)	873	-	873	-	873	100.0%
15 Equity exposures	8,697	-	8,697	-	8,697	100.0%
16 Other exposures	264,143	-	264,143	-	264,137	100.0%
17 Total	**27,523,417**	**1,282,616**	**19,230,126**	**2,269**	**2,045,293**	**10.6%**

The net value of exposures refers to on-balance sheet assets or off-balance sheet items that generate credit risk as defined by the CRR, therefore exposures subject to counterparty risk are excluded.

For changes in pre-CCF and CRM exposures, please refer to the information reported below the table " EU - CRB-B Total and average net exposure value“.

With reference to post CCF and CRM exposures, there has been a reduction in exposures to Entities which, in addition to the gradual reduction in exposures to UniCredit S.p.A., benefited from the risk mitigation applied following the signing of the “Pledge Agreement” mentioned above.

RWA density is equal to 10,6%, higher than the 6,4% as of December 2018.

Credit risk: use of risk mitigation techniques

EU CR5 – Standardised approach

EXPOSURE CLASSES	RISK WEIGHT											
	0%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	TOTAL
1 Central governments or central banks	13,908,339	-	118,924	-	-	-	-	-	3,829	-	44,594	14,075,686
3 Regional government or local authorities	279,893	-	-	-	-	-	-	-	-	-	-	279,893
4 Multilateral development banks	465,887	-	-	-	-	-	-	-	-	-	-	465,887
5 International organizations	656,102	-	-	-	-	-	-	-	-	-	-	656,102
6 Institutions	-	-	-	738,948	-	9,996	-	-	7,135,689	-	-	7,884,632
7 Corporates	-	-	-	-	-	-	-	-	308,851	-	-	308,851
8 Retail	-	-	-	-	-	-	-	3,154,590	-	-	-	3,154,590
9 Secured by mortgages on immovable property	-	-	-	-	1,153,164	2,870	-	-	-	-	-	1,156,034
10 Exposures in default	-	-	-	-	-	-	-	-	3,600	139	-	3,739
11 Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	2,307	-	2,307
12 Covered bonds	-	-	523,073	21,524	-	-	-	-	-	-	-	544,598
14 Collective investments undertakings	-	-	-	-	-	-	-	-	873	-	-	873
15 Equity	-	-	-	-	-	-	-	-	8,697	-	-	8,697
16 Other positions	5	-	-	-	-	-	-	-	264,137	-	-	264,143
17 Total	15,310,226	-	641,997	760,472	1,153,164	12,866	-	3,154,590	7,725,676	2,446	44,594	28,806,032

Counterparty risk

Counterparty risk is the risk that a counterparty to a transaction is in default prior to the final settlement of the cash flows involved in the transaction. The counterparties in these transactions could default as a result of insolvency, political and economic events, lack of liquidity, operating problems or other reasons.

In line with regulatory requirements, the exposures that generate counterparty risk are:

- OTC financial and credit derivative instruments;
- SFT - Securities Financing Transaction transactions (repurchase agreements and securities lending transactions);
- medium-long settlement transactions.

The OTC derivative exposures that the Group holds with other institutional counterparties are concluded solely for hedging purposes. Specifically, these are mainly interest rate swaps, aimed at ensuring compliance with interest rate risk limits for the banking book.

The Group's SFT exposures include mainly stock lending and reverse repurchase agreements traded on the MTS market. Stock Lending' transactions are securities lending transactions secured by sums of money which are fully available to the lender and which are equivalent, from an accounting point of view, to repurchase agreements on securities. This activity is largely related to the trading services offered by FinecoBank to its retail customers.

Both the OTC derivatives business and stock lending transactions are governed by standard contracts that provide for a form of bilateral clearing (ISDA for derivatives and GMSLA for stock lending).

Repurchase agreements on the MTS market consist in the simultaneous exchange with the counterparty of repurchase and reverse repurchase agreements with the same maturity and are a source of short-term liquidity. This activity is intermediated by 'Cassa di Compensazione e Garanzia'and is subject to offsetting in the financial statements under IAS 32.

The Group generally does not hold medium and long-term settlement transactions other than derivatives.

The institutional counterparties with which the Group conducts lending activities comply with the minimum standards set out in the Global Policy 'Credit Activities with Financial Institutions, Banks, Sovereign States and Corporate counterparties'. There is also a system for allocating ceilings at Group level that allows the Parent Company to set maximum ceilings for exposure to each 'Economic Group', thereby controlling absorption in terms of internal capital. The risk ceilings are set according to a prudential approach, always complying with the regulatory limits on large exposures. The business and operating units ensure their respect through line controls and by the control functions through second-level controls.

To determine the exposure value for counterparty risk, the Group uses the full standardised approach for 'Securities Financing Transactions' (SFT) and the current value approach for OTC derivatives. Under this approach, for each set of assets, the credit equivalent is calculated by adding the replacement cost and future credit exposure (so-called 'add-on'). The replacement cost of each contract is its fair value if positive. The fair value is positive if the Group has a claim on its counterparty. The credit exposure shall reflect the probability that the future fair value of the contract, if positive, may increase or, if negative, may turn positive. This probability is linked to the volatility of the underlying market factors as well as the remaining life of the contract.

EU CCR1 - Analysis of CCR exposure by approach

	NOTIONAL	REPLACEMENT COST/CURRENT MARKET VALUE	POTENTIAL FUTURE CREDIT EXPOSURE	EEPE	MULTIPLIER	EAD POST CRM	RWA
1 Mark to market		3,134	9,733			1,500	1,500
2 Original exposure	-					-	-
3 Standardised approach		-			-	-	-
4 IMM (for derivatives and SFTs)				-	-	-	-
5 Of which securities financing transaction				-	-	-	-
6 Of which derivatives and long settlment transactions				-	-	-	-
7 Of which from contractual cross-product netting				-	-	-	-
8 Financial collateral simple method (for SFTs)						-	-
9 Financial collateral comprehensive method (for SFTs)						36,783	19,872
10 VaR for SFTs						-	-
11 Total						-	21,372

Please note that exposures subject to the CVA requirement and exposures cleared through CCPs are excluded.

EU CCR2 – CVA capital charge

		EXPOSURE VALUE	RWAs
1	Total portfolios subject to the advanced method	-	-
2	VaR component (including the 3x multiplier)		-
3	SVaR component (including the 3x multiplier)		-
4	All portfolios subject to the standardised method	3,451	1,005
EU4	Based on the original exposure method	-	-
5	Total subject to the CVA capital charge	3,451	1,005

EU CCR3: Standardised approach – CCR exposures by regulatory portfolio and risk

EXPOSURE CLASSES	RISK WEIGHT					TOTAL	OF WHICH UNRATED
	0%	2%	20%	75%	100%		
6 Institutions	-	170,518	25,654	-	13,020	209,192	209,193
7 Corporates	-	-	-	-	51,259	51,259	51,259
8 Retail	-	-	-	236,730	-	236,730	236,730
11 Total	-	170,518	25,654	236,730	64,279	497,181	497,182

EU CCR8 – Exposures to CCPs

		EAD POST CRM	RWAs
1	**Exposures to QCCPs (total)**		5,710
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	172,753	3,872
3	(i) OTC derivatives	90,705	1,814
4	(ii) exchange traded derivatives	2,455	466
5	(iii) SFTs	79,593	1,592
9	Prefunded default fund contributions	64,734	1,838
11	**Exposures to non-QCCP (total)**		-

There was an increase in RWA towards QCCPs mainly due to repurchase agreements on the MTS.

EU CCR5-A – Impact of netting and collateral held on exposure values

	GROSS POSITIVE FAIR VALUE OR NET CARRYING AMOUNT	NETTING BENEFITS	NETTED CURRENT CREDIT EXPOSURE	COLLATERAL HELD	NET CREDIT EXPOSURE
1 Derivatives	2,137	-	2,137	2,137	-
2 SFT subject to prudential netting agreements	4,345	4,345	-	-	-
3 SFTs subject to netting in the balance sheet	1,390,225	1,390,225	-	-	-
4 Cross product netting	-	-	-	-	-
5 Total	1,396,708	1,394,570	2,137	2,137	-

SFTs subject to netting on the balance sheet refer to repurchase agreements executed on the MTS market. It should also be noted that at 31 December 2019 there were swap derivative contracts with a positive fair value of €33,921 thousand and a negative fair value of €80,851 thousand, for which a variation margin of €39,920 thousand was paid, which are not shown in the table above because they were cleared with a Direct Participant of a Central Counterparty. These exposures were subject to the prudential treatment provided for in article 305 of Regulation (EU) no. 575/2013.
For full information on clearing in accordance with IAS 32, please refer to the 2019 Financial Statements, Part B - Information on the balance sheet - Liabilities - Other information in the consolidated financial statements.

EU CCR5-B – Composition of collateral for exposures to CCR

	COLLATERAL USED IN DERIVATIVE TRANSACTIONS				COLLATERAL USED IN SFTs	
	FAIR VALUE OF COLLATERAL RECEIVED		FAIR VALUE OF POSTED COLLATERAL		FAIR VALUE OF COLLATERAL RECEIVED	FAIR VALUE OF POSTED COLLATERAL
	SEGREGATED	UNSEGREGATED	SEGREGATED	UNSEGREGATED		
Total	-	2,137	-	-	-	-

The table above shows only the guarantees provided and received in respect of assets recognised in the financial statements for derivative and SFT transactions. The fair values of collateral received and provided in respect of transactions for which the current offset credit exposure is zero have not been reported.

There are no exposures represented by credit derivatives, therefore the dedicated tables are not represented in this section.

For further details on the type and counterparties of derivative contracts held by the Group, please refer to the 2019 Financial Statements, Part E - Section 2 - Risks of the Prudential Consolidation, paragraph 1.3 "Derivatives and hedging policies" of the Notes to the Consolidated Financial Statements.

Operational risk

At 31 December 2019, the Group applied the Traditional Standardised Approach, replacing the Advanced Measurement Approach ('AMA') adopted previously, as a result of deconsolidation by the UniCredit Banking Group. Moreover, the governance, controls and reporting framework required by the internal approach for measuring the capital requirement (AMA), previously adopted and developed, were maintained.

As required by Article 317 of the CRR, to determine the own funds requirements for operational risk under the Standardised Approach, the institution shall divide its activities into the regulatory business lines and classify the relevant Indicator in the business line concerned. The annual Own Funds requirement for each Business Line is equal to the product of the relevant Indicator classified in the Business Line for the corresponding beta factor. The Own Funds Requirement for operational risk is calculated as a three-year average of the sum of the annual Own Funds Requirement for all business lines.

The relevant indicator, on which the standardised methodology for determining the own funds requirement for operational risk is based, is calculated as the sum of the positive and negative elements listed below:

- Interest receivable and similar income
- Interest payable and similar charges
- Income from shares and other variable/fixed-yield securities
- Commissions/fees receivable
- Commissions/fees payable
- Net profit or net loss on financial operations
- Other operating income.

These elements are corrected based on specific requirements defined in the legislation (Article 316 CRR).

To calculate the own funds requirement under the Standardised Approach, the Group's assets have been classified in the following business lines, based on a procedure approved by the Board of Directors, and in line with the principles set out in Articles 317 (Table 2) and 318 of the CRR.

Business Line	Beta Factor
1 Corporate Finance	18%
2 Trading and sales	18%
3 Retail brokerage	12%
4 Commercial banking	15%
5 Retail banking	12%
6 Payment and settlment	18%
7 Agency services	15%
8 Asset management	12%

At 31 December 2019, the capital requirement for operating risks calculated in accordance with the method described above was €88,265 thousand. The table below shows the FinecoBank Group's Relevant Indicator and the annual Capital Requirements for operational risk for each year considered in the average.

	2017	2018	2019	Average
Relevant Indicator	758,937	723,720	678,458	
Capital requirement	92,739	89,691	82,365	**88,265**

Market risk

As described in the chapter Risk management objectives and policies, to which you can refer for more details on governance, roles and responsibilities attributed to Group bodies and functions, market risk derives from the effect that changes in market variables (interest rates, securities prices, exchange rates, etc.) can have on the economic value of the Group's portfolio, if it includes the assets held in the trading book (assets held for trading) as well as those in the banking book, i.e. the transactions connected to strategic investment choices.

Market risk in the Group is defined through two sets of limits:

- Overall measures of market risk (e.g. VaR): which are meant to establish a boundary to the economic capital absorption and the economic loss accepted in trading activities; these limits are consistent with assigned revenue targets and the defined risk-taking capacity;

- Granular measures of market risk (Sensitivity limits, Stress scenario limits, Nominal limits): which exist independently, but act in parallel with the overall limits for the more effective and specific control of different types of risk, portfolios and products. These limits are generally associated with granular sensitivities or stress scenarios. The levels set for granular limits aim to limit the concentration in individual risk factors and the excessive exposure in risk factors which are not sufficiently covered under VaR..

The main tool used by the Group to measure market risk on trading positions is Value at Risk (VaR), calculated using the historical simulation method.

The historic simulation method involves the daily revaluation of positions based on market price trends over an appropriate observation period. The resulting distribution of gains and losses is analysed to determine the effect of extreme market fluctuations on portfolios. The percentile value of the distribution corresponding to the set confidence level represents the VaR. The following parameters are used to calculate VaR: confidence level 99%; time horizon of 1 day; daily update of the time series; observation period of 250 days.

The primary responsibility for monitoring and controlling Market Risk management in the banking book lies with the Group's competent Bodies. The Risk Management of the Group is responsible for monitoring market risk on the banking book by defining the structure, the relevant data and the frequency for adequate reporting.

Market risk in the banking book mainly consists of credit spread risk, interest rate risk and exchange rate risk.

Credit spread risk mainly arises from investments in debt securities held for liquidity purposes. Market risk associated with the bond portfolio is monitored and subject to limits on the notional amount, the sensitivity to Economic Value and the Value at Risk.

The management of interest rate risk focuses on stabilising this second type of risk. The banking book interest rate risk measure covers the dual aspect of the value and the net interest income/expense of the Group. More precisely, the different, and complementary, perspectives involve:

- Economic value perspective: variation in interest rates can affect the economic value of assets and liabilities. The economic value of the Group can be viewed as the present value of the expected net cash flows, defined as the expected cash flows on assets minus the expected cash flows on liabilities. A relevant risk measure from this perspective is the economic value sensitivity per time bucket for a 1 basis point rate shock. This measure is reported to the relevant committees to assess the economic value impact of various changes in the yield curve. The economic value sensitivity is also calculated for a 200bp parallel shock. A monitoring variable from this perspective is the value at risk resulting from interest rate risk exposure;

- Income perspective: the focus of the analysis is the impact of changes of interest rates on Net Interest Income that is the difference between revenues generated by interest-sensitive assets and the cost related to interest-sensitive liabilities. An example of a measure of risks used is Net Interest Income sensitivity for a 100bp parallel shock in rates. It provides an indication of the impact on the net interest income over the next 12 months if such shock should occur.

For further details on interest rate risk, please refer to the chapter 'Exposures to interest rate risk on positions not included in the trading portfolio'.

The third risk type is FX risk. This exposure mainly derives from a mismatching of assets and liabilities in USD. Exchange rate risk is hedged through the matching of assets and liabilities denominated in currency or through spot transactions in foreign currencies.

Market risk

EU MR1 – Market risk under the standardised approach

		RWAs	CAPITAL REQUIREMENTS
1	**Outright products**		
2	Interest rate risk (general and specific)	21,974	1,758
3	Equity risk (general and specific)	15,249	1,220
4	Foreign exchange risk	1,600	128
5	Commodity risk	1,075	86
6	**Options**		
7	Simplified approach	-	-
8	Delta-plus method	-	-
9	Scenario approach	-	-
10	Securitizations (specific risk)	-	-
11	Total	39,898	3,192

The capital requirements relating to market risk do not have a significant impact on the Group's capital requirements.

Exposures in equities not included in the trading book

Exposure Differentiation by Objective

The Group's exposures in equity instruments not included in the trading book, excluding those consolidated on a line-by-line basis, are classified under 'Financial assets designated at fair value through profit or loss' and 'Financial assets designated at fair value' and 'Financial assets designated at fair value through profit or loss' under IAS/IFRS.

The item 'Financial assets at fair value with impact on comprehensive income' includes equity interests in companies in which the Group does not exercise control or significant influence held to establish a commercial relationship with the issuer, for which the 'FVTOCI[2]' option has been exercised.

The item 'Financial assets designated at fair value through profit or loss c) Financial assets at fair value' is used on a residual basis to include the financial assets held by the Group which are not included either in the previous item or in the trading portfolio. In particular, this includes equity instruments accounted for as a result of contributions paid to the Voluntary Scheme set up by the Interbank Deposit Protection Fund and the preferred shares of Visa INC class 'C'. There are also defaulted securities and small amounts withdrawn from customers to offer them a service and LICIT units deriving from seeding activities carried out by the subsidiary Fineco AM.

Description of accounting techniques and valuation methodologies

Equity investments

Investments in associates and companies subject to joint control are recognised using the equity method. Investments recognised using the equity method include any goodwill (less any impairment loss) paid for their acquisition. The interest in the comprehensive income from the investee is recognised:

- in the Income Statement under item '220. 'Profit (loss) of equity investments', if it relates to profit/loss after the date of acquisition;
- under other comprehensive income, if it relates to changes in the company's revaluation reserves.

Any dividends distributed reduce the carrying amount of the equity investment. If the interest in the investee company's losses is equal to or more than its carrying amount, no further losses are recognised, unless specific contractual obligations have been assumed towards the investee or payments have been made to it. Gains and losses on transactions with associates or joint arrangements are eliminated according to the percentage interest in the company itself. Any changes in the revaluation reserves of associates or joint arrangements, which are recorded as a contra item to changes in value of the events relevant to this purpose, are reported separately in the Statement of Comprehensive Income.

At 31 December 2019, the Group did not hold investments in associates or companies subject to joint control.

Financial assets measured at fair value

A financial asset, which is not a financial asset held for trading, is classified among the financial assets to be measured at fair value if it does not meet the conditions, in terms of business model or cash flow characteristics, for measurement at amortised cost or at fair value with an impact on comprehensive income.

In particular, this portfolio includes:

- debt instruments, securities and loans held within a business model whose objective is not the possession of assets aimed at collecting contractual cash flows (Held to Collect), nor the possession of assets aimed at both collecting contractual cash flows and selling financial assets (Held to Collect & Sell) and which are not financial assets held for trading;
- debt instruments, securities and loans whose cash flows are not merely the payment of capital and interest;
- units in investment funds (UCITS);
- equity exposures for which the Group does not exercise the option granted by the standard, of valuing these instruments at fair value with an impact on total profits.

Financial assets measured at fair value are initially recognised on the settlement date for debt securities, equity instruments and UCITS units and on the disbursement date for loans, at their fair value. This normally corresponds to the consideration paid, excluding transaction costs and revenues which are immediately recognised in the income statement even if directly attributable to these financial assets. After initial recognition these financial assets are measured at their fair value in the consolidated income statement.

A gain or loss arising from sale or redemption or a change in the fair value of a HfT financial asset is recognised in the consolidated income statement in item 110 Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss b) other financial assets designated at fair value.

[2] Regarding non-trading equity instruments, IFRS 9 provides for the possibility of measuring them at the fair value recognised through other comprehensive income (so-called FVTOCI – fair value through Other Comprehensive Income)

Exposures in equities not included in the trading book

Financial assets measured at fair value with impact on comprehensive income

A financial asset is classified among financial assets valued at fair value with an impact on total profits if:

- the objective of its business model is pursued through both the collection of contractual cash flows and the sale of financial assets (“held-to-collect and sell”);
- • the contractual terms of the financial asset provide, at certain dates, for cash flows represented only by payments of principal and interest on the principal amount outstanding.

This item also includes equity instruments, not held for trading purposes, for which at the time of initial recognition, i.e. upon initial application of the standard, the Group exercised the option to designate at fair value with an impact on comprehensive income.

Financial assets measured at fair value with an impact on comprehensive income are initially recognised, at the settlement date for debt and debt securities and at the disbursement date for loans, at their fair value. This normally corresponds to the consideration for the transaction including transaction costs and revenues directly attributable to the instrument itself. After initial recognition, the profits and losses from changes in fair value of the equity exposures are recognised in the schedule of overall profits and shown in item '120 Valuation reserves' in consolidated shareholders’ equity.

In compliance with IFRS 9, impairment losses on equity instruments are not recognised in the income statement.

In the case of sale the cumulative profits and losses are recognised in item 150.'Reserves' in consolidated shareholders' equity.

Exposure Type/values	On Balance Sheet exposure		Fair value		Gains/Losses realized		Unerned gains/losses		Unerned gains/losses (booked in Balance Sheet)	
	level 1	level 2/3	level 1	level 2/3	Gains	Losses	Gains	Losses	Gains	Losses
Financial assets at fair value through other comprehensive income	-	5	-	5	-	-	-	-	-	-
Financial assets at fair value through (other than those available for sale)	874	11.320	874	11.320	72	(18)	2.531	(4.547)		

It should be noted that the market price of listed securities does not differ from its fair value.

Exposure to interest rate risk on positions not included in the trading book

General aspects, management processes and measurement methods for interest rate risk

Interest rate risk consists of changes in interest rates that are reflected in:

- net interest margin sources, and thus, the Group's earnings;
- the net present value of assets and liabilities, due to their impact on the present value of future cash flows.

The Group measures and monitors interest rate risk daily, within the methodological framework and the corresponding limits or thresholds approved by the Board of Director. These relate to the sensitivity of the net interest margin and the economic value.

Interest rate risk has an impact on all owned positions resulting from strategic investment decisions (banking book).

The main sources of interest rate risk can be classified as follows:

- gap risk: this derives from the term structure of the banking book and describes the risk arising from the times of changes in interest rates on the instrument. The gap risk also includes the repricing risk, arising from time mismatches in terms of the repricing of the Group's assets and liabilities. These mismatches result in a risk associated with the rate curve. This risk relates to the Group's exposure to changes in the slope and shape of the interest rate curve.
- basis risk : this can be divided into two types of risk:

  - tenor risk, arising from the mismatch between instrument expiry and the change in interest rates;

  - currency risk, defined as the risk of a potential offsetting between sensitivities to the interest rate arising from exposure to the interest rate risk in various currencies;
- option risk – risk resulting from implicit or explicit options in the Group's banking book positions.

Within the organisational framework described above, the Board of Directors approves the limits on interest rate. These limits are set in terms of VaR (calculated using the methodology described above in relation to the trading book). The Parent Company is responsible for managing the exposure to interest rate risk within the limits assigned.

To assess effects of the change in the interest rate curve on the banking book, scenario analyses are conducted that involve the parallel shifts in the rate curve of +/- 100 bps and +/- 200 bps at weekly intervals; the six scenarios proposed by the Basel Committee are also conducted monthly.

Sensitivity

To measure the interest rate risk contained in the Group's financial statements it is necessary to measure the sensibility of the loans and deposits to changes in the interest rate curve. FinecoBank has developed specific behavioural models aimed at estimating the maturity profile of asset and liability items that do not have a contractual maturity; indeed, what is perceived to be sight maturing in reality shows some stickiness.

The following table provides the results of the analyses conducted in all currencies.

(Amounts in € thousand)

	VALUE ANALYSIS (SHIFT + 200 BP)	VALUE ANALYSIS (SHIFT - 200 BP)	VALUE ANALYSIS (SHIFT +1 BP)	IRVAR*	INTEREST RATE ANALYSIS (+100 BP)	INTEREST RATE ANALYSIS (-30 BP)
2019.12.31	-51.955	240.436	-378	3.830	123.971	-31.964

**Holding period* 1 day, 99% confidence level

The sensitivity analysis on the value of shareholders' equity, which was conducted assuming a shift of + 200 basis points on the euro interest rate curve, showed a negative impact of €51,955 thousand. A shift of -200 basis points showed a positive impact of €240,436 thousand.

The sensitivity analysis on the value of shareholders' equity, which was conducted assuming a shift of + 1 basis point, showed a negative impact of €377.59 thousand. The interest rate VaR figure for the Bank came to approximately €3,830 thousand.

Total VaR, including the Credit Spread Risk component arising mainly from government securities held as investment of liquidity and including the Credit Spread Risk component deriving from UniCredit instruments, amounts to €44,725 thousand. The sensitivity analysis on the value of shareholders' equity, which was conducted assuming a shift of +100 basis points on the euro interest rate curve, showed a positive impact of €123,971 thousand. A shift of -30 basis points would have a negative impact of -€31,964 thousand on the interest rate over the next 12 months.

Liquidity risk

The Group aims to maintain liquidity at a level that allows it to conduct its main operations safely, finance its activities at the best interest rates under normal operating circumstances and always remain in a position to meet its payment commitments. In particular, employment policy is based on principles of prudence which give priority to the criterion of the liquidity of the instruments; the result of this policy translates into regulatory liquidity indicators that far exceed the minimum requirements.

On 5 November 2019, the Group updated its 'Group Liquidity Policy', directly applicable to the Parent Company and the subsidiary, to define the set of principles and rules that govern the management of liquidity and related risks in the Group. In particular, the Policy describes the management of liquidity and its risks under standard and crisis conditions, the first and second level control activities and the Group's governance on the matter. It defines the roles and responsibilities of the Bodies and internal functions of the Parent Company, which involve the Treasury Team and the Risk Management Unit, and the subsidiary, for which you should refer to the General Information Requirement section.

The Treasury department carries out the operational management of liquidity, ensuring effective and efficient management of liquidity in the short and medium/long term, monitoring of liquidity exposure and first-level controls on the management process.

The Risk Control function is responsible for monitoring compliance with limits and implementing the rules on liquidity risk, the implementation of selected risk metrics and the assessment of the methods chosen.

To this end, the Group Liquidity Policy makes explicit reference to first and second level monitoring, both from a regulatory and management point of view:

- Short-term liquidity risk management (operational liquidity), which considers the events that will impact the Group's liquidity position from 1 day up to one year. Short-term liquidity management aims to ensure that the Group remains in a position to fulfil its cash payment obligations, whether expected or unexpected, focused on the exposure for the first 12 months. Each day, the Group calculates the Operative Maturity Ladder, which measures the cash inflows and outflows affecting the monetary base, with details of the main time buckets. The Group's objective is to provide sufficient short-term liquidity to deal with the particularly adverse liquidity crises for at least three months;
- Structural liquidity risk management (structural risk), which considers the events that may impact the Group's liquidity position over one year. The primary objective of the Group's structural liquidity management is to maintain an adequate ratio between medium/long term assets and liabilities (generally over one year), intending to avoid pressures on short-term funding sources, both current and future. To this end, the Group adopts a prudent approach to its investments of liquidity, taking into account funding maturities. The indicator used and monitored under the broader Risk Appetite Framework (NSFR) ensures that assets and liabilities have a sustainable maturity structure. The Net Stable Funding Ratio (NSFR) is an indicator calculated as the ratio between the available amount of stable funding and the stable funding requirement, calculated by applying specific weighting factors to the amounts of on and off-balance sheet positions, which will come into force from June 2021;
- the stress test is a risk management technique used to evaluate the potential effects of a specific event on an entity's financial position. Liquidity risk is a low probability and high impact event, therefore, stress testing techniques are a predictive tool to assess potential vulnerabilities. The Group regularly uses several scenarios ranging from general market crisis to idiosyncratic crisis, and a combination thereof.

In this context, the Group takes into account all of the assets, liabilities, off-balance sheet positions and present and future events that generate certain or potential cash flows, thereby protecting the Group from risks related to the transformation of maturity.

To this end, FinecoBank has developed specific behavioural models aimed at estimating the maturity profile of liability items that do not have a contractual maturity; Indeed, what is perceived to be sight maturing, in reality, shows some stickiness. More specifically, the modelling of liabilities aims to construct a replication profile that best reflects the behavioural characteristics of the items. An example is on-demand items: estimates of the maturity profile reflect the perceived stickiness. These behavioural models are developed by FinecoBank's Risk Management function and validated by the Group's Internal Validation Unit.

Contingency Liquidity Management

The 'Contingency Plan on liquidity risk' seeks to ensure effective interventions during the initial stage of a liquidity crisis, through the clear identification of individuals, powers, responsibilities, communication, and reporting criteria, with a view of increasing significantly the probability of successfully overcoming the state of emergency. This is achieved through:

- activation of extraordinary liquidity governance and operating model;
- consistent internal and external communication;
- a set of available mitigating liquidity actions;
- a set of early warning indicators also included in the Group Recovery Plan that may point towards a developing crisis.

Internal Liquidity Adequacy Assessment Process (ILAAP)

In line with the prudential provisions, annually, the Group assesses the adequacy of the liquidity risk management and governance system (ILAAP process) and reports to the supervisory authority under the terms set out in the relevant regulations.

Liquidity risk

Coefficiente di copertura della liquidità (Liquidity Coverage Ratio – "LCR")

The Liquidity Coverage Ratio (LCR) is the regulatory metric of liquidity under stress introduced by the Basel Committee. The indicator is calculated as the ratio of high-quality liquid assets (HQLA) to expected net cash flows for the next 30 days under stress conditions. Compliance with this regulatory requirement is constantly monitored by setting internal limits within the risk appetite framework that are above the minimum regulatory level of 100%. The Liquidity Coverage Ratio (LCR), introduced by Basel 3 prudential regulation, is a short time indicator which aims to ensure that credit institutions maintain an adequate liquidity buffer to cover the net liquidity outflows under severe conditions of stress over a period of 30 days. The regulatory framework applied is represented by:

- with reference to the requirements to be met:
  - CRR Article 412 'Liquidity coverage requirement';
  - Commission Delegated Regulation (EU) 2016/61 of 10 October 2014 that lays down rules to specify in detail the liquidity coverage requirement provided for in CRR Article 412(1). In particular, for each year of the transition period, the requirement that all institutions authorised in Italy have to meet is equal to 100%;
  - Commission Implementing Regulation (EU) 2016/322 of 10 February 2016 laying down implementing technical standards concerning the supervisory reporting of institutions of the liquidity coverage requirement.
- with reference to the disclosure information to be published
  - CRR Article 435 which defines the disclosure requirements for each separate category of risk, including the key ratios (letter f);
  - EDTF ('Enhancing the risk disclosures of banks') recommendation n° 4 that requires the disclosure of key ratios (included LCR), once the applicable rules are finalised;;
  - EBA Guidelines 2017/01, published in March 2017 and applicable from 31 December 2017, relating to the full set of LCR disclosure.

EU LIQ1 – LCR Disclosure template

		Total weighted value			
	Scope of consolidation*	Individual	Individual/Consolidated	Individual/Consolidated	Individual/Consolidated
	Currency and units (Euro / million)				
	Quarter ending on	31 March 2019	30 June 2019	30 September 2019	31 December 2019
	Number of data points used in the calculation of averages	12	12	12	12
21	Liquidity buffer	8,102	9,342	11,115	12,851
22	Total net cash outflows	716	741	934	1,213
23	Liquidity Coverage Ratio (%)	1147%	1259%	1227%	1131%

* Please note that FinecoBank is required to report the LCR on a consolidated basis from the accounting date of 31 May 2019, as a result of deconsolidation by the UniCredit Banking Group. The Bank's individual data up to the accounting date of 30 April 2019 were therefore used to calculate the weighted average value of the consolidated data, but this difference in scope does not affect the significance of this information given the limited contribution of subsidiary Fineco AM to the calculation of the Group's liquidity coverage ratio.

Qualitative information on LCR, which complements the LCR disclosure template

Currency mismatch

The Group operates mainly in euro. EU regulatory legislation provides for the monitoring and reporting of the 'LCR in foreign currency' when the aggregate liabilities held in a foreign currency are 'significant', i.e. 5% or more of the total liabilities held by the institution. At 31 December 2019, the only relevant currency for the Group is the euro.

Concentration of liquidity and funding sources

The risk of concentration of funding sources may arise when the Group leverages a limited number of funding sources with characteristics that could cause liquidity problems in the event of outflows concentrated on a single channel.

The Group's funding, although mainly consisting in sight deposits from FinecoBank's retail customers, is multi-channel funding and therefore not threatened by the withdrawal of funds by a limited number of counterparties or the disappearance of a funding channel.

Financing through deposits, even if collected in a broad and granular manner from customers, may nevertheless expose the Group to a concentration in terms of maturity. To guard against this risk, FinecoBank periodically monitors specific indicators, both regulatory (such as the Net Stable Funding Ratio) and managerial.

In addition, FinecoBank has developed the Demand Items model and related controls, as well as specific stress tests and the degree of persistence of collection. The Sight Post model is a statistical model whose objective is to estimate the Customer's permanent share of liquidity, defined as the ratio of the liquidity kept on current account to the total financial assets held by the Customer in the Bank. At the same time, the model estimates fixed-rate funding considered stable ('Core Insensitive') that can be used to finance fixed-rate loans.

Risk Management checks monthly that the liquidity held within the year by the Group respects the results of the demand items model.

Derivative exposures and potential collateral requirements

FinecoBank enters into derivative contracts with central counterparties and third-party counterparties (OTC) with various underlyings against the following risk factors: changes in interest rates, exchange rates, security prices.

When new contracts are entered into, and market conditions change, the Group's cash and cash equivalents are affected by the obligation to margin positions in derivatives. The Group is required to pay initial and daily variation margins in the form of cash or other liquid collateral.

FinecoBank can estimate and check the margining required daily using special tools provided by clearing brokers. The correct execution of margin payments is also monitored daily, both through cash movements and through securities pledged as collateral. In the latter case, the Treasury Team identifies the securities to be used, which will then be shown in the relevant reports relating to the encumbered assets.

The sensitivity, calculated daily using an ALM instrument used by the Group, makes it possible to derive the potential absorption of liquidity generated by specific shocks in the market curve.

Other liquidity risks that are not relevant in the LCR reporting model, but which the institution considers pertinent to its liquidity profile

Participation in payment systems, albeit of an indirect nature as in the case of FinecoBank, requires the preparation of adequate procedures for monitoring intraday liquidity risk.

The Treasury Team, using the available IT systems (both internal and systemic), actively manages its intraday liquidity obligations and ensures compliance with payment and settlement commitments, both under ordinary and liquidity stress conditions.

The intraday liquidity obligations falling on FinecoBank are seen, in particular, in the commitments made to the Central Bank for the centralised HAM account opened with the Bank of Italy and to the banks with which it has reciprocal account and brokerage relationships.

Indeed, the Group adopts simplified strategic management of cash on demand in the major currencies, which involves concentrating its payment capacity on the HAM ('Euro') account and on specific reciprocal accounts opened with third party banks (currency out) that provide the cash management service.

The Treasury Team continuously checks the balances of these accounts (with particular focus on the balances at the beginning and end of the day) to ensure:

- the ordinary and extraordinary outflow of the Group's liquidity, i.e. the punctuality of all payments with particular attention to those that are foreseeable and with a definite deadline for execution;
- compliance with assigned limits;
- compliance with the regulatory and operational constraints governing relations with the Central Bank (in particular the compulsory reserves.

To ensure business continuity during crises, the process relating to intraday liquidity management is included in the Business Continuity Plan with appropriate backup and contingency measures.

Uncumbered and unencumbered assets

This chapter provides general descriptive information on all forms of encumbrance on the Group's activities, as provided for by Regulation (EU) No. 575/2013 of the European Parliament and Council and supplemented by Delegated Regulation (EU) 2017/2295 concerning regulatory technical standards in the reporting on encumbered and unencumbered assets.

This disclosure is provided using four templates, three in tabular form (A, B, C). Its purpose is to show the amounts of the Group's encumbered and unencumbered assets, distinguishing between assets necessary to support loans or the need for existing collateral and assets that are available for any financing needs. A fourth template (D) contains descriptive information accompanying the first three templates.

Please note that the amounts shown in the tables below represent the median values, which correspond to the median of the sum of the four end-of-period quarterly values for the last twelve months. In this regard, please also note that FinecoBank is required to report encumbered and unencumbered assets on a consolidated basis from the accounting date of 30 June 2019, due to the deconsolidation by the UniCredit Banking Group. In calculating the average median values, therefore, the Bank's individual data up to the accounting date of 31 March 2019 were used. However, please note that this difference in perimeter does not affect the significance of the above information given the limited contribution of the subsidiary Fineco AM to the determination of the Group's encumbered and unencumbered assets.

Template A — Encumbered and unencumbered assets

		CARRYING AMOUNT OF ENCUMBERED ASSETS	FAIR VALUE OF ENCUMBERED ASSETS	CARRYING AMOUNT OF UNENCUMBERED ASSETS	FAIR VALUE OF UNENCUMBERED ASSETS
		010	040	060	090
010	**Assets of the reporting institution**	**2,653,063**		**24,020,927**	
030	Equity instruments	89		15,676	
040	Debt securities	2,397,673	2,471,265	18,307,180	-
050	of which: covered bonds	-	-	362,076	-
070	of which: issued by general governments	1,854,180	1,871,388	9,437,664	-
080	of which: issued by financial corporations	225,256	234,401	8,748,201	-
120	Other assets	**255,300**		**5,698,070**	
121	of which: Loans other than sight financing	**255,300**			

Template B — Collateral received

		FAIR VALUE OF ENCUMBERED COLLATERAL RECEIVED OR OWN DEBT SECURITIES ISSUED	UNENCUMBERED - FAIR VALUE OF COLLATERAL RECEIVED OR OWN DEBT SECURITIES ISSUED AVAILABLE FOR
		010	040
130	**Collateral received by the reporting institution**	**227,090**	**1,703,510**
140	Loans on demand	-	-
150	Equity instruments	225,863	218,096
160	Debt securities	1,227	1,485,414
190	of which: issued by general governments	-	1,483,203
200	of which: issued by financial corporations	592	2,232
250	**Total assets, collateral received and own debt securities issued**	**2,880,153**	

Please note that the fair value of collateral received includes securities received in repurchase agreements and securities lending and borrowing transactions.

Template C — Sources of encumbrance

		MATCHING LIABILITIES, CONTINGENT LIABILITIES OR SECURITIES LENT	ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED OTHER THAN COVERED BONDS AND ABSs ENCUMBERED
		010	030
010	**Carrying amount of selected financial liabilities**	**1,045,188**	**2,482,794**
011	of which: repurchase agreements	937,671	2,383,070
012	of which: derivatives	73,987	137,574
013	of which: other	14,443	4,166

Template D — Accompanying narrative information

Encumbered assets pledged as collateral consists primarily of securities issued by sovereign states underlying repurchase agreements entered into on the MTS market, as well as securities issued by sovereign states, debt securities issued by credit institutions and cash pledged as collateral and deposited with central counterparty clearing systems (CCPs) and other financial institutions as a condition for access to the service, including initial margins and variation margins for repurchase agreements and derivative contracts.

The guarantees received are mainly represented by the following assets:

- debt securities, equity instruments and UCITS units received as pledges as part of current account credit lines;
- securities issued by sovereign states received under repurchase agreements entered into on the MTS market;
- debt securities and equity instruments received in the context of securities lending transactions secured by sums of money, and which are equivalent, from an accounting point of view, to repurchase agreements;
- securities issued by sovereign states and received as collateral to mitigate exposures to the former Parent Company Unicredit SpA under the 'Pledge Agreement' described above.

The main sources of encumbrances are repurchase agreements entered into on the MTS market. Please note that there are no intra-group transactions that lead to sources of encumbrance.

With reference to the value of unencumbered assets, the Group considers that the assets included in line 120 'Other assets' of Model A 'Restricted and unrestricted assets' other than loans and represented mainly by property, plant and equipment, intangible assets, tax assets and hedging derivatives are not encumbered in the normal course of business.

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.

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.

Leverage

Leverage ratio common disclosure

The following table shows the leverage ratio at December 31, 2019, compared against the figures at December 31, 2018, 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). Please note that the figures at 31 December 2018 were determined on an individual basis, as at that date FinecoBank was not required to prepare the report on capital adequacy and regulatory capital ratios on a consolidated basis by virtue of belonging to the UniCredit banking group; therefore, the overall exposure to the leverage ratio was determined net of exposures to the latter (for more details see the section "Description of the factors that had an impact on the leverage ratio during the period" reported after the quantitative disclosure).

		CRR LEVERAGE RATIO EXPOSURES 2019.12.31	CRR LEVERAGE RATIO EXPOSURES 2018.12.31
	On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	27,847,453	24,557,540
2	(Asset amounts deducted in determining Tier 1 capital)	(102,944)	(74,973)
3	**Total on-balance sheet exposures (excluding derivatives and SFT) (sum of lines 1 and 2)**	**27,744,509**	**24,482,567**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	37,274	6,183
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	67,995	17,609
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)	(39,920)	(2,171)
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)**	**65,349**	**21,621**
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	164,428	1,055,918
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	(906,706)
14	CCR exposure for SFT assets	9,022	27,452
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)**	**173,450**	**176,664**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	1,290,369	1,303,905
18	(Adjustments for conversion to credit equivalent amounts)	(1,121,647)	(925,288)
19	**Off-balance sheet exposures (sum of lines 17 and 18)**	**168,722**	**378,617**
	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)
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	1,083,031	702,713
21	Total leverage ratio exposure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	28,152,030	12,655,188
22	**Leverage ratio**	**3.85%**	**5.55%**
	Choice on transitional arrangements and amount of derecognised fiduciary items		
UE-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional
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 2019.12.31	APPLICABLE AMOUNTS 2018.12.31
1	Total assets as per published financial statements	28,022,907	24,713,575
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	26,064	14,798
5	Adjustments for securities financing transactions	9,022	27,452
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	168,722	378,617
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)
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	(74,685)	(74,973)
8	**Leverage ratio exposure**	**28,152,030**	**12,655,188**

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 2019.12.31	CRR LEVERAGE RATIO EXPOSURES 2018.12.31
UE-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:**	**27,807,535**	**12,432,978**
UE-2	Trading book exposures	4,706	3,367
UE-3	Banking book exposures, of which:	27,802,829	12,429,611
UE-4	Covered bonds	544,598	-
UE-5	Exposures treated as sovereigns	15,505,830	9,402,069
UE-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-	-
UE-7	Institutions	8,056,095	72,694
UE-8	Secured by mortgages of immovable properties	1,155,923	856,848
UE-9	Retail exposures	1,914,503	1,623,172
UE-10	Corporate	283,768	225,103
UE-11	Exposures in default	3,574	2,795
UE-12	Other exposures (e.g. equity, securitisations and other non-credit obligation assets)	338,538	246,930

Leverage

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

Leverage ratio is equal to 3.85%, declining from 5.55% as of 31 December 2018 on individual basis. It should be noted that the total exposure as at 31 December 2018 was calculated excluding exposures to UniCredit group companies based in Italy and weighted at 0% pursuant to article 113, paragraph 6 of the CRR, by virtue of FinecoBank's belonging to the UniCredit Group at that date. Leverage ratio is, in fact, calculated in accordance with EU Delegated Regulation 2015/62 of 10 October 2014 and exercising the discretionary powers provided for by Bank of Italy Circular No. 285, Part Two, Chapter 12, Section III Exercise of national discretionary powers, pursuant to which exposures to group companies based in Italy and weighted at 0% pursuant to Article 113(6) of the CRR are excluded in the calculation of the overall exposure, pursuant to Article 429 (7) of the CRR as amended by Delegated Regulation (EU) 2015/62.

In addition to the aforementioned inclusion of exposures to the UniCredit Banking Group, the overall exposures showed an increase mainly due to the growth of the business, in particular of deposits from customers in current account.

As described above, in order to enable the Group to comply with the Leverage ratio requirement, which will be applicable from 28 June 2021, following the entry into force of Regulation (EU) 876/2019 ("CRR II"), and to maintain a buffer against the minimum requirement of CRR II, on 11 July 2019 FinecoBank issued an Additional Tier 1 instrument on the market for a total amount of €300 million.

Processes used to manage the risk of excessive leverage

The Group's Risk Appetite Framework is the foundation for the management of the FinecoBank Group risks. The Framework sets out governance mechanisms, processes, instruments and procedures for the overall management of the Group'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.

Remuneration policy

Information on the Group's remuneration policies can be found in the "Remuneration Report", available on FinecoBank's website at: www.finecobank.com, to which reference is made.

The Report includes all the information required by Article 450 of the CRR concerning the remuneration policy and practices relating to the categories of personnel whose professional activities have a significant impact on the Group's risk profile.

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

Tier 1 capital consists of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1).

Tier 2 Capital

Tier 2 capital is mainly composed of eligible subordinated liabilities and any excess of adjustments over and above expected losses (the excess reserve) for positions weighted according to IRB approaches. Specific transitional provisions (grandfathering) have also been established for subordinated instruments that do not meet the requirements envisaged in the new Basel 3 regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).

Glossary

CFO

Chief Financial Officer.

Credit rating

The class that depends on external ratings and is used to assign risk weights under the standard credit risk approach

Covered bond

Bond which, as well as being guaranteed by the issuing bank, may also be covered by a portfolio of mortgages or other high-quality loans transferred, to this end, to a suitable SPV – Special Purpose Vehicle.

CRD (Capital Requirement Directive)

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.

ECAI

External Credit Assessment Institution

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

Glossary

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 :

- material exposures which are more than 90 days past due ;
- 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

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

EVA – Economic Value Added

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

Fair value

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

Own Funds or Total Capital

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

Forbearance//Forborne exposures

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

IAS/IFRS

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

ICAAP – Internal Capital Adequacy Assessment Process

See "Basilea 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 toPay

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.

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.

LCR - Liquidity Coverage Ratio

Liquidity coverage ratio equal to the ratio between credit institution's liquidity buffer and its net outflows over a 30 calendar day stress 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.

Glossary

Counterparty credit risk

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

Market risk

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

Operational risk

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

Countercyclical capital buffer

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

Capital conservation buffer

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

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.

Sensitivity

It identifies the situation of greater or lesser sensitivity with which certain assets or liabilities react to changes in interest rates or other benchmarks.

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, March 12, 2020

Lorena Pelliciari

Annex 1 – Capital instruments main features template

Capital instruments main features templates*

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

1	Issuer	FinecoBank S.p.A.	FinecoBank S.p.A.	FinecoBank S.p.A.
2	Unique identifier	XS2029623191	XS1764695018	IT0000072170
3	Governing laws of the instrument	Italian law	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	Additional Tier 1 capital	Common Equity Tier 1
5	Post-transitional CRR rules	Additional Tier 1 capital	Additional Tier 1 capital	Common Equity Tier 1
6	Eligible at: Solo; consolidated; Solo and consolidated	Solo (FinecoBank S.p.A.) and Consolidated (FinecoBank Group)	Solo (FinecoBank S.p.A.) and Consolidated (FinecoBank Group)	Solo (FinecoBank S.p.A.) and Consolidated (FinecoBank Group)
7	Instrument type	Bond - Art. 51 CRR	Bond - Art. 51 CRR	Ordinary shares
8	Amount recognised in regulatory capital (€ million)	300	200	201
9	Nominal amount of instrument	300	200	201
9a	Issue price	100	100	N/A
9b	Redemption price	100	100	N/A
10	Accounting classification	Shareholders equity	Shareholders equity	Shareholders equity
11	Original date of issuance	18/07/2019	31/01/2018	N/A
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior Supervisory approval	YES	YES	N/A
15	Optional call date, contingent call date and redemption amount	First optional early repayment date: 03/12/2024. 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.	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	Every 3 June and 3 December following the first optional early repayment date	N/A
	Coupon/dividends			
17	Fixed or floating dividend/coupon	Fixed	Fixed	Floating
18	Coupon rate and any related index	5.875% at year until 3 December 2024; subsequently reset every 5 years to the 5-year Mid-Swap Rate +614.4 bps	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	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. 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	Fully discretionary
21	Existence of step up or other incentive to redeem	NO	NO	N/A
22	Non cumulative or cumulative	Non cumulative	Non cumulative	N/A
23	Convertible or non convertible	Not 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	YES	N/A
31	If write-down, write-down triggers	Capital shortfall	Capital shortfall	N/A
32	If write-down, full or partial	Partial	Partial	N/A
33	If write-down, permanent or temporary	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.	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	Tier 2	Additional Tier 1
36	Non-compliant transitioned features	NO	NO	NO
37	Non-compliant transitioned features	-	-	-

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