FINECO BANK

# 2017 REPORTS AND ACCOUNTS

FINECO. SIMPLIFYING BANKING.

FinecoBank S.p.A - Member of UniCredit

FINECO BANK

FinecoBank S.p.A. - Member of UniCredit

# 2017 Reports and Accounts

# Contents

# Board of Directors, Board of Statutory Auditors and External Auditors

### Board of Directors

| | |
|---|---|
| Enrico Cotta Ramusino | **Chairman** |
| Francesco Saita | **Vice Chairman** |
| Alessandro Foti | **Chief Executive Officer and General Manager** |
| Elena Biffi<br>Gianmarco Montanari<br>Manuela D'Onofrio<br>Maria Chiara Malaguti<br>Maurizio Santacroce<br>Patrizia Albano | **Directors** |

### Board of Statutory Auditors

| | |
|---|---|
| Elena Spagnol | **Chairman** |
| Barbara Aloisi<br>Marziano Viozzi | **Standing Auditors** |
| Federica Bonato | **Alternate Auditors** |

| | |
|---|---|
| Deloitte & Touche S.p.A. | **External Auditors** |

| | |
|---|---|
| Lorena Pelliciari | **Nominated Official in charge of drawing up Company Accounts** |

On April 11, 2017, the Shareholders' Meeting - together with the approval of the Annual Report and Accounts 2016 - appointed a new Board of Directors and a new Board of Statutory Auditors as their terms of office had ended.

On September 4, 2017 Mr. Stefano Fiorini submitted his resignation from the position of Chairman of the Board of Statutory Auditors; on the same date, the alternate auditor Elena Spganol took over the position until the next Shareholders' Meeting.

**Registered office**
Piazza Durante 11, 20131 Milan, Italy

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

# Introduction to the Annual Reports and Accounts

In implementation of Legislative Decree no. 38 of February 28, 2005, these Financial Reports and Accounts comprise the Consolidated Financial Report and Accounts and the Financial Report and Accounts of FinecoBank/Banca Fineco S.p.A. (hereinafter FinecoBank or Fineco or the Bank), which have been prepared in accordance with the IAS/IFRS issued by the International Accounting Standards Board (IASB), including the SIC and IFRIC interpretation documents, as endorsed by the European Commission until December 31, 2017, pursuant to EU Regulation 1606/2002 of July 19, 2002 and applicable to financial reports for the periods starting on January 1, 2017.

In its circular 262 of December 22, 2005 as amended, the Bank of Italy laid down the formats for the financial statements and explanatory notes to the accounts of banks and regulated financial companies that are parents of banking groups, which have been used to prepare the Consolidated Report and Accounts and the Separate Report and Accounts.

As it belongs to the UniCredit Banking Group, FinecoBank is required to present consolidated financial statements for the year ended December 31, 2017, as required by law, as it controls Fineco AM Limited, an Irish company incorporated on October 26, 2017, and is an issuer of financial instruments traded on a public market. As at December 31, 2017, Fineco AM Limited had not yet started operations, therefore the consolidated and individual results of FinecoBank did not show any significant differences.

The Consolidated Report and Accounts includes:

- the **Consolidated Financial Statements** comprise the Consolidated Balance Sheet, the Consolidated Income Statement, the Statement of Consolidated Comprehensive Income, the Statement of Changes in Consolidated Shareholders' Equity, the Consolidated Cash Flow Statement, presented - as they are the first consolidated statements - with a comparison to the separate financial statements of 2016;
- the **Notes to the Consolidated Accounts**;

and is accompanied by:

- the **Consolidated Report on Operations**, which includes the condensed accounts, the main results of the various business areas, and comments on the results for the period;
- the Certification of the Consolidated Report and Accounts pursuant to Article 81-ter of Consob Regulation no. 11971 of May 14, 1999 and subsequent amendments.

Any lack of correspondence between the figures shown in the Consolidated Report on Operations and the Consolidated Financial Statements is solely due to roundings.

The Financial Report and Accounts includes:

- the **Financial Statements** comprise the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement, presented with a comparison to those of 2016;
- the **Notes to the Accounts**;

it is accompanied by the Certification of the Annual Financial Statements pursuant to Article 81-ter of Consob Regulation no. 11971 of May 14, 1999 and subsequent amendments.
For the Report on Operations pertaining to the separate financial statements of FinecoBank S.p.A., please refer to the Consolidated Report on Operations.

The annual report also includes:

- the Report of the Board of Statutory Auditors
- the Reports of the External Auditors.

# Consolidated Report and Accounts of FinecoBank S.p.A.

# Consolidated Report on Operations

# Summary data

FinecoBank is the direct, multi-channel bank of the UniCredit Group. It has one of the largest advisory networks in Italy and is the leader in Italy for equity trades. The Bank offers an integrated business model combining direct banking and financial advice. With a single account including a full range of banking, credit, trading and investment services, which are also available through applications for smartphone and tablet. With its fully integrated platform, FinecoBank is the benchmark for modern investors.

FinecoBank is listed on the Milan Stock Market and has been on Borsa Italiana's FTSE Mib index since April 1, 2016. On March 20, 2017, the stock became part of the STOXX Europe 600 Index.

FinecoBank is on the Standard Ethics Italian Banks Index© and the Standard Ethics Italian Index (comprising the largest 40 companies listed on the Borsa italiana FTSE-MIB), one of the leading performance indexes and a benchmark for environmental, social and governance concerns. In July 2017, Standard Ethics[1] raised the Bank's rating to EE (from EE-), at which level it is considered full "investment grade" by investors who tend towards sustainable companies with a lower reputational risk profile and good long-term prospects.

In order to further increase the Bank's competitive capacity by expanding the range of services offered, on July 4, 2017 the Board of Directors of FinecoBank resolved to initiate a project aimed at enabling the Bank to set up a Management Company under Irish law, wholly owned by FinecoBank, dedicated to the management of UCITs. Fineco AM Limited was incorporated on October 26, 2017, after approval of the project by the Board of Directors of UniCredit S.p.A. on August 2, 2017 and after the Board of Directors' meeting of FinecoBank held on September 19, 2017, which approved the amount of share capital to be allocated to the new company. As at December 31, 2017, Fineco AM Limited had not yet started operations.

In 2017, total financial assets (direct and indirect) amounted to €67,185 million, up 11.6% on €60,195 million at the end of 2016. Net sales in 2017 came to €5,958 million (+18% y/y).

The asset mix continues to improve, as noted in the course of the year: assets under management reached €3,943 million (+121% compared to 2016), equal to 66% of net sales; assets under custody came to €564 million, while direct deposits totalled €1,451 million. Sales of "Guided Products & Services" came to €4,559 million in 2017, making their percentage of total AUM rise to 64% compared to 56% in December 2016.

Net sales through the network of Personal Financial Advisors totalled €5,404 million, up 25% compared to 2016. Total financial assets amounted to €57,887 million (+12.5% y/y).

The TFA related to Private Banking clients, i.e. with assets above €500,000, totalled €25,886 million, up 16% y/y.

In 2017, €230 million in personal loans and €521 million in mortgages were granted, and €831 million in current account overdrafts was arranged, resulting in an overall 121% aggregate increase in loans to customers[2] compared to December 31, 2016. Credit quality remains high, driven by the principle of offering credit exclusively to existing customers, making use of specialist tools to analyse the bank's vast information base. The cost of risk is structurally contained and fell further, thanks also to the effect of new loans, which are mainly secured and low-risk.

The net profit for the year amounted to €214.1 million, an increase of 1.1% on the previous year. Excluding non-recurring items in 2017, net profit would have been €218.5 million, up 8.9% compared to the profit 2016, also excluding non-recurring items[3].

1. Standard Ethics, based in London, is an independent rating agency for sustainability, social responsibility and good governance.
2. Losses from de-recognitions and impairment losses on the equity exposure to the Voluntary Scheme of the Interbank Deposit Guarantee Fund totalling -€12.9 million (-€8.6 million net of taxes); release of estimated integration costs in the previous year relating to the UniCredit Group's Business Plan, totalling €0.4 million (€0.3 million net of taxes); increase in current tax relating to the application of PEX on the gain realised in 2016 from the sale of the investment in VISA Europe Ltd, totalling +€3.9 million.
3. Gain from disposal of the equity investment in Visa Europe Ltd, worth +€15.3 million (+€10.3 million net of tax calculated according to the ordinary tax regime); impairment losses on the equity exposure to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund totalling -€6.7 million (-€4.5 million net of taxes); release of provisions made for the Solidarity Fund and for the residual commitment to the Interbank Deposit Guarantee Fund for the support for Banca Tercas worth €3.7 million (€2.5 million net of taxes); estimated integration costs paid by the Bank relating to the UniCredit Group's Business Plan, totalling -€5.5 million (-€3.7 million net of taxes); increase in current tax relating to provisions for a number of disputes in prior years that were definitively closed in 2016 for a total of €6.5 million.

The cost/income ratio moved from 41.63%[4] as at December 31, 2016 to 39.76% as at December 31, 2017, confirming the operating efficiency of the Bank and the spread of the company culture on controlling costs.
The 2017 results reflect the Bank's solidity and the strength of its business model: Customers continue to reward Fineco's transparent approach, high quality and comprehensive range of financial services as represented through the "one-stop solution" concept.

The Bank's offering is split into three integrated areas of activity: (i) banking, including current account and deposit services, payment services, and issuing debit, credit and prepaid cards, mortgages and personal loans; (ii) brokerage, providing order execution services on behalf of customers, with direct access to major global equity markets and the ability to trade CFDs (on currencies, indices, shares, bonds and commodities), futures, options, bonds, ETFs and certificates; (iii) investing, including placement and distribution services of more than 6,000 products, including mutual funds and SICAV sub-funds managed by 77 leading Italian and international investment firms, insurance and pension products, as well as investment advisory services through a network of 2,607 personal financial advisors.

4. The Cost/income ratio as at December 31, 2016 was calculated by excluding the non-recurring items arising last year, equal to €15.3 million, from operating income.

# Summary data (CONTINUED)

## Condensed Accounts

### Consolidated balance sheet

(Amounts in € thousand)

| | AMOUNTS AS AT | | CHANGES | |
|---|---|---|---|---|
| **ASSETS** | **12.31.2017** | **12.31.2016** | **AMOUNT** | **%** |
| Cash and cash balances | 613 | 5 | 608 | n.c. |
| Financial assets held for trading | 10,879 | 6,044 | 4,835 | 80.0% |
| Loans and receivables with banks | 13,878,117 | 15,735,540 | (1,857,423) | -11.8% |
| Loans and receivables with customers | 2,129,219 | 1,016,798 | 1,112,421 | 109.4% |
| Financial investments | 5,874,079 | 3,757,529 | 2,116,550 | 56.3% |
| Hedging instruments | 10,048 | 9,211 | 837 | 9.1% |
| Property, plant and equipment | 15,205 | 14,451 | 754 | 5.2% |
| Goodwill | 89,602 | 89,602 | - | - |
| Other intangible assets | 7,909 | 7,731 | 178 | 2.3% |
| Tax assets | 9,249 | 13,165 | (3,916) | -29.7% |
| Other assets | 315,415 | 336,300 | (20,885) | -6.2% |
| **Total assets** | **22,340,335** | **20,986,376** | **1,353,959** | **6.5%** |

(Amounts in € thousand)

| | AMOUNTS AS AT | | CHANGES | |
|---|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | **12.31.2017** | **12.31.2016** | **AMOUNT** | **%** |
| Deposits from banks | 926,001 | 1,111,106 | (185,105) | -16.7% |
| Deposits from customers | 20,205,036 | 18,801,073 | 1,403,963 | 7.5% |
| Financial liabilities held for trading | 2,617 | 2,626 | (9) | -0.3% |
| Hedging instruments | 8,922 | 11,371 | (2,449) | -21.5% |
| Provisions for risks and charges | 112,414 | 111,756 | 658 | 0.6% |
| Tax liabilities | 10,234 | 10,048 | 186 | 1.9% |
| Other liabilities | 343,285 | 257,097 | 86,188 | 33.5% |
| Shareholders' equity | 731,826 | 681,299 | 50,527 | 7.4% |
| *- capital and reserves* | *526,046* | *476,249* | *49,797* | *10.5%* |
| *- revaluation reserves (available-for-sale financial assets - actuarial gains (losses) for defined benefits plans)* | *(8,340)* | *(6,794)* | *(1,546)* | *22.8%* |
| *- net profit* | *214,120* | *211,844* | *2,276* | *1.1%* |
| **Total liabilities and Shareholders' equity** | **22,340,335** | **20,986,376** | **1,353,959** | **6.5%** |

## Consolidated balance sheet - Quarterly data

(Amounts in € thousand)

| ASSETS | AMOUNTS AS AT 12.31.2017 | 09.31.2017 | 06.30.2017 | 03.31.2017 | 12.31.2016 |
|---|---|---|---|---|---|
| Cash and cash balances | 613 | 1,671 | 2,902 | 615 | 5 |
| Financial assets held for trading | 10,879 | 10,538 | 9,791 | 5,714 | 6,044 |
| Loans and receivables with banks | 13,878,117 | 14,292,534 | 14,827,089 | 15,461,841 | 15,735,540 |
| Loans and receivables with customers | 2,129,219 | 1,715,684 | 1,503,867 | 1,166,180 | 1,016,798 |
| Financial investments | 5,874,079 | 5,418,872 | 4,760,269 | 3,906,456 | 3,757,529 |
| Hedging instruments | 10,048 | 16,172 | 15,417 | 12,410 | 9,211 |
| Property, plant and equipment | 15,205 | 15,197 | 15,396 | 14,379 | 14,451 |
| Goodwill | 89,602 | 89,602 | 89,602 | 89,602 | 89,602 |
| Other intangible assets | 7,909 | 7,712 | 8,025 | 7,702 | 7,731 |
| Tax assets | 9,249 | 14,279 | 9,276 | 14,486 | 13,165 |
| Other assets | 315,415 | 233,188 | 271,613 | 247,202 | 336,300 |
| **Total assets** | **22,340,335** | **21,815,449** | **21,513,247** | **20,926,587** | **20,986,376** |

(Amounts in € thousand)

| LIABILITIES AND SHAREHOLDERS' EQUITY | AMOUNTS AS AT 12.31.2017 | 09.31.2017 | 06.30.2017 | 03.31.2017 | 12.31.2016 |
|---|---|---|---|---|---|
| Deposits from banks | 926,001 | 696,554 | 929,859 | 980,245 | 1,111,106 |
| Deposits from customers | 20,205,036 | 20,007,773 | 19,440,617 | 18,883,826 | 18,801,073 |
| Financial liabilities held for trading | 2,617 | 3,274 | 4,113 | 2,228 | 2,626 |
| Hedging instruments | 8,922 | 18,731 | 16,084 | 16,738 | 11,371 |
| Provisions for risks and charges | 112,414 | 103,666 | 102,123 | 113,060 | 111,756 |
| Tax liabilities | 10,234 | 49,310 | 19,525 | 36,073 | 10,048 |
| Other liabilities | 343,285 | 264,641 | 380,059 | 162,730 | 257,097 |
| Shareholders' equity | 731,826 | 671,500 | 620,867 | 731,687 | 681,299 |
| *- capital and reserves* | *526,046* | *524,273* | *522,475* | *690,077* | *476,249* |
| *- revaluation reserves (available-for-sale financial assets - actuarial gains (losses) for defined benefits plans)* | *(8,340)* | *(3,811)* | *(5,875)* | *(10,084)* | *(6,794)* |
| *- net profit* | *214,120* | *151,038* | *104,267* | *51,694* | *211,844* |
| **Total liabilities and Shareholders' equity** | **22,340,335** | **21,815,449** | **21,513,247** | **20,926,587** | **20,986,376** |

# Summary data (Continued)

## Consolidated Income Statement

(Amounts in € thousand)

| | YEAR | | CHANGES | |
|---|---|---|---|---|
| | 2017 | 2016 | AMOUNT | % |
| Net interest | 264,581 | 249,388 | 15,193 | 6.1% |
| Dividends and other income from equity investments | 29 | 6 | 23 | 383.3% |
| Net fee and commission income | 270,083 | 242,881 | 27,202 | 11.2% |
| Net trading, hedging and fair value income | 48,219 | 69,054 | (20,835) | -30.2% |
| Net other expenses/income | 3,760 | (2,211) | 5,971 | n.c. |
| **OPERATING INCOME** | **586,672** | **559,118** | **27,554** | **4.9%** |
| Payroll costs | (79,294) | (73,698) | (5,596) | 7.6% |
| Other administrative expenses | (236,945) | (228,119) | (8,826) | 3.9% |
| Recovery of expenses | 93,367 | 85,395 | 7,972 | 9.3% |
| Impairment/write-backs on intangible and tangible assets | (10,369) | (9,952) | (417) | 4.2% |
| **Operating costs** | **(233,241)** | **(226,374)** | **(6,867)** | **3.0%** |
| **OPERATING PROFIT (LOSS)** | **353,431** | **332,744** | **20,687** | **6.2%** |
| Net impairment losses on loans provisions for guarantees and commitments | (5,151) | (4,199) | (952) | 22.7% |
| **NET OPERATING PROFIT (LOSS)** | **348,280** | **328,545** | **19,735** | **6.0%** |
| Provisions for risks and charges | (19,025) | (9,981) | (9,044) | 90.6% |
| Integration costs | 408 | (5,503) | 5,911 | n.c. |
| Net income from investments | (13,399) | (6,724) | (6,675) | 99.3% |
| **PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | **316,264** | **306,337** | **9,927** | **3.2%** |
| Income tax for the year | (102,144) | (94,493) | (7,651) | 8.1% |
| **NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS** | **214,120** | **211,844** | **2,276** | **1.1%** |
| **PROFIT (LOSS) FOR THE YEAR** | **214,120** | **211,844** | **2,276** | **1.1%** |
| **NET PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP** | **214,120** | **211,844** | **2,276** | **1.1%** |

## Consolidated Income Statement - Quarterly data

(Amounts in € thousand)

| | 2017 | | | |
|---|---|---|---|---|
| | 4TH QUARTER | 3RD QUARTER | 2ND QUARTER | 1ST QUARTER |
| Net interest | 70,027 | 67,366 | 64,282 | 62,906 |
| Dividends and other income from equity investments | 11 | 6 | 6 | 6 |
| Net fee and commission income | 70,696 | 69,680 | 65,026 | 64,681 |
| Net trading, hedging and fair value income | 11,100 | 11,127 | 12,282 | 13,710 |
| Net other expenses/income | 3,930 | 63 | (764) | 531 |
| **OPERATING INCOME** | **155,764** | **148,242** | **140,832** | **141,834** |
| Payroll costs | (20,601) | (19,769) | (19,708) | (19,216) |
| Other administrative expenses | (60,031) | (53,021) | (61,451) | (62,442) |
| Recovery of expenses | 24,987 | 21,888 | 23,215 | 23,277 |
| Impairment/write-backs on intangible and tangible assets | (2,908) | (2,628) | (2,503) | (2,330) |
| **Operating costs** | **(58,553)** | **(53,530)** | **(60,447)** | **(60,711)** |
| **OPERATING PROFIT (LOSS)** | **97,211** | **94,712** | **80,385** | **81,123** |
| Net impairment losses on loans provisions for guarantees and commitments | (2,082) | (1,528) | (1,001) | (540) |
| **NET OPERATING PROFIT (LOSS)** | **95,129** | **93,184** | **79,384** | **80,583** |
| Provisions for risks and charges | 5,154 | (21,029) | (773) | (2,377) |
| Integration costs | 428 | (7) | 1 | (14) |
| Net income from investments | (11,598) | (1,448) | (361) | 8 |
| **PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | **89,113** | **70,700** | **78,251** | **78,200** |
| Income tax for the period | (26,031) | (23,929) | (25,678) | (26,506) |
| **NET PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | **63,082** | **46,771** | **52,573** | **51,694** |
| **NET PROFIT (LOSS) FOR THE PERIOD** | **63,082** | **46,771** | **52,573** | **51,694** |
| **PROFIT (LOSS) BEFORE TAX ATTRIBUTABLE TO THE GROUP** | **63,082** | **46,771** | **52,573** | **51,694** |

# Summary data (Continued)

(Amounts in € thousand)

| | 2016 | | | |
|---|---|---|---|---|
| | 4TH QUARTER | 3RD QUARTER | 2ND QUARTER | 1ST QUARTER |
| Net interest | 63,412 | 62,527 | 61,200 | 62,249 |
| Dividends and other income from equity investments | 6 | - | - | - |
| Net fee and commission income | 65,786 | 59,274 | 59,660 | 58,161 |
| Net trading, hedging and fair value income | 11,343 | 10,785 | 27,281 | 19,645 |
| Net other expenses/income | (2,176) | (793) | 669 | 89 |
| **OPERATING INCOME** | **138,371** | **131,793** | **148,810** | **140,144** |
| Payroll costs | (16,633) | (19,349) | (19,003) | (18,713) |
| Other administrative expenses | (57,254) | (53,141) | (57,169) | (60,555) |
| Recovery of expenses | 21,311 | 21,747 | 21,107 | 21,230 |
| Impairment/write-backs on intangible and tangible assets | (2,733) | (2,610) | (2,436) | (2,173) |
| **Operating costs** | **(55,309)** | **(53,353)** | **(57,501)** | **(60,211)** |
| **OPERATING PROFIT (LOSS)** | **83,062** | **78,440** | **91,309** | **79,933** |
| Net impairment losses on loans provisions for guarantees and commitments | (678) | (720) | (1,361) | (1,440) |
| **NET OPERATING PROFIT (LOSS)** | **82,384** | **77,720** | **89,948** | **78,493** |
| Provisions for risks and charges | 3,914 | (11,342) | (1,114) | (1,439) |
| Integration costs | (5,493) | (3) | (4) | (3) |
| Net income from investments | (6,724) | - | - | - |
| **PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | **74,081** | **66,375** | **88,830** | **77,051** |
| Income tax for the period | (24,610) | (21,784) | (22,270) | (25,829) |
| **NET PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | **49,471** | **44,591** | **66,560** | **51,222** |
| **NET PROFIT (LOSS) FOR THE PERIOD** | **49,471** | **44,591** | **66,560** | **51,222** |
| **PROFIT (LOSS) BEFORE TAX ATTRIBUTABLE TO THE GROUP** | **49,471** | **44,591** | **66,560** | **51,222** |

# Key figures of the consolidated financial statements

## Main balance sheet figures

(Amounts in € thousand)

| | AMOUNTS AS AT | | CHANGES | |
|---|---|---|---|---|
| | 12.31.2017 | 12.31.2016 | AMOUNT | % |
| Loans receivable with ordinary customers (1) | 1,798,520 | 813,589 | 984,931 | 121.1% |
| Total assets | 22,340,335 | 20,986,376 | 1,353,959 | 6.5% |
| Direct deposits (2) | 19,940,715 | 18,509,497 | 1,431,218 | 7.7% |
| Assets under administration (3) | 47,243,837 | 41,685,609 | 5,558,228 | 13.3% |
| Total customer sales (direct and indirect) | 67,184,552 | 60,195,106 | 6,989,446 | 11.6% |
| Shareholder's equity | 731,826 | 681,299 | 50,527 | 7.4% |

(1) Loans refer solely to loans granted to customers (current account overdrafts, credit cards, personal loans, mortgages and unsecured loans).

(2) Direct deposits include overdrawn current accounts, Supersave repos and the Cash Park deposit account.

(3) Assets under administration consist of products placed online or through FinecoBank personal financial advisors.

## Operating Structure

| | DATA AS AT | |
|---|---|---|
| | 12.31.2017 | 12.31.2016 |
| No. Employees | 1,119 | 1,086 |
| No. Workers (1) | 1,128 | 1,096 |
| No. personal financial advisors | 2,607 | 2,628 |
| No. Financial shops (2) | 375 | 358 |

(1) Number of human resources: includes permanent employees, workers with atypical contracts, directors, and UniCredit Group employees seconded to FinecoBank, net of FinecoBank employees seconded to the UniCredit Group.

(2) Number of operating financial shops: financial shops managed by the Bank and financial shops managed by personal financial advisors (Fineco Centers).

## Profitability, productivity and efficiency ratios

(Amounts in € thousand)

| | DATA AS AT | |
|---|---|---|
| | 12.31.2017 | 12.31.2016 |
| Net interest/Operating income | 45.10% | 44.60% |
| Income from brokerage and other income/Operating income | 54.90% | 55.40% |
| Income from brokerage and other income/Operating costs | 138.08% | 136.82% |
| Cost/income ratio | 39.76% | 41.63% |
| Operating costs/TFA | 0.37% | 0.39% |
| Cost of risk | 33 bp | 43 bp |
| CoR (incentive system) | 40 bp | 59 bp |
| ROE | 39.47% | 43.07% |
| Adjusted ROE | 40.29% | 40.82% |
| Return on assets | 0.96% | 1.01% |
| EVA (calculated on economic capital) | 193,901 | 194,418 |
| EVA (calculated on accounting capital) | 165,293 | 162,974 |
| RARORAC (calculated on economic capital) | 56.61% | 66.33% |
| RARORAC (calculated on accounting capital) | 24.21% | 24.99% |
| ROAC (calculated on economic capital) | 62.56% | 72.28% |
| ROAC (calculated on accounting capital) | 31.39% | 32.49% |
| Total sales to customers/Average resources | 60,418 | 55,659 |
| Total customer sales/(Average employees average PFAs) | 18,014 | 16,240 |

**Key**

Income from brokerage and other income: Net fee and commission income, Net trading, hedging and fair value income and Net other expenses/income.

Cost/income ratio: Operating Costs divided by Operating Income. The Cost/income ratio as at December 31, 2016 was calculated by excluding the non-recurring items arising last year, equal to €15.3 million, from operating income.

Operating costs/TFA: ratio of operating costs to Total Financial Assets. The TFA used for the ratio is the average for the period, calculated as the average between the period-end balance and the balance as at the previous December 31.

Cost of risk: is the ratio of Net write-downs of loans and provisions for guarantees and commitments to Loans and receivables with customers (average of the balance at period end and the balance at December 31 of the previous year).

CoR (incentive system): is the ratio of Net write-downs of loans and Loans and receivables with customers (average of the balance at period end and the balance at December 31 of the previous year). The scope of the exposures excludes positions deriving from bonds and advances to personal financial advisors.

ROE: ratio between net profit and the average book shareholders' equity for the period (excluding dividends and any donations expected to be distributed and the revaluation reserves).

Adjusted ROE: ratio between net profit excluding non-recurring items and the average book shareholders' equity for the period (excluding dividends and any donations expected to be distributed and the revaluation reserves).

Return on assets: ratio of net profit after tax to total assets.

EVA (Economic Value Added): shows the firm's ability to create value; calculated as the difference between net operating profit and the figurative cost of the allocated capital; the latter was calculated using either the greater of the regulatory capital absorbed and the economic capital (in Fineco's case, the economic capital) or using the book value of shareholders' equity.

RARORAC (Risk adjusted Return on Risk adjusted Capital): the ratio between EVA (using either the greater of the regulatory capital absorbed and the economic capital or using the book value of shareholders' equity) and Allocated/Absorbed Capital and expresses, in percentage, the capacity to create value for unit of risk taken.

ROAC (Return on Allocated Capital): the ratio of Net Operating Profit and Allocated Capital. Allocated Capital means the greater of internally calculated capital based on shared UniCredit Group models (Economic Capital) and regulatory capital or using the book value of shareholders' equity.

For the calculation of EVA, RARORAC and ROAC indicators as at December 31, 2017, internal capital is that as at September 30, 2017, the latest available provided by the Parent Company, and the indicators have been calculated based on the individual situation, as FinecoBank is not required to prepare the disclosure relating to own funds and regulatory ratios on consolidated basis as it is part of the UniCredit banking group.

# Key figures of the consolidated financial statements (CONTINUED)

## Balance Sheet indicators

| | DATA AS AT | |
|---|---|---|
| | 12.31.2017 | 12.31.2016 |
| Loans receivable with ordinary customers/Total assets | 8.05% | 3.88% |
| Loans and receivables with banks/Total assets | 62.12% | 74.98% |
| Financial assets/Total assets | 26.34% | 17.93% |
| Direct sales/Total liabilities and Shareholders' equity | 89.26% | 88.20% |
| Shareholders' equity (including profit)/Total liabilities and Shareholders' equity | 3.28% | 3.25% |
| Ordinary customer loans/Direct deposits | 9.02% | 4.40% |

| | DATA AS AT | |
|---|---|---|
| CREDIT QUALITY | 12.31.2017 | 12.31.2016 |
| Impaired loans/Loans receivable with ordinary customers | 0.16% | 0.45% |
| Non-performing loans/Loans receivable with ordinary customers | 0.10% | 0.33% |
| Coverage (1) - Non-performing loans | 91.70% | 86.23% |
| Coverage (1) - Unlikely to pay | 76.53% | 79.07% |
| Coverage (1) - Impaired past-due exposures | 53.69% | 47.08% |
| Coverage (1) - Total impaired loans | 88.27% | 83.64% |

(1) Calculated as the ratio between the amount of impairment losses and gross exposure.

## Own funds and capital ratios

FinecoBank is not required to prepare the disclosure relating to own funds and regulatory ratios on consolidated basis as it is part of the UniCredit banking group, so please refer to the section on the results of the parent FinecoBank and the associated information on individual own funds and regulatory ratios as set out in this Consolidated Report on Operations.

## Market share

| TRADING ON ITALIAN STOCK MARKET (ASSOSIM) | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Third party volumes traded on MTA | 19.65% | 19.79% |
| Classification of third party volumes traded on MTA | 1° | 1° |

| PERSONAL FINANCIAL ADVISORS (ASSORETI) | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Stock reclassification | 3° | 3° |

| PERSONAL FINANCIAL ADVISORS (ASSORETI) | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Net Sales Classification | 3° | 4° |

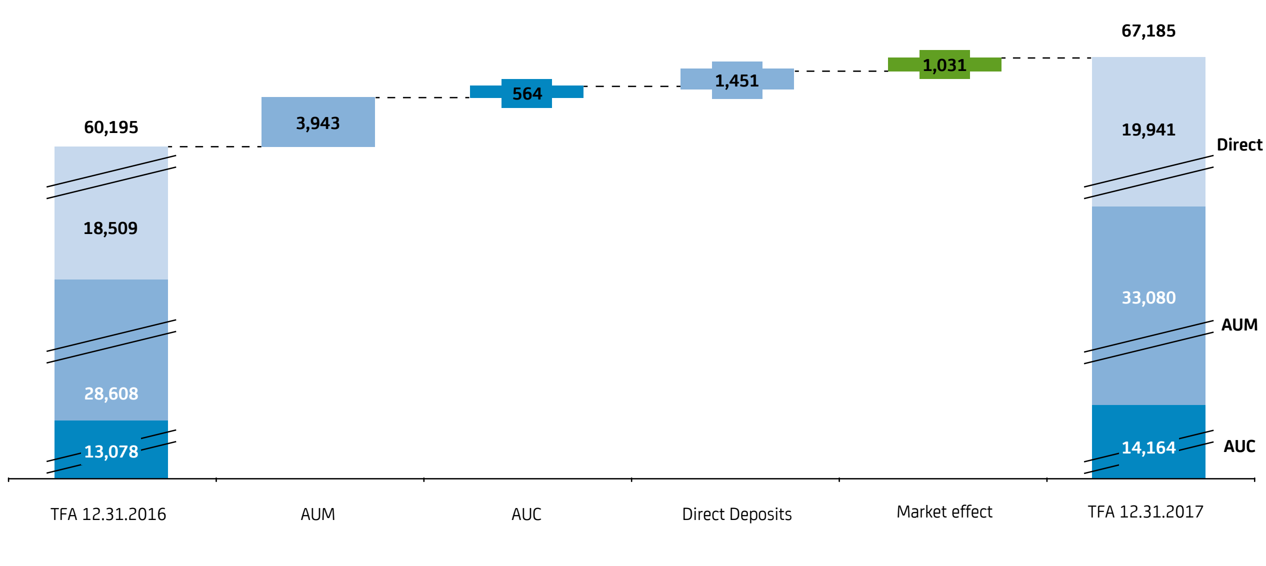
| TOTAL DEPOSITS (BANK OF ITALY) | 09.30.2017 | 12.31.2016 |
|---|---|---|
| Market share - Total Financial Assets | 1.59% | 1.50% |
| Market share - Direct Deposits | 1.32% | 1.26% |
| Market share - Assets under Administration | 1.77% | 1.67% |

Some figures refer to September 30, 2017, as they are the latest figures available.

## Performance of total financial assets

Direct deposits showed growth of 7.7% compared to the end of the previous year, to reach €19,941 million and confirming the high level of appreciation among customers of the quality of the services offered by the Bank.
Indeed, the majority of direct deposits were "transactional", supporting customers' overall operations. The increase in this component of sales confirms the high and increasing degree of customer loyalty, which in turn contributes to improving the stability of direct sales.
Assets under administration (Assets under Management-AUM plus Assets under Custody-AUC) came to €47,244 million, representing an increase of 13% on December 31, 2016.
Total financial assets (direct and indirect) thus reached €67,185 million, up 11.6% compared to the end of December 2016, thanks to net sales of €5,958 million in the year.

The steady growth and continued improvement in the quality of sales was reflected in the growth of guided products & services[5], which continued to increase as a percentage of the TFA, up from 26.8% as at December 31, 2016 to 31.6% as at December 31, 2017, and of Assets under Management, up from 56.4% as at December 31, 2016 to 64.2% as at December 31, 2017.



AUC = Assets under custody - AUM = Assets under management - TFA = Total Financial Assets

The table below shows the figures for the balance of direct deposits, assets under management and assets under custody of the Bank's customers, including both those linked to a personal financial advisor and those operating exclusively through the online channel.

### Total financial assets

(Amounts in € thousand)

| | AMOUNTS AS AT | | AMOUNTS AS AT | | CHANGES | |
|---|---|---|---|---|---|---|
| | 12.31.2017 | COMP % | 12.31.2016 | COMP % | ABSOLUTE | % |
| Current accounts and demand deposits | 19,931,182 | 29.7% | 18,296,238 | 30.4% | 1,634,944 | 8.9% |
| Time deposits and reverse repos | 9,533 | 0.0% | 213,259 | 0.4% | (203,726) | -95.5% |
| **DIRECT DEPOSITS** | **19,940,715** | **29.7%** | **18,509,497** | **30.7%** | **1,431,218** | **7.7%** |
| Segregated accounts | 6,729 | 0.0% | 10,882 | 0.0% | (4,153) | -38.2% |
| UCITS and other investment funds | 26,998,628 | 40.2% | 24,257,876 | 40.3% | 2,740,752 | 11.3% |
| Insurance products | 6,074,833 | 9.0% | 4,339,162 | 7.2% | 1,735,671 | 40.0% |
| **ASSETS UNDER MANAGEMENT** | **33,080,190** | **49.2%** | **28,607,920** | **47.5%** | **4,472,270** | **15.6%** |
| Government securities, bonds and stocks | 14,163,647 | 21.1% | 13,077,689 | 21.7% | 1,085,958 | 8.3% |
| **ASSETS UNDER CUSTODY** | **14,163,647** | **21.1%** | **13,077,689** | **21.7%** | **1,085,958** | **8.3%** |
| **TOTAL FINANCIAL ASSETS** | **67,184,552** | **100.0%** | **60,195,106** | **100.0%** | **6,989,446** | **11.6%** |
| of which Guided products & services | 21,227,005 | 31.6% | 16,135,018 | 26.8% | 5,091,987 | 31.6% |

5. Respectively, the Bank's products and/or services developed by investing in UCITs selected from among those distributed for each asset class taking into account customers' different risk profiles and offered to the Bank's customers under the guided open architecture model. At the date of this report, the guided products category included the "Core Series" umbrella fund of funds, "Core Funds", the Individual Savings Plans ("Piani Individuali di Risparmio" or "PIR") and the "Core Unit", "Advice Unit", "Core Multiramo" and "Advice Top Valor" and "Old Mutual" unit-linked policies, while the "Fineco Advice" and "Fineco Stars" advanced advisory services (for investment) fall under the guided service category.

# Business performance (Continued)

The table below shows the figures for direct deposits, assets under management and assets under custody solely for the personal financial advisors network. Total financial assets, amounting to €57,887 million, increased by 12.5% compared to December 31, 2016.

### Total financial assets - Personal Financial Advisors Network - Assoreti figures

(Amounts in € thousand)

| | AMOUNTS AS AT | | AMOUNTS AS AT | | CHANGES | |
|---|---|---|---|---|---|---|
| | 12.31.2017 | COMP % | 12.31.2016 | COMP % | ABSOLUTE | % |
| Current accounts and demand deposits | 14,674,039 | 25.3% | 13,442,242 | 26.1% | 1,231,797 | 9.2% |
| Time deposits and reverse repos | 8,424 | 0.0% | 150,773 | 0.3% | (142,349) | -94.4% |
| **DIRECT DEPOSITS** | **14,682,463** | **25.4%** | **13,593,015** | **26.4%** | **1,089,448** | **8.0%** |
| Segregated accounts | 6,729 | 0.0% | 10,882 | 0.0% | (4,153) | -38.2% |
| UCITS and other investment funds | 26,565,970 | 45.9% | 23,843,218 | 46.4% | 2,722,752 | 11.4% |
| Insurance products | 5,992,040 | 10.4% | 4,251,107 | 8.3% | 1,740,933 | 41.0% |
| **ASSETS UNDER MANAGEMENT** | **32,564,739** | **56.3%** | **28,105,207** | **54.6%** | **4,459,532** | **15.9%** |
| Government securities, bonds and stocks | 10,639,687 | 18.4% | 9,736,101 | 18.9% | 903,586 | 9.3% |
| **ASSETS UNDER ADMINISTRATION** | **10,639,687** | **18.4%** | **9,736,101** | **18.9%** | **903,586** | **9.3%** |
| **TOTAL FINANCIAL ASSETS - PERSONAL FINANCIAL ADVISORS NETWORK - ASSORETI FIGURES** | **57,886,889** | **100.0%** | **51,434,323** | **100.0%** | **6,452,566** | **12.5%** |
| of which Guided products & services | 21,197,073 | 36.6% | 16,104,815 | 31.3% | 5,092,258 | 31.6% |

The table below shows the figures for direct deposits, assets under management and assets under custody for 2017 compared with the previous year, for both customers linked to a personal financial advisor and online-only customers.
Net sales came to €5,958 million, with a heavy concentration in assets under management.

### Net sales

(Amounts in € thousand)

| | | | | | CHANGES | |
|---|---|---|---|---|---|---|
| | YEAR 2017 | COMP % | YEAR 2016 | COMP % | ABSOLUTE | % |
| Current accounts and demand deposits | 1,655,516 | 27.8% | 3,342,566 | 66.4% | (1,687,050) | -50.5% |
| Time deposits and reverse repos | (204,392) | -3.4% | (435,045) | -8.6% | 230,653 | -53.0% |
| **DIRECT SALES** | **1,451,124** | **24.4%** | **2,907,521** | **57.7%** | **(1,456,397)** | **-50.1%** |
| Segregated accounts | (3,758) | -0.1% | (2,688) | -0.1% | (1,070) | 39.8% |
| Investment funds and other funds | 2,299,626 | 38.6% | 693,813 | 13.8% | 1,605,813 | 231.4% |
| Insurance products | 1,646,832 | 27.6% | 1,090,893 | 21.7% | 555,939 | 51.0% |
| **ASSETS UNDER MANAGEMENT** | **3,942,700** | **66.2%** | **1,782,018** | **35.4%** | **2,160,682** | **121.2%** |
| Government securities, bonds and stocks | 564,303 | 9.5% | 346,708 | 6.9% | 217,595 | 62.8% |
| **ASSETS UNDER ADMINISTRATION** | **564,303** | **9.5%** | **346,708** | **6.9%** | **217,595** | **62.8%** |
| **NET SALES** | **5,958,127** | **100.0%** | **5,036,247** | **100.0%** | **921,880** | **18.3%** |
| of which Guided products & services | 4,559,314 | 76.5% | 3,876,685 | 77.0% | 682,629 | 17.6% |

The table below shows the figures for direct deposits, assets under management and assets under custody of the PFA network for 2017 compared to the previous year.

### Net sales - Personal Financial Advisors Network - Assoreti figures

(Amounts in € thousand)

| | | | | | CHANGES | |
|---|---|---|---|---|---|---|
| | YEAR 2017 | COMP % | YEAR 2016 | COMP % | ABSOLUTE | % |
| Current accounts and demand deposits | 1,252,370 | 23.2% | 2,543,475 | 58.6% | (1,291,105) | -50.8% |
| Time deposits and reverse repos | (143,499) | -2.7% | (295,013) | -6.8% | 151,514 | -51.4% |
| **DIRECT SALES** | **1,108,871** | **20.5%** | **2,248,462** | **51.8%** | **(1,139,591)** | **-50.7%** |
| Segregated accounts | (3,758) | -0.1% | (2,688) | -0.1% | (1,070) | 39.8% |
| Investment funds and other funds | 2,271,437 | 42.0% | 714,089 | 16.5% | 1,557,348 | 218.1% |
| Insurance products | 1,651,876 | 30.6% | 1,090,769 | 25.1% | 561,107 | 51.4% |
| **ASSETS UNDER MANAGEMENT** | **3,919,555** | **72.5%** | **1,802,170** | **41.5%** | **2,117,385** | **117.5%** |
| Government securities, bonds and stocks | 375,959 | 7.0% | 287,526 | 6.6% | 88,433 | 30.8% |
| **ASSETS UNDER ADMINISTRATION** | **375,959** | **7.0%** | **287,526** | **6.6%** | **88,433** | **30.8%** |
| **NET SALES** | **5,404,385** | **100.0%** | **4,338,158** | **100.0%** | **1,066,227** | **24.6%** |
| of which Guided products & services | 4,560,961 | 84.4% | 3,869,695 | 89.2% | 691,266 | 17.9% |

The acquisition of new customers proved to be an important organic growth driver, with 89,821 current accounts opened through the personal financial advisors.

## Performance of income statement aggregates

**Operating income** came to €586.7 million, up 4.9% compared to €559.1 million for the first half of 2016; excluding the above-mentioned non-recurring items from operating income as at December 31, 2016, operating income for 2017 would have been up 7.9%.

**Net interest** and **Net fee and commission income** contributed to the increase in the operating income as they rose, respectively, by 6.1% and 11.2%, while **Net trading, hedging and fair value income** fell by 30.2% (-10.2% excluding the aforesaid non-recurring items from the result at December 31, 2016). Furthermore, the Net trading, hedging and fair value income in 2016 benefitted from the gains realised from the sale in that year of government securities recognised in the "Available-for-sale financial assets" portfolio totalling €5 million (€761 thousand in the course of 2017), carried out as part of the measures to mitigate the exposure to interest rate risk and optimise profitability.

The increase in **Net interest** of €15.2 million compared to the previous year was due to the increase in sales volume and the higher penetration of lending, which offset the fall in interest income linked to the decline in market interest rates. The average lending rate for the investment of all deposits amounted to 1.28% compared to 1.39% in 2016.

**Net fee and commission income** increased €27.2 million compared to the previous year, thanks to higher net fee and commission income relative to asset management products (+€13.5 million), investment advisory services (+€12.7 million), collection and payment services (+€4.4 million), other services mainly relating to the introduction of the annual fee on credit cards (+€4.3 million), securities lending (+€2 million), partially offset by higher Fee and commission expense paid to personal financial advisors (-€5.8 million) and lower net fee and commission income for securities trading and order collection (-€2.6 million), as a result of the general fall in orders executed.

**Operating costs** increased by €6.9 million compared to the previous year due to the continuous growth of the operating structure (+€5.6 million for staff expenses, +€0.8 million for other administrative expenses net of recovery of expenses and +€0.4 for Impairment/write-backs on intangible and tangible assets).

**Profit before tax from continuing operations** amounted to €316.3 million, up 3.2% compared to the previous year. Excluding non-recurring items recorded in 2017 and in 2016 as previously described, Net profit before tax from continuing operations increased by 9.8%.

The **Net profit for the year** amounted to €214.1 million, an increase of 1.1% on the previous year. Excluding non-recurring items in 2017 illustrated above, net profit would have been €218.5 million, up 8.9% compared to the profit 2016, also excluding associated non-recurring items.

## Performance of balance sheet aggregates

**Loans and receivables with banks** came to €13,878 million, down 11.8% compared to the previous year, mainly as a result of the reimbursement of UniCredit bonds at maturity, the sale of UniCredit bonds in dollars with coupon paid in arrears, whose contractual conditions would not have passed the SPPI Test required by IFRS 9, applicable as of January 1, 2018, consequently requiring them to be classified as "financial instruments at FVTPL", and the lower cash on deposit in reciprocal current accounts with UniCredit as at December 31, 2017.

**Loans and receivables with customers** came to €2,129 million, up 109.4% compared to the previous year, thanks to the increase in lending. In 2017, €230 million in personal loans and €521 million in mortgages were granted, and €831 million in current account overdrafts was arranged, resulting in an overall 121% aggregate increase in loans to customers[6] compared to December 31, 2016. Impaired loans net of impairment losses totalled €2.9 million (€3.7 million as at December 31, 2016), with a coverage ratio of 88.27%; the ratio between impaired loans and all loans was 0.16% (0.45% as at December 31, 2016).

**Financial investments** came to €5,874 million, up 56.3% compared to the previous year, mainly due to the purchase of government securities as part of the investment policy outlined by the Bank.

**Deposits from banks** totalled €926 million, down 16.7% compared to the previous year, mainly due to the reduction in the amount of repos traded with UniCredit.

**Deposits from customers** came to €20,205 million, up 7.5% compared to the previous year, due to the growth in direct deposits.

**Shareholders' equity** amounted to €732 million, up 7.4% compared to December 31, 2016, thanks mainly to the profit for the year 2016 which was not distributed and allocated to reserves from profits and, to a lesser extent, to the increase in the Reserve related to equity-settled plans.

6. Loans refer solely to loans granted to customers (current account overdrafts, credit cards, personal loans, mortgages and unsecured loans).

# Business performance (Continued)

## Communications and external relations

2017 began the with launch of the new "Human Capital" communications campaign, which put people at the heart of the strategic communications project, and specifically their ability to manage the technology and innovation that FinecoBank offers to its customers and network of personal financial advisors. Within the Bank's offering, the increasingly central role of the advisor and financial advisory services are an integral part of communications, summed up in the new claim: "Always Investing In The Most Advanced Technology We Know. People." "The bank that simplifies banking" remains at the heart of the unique positioning that Fineco intends to continue to communicate and develop.

During the year, three important advertising flights were planned using all means of communication (TV, radio, financial press, digital media and posters), plus three additional flights on trading, all of which used a multichannel approach.

The national press campaign in support of the Private Banking segment "You write private banking, you read Fineco" was launched at the beginning of the year at the launch of the Private Banking segment, with an internal event in Venice. Numerous activities and events have been organised for private customers across Italy, thanks also to partnerships with prestigious brands. The Fineco Golf Club was once again this year one of the main invitational golf clubs.

Through a communications campaign based mainly on social media and some tactical member-get-member operations, in May the project was launched to export the Fineco platform to the UK, where the Bank has reached over 1,000 customers in its initial months of operations. A unique business model in the UK; Fineco is the first operator on British soil to offer banking and brokerage services in a single integrated platform, distinguishing itself from the many specialised operators in the country. In November, Fineco won a special award for its UK activities in the UK-Italy Business Awards.
A significant recruitment communications campaign was launched in May and June, involving several regions and different managerial structures, with the use of advertorial initiatives.

Fineco won several awards in 2017. The most significant awards included: the Global Brands Awards, where Fineco was awarded as the bank with the best CEO in Europe in the Small&Midcap segment; above all, a survey by KPMG placed Fineco among the best companies for customer experience in Italy (sixth in the overall ranking and first in the banking category).

## Incentive plans

On February 7, 2017, in view of the positive outcome of the verification of the minimum entry conditions (at Bank level and Group level, where applicable) and the individual conditions (compliance of conduct and continued employment) and the favourable opinion provided by the Remuneration and Appointments Committee in its meeting of February 2, 2017, the Board of Directors approved:

- for the "Group Executive Incentive System 2014 (Bonus Pool)" plan:
  - the execution of the plan;
  - the allocation of the first share tranche of the plan, awarded in 2015, corresponding to 15,872 free ordinary shares, in line with the maximum amount approved by the Board of Directors on May 15, 2014;
  - a free capital increase, for a total amount of €5,237.76 corresponding to a total of 15,872 FinecoBank ordinary shares with a nominal value of €0.33 each (with the same characteristics as those in circulation and with regular dividend entitlement), impartial exercise of the authority granted to the Board of Directors by the Extraordinary Shareholders' Meeting of June 5, 2014, in accordance with Article 2443 of the Italian Civil Code. The dilution effect resulting from the above free capital increase has been quantified as 0.003% of the fully diluted capital.
- for the "2014-2017 Top Management Multi-Year Plan":
  - the allocation of the fourth and final tranche for the year 2017 to 6 beneficiaries of a total of 422,779 free ordinary shares, representing a lower number than the quantity established by the Board of Directors on April 15, 2014, to ensure compliance of the ratio of fixed to variable remuneration in accordance with the applicable regulations;
  - the allocation of 630,850 free ordinary shares to the beneficiaries of the first share tranche of the plan, awarded in 2014, in line with the maximum amount approved by the Board of Directors on April 15, 2014;
  - a free capital increase, for a total amount of €208,180.50 corresponding to a total of 630,850 FinecoBank ordinary shares with a nominal value of €0.33 each (with the same characteristics as those in circulation and with regular dividend entitlement), in partial exercise of the authority granted to the Board of Directors by the Extraordinary Shareholders' Meeting of June 5, 2014, in accordance with Article 2443 of the Italian Civil Code. The dilution effect resulting from the above free capital increase has been quantified as 0.10% of the fully diluted capital;
  - changes to the rules as regards entry conditions.

- for the “2014 Key People Plan”:
  - the allocation of the third tranche corresponding to 261,187 free ordinary shares to the 79 beneficiaries, in line with the number of shares established by the Board of Directors on April 15, 2014, amounting to a maximum of 796,390 ordinary shares to service the entire three-year period;
  - a consequent free capital increase, for a total amount of €86,191.71 corresponding to a total of 261,187 FinecoBank ordinary shares with a nominal value of €0.33 each (with the same characteristics as those in circulation and with regular dividend entitlement), in partial exercise of the authority granted to the Board of Directors by the Extraordinary Shareholders’ Meeting of June 5, 2014, in accordance with Article 2443 of the Italian Civil Code. The dilution effect resulting from the above free capital increase has been quantified as 0.04% of the fully diluted capital.
- for the “2016 PFA Incentive System” plan:
  - the proposal for determination of the 2016 Bonus Pool for the personal financial advisors;
  - the proposals for the determination of the 2016 and previous years’ bonus for personal financial advisors categorised as Key Personnel;
  - the allocation of 57,740 FinecoBank shares, to be given free of charge to the above-mentioned personal financial advisors in accordance with the provisions of the Rules;
  - the purchase of Treasury shares, in view of having obtained the authorisation from the Supervisory Authority, pursuant to Articles 77-78 EU 575/2013 of June 26, 2013 (CRR), in accordance with the shareholder meeting resolutions.
- for the “Group Executive Incentive System 2016 (Bonus Pool)” plan:
  - the FinecoBank “2016 Bonus Pool”;
  - the proposals for the determination of the 2016 bonus for the Chief Executive Officer and General Manager and other Key Management Personnel and other Key Personnel;
  - the allocation of 152,034 FinecoBank ordinary shares, to be given free of charge to the above-mentioned Personnel in accordance with the provisions of the Rules.
- for the “2014 PFA Plan”:
  - the allocation of the third and final tranche of shares to 809 personal financial advisors, 167 Group Managers and 31 Area Managers of 688,104 FinecoBank shares, to be paid free of charge in accordance with the Regulation.
- with reference to the “Incentive System 2015”:
  - the execution of the plan;
  - the allocation of the second tranche in cash of the plan awarded in 2016.
- for the “2015 PFA Incentive System” plan:
  - the execution of the plan;
  - the allocation of the second tranche in cash of the plan awarded in 2016.

With regard to the “2014 PFA Plan”, the Board of Directors’ meeting of July 31, 2017 was informed of the award of the third and final tranche of shares to 803 PFAs, 165 Group Managers (compared to 809 PFAs and 167 General Managers reported in February 2017) and 31 Area Managers receiving 685,447 FinecoBank shares (compared to 688,104 shares reported in February 2017).

With regard to the 2017 Incentive System for personal financial advisors identified as “Key Personnel”, the Shareholders’ Meeting of April 11, 2017 authorised the purchase and disposition of a maximum of 346,000 treasury shares, with a nominal value of €0.33 each, in view of the authorisation from the Supervisory Authority obtained on March 30, 2017, pursuant to Articles 77-78 of EU Regulation 575/2013 (CRR) of June 26, 2013.
The same Shareholders’ Meeting of April 11, 2017 renewed the authorisation for the purchase and disposition of a maximum of 5,520,000 treasury shares, with a nominal value of €0.33 each, in view of the “2015 - 2017 PFA PLAN”, in consideration of the authorisation from the Supervisory Authority obtained on March 30, 2017, pursuant to Articles 77-78 of EU Regulation 575/2013 (CRR) of June 26, 2013.

# Finecobank shares

## Share information

FinecoBank shares showed an excellent uptrend in 2017, recording a marked increase of over 60% since the beginning of the year; they also performed very well compared to the FTSE Mib index, which during the year was up 14%, ranking second among the main exchanges in Europe.

As at December 31, 2017, the share price was €8.54, up from the closing price at year-end 2016 of €5.33, and with an average value in 2017 of €6.91. In addition, in 2017 the share price reached its all-time high of €8.74.
The company's market capitalisation amounted to €5,187 million as at December 31, 2017.

| | YEAR 2014 | YEAR 2015 | YEAR 2016 | YEAR 2017 |
|---|---|---|---|---|
| **Official price of ordinary shares (€)** | | | | |
| - maximum | 4.750 | 7.805 | 7.400 | 8.735 |
| - minimum | 3.808 | 4.438 | 4.622 | 5.345 |
| - average | 4.173 | 6.479 | 5.980 | 6.914 |
| - period-end | 4.668 | 7.625 | 5.330 | 8.535 |
| **Number of shares (millions)** | | | | |
| - outstanding at period end | 606.3 | 606.5 | 606.8 | 607.7 |

# Results achieved in the main areas of activity

The following pages contain the main indicators and results of the main business segments: Brokerage, Banking and Investing.
Given the Bank's specific business model that provides for a high level of integration among its different activities, these segments are interdependent. Indeed, the Bank offers its services (banking and investment services) through a network of personal financial advisors and online and mobile channels that operate in a coordinated and integrated manner.
All the activities were carried out with the aim of obtaining economic results from the "industrial" management of the businesses, to minimise their financial risk. The Bank's financial management approach is to manage risks with a view to protecting the industrial returns on the various businesses while not assuming risk positions on its own account.

## Brokerage

In 2017 the Bank strengthened its leadership in the Italian brokerage market, with solid results.
Despite the low volatility that marked the period, among the worst historically recorded, the Bank nevertheless achieved excellent results both in the early months of the year (January, March and May with 900 thousand shares traded on average), and with a final rally in the months of October and November.
The gradual shift continued from traditional asset classes to OTCs, including especially CFDs on indexes that were top performers in terms of profits. In the second part of the year, the US economy grew at sufficient pace to support corporate profits and therefore stock prices, which led to a year-end rally on US stock markets. These results offset the contraction in orders placed on other markets, as proof that a diversified and sustainable business model can be successful in every phase of the market.

Despite unfavourable market conditions, the results achieved confirm the validity of a business model designed to offer innovative and highly usable services in an all-round solution for all target customers. Our constantly changing and innovative trading offering continued with the introduction of new services and features, in particular:

- the ability to trade binary CFDs with underlying stocks, futures on indices, currencies, commodities and Government Bonds, directly from the Fineco website and the Powerdesk platform;
- the new app for iPhone and Android smartphones, which provides real time access to banking, card, ATM and investment services with your fingerprint. A professional platform where you can customise the login page and the watchlists and where an ever more intuitive and complete navigation menu helps you trade on 26 world markets with push quotes and a 5 level book;
- consolidation of the offering of trading services with new pricing for all UK resident customers.

The following table shows the number of orders on financial instruments recorded in 2017 compared to the prior year.

| | | | CHANGES | |
|---|---|---|---|---|
| | YEAR 2017 | YEAR 2016 | AMOUNT | % |
| Orders - Equity Italia (including internalized orders) | 7,348,739 | 8,188,863 | (840,124) | -10.3% |
| Orders - Equity USA (including internalized orders) | 933,401 | 830,153 | 103,248 | 12.4% |
| Orders - Equity other markets (including internalized orders) | 531,582 | 526,246 | 5,336 | 1.0% |
| *Total equity orders* | *8,813,722* | *9,545,262* | *(731,540)* | *-7.7%* |
| Orders - Bonds | 498,338 | 541,466 | (43,128) | -8.0% |
| Orders - Derivatives | 2,834,055 | 3,796,392 | (962,337) | -25.3% |
| Orders - Forex | 875,734 | 955,865 | (80,131) | -8.4% |
| Orders - CFDs | 3,641,412 | 4,072,187 | (430,775) | -10.6% |
| Orders - Funds | 2,423,506 | 2,184,073 | 239,433 | 11.0% |
| Orders- Repo | 2,863 | 11,551 | (8,688) | -75.2% |
| **TOTAL ORDERS** | **19,089,630** | **21,106,796** | **(2,017,166)** | **-9.6%** |

There was a generalised contraction of orders executed compared to the same period of the previous year, except for orders on US equities, which increased by 12.4%.

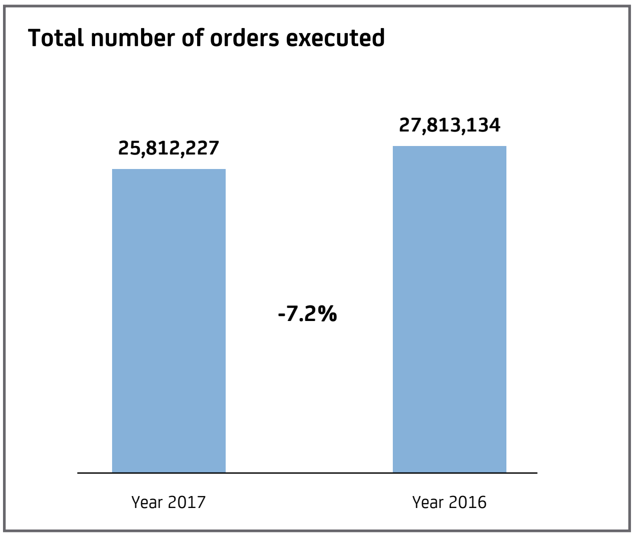
# Results achieved in the main areas of activity (Continued)

## Brokerage (Continued)

The table below shows the volume of trades carried out as direct counterparty in orders placed by customers, resulting from the internalisation of orders received on shares, CFDs and Logos, recorded in 2017 compared to the previous year.

(Amounts in € thousand)

| | YEAR 2017 | YEAR 2016 | CHANGES | |
|---|---|---|---|---|
| | | | AMOUNT | % |
| Equity (internationalization) | 52,665,758 | 44,385,213 | 8,280,545 | 18.7% |
| Forex | 52,211,278 | 47,629,033 | 4,582,245 | 9.6% |
| CFDs and Logos | 48,093,537 | 54,798,595 | (6,705,058) | -12.2% |
| **Total "internalized" volumes** | **152,970,573** | **146,812,841** | **6,157,732** | **4.19%** |




The total number of orders executed refers to transactions carried out by retail and institutional customers for the purchase and sale of shares, bonds, derivatives, forex, CFDs, funds and repos.

## Banking

In the Banking area, the main changes in the year 2017 were the launch of the Private Banking segment, the Fineco offering targeted at customers with Total Financial Assets equal to or greater than €500,000. Private customers are offered customised financial terms and a tailor-made package of services, such as “Apri conto Private”, a Private Credit Card, personalised Home page on the website, profile-specific notices and services, combined with consulting services dedicated to high profile customers, which confirm Fineco’s growth and positioning in the Private segment.

In terms of products and services, the banking product portfolio was further expanded with the following services being released to customers:

- Smart withdrawal, only available through the Fineco app for iPhone and Android smartphones, through which customers can withdraw up to €2,000 per month at UniCredit ATMs without a payment card;
- Online payment of RIBA postal payments, through which customers can either authorise or refuse the payment of bank payment orders directly online. A new banking service which has led to an improved user experience for Fineco customers and more efficient operations of the Bank’s operative offices;
- integration of the Pago PA (Cbill) service, through which customers pay bills, including those issued by the Public Administration, directly online from the private area of their Fineco account.

Furthermore, the search for account transactions was optimised through the implementation of a keyword search tool.

In the field of digital process innovation, the following deserve mention:

- revision of the process for issuing the Qualified Certificates for use of the digital form. To facilitate the online signing of contracts, the Qualified Certificate necessary for signing with a digital signature is issued simultaneously with the customer request of the first product or service for which the online signing of the contract is possible;
- the new process for updating customer anti-money laundering profile on X-net with digital signature. The service has helped optimise the operations of the Bank’s operational offices and also improved the financial advisors’ activities.

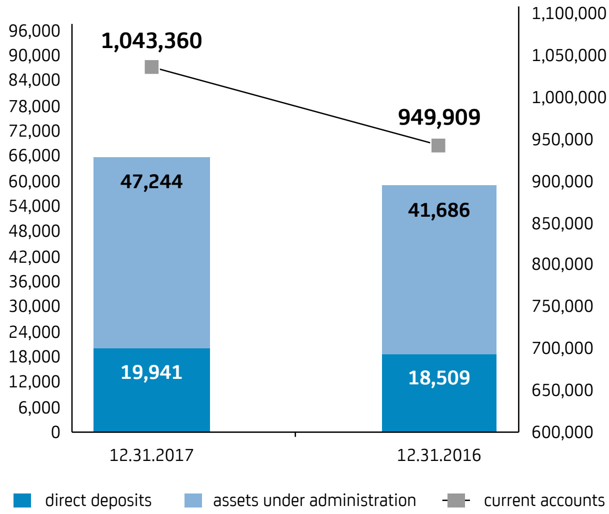
In June 2017, Fineco UK offer was launched, which allows UK residents to request the opening of an online current account through the dedicated website and to access Fineco services, such as brokerage and banking services, which are delivered through multi-channel platforms specifically designed for the UK market. The one-stop-solution offered by Fineco was very well received in the UK, with very positive feedback from its first customers.

In addition, since December 2017, the general terms and conditions of contract have been included in the Fineco current account application form, which can be signed via the Apriconto application with the Digital Signature on X-net and the Apriconto Webcam in the public area of Fineco website. As a result, once the procedure has been completed, the client can download and save the application form and the general rules in a single pdf file, with the advantage of a quicker and more straightforward consultation of the document.

Lastly, in 2017 the activity of designing and managing marketing campaigns continued, combining creative, promotional, logistics and monitoring activities aimed at improving the positioning of Fineco brand and offering through web advertising tools and/or word of mouth (member gets member) initiatives aimed at existing customers.

**No. current accounts, direct deposits, and assets under administration**

(Amounts in € thousand)




### Payment cards

The trends of the previous year as regards the world of payment cards were again confirmed in 2017.

Fineco cards in circulation further increased thanks to the growth in the number of debit cards (+12.7%), following the introduction of the new Fineco Card Debit in 2016, and prepaid cards (+9.4%), which continue to be the preferred choice of customers for online purchases; this was partly offset by a slight reduction in the number of credit cards (-2.8%, including multi-purpose cards) driven by the gradual introduction of the annual fee on existing cards as of 2016, a process that is still ongoing.

The amount of POS transactions also showed a marked increase, a sign of Fineco customers’ higher propensity to use cards for their purchases. POS transactions totalled €5.4 billion (+14.9%) broken down as follows:

- €2.6 billion of transactions on debit circuits, with an increase of 20% on 2016;
- €2.4 billion of transactions on credit circuits, up 9.6% on 2016;

# Results achieved in the main areas of activity (Continued)

## Banking (Continued)

- €0.4 billion of transactions on prepaid circuits, up 17.3% on 2016.

In 2017, there were some important initiatives in the field of payment cards, including:

- launch of two new debit cards, Fineco Debit Card and Fineco Debit Card Euro specifically designed to complete the Fineco UK offering;
- launch of Fineco Visa Infinite, the new Fineco premium card combined with services such as Lounge access, Concierge and specifically designed for the Private target;
- increase of monthly use limits for cards in the PagoBANCOMAT and Visa Debit circuit.

In addition, activities are underway that will lead to the launch of the Apple Pay service, expected in early 2018.

The table below shows a 9.2% increase in credit cards spending recorded in FY2017 compared to 2016.

(Amounts in € thousand)

| | YEAR 2017 | | YEAR 2016 | | CHANGES | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | SPENDING | | CARRYING AMOUNT | |
| CREDIT PRODUCTS | SPENDING | CARRYING AMOUNT | SPENDING | CARRYING AMOUNT | AMOUNT | % | AMOUNT | % |
| Revolving credit cards | 50,989 | 41,890 | 52,692 | 39,812 | (1,703) | -3,2% | 2,078 | 5.2% |
| Credit cards full payment of balance* | 2,586,400 | 246,535 | 2,362,372 | 228,826 | 224,028 | 9,5% | 17,709 | 7.7% |
| **Total** | **2,637,389** | **288,425** | **2,415,064** | **268,638** | **222,325** | **9,2%** | **19,787** | **7.4%** |

* The balance of card spending for 2016 has been restated to exclude the figure for rechargeable cards.

### Mortgages, credit facilities and personal loans

In 2017, the offering of personal loans and digital lending services continued to be expanded, with the release of the *Customer Cluster Rate (CCR)* platform, which enabled differentiation of the rate and the application of financial conditions to each customer based on their commercial merit rating class, through the segmentation of the customer base and favouring the more loyal and highly rated customers.

The CCR platform is also applied to Quick Approval Personal Loans, the service that ensures assessment of a loan application in a few moments and disbursement of the loan in real time 24 hours a day (including Saturday and Sunday), based on an internal rating system that pre-assesses the creditworthiness and earnings capacity of the applicant.

The fine-tuning of the "One-Stop Solution" model continued - through which all customers' financial needs can be managed through a single account - by expanding the range of Fineco loan products with the launch of two new products:

- Mutuo Liquidità, a special type of mortgage loan that allows you to obtain up to €500,000, without any restriction of use, by giving own property as collateral.
- Credit Lombard, a current account credit facility, for amounts exceeding €1 million, secured by a pledge on securities and funds subject to rotation clause, which lets the customer modify the instruments pledged as collateral in order to seize potential investment opportunities, while preserving the credit line without changes or disinvestments. Credit Lombard, an ideal product for Private customers in line with the recent policy of strengthening the Fineco offering for the Private segment, can be requested through the network of Financial Advisors by using the digitised process available in X-NET, the cutting-edge platform used by Fineco Advisors. The commercial launch of the new service was supported by a widespread training campaign for the entire network of Financial Advisors, which included delivery through e-learning tools and methods.

In June, "Credit Power" - the Credit Lombard indicator of the credit limit a customer may apply for - was made available in the reserved area of the Fineco Account, as a way to support Credit Lombard advertising campaigns.

In the second half of 2017, the engineering of the mortgage loan approval process and of customer support by Fineco Mortgage Specialists was completed, which led to an increased level of borrower satisfaction: 95% of Mutuo Fineco customers would recommend the product for its financial terms and process management.

The table below shows a 248% increase in loans, mortgages and credit lines approved in FY2017 compared to the previous year. With reference to current account credit lines approved in FY2017, those backed by securities totalled €808.5 million (€659 million for the Credit Lombard product, €56 million secured by pledges and €93.5 million of credit lines with mandate to sell), or 97% of total credit lines approved.

(Amounts in € thousand)

| | YEAR 2017 | | YEAR 2016 | | CHANGES | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | DISBURSEMENTS | | CARRYING AMOUNT | |
| CREDIT PRODUCTS | DISBURSEMENTS | CARRYING AMOUNT | DISBURSEMENTS | CARRYING AMOUNT | AMOUNT | % | AMOUNT | % |
| Personal loans and unsecured loans | 230,195 | 350,320 | 183,226 | 243,025 | 46,969 | 25.6% | 107,295 | 44.1% |
| Current account credit facilities* | 831,351 | 641,554 | 271,299 | 299,372 | 560,052 | 206.4% | 342,182 | 114.3% |
| Mortgages | 521,475 | 516,251 | 843 | 884 | 520,632 | n.c. | 515,367 | n.c. |
| **Total** | **1,583,021** | **1,508,125** | **455,368** | **543,281** | **1,127,653** | **247.6%** | **964,844** | **177.6%** |

* For current account credit facilities, the disbursements column represents the agreed amount.

The increase in loans recorded in FY2017 was driven by the changes in the range of financing products offered, combined with careful customisation of the offering and rate policies, while paying attention to the overall profitability of the products.

In general, the commercial choices, from conception of the product up to its promotion and distribution on the various sales channels, were guided by our profound knowledge of the market and ability to adapt our financing offer to the real needs of customers and of the network of financial advisors.

To this end, the Bank has repeatedly made use of Customer Satisfaction Surveys, in an effort to offer products and solutions with a customer experience based on simplicity and innovation, designed to achieve unique and long-term relationships with customers.

# Results achieved in the main areas of activity (Continued)

## Investing

The Bank uses a guided open architecture business model to offer customers an extremely wide range of asset management products - comprising collective asset management products, such as units of UCITS and SICAV shares - from carefully selected Italian and international investment firms.

In 2017, the range of asset management products was further enhanced with the addition to the platform of over 283 new ISINs and 7 new investment firms available to customers. At the end of May 2017, the following products were launched: Core Sustainable, a fund that enhances the "Specialised" family and offers an investment strategy that combines environmental, social and governance analysis with financial analysis to value securities. Core Defensive, the first delegated management Core fund focused on Alternative UCITS strategies with a low volatility profile. Lastly, note the introduction of the third and fourth releases of the Core Target Allocation funds at the end of January 2017 and at the beginning of July 2017, respectively, to continue offering gradual access to the equity markets and reduce volatility risk.

In 2017, the interest in insurance consulting increased: in addition to the Core Multiramo of Aviva S.p.A. with annual written premiums of €662 million and Ramo I Aviva S.p.A., also updated with the Top Valor One versions, which totalled more than €888 million in written premiums, also the CORE UNIT and ADVICE UNIT of Old Mutual Wealth Italy S.p.A. (now Eurovita S.p.A.) Unit Linked products posted positive new written premiums of €66 million at year-end. The insurance offering was further innovated with the introduction of the CORE UNIT TARGET and ADVICE UNIT TARGET Unit Linked products, which provide for a gradual increase in the portfolio's equity exposure, while reducing the risk associated with market volatility (total written premiums of €24 million). In addition, the Multiramo Regular Plan was launched to complete the range of insurance products, a "retail" product with periodic payments over time and maximum maturity of 20 years, which recorded written premiums of €0.4 million in the year.

Finally, the CORE Unit and Advice Unit range has been enhanced by new investment solutions, the Internal Insurance Funds (FIA), i.e automatically managed portfolios of Funds and/or ETFs with ongoing monitoring of volatility, providing a sort of "Asset management" within the Units.

At the end of the year, a new version of Aviva's Ramo I policy, Cash Park Polizza, was launched, dedicated to an ad hoc campaign aimed at draining the liquidity of current accounts (written premiums of €145 million).

As part of the advanced Advisory Services (Fineco Advice and STARS), the Bank improved the usability of the platforms, making them increasingly "easy to deal with". The internal reporting was also reviewed for more timely reporting and the inclusion of additional monthly information on the macroeconomic framework that characterised the performance of markets and portfolios. The reporting available on the "customer site" has been improved with new widgets and more detailed information. In the Private Banking area, new reports and services have been developed to support the Advisors in the management of Private customers.

Ranking Advice-based "Final Score" has been implemented within Fineco advisory service STARS to obtain an indicator of the portfolio average quality.

The "Fineco Advisory Seminar" was again held in the Spring, providing a high level training course organised by Fineco in collaboration with IESE, University of Navarra, one of the most prestigious international business schools, ranked first in the Financial Times executive education programs. The Seminar was part of the exclusive training path offered to the best Fineco Network professionals who use the Fineco Advice and STARS services in a structured way.

The objective was to offer suitable training to the advisors, with tools enabling them to carry out a truly advanced advisory activity, which requires identification of the client's needs and implementation of financial planning to achieve the objectives through a suitable and monitored approach.

(Amounts in € thousand)

| | AMOUNTS AS AT | | AMOUNTS AS AT | | CHANGE | |
|---|---|---|---|---|---|---|
| | 12.31.2017 | % | 12.31.2016 | COMP % | ABSOLUTE | % |
| UCITS and other investment funds | 26,998,628 | 81.6% | 24,257,876 | 84.8% | 2,740,752 | 11.3% |
| Insurance products | 6,074,833 | 18.4% | 4,339,162 | 15.2% | 1,735,671 | 40.0% |
| Segregated accounts | 6,729 | 0.0% | 10,882 | 0.0% | (4,153) | -38.2% |
| **Total assets under management** | **33,080,190** | **100.0%** | **28,607,920** | **100.0%** | **4,472,270** | **15.6%** |

# The network of personal financial advisors

For the network of financial advisors, 2017 not only recorded results in line with prior years but was actually a record year on every front: total sales, assets under management and growth in advanced advisory services.

In particular:

- Net sales: €5,404 million, +24.6% compared to 2016;
- Assets under management: €3,920 million, +117% compared to 2016;
- Sales from Advisory services: €4,561 million, +17.9% compared to 2016;
- 89,821 new current accounts opened during the year.

It is important to note that a significant part of the growth achieved (approximately 80% of total financial assets) is "organic" growth, in line with the business model pursued; i.e. we grew through the current network, with no significant increases from recruitment or tactical support campaigns.

The most significant campaign was the launch of the "Cash Park policy" service through which we sought to divert the assets of "liquid" customers towards asset management products and services.

The year 2017 was also characterised by the strong growth of "high-end" customers (HNWI[7] and Private customers), with over 200 new Private customers per month for a total of over 2,800 new Private customers in the year, driving an overall increase in assets for this segment to over €23 billion compared to €20 billion in 2016 (+17%).

This development was also supported by the official launch of the Private Banking segment, with expressly dedicated services, leading to a stronger and clearer positioning on this front. Therefore, the Private segment customers continue to be a significant portion of the Bank's assets and confirms Fineco's position as one of the leading private banking firms in Italy. To this end, high-level customer events were organised designed to inform and raise awareness about the most relevant financial issues. Of the 1,142 customer events organised during the year, 122 were specifically dedicated to this customer segment.

A strong focus was placed on the quality of the network, as was evidenced not only by the expansion of the private banker unit (from 256 to 322 in just nine months), but also by the strengthening of the average portfolio of financial advisors across the network.

Investment in training was in line with this trend and was designed to develop the skills of the personal financial advisors, particularly in relation to advanced advisory services.

**Net sales - Personal Financial Advisors Network - Assoreti figures**

(Amounts in € thousand)

| | | | | | CHANGES | |
|---|---|---|---|---|---|---|
| | YEAR 2017 | COMP % | YEAR 2016 | COMP % | ABSOLUTE | % |
| Current accounts and demand deposits | 1,252,370 | 23.2% | 2,543,475 | 58.6% | (1,291,105) | -50.8% |
| Time deposits and reverse repos | (143,499) | -2.7% | (295,013) | -6.8% | 151,514 | -51.4% |
| **DIRECT SALES** | **1,108,871** | **20.5%** | **2,248,462** | **51.8%** | **(1,139,591)** | **-50.7%** |
| Segregated accounts | (3,758) | -0.1% | (2,688) | -0.1% | (1,070) | 39.8% |
| Investment funds and other funds | 2,271,437 | 42.0% | 714,089 | 16.5% | 1,557,348 | 218.1% |
| Insurance products | 1,651,876 | 30.6% | 1,090,769 | 25.1% | 561,107 | 51.4% |
| **ASSETS UNDER MANAGEMENT** | **3,919,555** | **72.5%** | **1,802,170** | **41.5%** | **2,117,385** | **117.5%** |
| Government securities, bonds and stocks | 375,959 | 7.0% | 287,526 | 6.6% | 88,433 | 30.8% |
| **ASSETS UNDER ADMINISTRATION** | **375,959** | **7.0%** | **287,526** | **6.6%** | **88,433** | **30.8%** |
| **NET SALES** | **5,404,385** | **100.0%** | **4,338,158** | **100.0%** | **1,066,227** | **24.6%** |
| of which Guided products & services | 4,560,961 | 84.4% | 3,869,695 | 89.2% | 691,266 | 17.9% |

7 . High Net Worth Individual, i.e. Private customers with TFA of over one million euros.

# The network of personal financial advisors (Continued)

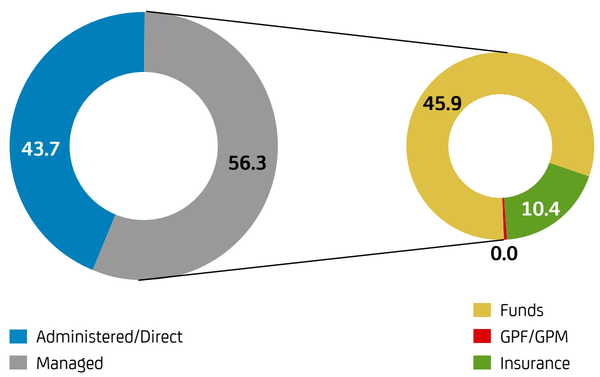
The table below shows the breakdown of sales attributable to the PFA network as at December 31, 2017. Total financial assets, amounting to €57,887 million, increased by 12.5% compared to December 31, 2016.

**Total financial assets - Personal Financial Advisors Network - Assoreti figures**

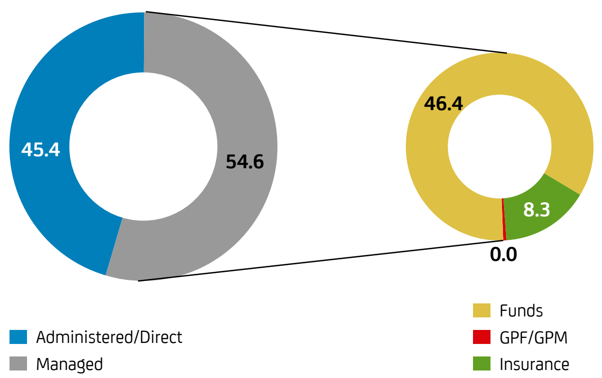
(Amounts in € thousand)

| | AMOUNTS AS AT | | AMOUNTS AS AT | | CHANGES | |
|---|---|---|---|---|---|---|
| | 12.31.2017 | COMP % | 12.31.2016 | COMP % | ABSOLUTE | % |
| Current accounts and demand deposits | 14,674,039 | 25.3% | 13,442,242 | 26.1% | 1,231,797 | 9.2% |
| Time deposits and reverse repos | 8,424 | 0.0% | 150,773 | 0.3% | (142,349) | -94.4% |
| **DIRECT DEPOSITS** | **14,682,463** | **25.4%** | **13,593,015** | **26.4%** | **1,089,448** | **8.0%** |
| Segregated accounts | 6,729 | 0.0% | 10,882 | 0.0% | (4,153) | -38.2% |
| UCITS and other investment funds | 26,565,970 | 45.9% | 23,843,218 | 46.4% | 2,722,752 | 11.4% |
| Insurance products | 5,992,040 | 10.4% | 4,251,107 | 8.3% | 1,740,933 | 41.0% |
| **ASSETS UNDER MANAGEMENT** | **32,564,739** | **56.3%** | **28,105,207** | **54.6%** | **4,459,532** | **15.9%** |
| Government securities, bonds and stocks | 10,639,687 | 18.4% | 9,736,101 | 18.9% | 903,586 | 9.3% |
| **ASSETS UNDER CUSTODY** | **10,639,687** | **18.4%** | **9,736,101** | **18.9%** | **903,586** | **9.3%** |
| **TOTAL FINANCIAL ASSETS - PERSONAL FINANCIAL ADVISORS NETWORK - ASSORETI FIGURES** | **57,886,889** | **100.0%** | **51,434,323** | **100.0%** | **6,452,566** | **12.5%** |
| of which Guided products & services | 21,197,073 | 36.6% | 16,104,815 | 31.3% | 5,092,258 | 31.6% |

**Composition (%) of Total Stock of Assets Personal Financial Advisors Network as at December 31, 2017**




**Composition (%) of Total Stock of Assets Personal Financial Advisors Network as at December 31, 2016**




Recruitment was very selective with a strong focus on the quality and standing of the candidates. Consistent with the outlined strategy, recruitment focused exclusively on improving the quality of the existing network; the Bank aims to attract professionals who view their relationship with customers as one of the pillars of their business and who are willing to face the challenges of the market and of a cutting-edge business model. In 2017, 98 new financial advisors were recruited from the network, the traditional banks and private banking sectors. The "youth programme" also continued to recruit young graduates to the profession (45 new "beginners") with a view to also invest in "tomorrow's advisors".

Investment also continued in sales facilities used by the personal financial advisors, which contribute to enhancing the Bank's image and to spreading our presence throughout the country.

As at December 31, 2017, the network was made up of 2,607 personal financial advisors, who operate countrywide through 375 financial shops (Fineco Centers), managed directly by the Company or by the personal financial advisors themselves.

# Human resources

As at December 31, 2017, the Bank's total workforce consisted of 1,128 employees compared to 1,096 as at December 31, 2016. The breakdown was as follows:

| HUMAN RESOURCES | 12.31.2017 | 12.31.2016 |
|---|---|---|
| FinecoBank employees | 1,119 | 1,086 |
| Group employees seconded to FinecoBank (+) | 4 | 3 |
| FinecoBank employees seconded to the Group (-) | (3) | (1) |
| **Total human resources excluding Directors** | **1,120** | **1,088** |
| Directors (+) | 8 | 8 |
| **Total human resources** | **1,128** | **1,096** |

During 2017, activities continued to strengthen and optimise the areas dedicated to business development, organisational support and risk control and management. This led to the hiring of 75 workers, of which:

- 2 from another Group company;
- 73 from the market.

Of the 73 new recruits from the market, the majority were employed in the Customer Relationship Management area, confirming the strong and ongoing focus on young graduates. Customer Relationship Management forms the starting point of a pathway of professional development that can lead to different roles in the business.

During the year, 26 temporary contracts were converted into permanent contracts in the Customer Relationship Management (CRM) area, thereby not only guaranteeing business continuity, but also capitalising on the skills and expertise already present within the business.

In 2017, there was significant internal job rotation, involving 44 employees, through which vacant positions within the company were filled, while also ensuring the continued professional development of staff.

During the year, a total of 42 employees left the bank, including:

- 15 resignations;
- 10 transfers to Group companies;
- 17 for other reasons.

The Bank's employees can be broken down as follows:

| | MEN | | WOMEN | | TOTAL | |
|---|---|---|---|---|---|---|
| CATEGORY | 12.31.17 | 12.31.16 | 12.31.17 | 12.31.16 | 12.31.17 | 12.31.16 |
| Executives | 23 | 22 | 4 | 4 | 27 | 26 |
| Managers | 239 | 229 | 98 | 98 | 337 | 327 |
| Professional Areas | 368 | 364 | 387 | 369 | 755 | 733 |
| **Total** | **630** | **615** | **489** | **471** | **1,119** | **1,086** |

As at December 31, 2017, part-time staff in the Bank amounted to 93, accounting for 8% of employees, with women employees representing around 44% of the workforce. The average length of service was 9 years and the average age was around 40.

# Human resources (Continued)

## Employee training

In 2017, the training of Fineco employees focused on the acquisition and consolidation of skills on the one hand, based on the company needs that emerged, and on the updating of individual knowledge on the other, with specific focus on mandatory, technical, foreign languages and conduct - management training.

A breakdown of training hours by training area is presented below:

| TRAINING AREA | HOURS OF TRAINING |
|---|---|
| Mandatory | 6,871 |
| Technical | 11,480 |
| Foreign Language | 8,583 |
| Conduct - Management | 428 |
| **Total** | **27,362** |

### Mandatory training

FinecoBank is committed to spreading the culture of Risk and Compliance, which is fundamental to promote awareness in the organisation that compliance with the rules and the related controls are a pillar for our business and support its sustainability and profitability over time.
For this reason, FinecoBank paid significant attention to mandatory training extended to all employees, who in 2017 attended the courses both in e-learning mode, using the Group My Learning Platform, and through live seminars for specific subjects.
Staff attendance at the courses was periodically monitored in order to ensure that all employees learnt the mandatory subjects, thereby protecting the Bank against operational, legal and reputational risk.

### Technical and behavioural training

To ensure the acquisition of the technical skills necessary to increase productivity on the one hand and the level of specialisation of employees on the other, some employees participated in training sessions held with external suppliers or internal classrooms were organised.

To ensure that FinecoBank high standards of service quality and customer care be maintained, training courses were organised within the Customer Care unit, both, upon joining the bank, on technical subjects and "in itinere" on technical - behavioural subjects, for a total of 9,627 hours.
To support internal growth, 14 managers from the CRM unit, with different roles and seniority, started a tailor-made training program consisting of classroom lessons, coaching and on-the-job training.

During the year, some high-potential resources participated in behavioural/leadership training initiatives to support their managerial development.

Training in support of the Bank's Business Continuity plan also continued, through coaching that is certified in a register of activities.

### Foreign language training

As of the second half of 2017, the Bank provided employees with a platform accessible to all for the teaching of English through the use of educational tools such as video, role-playing and virtual classrooms.
During the year, around 350 employees attended classroom or telephone English courses, according to specific needs.
In some cases (e.g. for Executives), "one-to-one" training courses in Business and Legal English were provided.

Given our planned expansion into the UK, some Customer Care employees dedicated to assisting English-speaking customers attended a specific English course in 2017.

Employees are assigned to participate in foreign language training courses, in class or by telephone, based on requests made by the individual unit managers, based on the specific professional needs of staff.

# Technology infrastructure

There are essentially six elements to the Bank's information system:

- Banking application software;
- On-line Trading system (dedicated applications for the real-time sale/purchase of securities and financial instruments on the main European and American markets);
- A management system for the operations room and for institutional investors, and access to the information/order sections of Italian/ foreign markets;
- A management system for investment services such as Funds, SICAVs and Bank Insurance;
- A credit and debit card management system, with the issue of cards for VISA and MasterCard circuits;
- A personal financial advisors network management system, enabling advisors to work with all the Bank's products through a single portal.

In 2017, the ICT Area carried out its usual activities for the technological upgrading, consolidation and development of the Information System in order to provide new and more versatile added value services to customers.
Specifically, from an architectural perspective, work continued on optimising infrastructure and applications, as well as the continuous improvement and fine-tuning of the applications security architecture.
The main project activities completed include:

- offer of the new Credit Lombard product;
- system updating for the provision of banking and trading services on the English market;
- profiling of the site for the new Private customer segment;
- consolidation of the trading orders Internalisation platform and new management of market disclosures in PUSH mode;
- activation of the voice authentication system for the PFA network;
- expansion of Xnet services such as the integration of the PFA agenda;
- inclusion of the new Prelievo Smart and Mobile Collaboration services on mobile apps.

The regulatory activities include:

- the implementations necessary to adjust systems to the MIFID 2 legislation, which came into force on 03/01/2018;
- completion of the implementations for the strengthening of anti-terrorism controls on foreign transfer orders and securities issuers.

# Internal control system

The internal control system is a fundamental part of the overall governance system of banks;it ensures that operations are carried out in line with the Bank strategies and policies and based on principles of sound and prudent management.
Circular no. 285 of December 17, 2013 as amended defines the principles and guidelines to which the internal control system of banks must conform. The circular defines the general principles of organisation, identifies the role and responsibilities of governing bodies, and sets out the characteristics and roles of corporate control functions.

The internal control system must provide protective measures that cover all types of business risk. The primary responsibility for these tasks lies with the bank's bodies, each in accordance with its specific duties. The structure of tasks and lines of responsibility of corporate functions and bodies must be clearly specified.
Banks must apply the provisions according to the proportionality principle, i.e. taking into account the operating scale and organisational complexity, the nature of the activities carried out, and the type of services provided.

As part of the supervisory review and evaluation process, the European Central bank or the Bank of Italy verify the internal control system in terms of completeness, suitability, functionality (in terms of efficiency and effectiveness) and reliability of banks.

In accordance with the provisions laid down by the Supervisory Authority, the Bank's internal control system consists of a set of rules, functions, organisational structures, resources, processes and procedures aimed at ensuring the achievement of the following objectives, in compliance with the principles of sound and prudent management:
- verifying the implementation of the Bank's strategies and policies;
- containing risk within the limits set out in the Bank Risk Appetite Framework - "RAF";
- preventing the Bank's involvement, even if unintentional, in unlawful activities (with specific reference to money laundering, usury and the financing of terrorism);
- protecting the value of assets and preventing losses;
- ensuring the effectiveness and efficiency of corporate processes;
- ensuring the security and reliability of the Bank information and ICT procedures;
- ensuring compliance of transactions with the law and supervisory regulations, as well as internal policies, procedures and regulations.

In terms of the methods applied, the Bank's internal control system is based on four types of controls:
- level one 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 Bank units;
- level two controls: these are controls related to daily operations connected with the process to measure quantifiable risks and are carried out by units other than operating units, on an ongoing basis. 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 Bank's specialised structures, monitoring of compliance risk is assigned to these structures based on the "Indirect Coverage" operating model, also adopted by the Parent Company;
- level three 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. The purpose of these controls is to check the functioning of the overall internal control system and information communication technology system (ICT audit) and identify any anomalous trends, or infringements of procedures or regulations. These controls are assigned to the Internal Audit function, which operates at central level, at UniCredit, based on a specific service agreement;
- institutional supervisory controls: these refer to controls by the Bank's bodies, including in particular the Board of Statutory Auditors and the Supervisory Body pursuant to Legislative Decree no. 231 of 8 June 2001.

Considering the functions and units involved, the Internal Control System is based on:

- control bodies and functions including, according to their respective responsibilities, the Board of Directors, the Risk and Related Parties Committee, the Remuneration and Appointments Committee, the Chief Executive Officer and General Manager[8], the Board of Statutory Auditors, the Supervisory Body set up pursuant to Legislative Decree 231/01 and the corporate control functions (Risk Management, Compliance[9], Internal Audit) as well as other company functions with specific internal control duties[10];
- procedures for the coordination of entities involved in the internal control and risk management system, which provide for:
  - cooperation and coordination among control functions, through specific information flows that are formalised in internal regulations and through managerial committees dedicated to control issues;
  - application of the Group coordination model defined as part of the management and coordination activity carried out by the Parent Company;
  - definition of information flows both between corporate bodies and control functions within the Bank, and with the Parent Company, in order for the latter to be able to properly carry out its management and coordination activities.

Finally, it should be noted that, under Article 49, paragraph 1, of the Regulation (EU) No. 468/2014 of the European Central Bank (ECB/2014/17) (the SSM - single supervisory mechanism - Framework Regulation), the ECB publishes, as of September 4, 2014, a periodically updated list, containing the names of supervised entities and groups that fall under the direct supervision of the ECB ("significant supervised entities" and "significant supervised groups", as defined in Article 2, points 16) and 22) of the SSM Framework Regulation), indicating the specific reason for direct supervision for each of them, and, if classified as significant based on size, the total value of the assets of the entity or group supervised. The Bank, as a "credit institution established in a participating Member State" belonging to the UniCredit group (classified as a "significant supervised group"), is included in the list of "significant supervised entities". As regards the subsidiary Fineco AM Limited, which was formally incorporated but not yet operational as at December 31, 2017, the organisational structure calls for Compliance and Risk Management activities to be carried out by internal company functions, while Interna Audit will be outsourced to a specific UniCredit structure.

8. Also appointed as "Director responsible for the internal control and risk management system" in accordance with principle 7.P.3 of the Corporate Governance Code of listed companies.

9. This function includes the Anti Money Laundering and Anti Terrorism Service, responsible for managing the correct application of regulations on anti-money laundering and combating the financing of terrorism. The Compliance Officer is also appointed Head of the Anti-Money Laundering Function.

10. The legislative framework and the codes of conduct assign control tasks to specific functions - other than corporate control functions - whose work should be seen as being a functional part of the Internal Control System. For the Bank in particular, these include the Local Control System for legislation concerning related-party transactions carried out with associated persons in a conflict of interest situation (under the responsibility of the Corporate Secretariat Unit of the Legal & Corporate Affairs Department), the Nominated Official in charge of drawing up company accounts pursuant to Article 154-bis of the Consolidated Finance Act (identified as the Bank's CFO), the Occupational Health and Safety Officer; the Human Resources function, the Head of Business Continuity & Crisis Management, and the Head of Outsourcing Management (Costs Manager Assistant). All corporate functions, other than corporate control functions, also participate in the Internal Control System by carrying out the level-one controls included in the business processes within their responsibility.

# Main risks and uncertainties

For more details of the risks and uncertainties faced by the Bank in the current market situation, see Part E - Information on risks and hedging policies of the Notes to the Consolidated Accounts.

# Organisational structure

The organisational structure of the Bank is consistent with the Group Organisation Guidelines issued by the Parent Company UniCredit S.p.A. The Guidelines set out organisational principles and rules designed to ensure their uniform application across all Group Legal Entities, through:
- clear organisational principles and criteria;
- specific organisational documents;
- suitable processes for organisational changes.

In 2017, several changes were made to the organisational structure. In particular, to preserve the high level of efficiency of the Information System and make sure that technology is aligned to the company strategy at all times, two coordination units were set up that directly report to the *ICT Department*:
- *Infrastructure & ICT Operations*, responsible for the design, management and evolution of all the infrastructural components;
- *Omnichannel Development*, responsible for the coordination, design, implementation and maintenance of the application developments of all FinecoBank platforms.

The *ICT Committee* was also set up, which is responsible, within its own remit, for making decisions on the overall strategy, for continuously assessing the proper size of the workforce and for defining the cost budget.

Again in 2017, changes were made to the *CRM Department*, to improve customer service in terms of efficiency and managed contacts, through a reassignment of certain activities
Moreover, in order to set up a single organisational unit that oversees the development of the Bank's international projects and the expansion of the Brokerage business, all the activities within the *Global Business Department* relating to these areas were aggregated into a single unit reporting to the *Products Unit*.
Finally, as part of the *Legal & Corporate Affairs Department*, some activities were redistributed and the affected units reorganised accordingly, with the aim of improving their efficiency and reducing the number of hierarchical reports to the Department.

## Organisational Model

The Bank's current organisational model is based on a functional model, which favours economies of scale and facilitates the development of vertical skills and knowledge within each area. The model guarantees the necessary decision-making mechanisms, whilst maintaining the "horizontal link" between the various functions. Although the current arrangement applies the concept of "functional specialisation", a project-based approach is maintained for every phase of definition and release of products and services. The horizontal links are guaranteed by the work of specific committees that monitor business lines and the progress of the most important projects, also to guarantee the necessary synergies of distribution channels.
In general, the model sets out structured organisational rankings on four levels (Department, Unit, Team and Technical Units) based on their size and the organisational complexity of overseen operations. The following organisational units report to the Chief Executive Officer and General Manager: Network PFA Department, Investment Services and Private Banking Services Department, Global Business Department, CFO Department (Chief Financial Officer), CRO Department (Chief Risk Officer), Network Controls, Monitoring And Services Department, Legal & Corporate Affairs Department, GBS Department (Global Banking Services), Human Resources Unit, Compliance Unit, and the Identity & Communication Team.

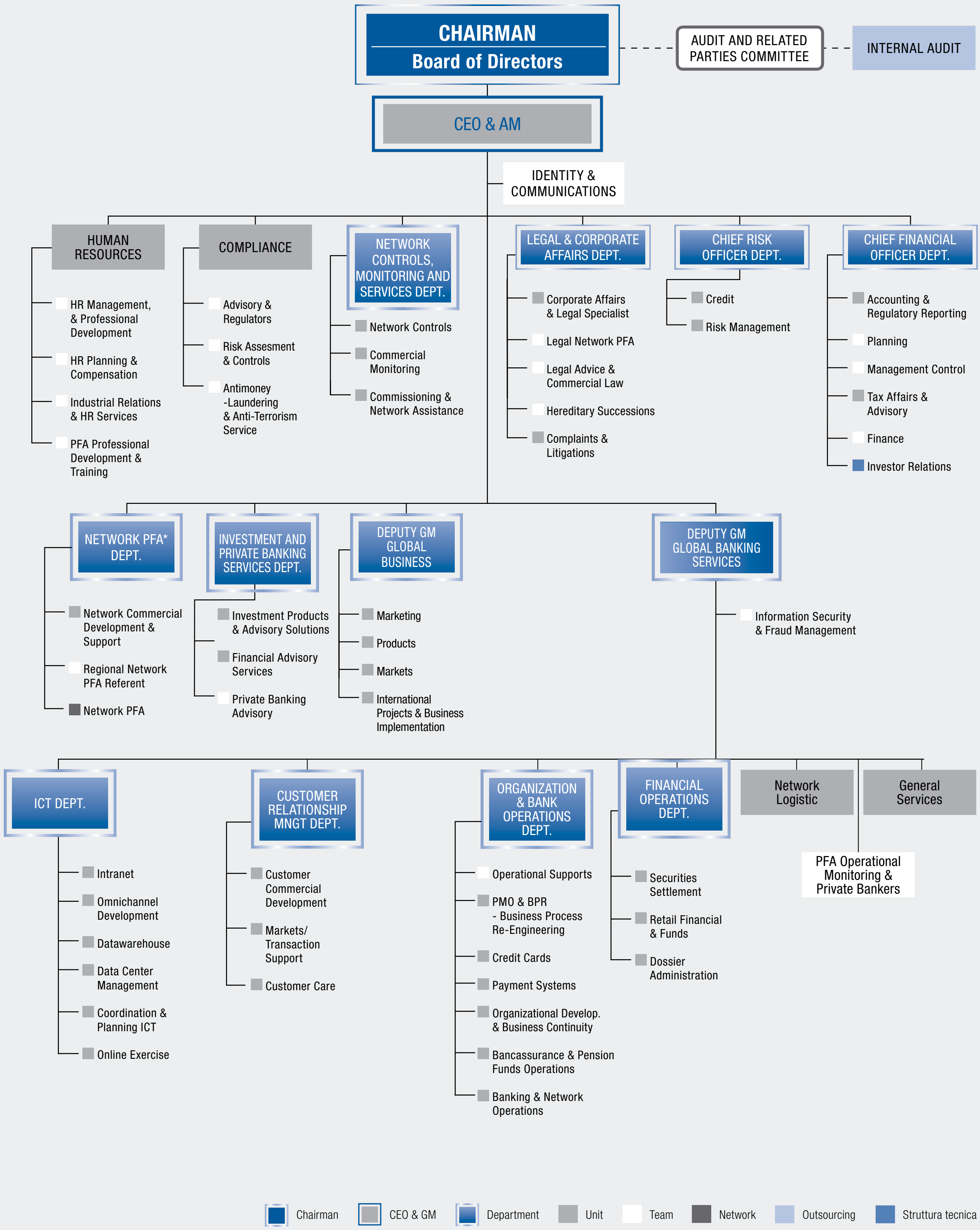
The organisational model identifies four main functional lines, which govern:
- the sales network (Network PFA Department);
- investment services (Investment Services and Private Banking Services Department);
- Trading, Banking and Credit products and the investment platforms (Global Business Department);
- operational functioning (GBS Department).

In summary:

- The PFA Network Department is responsible for overseeing the management and development of the personal financial advisors network;
- The Investment Services and Private Banking Department is responsible for monitoring the development of products placed by the Bank and the financial advisory services provided to all the Bank's customers;
- the Global Business Department is responsible for overseeing the development of Trading, Banking and Credit products and the platforms for the investment products and for the PFA network. The Investment and Private Banking Department and the Global Business Department work closely with each other in order to develop a combined and synergistic offering of products and services to customers, in line with the Bank's marketing and business strategies;
- The GBS (Global Banking Services) Department coordinates the organisational units in charge of monitoring the organisational/operating processes and the ICT and logistics systems needed to ensure the effective and efficient operation of business support systems. The following organisational units report to the GBS Department: Information Security & Fraud Management Team, ICT - Information & Communication Technology Department, CRM - Customer Relationship Management Department, Organisation & Bank Operations Department, Financial Operations Department, Network Services Unit, General Services Unit, and the PFA Operational Monitoring & Private Bankers team.

The synergies between the distribution channels and the monitoring of decision-making processes that cut across the Departments are ensured by a Management Committee.
As regards audit activities, the Bank, in line with the instructions of the Parent Company, has adopted an outsourcing model based on a specific service agreement signed with UniCredit S.p.A.. Under the model, the Risk and Related Parties Committee (a committee established within the Board of Directors) is responsible for liaising with the Bank and the outsourcer, in addition to supporting the Board of Directors - with information, advisory, recommendation and investigation functions - using a risk-oriented approach to identify the guidelines for the entire internal control system and the assessment of its effectiveness and efficiency.

# Organisational structure (CONTINUED)



# Business continuity plan (BCP)

As required by the applicable regulations, the Bank has adopted a model that comprises organisational units dedicated to managing Business Continuity and Crises, both in normal operating conditions and in emergency situations.

The Bank's Business Continuity and Crisis Management framework includes the management plan for events, incidents and crises, and the business continuity plan. These plans are an integral part of the disaster recovery plan (which establishes the measures for the restoration of applications and information technology systems affected by disasters) and of the cyber attack plan (which sets out the strategies - for systemic processes - for handling large scale computer attacks).

These Plans describe the crisis management procedures and are updated and checked regularly to ensure their effectiveness and adequacy.

# Main balance sheet aggregates

(Amounts in € thousand)

| ASSETS | AMOUNTS AS AT 12.31.2017 | AMOUNTS AS AT 12.31.2016 | CHANGES AMOUNT | CHANGES % |
|---|---|---|---|---|
| Cash and cash balances | 613 | 5 | 608 | n.c. |
| Financial assets held for trading | 10,879 | 6,044 | 4,835 | 80.0% |
| Loans and receivables with banks | 13,878,117 | 15,735,540 | (1,857,423) | -11.8% |
| Loans and receivables with customers | 2,129,219 | 1,016,798 | 1,112,421 | 109.4% |
| Financial investments | 5,874,079 | 3,757,529 | 2,116,550 | 56.3% |
| Hedging instruments | 10,048 | 9,211 | 837 | 9.1% |
| Property, plant and equipment | 15,205 | 14,451 | 754 | 5.2% |
| Goodwill | 89,602 | 89,602 | - | - |
| Other intangible assets | 7,909 | 7,731 | 178 | 2.3% |
| Tax assets | 9,249 | 13,165 | (3,916) | -29.7% |
| Other assets | 315,415 | 336,300 | (20,885) | -6.2% |
| **Total assets** | **22,340,335** | **20,986,376** | **1,353,959** | **6.5%** |

(Amounts in € thousand)

| LIABILITIES AND SHAREHOLDERS' EQUITY | AMOUNTS AS AT 12.31.2017 | AMOUNTS AS AT 12.31.2016 | CHANGES AMOUNT | CHANGES % |
|---|---|---|---|---|
| Deposits from banks | 926,001 | 1,111,106 | (185,105) | -16.7% |
| Deposits from customers | 20,205,036 | 18,801,073 | 1,403,963 | 7.5% |
| Financial liabilities held for trading | 2,617 | 2,626 | (9) | -0.3% |
| Hedging instruments | 8,922 | 11,371 | (2,449) | -21.5% |
| Provisions for risks and charges | 112,414 | 111,756 | 658 | 0.6% |
| Tax liabilities | 10,234 | 10,048 | 186 | 1.9% |
| Other liabilities | 343,285 | 257,097 | 86,188 | 33.5% |
| Shareholders' equity | 731,826 | 681,299 | 50,527 | 7.4% |
| *- capital and reserves* | *526,046* | *476,249* | *49,797* | *10.5%* |
| *- revaluation reserves (available-for-sale financial assets - actuarial gains (losses) for defined benefits plans)* | *(8,340)* | *(6,794)* | *(1,546)* | *22.8%* |
| *- net profit* | *214,120* | *211,844* | *2,276* | *1.1%* |
| **Total liabilities and Shareholders' equity** | **22,340,335** | **20,986,376** | **1,353,959** | **6.5%** |

## Financial assets held for trading

**Financial assets held for trading** totalled €10.9 million and consisted of:

- bonds, equities, UCIT units and derivatives classified as HFT (held for trading), amounting to €4.4 million, held in the Bank's portfolio as a result of trading activity, or used for the operational hedging of CFD positions on shares open with customers, and intended to be traded in the short term;
- the positive valuation of spot contracts for securities in the HFT portfolio and currencies to be settled in time frames established by market practices ("regular way") for €1.8 million, which correspond to negative valuations booked under item 40 "Financial liabilities held for trading";
- the positive valuation of CFDs on indices, shares and interest rates and futures on indices and interest rates and of CFDs on Forex for €4.8 million.

CFDs are "Over the counter" derivative contracts that require the payment of a spread generated by the difference between the opening and closing price of the financial instrument. The bank in operational terms covers the imbalance of customer positions, by underwriting futures or the purchase/sale of equity securities on the same underlyings, or through Forex transactions with institutional counterparties to hedge CFD transactions in open currencies with customers' currency.

### Loans and receivables with banks

(Amounts in € thousand)

| | AMOUNTS AS AT | | CHANGES | |
|---|---|---|---|---|
| | 12.31.2017 | 12.31.2016 | AMOUNT | % |
| Current accounts and demand deposits | 1,993,139 | 2,336,579 | (343,440) | -14.7% |
| Time deposits | 1,028,152 | 1,285,414 | (257,262) | -20.0% |
| Other loans: | | | | |
| 1. Reverse repos | 54 | 53 | 1 | 1.9% |
| 2. Others | 17,862 | 58,563 | (40,701) | -69.5% |
| Debt securities | 10,838,910 | 12,054,931 | (1,216,021) | -10.1% |
| **Total** | **13,878,117** | **15,735,540** | **(1,857,423)** | **-11.8%** |

**Loans and receivables** with banks for "Current accounts and demand deposits" mainly consist of accounts held with UniCredit, with a book value of €1,958.6 million (€2,302.7 million as at December 31, 2016), and to a lesser extent, of current accounts held with other banks not belonging to the UniCredit group for transactions in securities, including the current account opened by Fineco AM Limited at AIB.

"Time deposits" consist of the deposit held with UniCredit for compulsory reserves, which stood at €199.1 million (€172.5 million as at December 31, 2016), in addition to time deposits held with UniCredit for an amount of €829 million (€1,113 million as at December 31, 2016).

The item "Other loans: Other" consists of €14.6 million for the amount of the initial and variance margins and collateral deposits placed with credit institutions for derivative transactions and repos (€55.7 million as at December 31, 2016, also including variance margins from transactions in repos), of which €9 million with UniCredit (€48.6 million with UniCredit and €3 million with UniCredit AG Monaco as at December 31, 2016), and €3.2 million for current receivables associated with the provision of financial services (€2.9 million as at December 31, 2016).

The "Debt securities" included in the category "Loans and Receivables" exclusively consist of debt securities issued by UniCredit for an amount of €10,838.9 million (€12,054.9 million at December 31, 2016). In 2017, a bond issued by UniCredit S.p.A. was underwritten for a total notional amount of €622.5 million with a term of 7 years and indexed to the 3M Euribor plus spread, UniCredit bonds reached maturity and were reimbursed for a nominal €1,680 million and $50 million, and UniCredit bonds for a nominal $100 million were sold, generating a gain on disposal of €4 million. These bonds were sold as their contractual conditions would not have passed the SPPI Test required by IFRS 9, applicable as of January 1, 2018, consequently requiring them to be classified as "financial instruments at FVTPL", and the change in fair value recognised in a specific reserve upon first-time adoption and subsequently recognised through profit or loss.

# Main balance sheet aggregates (CONTINUED)

**Loans and receivables with customers**

(Amounts in € thousand)

| | AMOUNTS AS AT | | CHANGES | |
|---|---|---|---|---|
| | 12.31.2017 | 12.31.2016 | AMOUNT | % |
| Current accounts | 641,554 | 299,372 | 342,182 | 114.3% |
| Reverse repos | 202,701 | 87,349 | 115,352 | 132.1% |
| Mortgages | 516,251 | 884 | 515,367 | n.c. |
| Credit cards and personal loans | 633,048 | 504,699 | 128,349 | 25.4% |
| Other loans | 135,665 | 124,494 | 11,171 | 9.0% |
| **Total** | **2,129,219** | **1,016,798** | **1,112,421** | **109.4%** |

**Loans and receivables with customers**, amounting to €2129.2 million, can be broken down as follows:

- €1,798.5 million in loans;
- €202.7 million in reverse repos;
- €42.6 million in collateral deposits and initial and variation margins with clearing houses for derivative contract transactions;
- €85.4 million relating to current receivables associated with the provision of financial services.

"Reverse repos" consist of "*Multiday leverage"* with retail customers and stock lending transactions with transactions institutional customers, securities lending transactions guaranteed by sums of money readily available to the lender and which are basically the equivalent of repos on securities.

Other loans mainly consist of collateral deposits and initial and variation margins for derivative contract transactions, and current receivables associated with the provision of financial services.

(Amounts in € thousand)

| LOANS AND RECEIVABLES WITH CUSTOMERS (MANAGEMENT RECLASSIFICATION) | AMOUNTS AS AT | | CHANGES | |
|---|---|---|---|---|
| | 12.31.2017 | 12.31.2016 | ASSOLUTA | % |
| Current accounts | 639,726 | 296,927 | 342,799 | 115.4% |
| Credit card use | 288,382 | 268,497 | 19,885 | 7.4% |
| Mortgages | 516,237 | 860 | 515,377 | n.c. |
| Personal loans | 343,867 | 235,036 | 108,831 | 46.3% |
| Other loans | 7,641 | 8,612 | (971) | -11.3% |
| *Performing loans* | *1,795,853* | *809,932* | *985,921* | *121.7%* |
| Current accounts | 1,828 | 2,445 | (617) | -25.2% |
| Mortgages | 14 | 24 | (10) | -41.7% |
| Credit card use | 43 | 142 | (99) | -69.7% |
| Personal loans | 756 | 1,024 | (268) | -26.2% |
| Other loans | 26 | 22 | 4 | 18.2% |
| *Impaired loans* | *2,667* | *3,657* | *(990)* | *-27.1%* |
| ***Loans receivable with ordinary customers*** | ***1,798,520*** | ***813,589*** | ***984,931*** | ***121.1%*** |
| Reverse repos | 202,620 | 87,348 | 115,272 | 132.0% |
| Reverse repos - impaired | 81 | 1 | 80 | n.c. |
| Collateral deposits and initial and variation margins | 42,609 | 34,059 | 8,550 | 25.1% |
| Current receivables not related | 85,284 | 81,801 | 3,483 | 4.3% |
| provision of financial services | 105 | - | 105 | - |
| ***Current receivables and other receivables*** | ***330,699*** | ***203,209*** | ***127,490*** | ***62.7%*** |
| **Loans and receivables with customers** | **2,129,219** | **1,016,798** | **1,112,421** | **109.4%** |

The portfolio of loan receivables mainly consists of receivables for personal loans, mortgages, current accounts and credit card use; overall, loans increased 121.1 thanks to the disbursement in 2017 of €521 million in mortgages to retail customers to finance first and second home purchases or subrogations, plus €230 million in personal loans and new credit facilities totalling €831 million.

## Impaired assets

(Amounts in € thousand)

| CATEGORY | GROSS AMOUNT AMOUNTS AS AT 12.31.2017 | 12.31.2016 | IMPAIRMENT PROVISION AMOUNTS AS AT 12.31.2017 | 12.31.2016 | NET AMOUNT AMOUNTS AS AT 12.31.2017 | 12.31.2016 | COVERAGE RATIO DATA AS AT 12.31.2017 | 12.31.2016 |
|---|---|---|---|---|---|---|---|---|
| Non-performing loans | 20,848 | 19,334 | (19,118) | (16,672) | 1,730 | 2,662 | 91.70% | 86.23% |
| Unlikely to pay | 2,109 | 1,906 | (1,614) | (1,507) | 495 | 399 | 76.53% | 79.07% |
| Past-due loans | 1,356 | 1,130 | (728) | (532) | 628 | 598 | 53.69% | 47.08% |
| **Total** | **24,313** | **22,370** | **(21,460)** | **(18,711)** | **2,853** | **3,659** | **88.27%** | **83.64%** |

The amount of impaired loans net of impairment losses was €2.9 million, €1.7 million of which in non-performing loans, €0.5 million in unlikely to pay exposures and €0.6 million in past-due loans.

Impaired loans mostly relate to current account overdrafts, credit card use and personal loans.

### Financial investments

(Amounts in € thousand)

| | AMOUNTS AS AT 12.31.2017 | 12.31.2016 | CHANGES AMOUNT | % |
|---|---|---|---|---|
| Available-for-sale financial assets | 1,047,689 | 1,319,752 | (272,063) | -20.6% |
| Held-to-maturity investments | 4,826,390 | 2,437,777 | 2,388,613 | 98.0% |
| **Total** | **5,874,079** | **3,757,529** | **2,116,550** | **56.3%** |

"Held-to-maturity investments" comprised:
- Italian government securities, with a book value of €2,557.6 million (€1,499.3 million as at December 31, 2016);
- Spanish government securities, with a book value of €2,120.3 million (€938.5 million as at December 31, 2016);
- Polish government securities worth €48.6 million (not present as at December 31, 2016).
- debt securities issued by the Instituto de Credito Oficial (ICO) worth €99.9 million (not present as at December 31, 2016).

"Available-for-sale financial assets" consisted of debt securities issued by governments and equity instruments not listed on an active market.
Investments in debt securities consisted of:
- Italian government securities, with a book value of €725.2 million (€982.4 million as at December 31, 2016);
- French government securities, with a book value of €10.1 million (€10.3 million as at December 31, 2016);
- Spanish government securities, with a book value of €242.5 million (€249.9 million as at December 31, 2016);
- United States government securities, with a book value of €64.7 million (€73.5 million as at December 31, 2016);

A part of the debt securities classified in the "Available-for-sale financial assets portfolio" is entirely used as collateral for bankers' drafts or guarantees with third parties for a book value of €131.1 million (€128.9 million as at December 31, 2016).

Equity instruments consisted of equity investments in companies in which the Bank does not exercise control or have a significant influence, for an amount of €5.2 million, primarily consisting of the Visa INC class "C" preferred shares, for an amount of €4.5 million, which saw a positive change in fair value as at December 31, 2017 of €1.2 million and the residual equity exposure to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund (IDPF), amounting to €0.7 million.
With regard to the equity exposure to the Voluntary Scheme, it is noted that during 2017 the Bank paid a total of €13.6 million in contributions required by the IDGF in relation to the completion of the acquisitions of Caricesena, Carim and Carismi by Crédit Agricole Cariparma, which adds to the €6.7 million paid in 2016 which was written-down in full in the financial statements for the year ended December 31, 2016.
The structure of the overall transaction set out in the Framework Agreement signed by Crédit Agricole Cariparma, the Voluntary Scheme, Caricesena, Carim and Carismi provided for:
- the spin-off of a portfolio of NPLs (comprising loans classed as unlikely to pay and as non-performing loans) of the three rescued banks and the subscription by the Voluntary Scheme of mezzanine and junior bonds;
- recapitalisation of the three banks by the Voluntary Scheme;
- sale of the three banks to Crédit Agricole Cariparma, to be completed upon their recapitalisation.

# Main balance sheet aggregates (Continued)

As the amount of the recapitalisations is a non-recoverable cost of the Voluntary Scheme, due to the sale of the banks to Crédit Agricole CariParma, Fineco has de-recognised equities in the Voluntary Scheme amounting to €15.6 million, of which €6.7 million recognised in 2016 and, as said, fully written-down in the financial statements for the year ended December 31, 2016, and €8.9 million recognised in 2017, corresponding to the portion of the contributions paid by the Bank for use by the Voluntary Scheme for the recapitalisation of the three banks.
The residual equities not de-recognised, equal to €4.7 million, corresponding to the portion of the contributions paid by the Bank and held by the Voluntary Scheme as cash or used to subscribe the mezzanine and junior tranches of the securitisations, were written-down in the financial statements for the year ended December 31, 2017 by €4 million to align the carrying amount to the fair value of the instruments provided by IDGF and shown by the analysis of the advisor appointed by IDGF of the value of the underlying loans and receivables, prepared according to a discounted-cash-flow model based on expected recoveries formulated by the special servicers. The remaining commitment to the Voluntary Scheme is €0.1 million and will be used, only if necessary, to cover the operating costs relating to managing the intervention (for further details refer to Part A - Accounting Policies of the Notes to the Consolidated Accounts).

## Hedging instruments

(Amounts in € thousand)

| | AMOUNTS AS AT | | CHANGES | |
|---|---|---|---|---|
| | 12.31.2017 | 12.31.2016 | AMOUNT | % |
| Asset hedging derivatives - positive valuations | 400 | - | 400 | n.c. |
| Liability hedging derivatives - positive valuations | 58 | 552 | (494) | -89.5% |
| Adjustment to the value of assets under | | | | |
| macro-hedge | 9,590 | 8,659 | 931 | 10.8% |
| **Total assets** | **10,048** | **9,211** | **837** | **9.1%** |
| of which: | | | | |
| Positive valuations | 499 | 452 | 47 | 10.4% |
| Accrued interest | (41) | 100 | (141) | -141.0% |
| Adjustments to the value of hedged assets | 9,590 | 8,659 | 931 | 10.8% |
| **Total assets** | **10,048** | **9,211** | **837** | **9.1%** |
| Asset hedging derivatives - negative valuations | 9,568 | 10,914 | (1,346) | -12.3% |
| Liability hedging derivatives - negative valuations | 3,126 | - | 3,126 | n.c. |
| Adjustment to the value of assets under | | | | |
| macro-hedge | (3,772) | 457 | (4,229) | -925.4% |
| **Total liabilities** | **8,922** | **11,371** | **(2,449)** | **-21.5%** |
| of which: | | | | |
| Negative valuations | 13,902 | 11,274 | 2,628 | 23.3% |
| Accrued interest | (1,208) | (360) | (848) | 235.6% |
| Adjustments to the value of hedged liabilities | (3,772) | 457 | (4,229) | -925.4% |
| **Total liabilities** | **8,922** | **11,371** | **(2,449)** | **-21.5%** |

(Amounts in € thousand)

| Summary of hedging derivative valuations 12.31.2017 | Assets | Liabilities | Difference |
|---|---|---|---|
| Valuation of hedging derivatives for assets and liabilities | 499 | 13,902 | (13,403) |
| Change in fair value of hedged assets/liabilities | 9,590 | (3,772) | 13,362 |
| **Total** | **10,089** | **10,130** | **(41)** |

Hedged assets as at December 31, 2017 consisted of mortgages with customers and bonds issued by UniCredit belonging to the “Loans and Receivables”.
Hedged liabilities consisted of direct deposits.
Positive and negative valuations of hedging derivatives related solely to derivative contracts that the Bank has entered into to hedge against interest rate risk inherent in the above-mentioned assets and liabilities, whose income statement effect, net of €1.2 million of accrued interest income included in the net interest margin, was a negative amount of €41 thousand.

## Property, plant and equipment

As in previous financial years, investments in electronic equipment were made to guarantee the ongoing update of the hardware used by all the Bank's departments. In particular, during 2017 the storage for the technological infrastructure of FinecoBank's legacy systems was replaced, obtaining greater processing power, which is significantly better performing and has innovative technological features and lower hardware maintenance costs.
Investments in furniture, fittings and equipment are primarily intended for use in new financial stores.

(Amounts in € thousand)

| PROPERTY, PLANT AND EQUIPMENT | BALANCE 12.31.2016 | INVESTMENTS YEAR 2017 | OTHER CHANGES AND SALES YEAR 2017 | AMORTISATION AND IMPAIRMENT YEAR 2017 | BALANCE 12.31.2017 |
|---|---|---|---|---|---|
| Properties | 2,397 | 20 | - | (113) | 2,304 |
| Electronic equipment | 9,560 | 4,748 | (764) | (3,746) | 9,798 |
| Office furniture and fittings | 1,131 | 1,579 | 3 | (1,233) | 1,480 |
| Plant and machinery | 1,363 | 737 | - | (477) | 1,623 |
| **Total** | **14,451** | **7,084** | **(761)** | **(5,569)** | **15,205** |

## Goodwill

The **Goodwill** recognised in the financial statements derives from transactions carried out in the years from 2001 to 2008, involving acquisitions and mergers by absorption of business units and businesses engaged in trading operations or the distribution of financial, banking and insurance products through the personal financial advisors (Fineco On Line Sim S.p.A., Trading and Banking business unit of Banca della Rete, personal financial advisors business unit of the former FinecoGroup S.p.A., and UniCredit Xelion Banca S.p.A.).
These activities have been fully integrated with the Bank's ordinary operations. As a result it is no longer possible to isolate the contribution of each company/business division from the Bank's overall income; this means that to establish the reasonableness of the value of goodwill recognised in the financial statements it is necessary to take account of the Bank's comprehensive income. The cash generating unit (CGU) is therefore the Bank as a whole.
In fact, in view of the specific business model adopted by the Bank, which envisages a high level of integration between personal financial advisors and the trading and banking platform, the allocation of costs/revenues to the macro areas of activity is not considered relevant or meaningful; the personal financial advisors network is an integral part of the overall offer, along with banking, brokerage and investing services.

Impairment testing on goodwill, performed on December 31, 2017, did not identify any impairment. For all other information on the impairment testing, see Part B) - Balance Sheet Information in the Notes to the Consolidated Accounts.

## Other intangible assets

**Other intangible assets** mainly include purchases and the implementation of information technology procedures with useful lives of several years, required in order to manage the development and ongoing provision by the Bank of new and more versatile high-added-value services for customers, as well as infrastructure and application optimisations, enhancements to architecture for application security, and the developments needed to meet the new regulatory requirements.

(Amounts in € thousand)

| INTANGIBLE ASSETS | BALANCE 12.31.2016 | INVESTMENTS YEAR 2017 | OTHER CHANGES AND SALES YEAR 2017 | AMORTISATION AND IMPAIRMENT YEAR 2017 | BALANCE 12.31.2017 |
|---|---|---|---|---|---|
| Software | 6,834 | 4,705 | - | (4,458) | 7,081 |
| Other intangible assets | 897 | 273 | - | (342) | 828 |
| **Total** | **7,731** | **4,978** | - | **(4,800)** | **7,909** |

# Main balance sheet aggregates (Continued)

## Tax Assets and Other Assets

(Amounts in € thousand)

| | AMOUNTS AS AT | | CHANGES | |
|---|---|---|---|---|
| | 12.31.2017 | 12.31.2016 | AMOUNT | % |
| **Tax assets** | | | | |
| Current assets | 1,765 | 1,571 | 194 | 12.3% |
| Deferred tax assets | 32,927 | 36,660 | (3,733) | -10.2% |
| Deferred tax assets pursuant to Law 214/2011 | 3,828 | 4,180 | (352) | -8.4% |
| *Total before IAS 12 offsetting* | *38,520* | *42,411* | *(3,891)* | *-9.2%* |
| Offsetting with deferred tax liabilities - IAS 12 | (29,271) | (29,246) | (25) | 0.1% |
| **Total Tax assets** | **9,249** | **13,165** | **(3,916)** | **-29.7%** |
| **Other assets** | | | | |
| Items in processing | 99 | 27 | 72 | 266.7% |
| Items awaiting settlement | 4,498 | 11,558 | (7,060) | -61.1% |
| Definitive items not recognised under other items | 25,617 | 42,213 | (16,596) | -39.3% |
| Current receivables not related with the provision of financial services | 4,721 | 2,290 | 2,431 | 106.2% |
| Tax items other than those included in the item "Tax assets" | 249,443 | 250,077 | (634) | -0.3% |
| Deferred charges | 22,143 | 22,754 | (611) | -2.7% |
| Improvement and incremental expenses incurred on leasehold assets | 6,774 | 7,262 | (488) | -6.7% |
| Other items | 2,120 | 119 | 2,001 | 1681.5% |
| **Total other assets** | **315,415** | **336,300** | **(20,885)** | **-6.2%** |

The decrease in “Tax assets” of €3.9 million is due mainly to the reduction in “Deferred Tax Assets” of around €3.8 million, resulting from the use of the provisions for risks and charges and the use of provisions for staff expenses.
Deferred tax assets have also been recognised on the losses made by Fineco AM Limited, totalling €0.02 million, resulting - as operations have not yet begun - from initial operating costs incurred as at December 31, 2017.

“Deferred tax assets” are shown in the balance sheet net of the related “Deferred tax liabilities”, when the requirements of IAS 12 are met.
With regard to **Other assets** there was a decrease of €7 million in “Items awaiting settlement” and of €16.6 million in “Definitive items not recognised under other items”.

## Deposits from banks

(Amounts in € thousand)

| | AMOUNTS AS AT | | CHANGES | |
|---|---|---|---|---|
| | 12.31.2017 | 12.31.2016 | AMOUNT | % |
| **Deposits from central banks** | - | - | - | - |
| **Deposits from banks** | | | | |
| Current accounts and demand deposits | 42,756 | 52,309 | (9,553) | -18.3% |
| Loans | | | | |
| Reverse repos | 868,651 | 1,058,565 | (189,914) | -17.9% |
| Other liabilities | 14,594 | 232 | 14,362 | n.c. |
| **Total** | **926,001** | **1,111,106** | **(185,105)** | **-16.7%** |

The item “Current accounts and demand deposits” consisted of reciprocal current accounts and loans with UniCredit, amounting to €6.1 million (€49.4 million as at December 31, 2016), as well as current accounts opened by customer banks worth €36.7 million.
“Repos” are represented by repos and securities lending transactions guaranteed by sums of money readily available to the lender and which are basically the equivalent of repos on securities. The item included €764.4 million in transactions effected with UniCredit (€977.8 million as at December 31, 2016) and €40.3 million of securities lending transactions guaranteed by cash carried out with UniCredit Bank AG Monaco (€6.6 million as at December 31, 2016).
The item “Other liabilities” included margin variations received for trading in derivatives and repos, of which €13.3 million with UniCredit S.p.A..

## Deposits from customers

**Deposits from customers**, mainly consisting of current accounts, totalled €20.205 million, up 7.5% compared to December 31, 2016.

(Amounts in € thousand)

| | AMOUNTS AS AT | | CHANGES | |
|---|---|---|---|---|
| | 12.31.2017 | 12.31.2016 | AMOUNT | % |
| Current accounts and demand deposits | 19,935,285 | 18,319,307 | 1,615,978 | 8.8% |
| Time deposits | 9,631 | 159,124 | (149,493) | -93.9% |
| Loans | | | | |
| Repos | 146,410 | 231,376 | (84,966) | -36.7% |
| Other liabilities | 113,710 | 91,266 | 22,444 | 24.6% |
| **Deposits from customers** | **20,205,036** | **18,801,073** | **1,403,963** | **7.5%** |

There was an increase of €1,616 million in the cash deposited in current accounts, which was also driven by the transfer of maturing Cash Park time deposits.

"Repos" are represented by securities lending transactions with retail and institutional customers guaranteed by sums of money readily available to the lender and which are basically the equivalent of repos on securities.

The item "Other payables" comprises current payables related to the provision of financial services, totalling €39 million (€28.1 million as at December 31, 2016), initial and variance margins for derivative transactions, which came to €44.9 million (€38.5 million as at December 31, 2016) and other liabilities for rechargeable credit cards and bankers' drafts, amounting to €29.8 million (€24.7 million at December 31, 2016).

## Financial liabilities held for trading

**Financial liabilities held for trading** consist of:

- technical overdrafts classified as HFT used for the operational hedging of CFD positions on shares open with customers, amounting to €0.4 million, and intended to be traded in the short term;
- the negative valuation of spot contracts for securities in the HFT portfolio and currencies to be settled in time frames established by market practices ("regular way") of around €1.7 million, which correspond to positive valuations booked under item 20 "Financial assets held for trading";
- the negative valuation of CFDs on indices, shares and interest rates and futures on indices and interest rates and of CFDs on Forex for €0.6 million.

CFDs are "Over the counter" derivative contracts that require the payment of a spread generated by the difference between the opening and closing price of the financial instrument. The bank in operational terms covers the imbalance of customer positions, by underwriting futures or the purchase/sale of equity securities on the same underlyings, or through Forex transactions with institutional counterparties to hedge CFD transactions in open currencies with customers' currency.

# Main balance sheet aggregates (CONTINUED)

## Provisions for risks and charges

**Provisions for risks and charges** include allowances for a total of €112.4 million, for which, given a liability of uncertain amount and expiry, a current obligation was identified as the result of a past event and it was possible to make a reliable estimate of the amount resulting from the fulfilment of said obligation. The disbursements, with estimated maturity exceeding 18 months, were discounted to present value using a rate equal to the time value of money.

"Staff expenses" include the provisions made for the variable remuneration to be paid to employees in subsequent years, which have an uncertain due date and/or amount. This item at December 31, 2016 also included the estimated integration costs for the Bank in relation to the Business Plan of the UniCredit group. In 2017, following the signing of the agreement of February 4, 2017, these costs recognised in "Other liabilities" for the part relating to the subscriptions accepted, while the non-accepted subscriptions were reclassified through profit or loss.

(Amounts in € thousand)

| | AMOUNTS AS AT | | CHANGES | |
|---|---|---|---|---|
| | 12.31.2017 | 12.31.2016 | AMOUNT | % |
| **Legal disputes** | **31,056** | **33,699** | **(2,643)** | **-7.8%** |
| - Pending cases | 25,525 | 26,673 | (1,148) | -4.3% |
| - Complaints | 5,531 | 7,026 | (1,495) | -21.3% |
| **Staff expenses** | **5,690** | **10,043** | **(4,353)** | **-43.3%** |
| **Other** | **75,668** | **68,014** | **7,654** | **11.3%** |
| - Supplementary customer indemnity provision | 64,983 | 56,054 | 8,929 | 15.9% |
| - Provision for contractual payments and payments under non-competition agreements | 2,311 | 2,184 | 127 | 5.8% |
| - Tax disputes | 3,931 | 4,078 | (147) | -3.6% |
| - Other provisions | 4,443 | 5,698 | (1,255) | -22.0% |
| **Total provisions for risks and charges** | **112,414** | **111,756** | **658** | **0.6%** |

## Tax liabilities and Other liabilities

(Amounts in € thousand)

| | AMOUNTS AS AT | | CHANGES | |
|---|---|---|---|---|
| | 12.31.2017 | 12.31.2016 | AMOUNT | % |
| **Tax liabilities** | | | | |
| Current liabilities | 10,234 | 10,048 | 186 | 1.9% |
| Deferred tax liabilities | 29,271 | 29,246 | 25 | 0.1% |
| *Total before IAS 12 offsetting* | *39,505* | *39,294* | *211* | *0.5%* |
| Offset against deferred tax liabilities - IAS 12 | (29,271) | (29,246) | (25) | 0.1% |
| **Total Tax liabilities** | **10,234** | **10,048** | **186** | **1.9%** |
| **Other liabilities** | | | | |
| Items in processing | 481 | 1,521 | (1,040) | -68.4% |
| Items awaiting settlement | 91,869 | 59,164 | 32,705 | 55.3% |
| Definitive items not recognised under other items | 42,724 | 14,504 | 28,220 | 194.6% |
| Payment authorisations | 19,068 | 20,480 | (1,412) | -6.9% |
| Payables for share-based payments or shares of the Parent Company UniCredit | 938 | 957 | (19) | -2.0% |
| Payables to employees and other personnel | 11,378 | 7,259 | 4,119 | 56.7% |
| Payables to Directors and statutory auditors | 148 | 140 | 8 | 5.7% |
| Current payables not related with the provision of financial services | 23,690 | 18,941 | 4,749 | 25.1% |
| Tax items other than those included in the item "Tax liabilities" | 116,515 | 103,467 | 13,048 | 12.6% |
| Social security contributions payable | 6,845 | 5,944 | 901 | 15.2% |
| Illiquid items for portfolio transactions | 18,097 | 18,486 | (389) | -2.1% |
| Other items | 6,534 | 981 | 5,553 | 566.1% |
| Provisions for employee severance pay | 4,998 | 5,253 | (255) | -4.9% |
| **Total Other Liabilities** | **343,285** | **257,097** | **86,188** | **33.5%** |

"Tax liabilities" before and after IAS 12 offsetting did not show any significant changes.
It is also noted that, when the requirements of IAS 12 are met, the "Deferred tax liabilities" are offset against "Deferred tax assets" in the balance sheet.

With regard to the **Other liabilities** there was:
- an increase of €32.7 million in "Items awaiting settlement" mainly attributable to outgoing bank transfers and POS transactions to be settled;
- an increase of €13 million in "Tax items other than those included in the item Tax liabilities", as a result of higher payables for stamp duty, substitute tax on assets under management, and recognition of the VAT split payment to be made;
- an increase of €28.2 million in "Definitive items not recognised under other items", mainly due to the increase in transactions in securities and dividends to be settled.

The liabilities of Fineco AM Limited, equal to €0.1 million, were recognised in "Current payables not associated with the provision of financial services" and referred to payables for initial operating costs incurred.

## Shareholders' equity

As at December 31, 2017, the Bank's share capital came to €200.5 million, divided into 607,713,345 ordinary shares with a par value of €0.33 each.
The reserves consisted of the:
- Share premium reserve, amounting to €1.9 million;
- Legal reserve, amounting to €40.1 million;
- Extraordinary reserve, amounting to €251.4 million;
- Reserve for treasury shares held, amounting to €0.4 million;
- Reserve related to equity-settled plans, amounting to €32.1 million.

On February 7, 2017, in view of the positive outcome of the verification of the entry conditions (at Bank level and Group level, where applicable) and the individual conditions (compliance of conduct and continued employment) and the favourable opinion provided by the Remuneration and Appointments Committee in its meeting of February 2, 2017, the Board of Directors approved:
- for the "Group Executive Incentive System - Bonus Pool 2014" plan: a free capital increase, for a total amount of €5,237.76 corresponding to a total of 15,872 FinecoBank ordinary shares with a nominal value of €0.33 each;
- for the "2014-2017 Top Management Multi-Year Plan": a free capital increase, for a total amount of €208,180.50 corresponding to a total of 630,850 FinecoBank ordinary shares with a nominal value of €0.33 each;
- for the "2014 Key People Plan": a free capital increase, for a total amount of €86,191.71 corresponding to a total of 261,187 FinecoBank ordinary shares with a nominal value of €0.33 each;.

In view of the above capital increases, the reserves from allocation of profit from previous years were reduced accordingly.

The Shareholders' Meeting pf FinecoBank held on April 11, 2017 approved the allocation of profit for the year 2016, amounting to €211.8 million, as follows:
- €0.06 million to the Legal Reserve, corresponding to 0.03% of the profit for the year, having reached the limit of a fifth of the share capital;
- €41.6 million to the Extraordinary Reserve;
- €170.2 million to shareholders, corresponding to a dividend of €0.28 for each of the 607,713,345 ordinary shares with a par value of €0.33 euro.

The amount pertaining to the dividends not distributed to treasury shares held by the Bank at the record date was diverted to the Extraordinary Reserve, equal to €0.2 million.

The "Reserve related to equity-settled plans" was increased by around €8.1 million, due to the recognition during the year of the income statement and balance sheet effects of the payment plans based on FinecoBank ordinary shares during the vesting period for the instruments, and was used in the amount of €4.1 million following the allocation of FinecoBank ordinary shares to the Bank's Personal Financial Advisors and Network Managers under the second tranche of the stock granting "2014 PFA Plan" as resolved by the Board of Directors on July 31, 2017.
As at December 31, 2017, the Bank held 60,397 treasury shares, corresponding to 0.01% of the share capital, for an amount of €0.4 million. A total of 1,408,834 shares were purchased in 2015 in relation to the "2014 PFA Plan" stock-granting plan for Fineco personal financial advisors and network managers, and a total of 31,519 were purchased in the first quarter of 2017 in relation to the "2016 PFA Plan" for personal financial advisors identified as "Key personnel" in accordance with what was authorised by the Fineco Ordinary Shareholders' Meeting on April 12, 2016. In implementation of the "2014 PFA Plan", during FY2016 and FY2017, Personal Financial Avisors and Network Managers were allocated, respectively, 694,509 shares and 685,447 shares.
The Bank does not hold shares of its Parent Company, even through other companies or third parties.

# Main balance sheet aggregates (Continued)

The Revaluation reserves consisted of:

- €4.9 million from the net positive reserve for debt securities issued by central governments of EU member countries, held in the "Available-for-sale financial assets" portfolio, which increased by €0.2 million in 2017, of which €1.8 million relating to the increase in fair value and -€1.6 million relating to the reclassification through profit or loss of gains.
- -€1.5 million from the net negative reserve for debt securities, other than those mentioned above, comprising United States debt securities held in the "Available-for-sale financial assets" portfolio, which increased by €0.2 million in 2017 as a result of the increase in fair value;
- €1.2 million from the positive reserve for equity instruments held in the "Available-for-sale financial assets" portfolio, relating exclusively to the change in the fair value of the Visa INC class "C" preferred shares in 2017, equal to €0.9 million;
- -€9.8 million from the IAS19 Negative reserve, which increased by €3.4 million in 2017 as a result of the recognition of actuarial losses mainly attributable to the Supplementary customer indemnity provision;
- -€3.1 million from the net negative reserve for debt securities issued by central governments of EU member countries, transferred from the "Available-for-sale financial assets" portfolio to the "Held-to-maturity investments" portfolio in 2016, which saw an increase of €0.6 million in 2017 due to the reclassification through profit or loss of the reserve for the year as a result of the maturity of each security reclassified.

## Shareholders' equity

(Amounts in € thousand)

| | AMOUNTS AS AT | | CHANGES | |
|---|---|---|---|---|
| | 12.31.2017 | 12.31.2016 | AMOUNT | % |
| Share capital | 200,545 | 200,246 | 299 | 0.1% |
| Share premium reserve | 1,934 | 1,934 | - | - |
| Reserves | | | | |
| - Legal reserve | 40,109 | 40,049 | 60 | 0.1% |
| - Extraordinary reserve | 251,367 | 205,860 | 45,507 | 22.1% |
| - Treasury shares reserve | 365 | 4,338 | (3,973) | -91.6% |
| - Other reserves | 32,091 | 28,160 | 3,931 | 14.0% |
| (Treasury Shares) | (365) | (4,338) | 3,973 | -91.6% |
| Revaluation reserves | (8,340) | (6,794) | (1,546) | 22.8% |
| Net Profit (Loss) for the year | 214,120 | 211,844 | 2,276 | 1.1% |
| **Total** | **731,826** | **681,299** | **50,527** | **7.4%** |

## Reconciliation between Shareholders' equity and net profit/(loss) for the year of FinecoBank and corresponding consolidated figures

(Amounts in € thousand)

| DESCRIPTION | SHAREHOLDERS' EQUITY | OF WHICH: NET PROFIT (LOSS) AS AT 12.31.2017 |
|---|---|---|
| **FinecoBank results as at December 31, 2017** | **731,990** | **214,284** |
| Effect of consolidation of Fineco AM Limited (loss) | (164) | (164) |
| Shareholders' equity and profit attributable to minorities | - | - |
| **Results attributable to the group as at December 31, 2017** | **731,826** | **214,120** |

# Own funds and prudential requirements

The Bank is not required to prepare the disclosure relating to own funds and regulatory ratios on consolidated basis as it is part of the UniCredit banking group.

Therefore, please refer to the section on the results of the parent FinecoBank and the associated information on individual own funds and regulatory ratios as set out in this Consolidated Report on Operations.

# Shareholders

As at December 31, 2017, the fully subscribed and paid up share capital totalled €200,545,403.85, divided into 607,713,345 ordinary shares with a nominal value of €0.33.
As at December 31, 2017, the major shareholders were:

| MAJOR SHAREHOLDERS | % OWNED |
| --- | --- |
| UniCredit S.p.A | 35.426% |
| BlackRock Inc. | 5.067% |
| Wellington Management Group LLP | 4.879% |

# Income Statement Figures

(Amounts in € thousand)

| INCOME STATEMENT FIGURES | YEAR 2017 | YEAR 2016 | CHANGES AMOUNT | CHANGES % |
|---|---|---|---|---|
| Net interest | 264,581 | 249,388 | 15,193 | 6.1% |
| Dividends and other income from equity investments | 29 | 6 | 23 | 383.3% |
| Net fee and commission income | 270,083 | 242,881 | 27,202 | 11.2% |
| Net trading, hedging and fair value income | 48,219 | 69,054 | (20,835) | -30.2% |
| Net other expenses/income | 3,760 | (2,211) | 5,971 | n.c. |
| **OPERATING INCOME** | **586,672** | **559,118** | **27,554** | **4.9%** |
| Payroll costs | (79,294) | (73,698) | (5,596) | 7.6% |
| Other administrative expenses | (236,945) | (228,119) | (8,826) | 3.9% |
| Recovery of expenses | 93,367 | 85,395 | 7,972 | 9.3% |
| Impairment/write-backs on intangible and tangible assets | (10,369) | (9,952) | (417) | 4.2% |
| **Operating costs** | **(233,241)** | **(226,374)** | **(6,867)** | **3.0%** |
| **OPERATING PROFIT (LOSS)** | **353,431** | **332,744** | **20,687** | **6.2%** |
| Net impairment losses on loans provisions for guarantees and commitments | (5,151) | (4,199) | (952) | 22.7% |
| **NET OPERATING PROFIT (LOSS)** | **348,280** | **328,545** | **19,735** | **6.0%** |
| Provisions for risks and charges | (19,025) | (9,981) | (9,044) | 90.6% |
| Integration costs | 408 | (5,503) | 5,911 | n.c. |
| Net income from investments | (13,399) | (6,724) | (6,675) | 99.3% |
| **PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | **316,264** | **306,337** | **9,927** | **3.2%** |
| Income tax for the year | (102,144) | (94,493) | (7,651) | 8.1% |
| **NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS** | **214,120** | **211,844** | **2,276** | **1.1%** |
| **PROFIT (LOSS) FOR THE YEAR** | **214,120** | **211,844** | **2,276** | **1.1%** |
| **NET PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP** | **214,120** | **211,844** | **2,276** | **1.1%** |

## Net interest

**Net interest** for 2017 amounted to €264.6 million, up by 6.1% on the same period of the previous year, due to the increase in sales volume and the greater penetration of lending activities, which offset the fall in interest income linked to the decline in market interest rates.

In this regard it should be noted that the structure of the investments carried out by the Bank contributed to maintaining a significant level of interest income resulting from the investment of deposits, even against a backdrop of significant reduction of credit spreads and market interest rates. The average lending rate for the investment of all deposits amounted to 1.28% compared to 1.39% in 2016.

(Amounts in € thousand)

| INTEREST INCOME | YEAR 2017 | YEAR 2016 | CHANGES AMOUNT | CHANGES % |
|---|---|---|---|---|
| Financial Assets held for trading | 1 | 1 | - | 0.0% |
| Available-for-sale financial assets | 8,505 | 20,658 | (12,153) | -58.8% |
| Held to Maturity Investments | 23,066 | 1,575 | 21,491 | 1364.5% |
| Loans and receivables with banks | 188,853 | 198,814 | (9,961) | -5.0% |
| Loans and receivables with customers | 41,029 | 29,109 | 11,920 | 40.9% |
| Hedging derivatives | 8,215 | 3,080 | 5,135 | 166.7% |
| Other assets | 77 | 69 | 8 | 11.6% |
| **Total interest income** | **269,746** | **253,306** | **16,440** | **6.5%** |

(Amounts in € thousand)

| INTEREST EXPENSE | YEAR 2017 | YEAR 2016 | CHANGES AMOUNT | CHANGES % |
|---|---|---|---|---|
| Deposits from banks | 3,070 | 3,006 | 64 | 2.1% |
| Deposits from customers | (8,235) | (6,924) | (1,311) | 18.9% |
| **Total interest expense** | **(5,165)** | **(3,918)** | **(1,247)** | **31.8%** |
| **Net interest** | **264,581** | **249,388** | **15,193** | **6.1%** |

The following table provides a breakdown of interest income associated with banks and customers:

(Amounts in € thousand)

| | YEAR | | CHANGES | |
|---|---|---|---|---|
| BREAKDOWN OF INTEREST INCOME | 2017 | 2016 | AMOUNT | % |
| **Interest income on loans and receivables with banks** | **188,853** | **198,814** | **(9,961)** | **-5.0%** |
| - current accounts | 4,107 | 3,042 | 1,065 | 35.0% |
| - reverse repos | - | 385 | (385) | -100.0% |
| - time deposit for compulsory reserves | - | 16 | (16) | -100.0% |
| - time deposits | (1,162) | 1,224 | (2,386) | -194.9% |
| - other loans | (121) | (70) | (51) | 72.9% |
| - debt securities | 186,029 | 194,217 | (8,188) | -4.2% |
| **Interest income on loans and receivables with customers** | **41,029** | **29,109** | **11,920** | **40.9%** |
| - current accounts | 7,575 | 5,843 | 1,732 | 29.6% |
| - reverse repos | 9,624 | 6,649 | 2,975 | 44.7% |
| - mortgages | 3,719 | - | 3,719 | n.c. |
| - credit cards | 4,695 | 4,516 | 179 | 4.0% |
| - personal loans | 15,570 | 12,149 | 3,421 | 28.2% |
| - other loans | (154) | (48) | (106) | 220.8% |

**Interest income on loans and receivables with banks** amounted to €188.9 million, down 5% on the previous year. The decrease was attributable to lower interest on time deposits of €2.4 million, and lower interest on debt securities of €8.2 million, due to the reduction in volumes and the trend in market interest rates.

**Interest income on loans and receivables with customers** amounted to €41 million, showing an increase of 40.9% compared to the previous year thanks to higher interest on mortgages, personal loans, usage of current account overdrafts and “Multiday leverage” transactions, due to the increase in volumes.

The following table provides a breakdown of interest expense related to banks and customers:

(Amounts in € thousand)

| | YEAR | | CHANGES | |
|---|---|---|---|---|
| BREAKDOWN OF INTEREST EXPENSE | 2017 | 2016 | AMOUNT | % |
| **Interest expense on deposits from banks** | **3,070** | **3,006** | **64** | **2.1%** |
| - current accounts | (591) | (213) | (378) | 177.5% |
| - demand and collateral deposits | 36 | 68 | (32) | -47.1% |
| - other loans | (22) | (19) | (3) | 15.8% |
| - reverse repos | 3,647 | 3,170 | 477 | 15.0% |
| **Interest expense on deposits from customers** | **(8,235)** | **(6,924)** | **(1,311)** | **18.9%** |
| - current accounts | (8,342) | (4,777) | (3,565) | 74.6% |
| - collateral deposits | - | (5) | 5 | -100.0% |
| - time deposits | (137) | (1,839) | 1,702 | -92.6% |
| - reverse repos | 244 | (303) | 547 | n.c. |

**Interest expense on deposits from banks** was €3,1 million and showed no significant changes compared to the previous year.

**Interest expense on deposits from customers** came to €8.2 million, up €1.3 million over 2016, as a result of the higher interest on current accounts, offset by lower interest on “Cash Park” time deposits, where volumes fell as existing deposits gradually reached maturity and the Bank no longer offers this service. The increase in current account interest is attributable to the growth of the USD Libor rate, which is used to remunerate customer current accounts in dollars, and the higher interest expense paid to customers as a result of marketing campaigns.

# Income Statement Figures (Continued)

## Income from brokerage and other income

(Amounts in € thousand)

| | YEAR | | CHANGES | |
|---|---|---|---|---|
| | 2017 | 2016 | AMOUNT | % |
| **Net interest** | **264,581** | **249,388** | **15,193** | **6.1%** |
| Dividends and other income from equity investments | 29 | 6 | 23 | 383.3% |
| Net fee and commission income | 270,083 | 242,881 | 27,202 | 11.2% |
| Net trading, hedging and fair value income | 48,219 | 69,054 | (20,835) | -30.2% |
| Net other expenses/income | 3,760 | (2,211) | 5,971 | n.c. |
| **Operating income** | **586,672** | **559,118** | **27,554** | **4.9%** |

## Net fee and commission income

(Amounts in € thousand)

| | YEAR | | CHANGES | |
|---|---|---|---|---|
| MANAGEMENT RECLASSIFICATION | 2017 | 2016 | AMOUNT | % |
| Management, brokerage and consulting services: | | | | |
| 1. securities trading and order collection | 75,737 | 78,334 | (2,597) | -3.3% |
| 2. custody and administration of securities | (3,613) | (3,162) | (451) | 14.3% |
| 3. placement and management of managed asset products | 155,339 | 141,860 | 13,479 | 9.5% |
| 4. investment advisory services | 48,190 | 35,479 | 12,711 | 35.8% |
| 5. distribution of other products | (416) | (196) | (220) | 112.2% |
| Collection and payment services | 7,087 | 2,736 | 4,351 | 159.0% |
| Holding and management of current/deposit accounts | (463) | 29 | (492) | -1696.6% |
| Other fee expense personal financial advisers | (25,340) | (19,510) | (5,830) | 29.9% |
| Securities lending | 3,915 | 1,916 | 1,999 | 104.3% |
| Other services | 9,647 | 5,395 | 4,252 | 78.8% |
| **Total net fee and commission income** | **270,083** | **242,881** | **27,202** | **11.2%** |

**Net fee and commission income** amounted to €270.1 million, increasing by 11.2% compared to the previous year mainly due to:
- higher commissions for investment advisory services (+35.8%), thanks to the continuous growth of Guided products & services;
- higher commissions for the placement and management of managed asset products (+9.5%), thanks mainly to the increase in assets under management;
- higher commissions for collection and payment services (+159%), mainly related to transactions with credit and debit cards;
- higher commissions for other services (78.8%), relating in particular to the introduction of the annual fee on credit cards;
- higher commissions on securities lending transactions (+104.3%), thanks to the growth in volumes;

partially offset by:
- greater fee and commission expense paid to personal financial advisors (+29.9%);
- lower commissions for securities trading and order collection (-3.3%), due to the general reduction in orders executed compared to the previous year.

The commissions for securities lending include the income component relating to the service provided (received) for the provision of the security both for transactions with guarantee consisting of cash and for transactions with guarantee consisting of other securities. In order to assess the transaction as a whole, the income component recognised within the net interest margin must also be taken into account.

**Net trading, hedging and fair value income** was mainly generated by gains realised from the internalisation of securities and CFDs, financial instruments used for operational hedging of CFDs and the exchange differences on assets and liabilities denominated in currency; it was down €20.8 million (-30.2%) compared to the previous year. In this regard, it is noted that during 2016 gains were recognised in relation to the sale of government securities recorded in the "Available-for-sale financial assets" portfolio and the sale of the investment in Visa Europe Limited, totalling around €20 million, without which the *Net trading, hedging and fair value income* recorded in 2017 would not have changed significantly.

**Net other expenses/income** showed income of €3.8 million, up €6 million compared to the previous year thanks mainly to the sale of UniCredit bonds for a nominal amount of $100 million, which generated a gain on disposal of €4 million (for further details refer to the point “Main balance sheet aggregates - Loans and receivables with banks” in this Consolidated Report on Operations) and to lower costs for settlement agreements and claims.

## Operating costs

(Amounts in € thousand)

| BREAKDOWN OF OPERATING COSTS | YEAR 2017 | YEAR 2016 | CHANGES AMOUNT | CHANGES % |
|---|---|---|---|---|
| Payroll costs | (79,294) | (73,698) | (5,596) | 7.6% |
| Other administrative expenses | (236,945) | (228,119) | (8,826) | 3.9% |
| Recovery of expenses | 93,367 | 85,395 | 7,972 | 9.3% |
| Impairment/write-backs on intangible and tangible assets | (10,369) | (9,952) | (417) | 4.2% |
| **Total operating costs** | **(233,241)** | **(226,374)** | **(6,867)** | **3.0%** |

**Staff expenses** amounted to €79.3 million, up 7.6% compared to 2016.

(Amounts in € thousand)

| PAYROLL COSTS | YEAR 2017 | YEAR 2016 | CHANGES AMOUNT | CHANGES % |
|---|---|---|---|---|
| **1) Employees** | **(77,872)** | **(72,611)** | **(5,261)** | **7.2%** |
| - wages and salaries | (52,734) | (49,621) | (3,113) | 6.3% |
| - social security contributions | (13,927) | (13,061) | (866) | 6.6% |
| - provision for employee severance pay | (912) | (918) | 6 | -0.7% |
| - allocation to employee severance pay provision | (98) | (106) | 8 | -7.5% |
| - payment to supplementary external pension funds: | | | | |
| a) defined contribution | (3,082) | (2,861) | (221) | 7.7% |
| - costs related to share-based payments* | (2,739) | (3,471) | 732 | -21.1% |
| - other employee benefits | (4,380) | (2,573) | (1,807) | 70.2% |
| **2) Other staff** | **-** | **-** | **-** | **n.c.** |
| **3) Directors and statutory auditors** | **(1,291)** | **(1,136)** | **(155)** | **13.6%** |
| **4) Early retirement costs** | **-** | **-** | **-** | **n.c.** |
| **5) Recovery of expenses for employees seconded to other companies** | **232** | **267** | **(35)** | **-13.1%** |
| **6) Recovery of expenses for employees seconded to the company** | **(363)** | **(218)** | **(145)** | **66.5%** |
| **Total staff expenses** | **(79,294)** | **(73,698)** | **(5,596)** | **7.6%** |

(*) Note that item “costs related to share-based payments” includes the costs incurred by the Bank for payments involving financial instruments issued by FinecoBank and financial instruments issued by UniCredit S.p.A..

# Income Statement Figures (Continued)

(Amounts in € thousand)

| OTHER ADMINISTRATIVE EXPENSES AND RECOVERY OF EXPENSES | YEAR 2017 | YEAR 2016 | CHANGES AMOUNT | CHANGES % |
|---|---|---|---|---|
| **1) INDIRECT TAXES AND DUTIES** | **(98,543)** | **(90,568)** | **(7,975)** | **8.8%** |
| **2) MISCELLANEOUS COSTS AND EXPENSES** | | | | |
| **A) Advertising expenses - Marketing and communication** | **(16,041)** | **(16,840)** | **799** | **-4.7%** |
| Mass media communications | (11,420) | (12,340) | 920 | -7.5% |
| Marketing and promotions | (4,488) | (4,251) | (237) | 5.6% |
| Sponsorships | (95) | (182) | 87 | -47.8% |
| Conventions and internal communications | (38) | (67) | 29 | -43.3% |
| **B) Expenses related to credit risk** | **(1,586)** | **(1,403)** | **(183)** | **13.0%** |
| Credit recovery expenses | (457) | (520) | 63 | -12.1% |
| Commercial information and company searches | (1,129) | (883) | (246) | 27.9% |
| **C) Expenses related to personnel** | **(26,167)** | **(28,851)** | **2,684** | **-9.3%** |
| Personnel training | (479) | (320) | (159) | 49.7% |
| Car rental and other staff expenses | (84) | (75) | (9) | 12.0% |
| Personal financial adviser expenses | (25,003) | (27,822) | 2,819 | -10.1% |
| Travel expenses | (534) | (564) | 30 | -5.3% |
| Premises rentals for personnel | (67) | (70) | 3 | -4.3% |
| **D) ICT expenses** | **(32,079)** | **(31,501)** | **(578)** | **1.8%** |
| Lease of ICT equipment and software | (2,467) | (3,017) | 550 | -18.2% |
| Software expenses: lease and maintenance | (8,092) | (6,847) | (1,245) | 18.2% |
| ICT communication systems | (5,723) | (5,078) | (645) | 12.7% |
| ICT services: external personnel/outsourced services | (6,723) | (7,416) | 693 | -9.3% |
| Financial information providers | (9,074) | (9,143) | 69 | -0.8% |
| **E) Consultancies and professional services** | **(4,247)** | **(2,641)** | **(1,606)** | **60.8%** |
| Consultancy on ordinary activities | (2,665) | (1,578) | (1,087) | 68.9% |
| Consultancy for one-off regulatory compliance projects | (86) | - | (86) | n.c. |
| Consultancy for strategy, business development and organisational optimisation | (385) | (216) | (169) | 78.2% |
| Legal expenses | (61) | (25) | (36) | 144.0% |
| Legal disputes | (1,050) | (822) | (228) | 27.7% |
| **F) Real estate expenses** | **(19,373)** | **(19,793)** | **420** | **-2.1%** |
| Real estate services | (720) | (801) | 81 | -10.1% |
| Repair and maintenance of furniture, machinery, and equipment | (200) | (459) | 259 | -56.4% |
| Maintenance of premises | (1,379) | (1,491) | 112 | -7.5% |
| Premises rentals | (14,387) | (14,289) | (98) | 0.7% |
| Cleaning of premises | (509) | (495) | (14) | 2.8% |
| Utilities | (2,178) | (2,258) | 80 | -3.5% |
| **G) Other functioning costs** | **(36,036)** | **(32,796)** | **(3,240)** | **9.9%** |
| Surveillance and security services | (347) | (412) | 65 | -15.8% |
| Postage and transport of documents | (3,396) | (3,428) | 32 | -0.9% |
| Administrative and logistic services | (18,772) | (16,160) | (2,612) | 16.2% |
| Insurance | (3,923) | (3,630) | (293) | 8.1% |
| Printing and stationery | (511) | (794) | 283 | -35.6% |
| Association dues and fees | (8,695) | (8,080) | (615) | 7.6% |
| Other administrative expenses | (392) | (292) | (100) | 34.2% |
| **H) Adjustments of leasehold improvements** | **(2,873)** | **(3,726)** | **853** | **-22.9%** |
| **I) Recovery of costs** | **93,367** | **85,395** | **7,972** | **9.3%** |
| Recovery of ancillary expenses | 334 | 442 | (108) | -24.4% |
| Recovery of taxes | 93,033 | 84,953 | 8,080 | 9.5% |
| **Total other administrative expenses and recovery of expenses** | **(143,578)** | **(142,724)** | **(854)** | **0.6%** |

**Other administrative expenses** net of **Recovery of expenses** came to €143.6 million, up €0.9 million compared to the previous year.

“Other functioning costs” increased due to higher call-centre costs, administrative activities relating to credit cards and the disbursement of mortgages, as did “Consultancies and professional services” and

"ICT expenses", due to higher software and communication system maintenance costs, offset by lower "Expenses related to personnel" which were mainly attributable to lower costs for incentive plans for personal financial advisors, the reduction in "Advertising expenses - Marketing and communication" and lower "Adjustments of leasehold improvements".
Fineco AM Limited's Other administrative expenses amounted to €0.1 million and referred - as operations have not yet begun - to initial operating costs incurred as at December 31, 2017.

**Impairment/write-backs on intangible and tangible assets** increased by €0.4 million, mainly due to the depreciation charged on electronic equipment, office furniture and fittings as a result of higher capital expenditure.

## Profit/(loss) before tax from continuing operations

(Amounts in € thousand)

| | YEAR | | CHANGES | |
|---|---|---|---|---|
| | 2017 | 2016 | AMOUNT | % |
| **Operating profit (loss)** | **353,431** | **332,744** | **20,687** | **6.2%** |
| Net impairment losses on loans and provisions for guarantees and commitments | (5,151) | (4,199) | (952) | 22.7% |
| **Net operating profit (loss)** | **348,280** | **328,545** | **19,735** | **6.0%** |
| Net provisions for risks and charges | (19,025) | (9,981) | (9,044) | 90.6% |
| Integration costs | 408 | (5,503) | 5,911 | n.c. |
| Net income from investments | (13,399) | (6,724) | (6,675) | 99.3% |
| **Profit (loss) before tax from continuing operations** | **316,264** | **306,337** | **9,927** | **3.2%** |

**Net write-downs of loans and provisions for guarantees and commitments** came to €5.2 million, up €1 million compared to the previous year.

**Net provisions for risks and charges** amounted to €19 million, up 90.6% on €10 million recorded as at December 31, 2016., due to higher net provisions for legal disputes and claims. It is noted that in 2017 a number of improvements were made to the process of determining the best possible estimate of the legal expenses associated with litigation involving the Bank up until the date of their expected closure, which led to the recognition of an additional €1.5 million in provisions. Net provisions for risks and charges also include ordinary and additional contributions relating to the Deposit Guarantee Schemes (DGS) for 2017, net of adjustments relating to the 2015 and 2016 contributions, and the contribution to the Solidarity Fund, paid by the Bank for a total of €10.6 million, unchanged compared to the previous year.
In fact, under the new risk-based model for calculating DGS contributions, the quota contribution requested of each member is calculated according to the amount of deposits protected by it as at September 30 of each year, adjusted for the associated risk based on performance indicators, as per article 28, paragraph 2, of the bylaws of the Interbank Deposit Guarantee Fund. The Bank's contribution for 2017, equal to €10.6 million, comprises the ordinary and additional contribution for 2017 (€9.5 million), the contribution to the Solidarity Fund (€2.3 million), net of the adjustment relating to the contributions paid for 2015 and 2016 (-€1.2 million).

**Integration costs** were positive as provisions from prior years were released due to the employee leaving plans not being taken up.

**Net income from investments** referred mainly to the loss from the partial de-recognition and write-down of the residual equity exposure to the Voluntary Scheme established by the Interbank Deposit Guarantee Fund for €12.9 million (€6.7 million write-down as at December 31, 2016), plus the losses arising from the plan to upgrade the technological infrastructure supporting FinecoBank's legacy systems, which involved the replacement and therefore the sale of some storage acquired over prior years and not fully depreciated.
For further details relating to the loss from the de-recognition and write-down of the equity exposure to the Voluntary Scheme, refer to "Main balance sheet aggregates - Financial investments" in this Consolidated Report on Operations and Part A - Accounting Policies of the Notes to the Consolidated Accounts.

**Profit before tax from continuing operations** amounted to €316.3 million, up 3.2% compared to the previous year. Excluding non-recurring items recorded in 2017 and in 2016 as previously described, Net profit before tax from continuing operations increased by 9.8%.
This result was achieved thanks to the growth in **Net interest** (+6.1%) and **Net fee and commission income** (+11.2%), partially offset by higher **Operating costs** (+3%).

# Income Statement Figures (Continued)

## Income tax for the period

(Amounts in € thousand)

| BREAKDOWN OF TAXES FOR THE YEAR | YEAR | | CHANGES | |
|---|---|---|---|---|
| | 2017 | 2016 | AMOUNT | % |
| Current IRES income tax charges | (82,939) | (76,889) | (6,050) | 7.9% |
| Current IRAP corporate tax charges | (18,889) | (18,190) | (699) | 3.8% |
| Adjustment to current tax of prior years | 3,924 | 6,518 | (2,594) | -39.8% |
| **Total current tax** | **(97,904)** | **(88,561)** | **(9,343)** | **10.5%** |
| Change in deferred tax assets | (3,098) | (5,086) | 1,988 | -39.1% |
| Change in deferred tax liabilities | (696) | (400) | (296) | 74.0% |
| **Total deferred tax liabilities** | **(3,794)** | **(5,486)** | **1,692** | **-30.8%** |
| Gain from substitute tax exemption | (446) | (446) | - | - |
| **Income tax for the period** | **(102,144)** | **(94,493)** | **(7,651)** | **8.1%** |

Current income taxes were calculated according to the legal provisions introduced by Legislative Decree no. 38 of February 28, 2005, issued following the incorporation of IAS/IFRS into Italian legislation and of Decree no. 48 of April 1, 2009, which established provisions for the implementation and coordination of tax requirements for IAS Adopter parties. Income tax for the year was driven by an increase in current tax of €3.9 million referring to the recalculation of taxes recognised in 2016 on the gain realised on the sale of the investment in VISA Europe. More specifically, based on the opinion given by the Italian Revenue Agency in early 2018 in response to a specific request submitted by the Bank, the recalculation of the taxes concerned the application of the participation exemption regime (PEX) which provides only 5% of the gain is subject to IRES tax.

Current taxes were determined applying an IRES income tax rate of 27.5% (24% ordinary rate and 3.5% additional rate for lenders) and an IRAP tax rate of 5.57% in Italy. As regards Fineco AM Limited, deferred tax assets were calculated at a rate of 12.5%, according to the currently applicable tax regime.

Law no. 2/2009 introduced the option, through the payment of a substitute tax, to recalculate the tax deductible amounts of goodwill. On the instructions of the Parent Company, in 2008 the Bank realigned the goodwill recognised following the merger of UniCredit Xelion Sim into UniCredit Xelion Banca S.p.A.. The redeemed goodwill may be amortised off the books for an amount not exceeding one ninth for 2010 and one tenth from 2011 onwards. In 2008, the tax benefit expected from the future deductibility of off-the-book amortisation, corresponding to €4 million, was recognised in the accounts. A tenth of this amount will be recognised through profit or loss for each year of the tax deduction of tax-related amortisation of goodwill.

## Net profit/(loss) for the year Net profit/ (loss) attributable to the group

The **Net profit for the year** - which is the same as the net profit attributable to the group as Fineco AM Limited is 100% controlled by the Bank - amounted to €214.1 million, an increase of 1.1% on the previous year. Excluding non-recurring items in 2017 illustrated above, net profit for the year would have been €218.5 million, up 8.9% compared to the profit 2016, also excluding non-recurring items recognised in the year.

# Results of the parent and the subsidiary

## The parent: FinecoBank S.p.A.

The key figures, reclassified balance sheet and income statement are shown in comparison with 2016 and a statement on the results achieved by FinecoBank S.p.A. on individual basis. As stated in the "Introduction to the annual reports and accounts", FinecoBank assumed the role of parent company following the incorporation under Irish law of Fineco AM Limited on October 26, 2017, and is required to present consolidated financial statements prepared in accordance with IFRS 10 as of the financial year ended December 31, 2017. As at December 31, 2017, Fineco AM Limited was not operational, therefore the consolidated and individual results of FinecoBank did not show any significant differences.

### Key figures

#### Operating Structure

| | DATA AS AT | |
|---|---|---|
| | 12.31.2017 | 12.31.2016 |
| No. Employees | 1,119 | 1,086 |
| No. Workers (1) | 1,128 | 1,096 |
| No. personal financial advisors | 2,607 | 2,628 |
| No. Financial shops (2) | 375 | 358 |

(1) Number of human resources: includes permanent employees, workers with atypical contracts, directors, and UniCredit Group employees seconded to FinecoBank, net of FinecoBank employees seconded to the Group.
(2) Number of operating financial shops: financial shops managed by the Bank and financial shops managed by personal financial advisors (Fineco Centers).

#### Profitability, productivity and efficiency ratios

(Amounts in € thousand)

| | DATA AS AT | |
|---|---|---|
| | 12.31.2017 | 12.31.2016 |
| Net interest/Operating income | 45.10% | 44.60% |
| Income from brokerage and other income/Operating income | 54.90% | 55.40% |
| Income from brokerage and other income/Operating costs | 138.19% | 136.82% |
| Cost/income ratio | 39.73% | 41.63% |
| Operating costs/TFA | 0.37% | 0.39% |
| Cost of risk | 33 bp | 43 bp |
| CoR (incentive system) | 40 bp | 59 bp |
| ROE | 39.50% | 43.07% |
| Adjusted ROE | 40.32% | 40.82% |
| Return on assets | 0.96% | 1.01% |
| EVA (calculated on economic capital) | 193,901 | 194,418 |
| EVA (calculated on accounting capital) | 165,293 | 162,974 |
| RARORAC (calculated on economic capital) | 56.61% | 66.33% |
| RARORAC (calculated on accounting capital) | 24.21% | 24.99% |
| ROAC (calculated on economic capital) | 62.56% | 72.28% |
| ROAC (calculated on accounting capital) | 31.39% | 32.49% |
| Total sales to customers/Average resources | 60,418 | 55,659 |
| Total customer sales/(Average employees average PFAs) | 18,014 | 16,240 |

**Key**

Income from brokerage and other income: Net fee and commission income, Net trading, hedging and fair value income and Net other expenses/income.

Cost/income ratio: Operating Costs divided by Operating Income. The Cost/income ratio as at December 31, 2016 was calculated by excluding the non-recurring items arising last year, equal to €15.3 million, from operating income.

Operating costs/TFA: ratio of operating costs to Total Financial Assets. The TFA used for the ratio is the average for the period, calculated as the average between the period-end balance and the balance as at the previous December 31.

Cost of risk: is the ratio of Net write-downs of loans and provisions for guarantees and commitments to Loans and receivables with customers (average of the balance at period end and the balance at December 31 of the previous year).

CoR (incentive system): is the ratio of Net write-downs of loans and Loans and receivables with customers (average of the balance at period end and the balance at December 31 of the previous year). The scope of the exposures excludes positions deriving from bonds and advances to personal financial advisors.

ROE: the denominator used to calculate this ratio is the average book shareholders' equity for the period (excluding dividends and any donations expected to be distributed and the revaluation reserves).

Adjusted ROE: ratio between net profit excluding non-recurring items and the average book shareholders' equity for the period (excluding dividends and any donations expected to be distributed and the revaluation reserves).

Return on assets: ratio of net profit after tax to total assets.

EVA (Economic Value Added): shows the firm's ability to create value; calculated as the difference between net operating profit and the figurative cost of the allocated capital. the latter was calculated using either the greater of the regulatory capital absorbed and the economic capital (in Fineco's case, the economic capital) or the book value of shareholders' equity.

RARORAC (Risk adjusted Return on Risk adjusted Capital): the ratio between EVA (using either the greater of the regulatory capital absorbed and the economic capital or using the book value of shareholders' equity) and Allocated/Absorbed Capital and expresses, in percentage, the capacity to create value for unit of risk taken.

ROAC (Return on Allocated Capital): the ratio of Net Operating Profit and Allocated Capital. Allocated Capital means the greater of internally calculated capital based on shared UniCredit Group models (Economic Capital) and regulatory capital or using the book value of shareholders' equity.

For the calculation of EVA, RARORAC and ROAC indicators as at December 31, 2017, internal capital is that as at September 30, 2017, the latest available provided by the Parent Company.

# Results of the parent and the subsidiary (CONTINUED)

## The parent: FinecoBank S.p.A. (CONTINUED)

### Main balance sheet figures

(Amounts in € thousand)

| | AMOUNTS AS AT | | CHANGES | |
|---|---|---|---|---|
| | 2017 | 2016 | AMOUNT | % |
| Loans receivable with ordinary customers [1] | 1,798,520 | 813,589 | 984,931 | 121.1% |
| Total assets | 22,340,391 | 20,986,376 | 1,354,015 | 6.5% |
| Direct deposits [2] | 19,940,715 | 18,509,497 | 1,431,218 | 7.7% |
| Assets under administration [3] | 47,243,837 | 41,685,609 | 5,558,228 | 13.3% |
| Total customer sales (direct and indirect) | 67,184,552 | 60,195,106 | 6,989,446 | 11.6% |
| Shareholders' equity | 731,990 | 681,299 | 50,691 | 7.4% |

(1) Loans refer solely to loans granted to customers (current account overdrafts, credit cards, personal loans, mortgages and unsecured loans).
(2) Direct deposits include overdrawn current accounts, Supersave repos and the Cash Park deposit account.
(3) Assets under administration consist of products placed online or through the sales networks of FinecoBank.

### Balance Sheet indicators

| | DATA AS AT | |
|---|---|---|
| | 12.31.2017 | 12.31.2016 |
| Loans receivable with ordinary customers/Total assets | 8.05% | 3.88% |
| Loans and receivables with banks/Total assets | 62.12% | 74.98% |
| Financial assets/Total assets | 26.34% | 17.93% |
| Direct sales/Total liabilities and Shareholders' equity | 89.26% | 88.20% |
| Shareholders' equity (including profit)/Total liabilities and Shareholders' equity | 3.28% | 3.25% |
| Ordinary customer loans/Direct deposits | 9.02% | 4.40% |

| | FIGURES AS AT | |
|---|---|---|
| CREDIT QUALITY | 12.31.2017 | 12.31.2016 |
| Impaired loans/Loans receivable with ordinary customers | 0.16% | 0.45% |
| Non-performing loans/Loans receivable with ordinary customers | 0.10% | 0.33% |
| Coverage [1] - Non-performing loans | 91.70% | 86.23% |
| Coverage [1] - Unlikely to pay | 76.53% | 79.07% |
| Coverage [1] - Impaired past-due exposures | 53.69% | 47.08% |
| Coverage [1] - Total impaired loans | 88.27% | 83.64% |

(1) Calculated as the ratio between the amount of impairment losses and gross exposure.

## Own funds and capital ratios

| | DATA AS AT | |
|---|---|---|
| | 12.31.2017 | 12.31.2016 |
| Total own funds (€ thousand) | 484,960 | 438,121 |
| Total risk-weighted assets (€ thousand) | 2,335,013 | 1,909,713 |
| Ratio - Common Equity Tier 1 Capital | 20.77% | 22.94% |
| Ratio - Tier 1 Capital | 20.77% | 22.94% |
| Ratio - Total Own Funds | 20.77% | 22.94% |

| | FIGURES AS AT | |
|---|---|---|
| | 12.31.2017 | 12.31.2016 |
| Tier 1 Capital (€ thousand) | 484,960 | 438,121 |
| Exposure for leverage (€ thousand) | 8,555,862 | 5,302,244 |
| Transitional leverage ratio | 5.67% | 8.26% |

Own funds and capital ratios were determined applying the current Supervisory Regulations, in line with Basel III standards, including transitional adjustments. The figures shown include the profit for the year 2017 that will not be distributed, assuming the conditions established Article 26.2 of the EU Regulation 575/2013 (CRR) are satisfied.
The leverage ratio was calculated in accordance with EU Delegated Regulation 2015/62 of October 10, 2014. As required by Circular No. 285 of the Bank of Italy, Part Two, Chapter 12, Section III Exercise of national discretion, exposures to the UniCredit group companies based in Italy and weighted at 0% pursuant to Article 113, par. 6 of the CRR have not been included in the calculation of total exposure, in accordance with Article 429 (7) of the CRR amended by the Delegated Regulation (EU) 2015/62.

# Results of the parent and the subsidiary (CONTINUED)

## The parent: FinecoBank S.p.A. (CONTINUED)

### Condensed Accounts

**Balance Sheet**

(Amounts in € thousand)

| ASSETS | AMOUNTS AS AT 12.31.2017 | AMOUNTS AS AT 12.31.2016 | CHANGES AMOUNT | CHANGES % |
|---|---|---|---|---|
| Cash and cash balances | 613 | 5 | 608 | n.c. |
| Financial assets held for trading | 10,879 | 6,044 | 4,835 | 80.0% |
| Loans and receivables with banks | 13,877,651 | 15,735,540 | (1,857,889) | -11.8% |
| Loans and receivables with customers | 2,129,219 | 1,016,798 | 1,112,421 | 109.4% |
| Financial investments | 5,874,579 | 3,757,529 | 2,117,050 | 56.3% |
| Hedging instruments | 10,048 | 9,211 | 837 | 9.1% |
| Property, plant and equipment | 15,205 | 14,451 | 754 | 5.2% |
| Goodwill | 89,602 | 89,602 | - | - |
| Other intangible assets | 7,909 | 7,731 | 178 | 2.3% |
| Tax assets | 9,226 | 13,165 | (3,939) | -29.9% |
| Other assets | 315,460 | 336,300 | (20,840) | -6.2% |
| **Total assets** | **22,340,391** | **20,986,376** | **1,354,015** | **6.5%** |

(Amounts in € thousand)

| LIABILITIES AND SHAREHOLDERS' EQUITY | AMOUNTS AS AT 12.31.2017 | AMOUNTS AS AT 12.31.2016 | CHANGES AMOUNT | CHANGES % |
|---|---|---|---|---|
| Deposits from banks | 926,001 | 1,111,106 | (185,105) | -16.7% |
| Deposits from customers | 20,205,036 | 18,801,073 | 1,403,963 | 7.5% |
| Financial liabilities held for trading | 2,617 | 2,626 | (9) | -0.3% |
| Hedging instruments | 8,922 | 11,371 | (2,449) | -21.5% |
| Provisions for risks and charges | 112,414 | 111,756 | 658 | 0.6% |
| Tax liabilities | 10,234 | 10,048 | 186 | 1.9% |
| Other liabilities | 343,177 | 257,097 | 86,080 | 33.5% |
| Shareholders' equity | 731,990 | 681,299 | 50,691 | 7.4% |
| *- capital and reserves* | *526,046* | *476,249* | *49,797* | *10.5%* |
| *- revaluation reserves (available-for-sale financial assets - actuarial gains (losses) for defined benefits plans)* | *(8,340)* | *(6,794)* | *(1,546)* | *22.8%* |
| *- net profit* | *214,284* | *211,844* | *2,440* | *1.2%* |
| **Total liabilities and Shareholders' equity** | **22,340,391** | **20,986,376** | **1,354,015** | **6.5%** |

### Balance Sheet - Quarterly data

(Amounts in € thousand)

| ASSETS | AMOUNTS AS AT 12.31.2017 | 09.30.2017 | 06.30.2017 | 03.31.2017 | 12.31.2016 |
|---|---|---|---|---|---|
| Cash and cash balances | 613 | 1,671 | 2,902 | 615 | 5 |
| Financial assets held for trading | 10,879 | 10,538 | 9,791 | 5,714 | 6,044 |
| Loans and receivables with banks | 13,877,651 | 14,292,534 | 14,827,089 | 15,461,841 | 15,735,540 |
| Loans and receivables with customers | 2,129,219 | 1,715,684 | 1,503,867 | 1,166,180 | 1,016,798 |
| Financial investments | 5,874,579 | 5,418,872 | 4,760,269 | 3,906,456 | 3,757,529 |
| Hedging instruments | 10,048 | 16,172 | 15,417 | 12,410 | 9,211 |
| Property, plant and equipment | 15,205 | 15,197 | 15,396 | 14,379 | 14,451 |
| Goodwill | 89,602 | 89,602 | 89,602 | 89,602 | 89,602 |
| Other intangible assets | 7,909 | 7,712 | 8,025 | 7,702 | 7,731 |
| Tax assets | 9,226 | 14,279 | 9,276 | 14,486 | 13,165 |
| Other assets | 315,460 | 233,188 | 271,613 | 247,202 | 336,300 |
| **Total assets** | **22,340,391** | **21,815,449** | **21,513,247** | **20,926,587** | **20,986,376** |

(Amounts in € thousand)

| LIABILITIES AND SHAREHOLDERS' EQUITY | AMOUNTS AS AT 12.31.2017 | 09.30.2017 | 06.30.2017 | 03.31.2017 | 12.31.2016 |
|---|---|---|---|---|---|
| Deposits from banks | 926,001 | 696,554 | 929,859 | 980,245 | 1,111,106 |
| Deposits from customers | 20,205,036 | 20,007,773 | 19,440,617 | 18,883,826 | 18,801,073 |
| Financial liabilities held for trading | 2,617 | 3,274 | 4,113 | 2,228 | 2,626 |
| Hedging instruments | 8,922 | 18,731 | 16,084 | 16,738 | 11,371 |
| Provisions for risks and charges | 112,414 | 103,666 | 102,123 | 113,060 | 111,756 |
| Tax liabilities | 10,234 | 49,310 | 19,525 | 36,073 | 10,048 |
| Other liabilities | 343,177 | 264,641 | 380,059 | 162,730 | 257,097 |
| Shareholders' equity | 731,990 | 671,500 | 620,867 | 731,687 | 681,299 |
| *- capital and reserves* | *526,046* | *524,273* | *522,475* | *690,077* | *476,249* |
| *- revaluation reserves (available-for-sale financial assets - actuarial gains (losses) for defined benefits plans)* | *(8,340)* | *(3,811)* | *(5,875)* | *(10,084)* | *(6,794)* |
| *- net profit* | *214,284* | *151,038* | *104,267* | *51,694* | *211,844* |
| **Total liabilities and Shareholders' equity** | **22,340,391** | **21,815,449** | **21,513,247** | **20,926,587** | **20,986,376** |

**Financial assets held for trading**, equal to €10.9 million, comprise Bonds, equities, UCIT units and derivatives classified as HFT (held for trading), held in the Bank's portfolio as a result of trading activity, or used for the operational hedging of CFD positions on shares open with customers, and intended to be traded in the short term. The item also includes positive valuation of spot contracts for securities in the HFT portfolio and currencies to be settled in time frames established by market practices ("regular way"), which correspond to negative valuations booked under item 40 "Financial liabilities held for trading", as well as the positive valuation of CFDs on indexes, shares and interest rates, Futures on indexes and interest rates, and CFDs on currencies (forex).

**Loans and receivables with banks** came to €13,878 million, down 11.8% compared to the previous year, mainly as a result of the reimbursement of UniCredit bonds maturing in 2017, partially offset by underwriting a newly-issued bond, the sale of UniCredit bonds in dollars with in-arrears coupon and the lower cash on deposit in reciprocal current accounts with UniCredit as at December 31, 2017. In 2017, a bond issued by UniCredit S.p.A. was underwritten for a total notional amount of €622.5 million with a term of 7 years and indexed to the 3M Euribor plus spread, UniCredit bonds reached maturity and were reimbursed for a nominal €1,680 million and $50 million, and UniCredit bonds for a nominal $100 million were sold, generating a gain on disposal of €4 million. These bonds were sold as their contractual conditions would not have passed the SPPI Test required by IFRS 9, applicable as of January 1, 2018, consequently requiring them to be classified as "financial instruments at FVTPL", and the change in fair value recognised in a specific reserve upon first-time adoption and subsequently recognised through profit or loss.

# Results of the parent and the subsidiary (Continued)

## The parent: FinecoBank S.p.A. (Continued)

**Loans and receivables with customers** came to €2,129 million, up 109.4% compared to the previous year, thanks to the increase in lending. In 2017, €230 million in personal loans and €521 million in mortgages were granted, and €831 million in current account overdrafts was arranged (credit facilities), resulting in an overall 121% aggregate increase in loans to customers[11] compared to December 31, 2016. Impaired loans net of impairment losses totalled €2.9 million (€3.7 million as at December 31, 2016), with a coverage ratio of 88.27%; the ratio between impaired loans and all loans was 0.16% (0.45% as at December 31, 2016).

**Financial investments** came to €5,874 million, up 56.3% compared to the previous year, mainly due to the purchase of government securities as part of the investment policy outlined by the Bank. Financial investments as at December 31, 2017 included the investment in Fineco AM Limited, incorporated in 2017, with the Bank subscribing the entire share capital of €500,000.

**Deposits from banks** totalled €926 million, down 16.7% compared to the previous year, mainly due to the reduction in the amount of repos traded with UniCredit.

**Deposits from customers** came to €20,205 million, up 7.5% compared to the previous year, thanks to the growth in direct deposits.

**Shareholders' equity** amounted to €732 million, up 7.4% compared to December 31, 2016, thanks mainly to the profit for the year 2016 which was not distributed and allocated to reserves from profits and, to a lesser extent, to the increase in the Reserve related to equity-settled plans.

11. Loans refer solely to loans granted to customers (usage of current account overdrafts, credit cards, personal loans, mortgages and unsecured loans).

## Income statement

(Amounts in € thousand)

| | YEAR | | CHANGES | |
|---|---|---|---|---|
| | 2017 | 2016 | AMOUNT | % |
| Net interest | 264,581 | 249,388 | 15,193 | 6.1% |
| Dividends and other income from equity investments | 29 | 6 | 23 | 383.3% |
| Net fee and commission income | 270,083 | 242,881 | 27,202 | 11.2% |
| Net trading, hedging and fair value income | 48,219 | 69,054 | (20,835) | -30.2% |
| Net other expenses/income | 3,806 | (2,211) | 6,017 | n.c. |
| **OPERATING INCOME** | **586,718** | **559,118** | **27,600** | **4.9%** |
| Payroll costs | (79,260) | (73,698) | (5,562) | 7.5% |
| Other administrative expenses | (236,839) | (228,119) | (8,720) | 3.8% |
| Recovery of expenses | 93,369 | 85,395 | 7,974 | 9.3% |
| Impairment/write-backs on intangible and tangible assets | (10,369) | (9,952) | (417) | 4.2% |
| **Operating costs** | **(233,099)** | **(226,374)** | **(6,725)** | **3.0%** |
| **OPERATING PROFIT (LOSS)** | **353,619** | **332,744** | **20,875** | **6.3%** |
| provisions for guarantees and commitments<br>Net impairment losses on loans | (5,151) | (4,199) | (952) | 22.7% |
| **NET OPERATING PROFIT (LOSS)** | **348,468** | **328,545** | **19,923** | **6.1%** |
| Provisions for risks and charges | (19,025) | (9,981) | (9,044) | 90.6% |
| Integration costs | 408 | (5,503) | 5,911 | n.c. |
| Net income from investments | (13,399) | (6,724) | (6,675) | 99.3% |
| **PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | **316,452** | **306,337** | **10,115** | **3.3%** |
| Income tax for the year | (102,168) | (94,493) | (7,675) | 8.1% |
| **NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS** | **214,284** | **211,844** | **2,440** | **1.2%** |
| **NET PROFIT (LOSS) FOR THE YEAR** | **214,284** | **211,844** | **2,440** | **1.2%** |

# Results of the parent and the subsidiary (CONTINUED)

## The parent: FinecoBank S.p.A. (CONTINUED)

### Income statement - Quarterly data

(Amounts in € thousand)

| | 2017 | | | |
|---|---|---|---|---|
| | 4TH QUARTER | 3RD QUARTER | 2ND QUARTER | 1ST QUARTER |
| Net interest | 70,027 | 67,366 | 64,282 | 62,906 |
| Dividends and other income from equity investments | 11 | 6 | 6 | 6 |
| Net fee and commission income | 70,696 | 69,680 | 65,026 | 64,681 |
| Net trading, hedging and fair value income | 11,100 | 11,127 | 12,282 | 13,710 |
| Net other expenses/income | 3,976 | 63 | (764) | 531 |
| **OPERATING INCOME** | **155,810** | **148,242** | **140,832** | **141,834** |
| Payroll costs | (20,567) | (19,769) | (19,708) | (19,216) |
| Other administrative expenses | (59,925) | (53,021) | (61,451) | (62,442) |
| Recovery of expenses | 24,989 | 21,888 | 23,215 | 23,277 |
| Impairment/write-backs on intangible and tangible assets | (2,908) | (2,628) | (2,503) | (2,330) |
| **Operating costs** | **(58,411)** | **(53,530)** | **(60,447)** | **(60,711)** |
| **OPERATING PROFIT (LOSS)** | **97,399** | **94,712** | **80,385** | **81,123** |
| Net impairment losses on loans provisions for guarantees and commitments | (2,082) | (1,528) | (1,001) | (540) |
| **NET OPERATING PROFIT (LOSS)** | **95,317** | **93,184** | **79,384** | **80,583** |
| Provisions for risks and charges | 5,154 | (21,029) | (773) | (2,377) |
| Integration costs | 428 | (7) | 1 | (14) |
| Net income from investments | (11,598) | (1,448) | (361) | 8 |
| **PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | **89,301** | **70,700** | **78,251** | **78,200** |
| Income tax for the period | (26,055) | (23,929) | (25,678) | (26,506) |
| **NET PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | **63,246** | **46,771** | **52,573** | **51,694** |
| **NET PROFIT (LOSS) FOR THE PERIOD** | **63,246** | **46,771** | **52,573** | **51,694** |

(Amounts in € thousand)

| | 2016 | | | |
|---|---|---|---|---|
| | 4TH QUARTER | 3RD QUARTER | 2ND QUARTER | 1ST QUARTER |
| Net interest | 63,412 | 62,527 | 61,200 | 62,249 |
| Dividends and other income from equity investments | 6 | - | - | - |
| Net fee and commission income | 65,786 | 59,274 | 59,660 | 58,161 |
| Net trading, hedging and fair value income | 11,343 | 10,785 | 27,281 | 19,645 |
| Net other expenses/income | (2,176) | (793) | 669 | 89 |
| **OPERATING INCOME** | **138,371** | **131,793** | **148,810** | **140,144** |
| Payroll costs | (16,633) | (19,349) | (19,003) | (18,713) |
| Other administrative expenses | (57,254) | (53,141) | (57,169) | (60,555) |
| Recovery of expenses | 21,311 | 21,747 | 21,107 | 21,230 |
| Impairment/write-backs on intangible and tangible assets | (2,733) | (2,610) | (2,436) | (2,173) |
| **Operating costs** | **(55,309)** | **(53,353)** | **(57,501)** | **(60,211)** |
| **OPERATING PROFIT (LOSS)** | **83,062** | **78,440** | **91,309** | **79,933** |
| Net impairment losses on loans provisions for guarantees and commitments | (678) | (720) | (1,361) | (1,440) |
| **NET OPERATING PROFIT (LOSS)** | **82,384** | **77,720** | **89,948** | **78,493** |
| Provisions for risks and charges | 3,914 | (11,342) | (1,114) | (1,439) |
| Integration costs | (5,493) | (3) | (4) | (3) |
| Net income from investments | (6,724) | - | - | - |
| **PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | **74,081** | **66,375** | **88,830** | **77,051** |
| Income tax for the period | (24,610) | (21,784) | (22,270) | (25,829) |
| **FROM CONTINUING OPERATIONS FROM CONTINUING OPERATIONS** | **49,471** | **44,591** | **66,560** | **51,222** |
| **NET PROFIT (LOSS) FOR THE PERIOD** | **49,471** | **44,591** | **66,560** | **51,222** |

**Operating income** came to €586.7 million, up 4.9% compared to €559.1 million for the first half of 2016; excluding the above-mentioned non-recurring items from operating income as at December 31, 2016, operating income for 2017 would have been up 7.9%.

**Net interest** and **Net fee and commission income** contributed to the increase in the operating income as they rose, respectively, by 6.1% and 11.2%, while **Net trading, hedging and fair value income** fell by 30.2% (-10.2% excluding the aforesaid non-recurring items from the result at December 31, 2016). Furthermore, the Net trading, hedging and fair value income in 2016 benefitted from the gains realised from the sale in that year of government securities recognised in the "Available-for-sale financial assets" portfolio totalling €5 million (€761 thousand in the course of 2017), carried out as part of the measures to mitigate the exposure to interest rate risk and optimise profitability.

The increase in **Net interest** of €15.2 million compared to the previous year was due to the increase in sales volume and the higher penetration of lending, which offset the fall in interest income linked to the decline in market interest rates. The average lending rate for the investment of all deposits amounted to 1.28% compared to 1.39% in 2016.

**Net fee and commission income** increased €27.2 million compared to the previous year, thanks to higher net fee and commission income relative to asset management products (+€13.5 million), investment advisory services (+€12.7 million), collection and payment services (+€4.4 million), other services mainly relating to the introduction of the annual fee on credit cards (+€4.3 million), securities lending (+€2 million), partially offset by higher Fee and commission expense paid to personal financial advisors (-€5.8 million) and lower net fee and commission income for securities trading and order collection (-€2.6 million), as a result of the general fall in orders executed.

**Operating costs** increased by €6.7 million compared to the previous year due to the continuous growth of the operating structure (+€5.6 million for staff expenses, +€0.7 million for other administrative expenses net of recovery of expenses and +€0.4 for Impairment/write-backs on intangible and tangible assets).

**Net profit before tax from continuing operations** amounted to €316.5 million, up 3.3% compared to the previous year. Excluding non-recurring items in 2017[12], net profit before tax from continuing operations would have been €328.9 million, up 9.8% compared to the net profit before tax from continuing operations 2016, also excluding non-recurring items in the year.[13]

**Net profit** amounted to €214.3 million, up 1.2% compared to the previous year. Excluding non-recurring items in 2017 illustrated above, net profit would have been €218.7 million, up 8.9% compared to the 2016, also excluding associated non-recurring items.

12. Losses from de-recognitions and impairment losses on the equity exposure to the Voluntary Scheme of the Interbank Deposit Guarantee Fund totalling -€12.9 million (-€8.6 million net of taxes); release of estimated integration costs incurred by the Bank in the previous year relating to the UniCredit Group's Business Plan, totalling +€0.4 million (+€0.3 million net of taxes); increase in current tax relating to the application of PEX on the gain realised in 2016 from the sale of the investment in VISA Europe Ltd, totalling +€3.9 million.

13. Gain from disposal of the equity investment in Visa Europe Ltd, worth +€15.3 million (+€10.3 million net of tax calculated according to the ordinary tax regime); impairment losses on the equity exposure to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund totalling -€6.7 million (-€4.5 million net of taxes); release of provisions made for the Solidarity Fund and for the residual commitment to the Interbank Deposit Guarantee Fund for the support for Banca Tercas worth €3.7 million (€2.5 million net of taxes); Estimated integration costs paid by the Bank relating to the UniCredit Group's Business Plan, totalling -€5.5 million (-€3.7 million net of taxes); increase in current tax relating to provisions for a number of disputes in prior years that were definitively closed in 2016 for a total of €6.5 million.

# Results of the parent and the subsidiary (Continued)

## The subsidiary: Fineco AM Limited

On July 4, 2017 the Board of Directors of FinecoBank resolved to initiate a project aimed at enabling the Bank to set up a Management Company under Irish law, wholly owned by FinecoBank and dedicated to the management of UCITs, in order to further increase the Bank's competitive capacity by expanding the range of services offered.

The Board of Directors' meeting of FinecoBank held on September 19, 2017 - after approval of the incorporation project by the Board of Directors of UniCredit S.p.A. on August 2, 2017 - resolved to allocate €500,000.00 in share capital to the new company, which was deemed appropriate for the launch of the company, granting the Chief Executive Officer and General Manager the power to increase the share capital or contribute an additional amount if required in the authorisation process or to capitalise the company in line with the development of the project, with the requirement to report to the Board of Directors on this subject as soon as possible.

Fineco AM Limited was incorporated on October 26, 2017 with the subscription by FinecoBank of all the shares (500,000 shares with a nominal value of €1.00 each). As at December 31, 2017, Fineco AM Limited - whose first financial year will end on December 31, 2018 - is not operational and only has cash and equivalents of €466 thousand, deposited on the current account opened at AIB, current payables of €153 thousand, share capital of €500 thousand and a net loss for the year of €164 thousand, caused exclusively by initial operating costs and staff expenses net of tax.

# Related-Party Transactions

In order to ensure continued compliance with applicable legal and regulatory provisions on corporate disclosure on transactions with related parties, during the Board of Directors' Meeting of June 6, 2017 and with the prior positive opinion of the Risk and Related Parties Committee and the Board of Statutory Auditors, the Bank approved the current *"Procedures for managing transactions with subjects in conflict of interest"*.

The aforementioned procedures include the provisions to be complied with when managing:

- Related-Party transactions pursuant to the Consob Regulation adopted by resolution 17221 of March 12, 2010 as amended by resolution 17389 of June 23, 2010;
- Transactions with Associated Persons pursuant to the regulations on *"Risk activities and conflicts of interest with Associated Persons"*, laid down by Bank of Italy Circular 263/2006, Title V, Chapter 5 (*"New regulations for the prudential supervision of banks"*, as amended);
- obligations of Bank Officers pursuant to Article 136 of Legislative Decree 385 of September 1, 1993, *"Consolidated Law on Banking"*.

Given that the Bank belongs to the UniCredit Group, the aforementioned Procedures are also based on the *"UniCredit Global Policy for the management of transactions with persons in conflict of interest"* and the relevant *"Global Operational Instructions"* issued by UniCredit to subsidiaries as part of its management and co-ordination.

Considering the above, the following transactions approved during 2017 are recorded:

1. on February 7th, 2017 the Board of Directors, upon recommendation by the Audit and Related Parties Committee, approved the renewal of the *"Framework Resolution related to the entering into of hedging derivative contracts with the Parent Company or companies in the UniCredit Group"*, an ordinary Significant Transaction at market conditions with validity up until February 7th, 2018, which enables the Bank to enter into hedging derivatives with the Parent Company and with UniCredit Bank AG for commercial assets or liabilities that, for ALM purposes, require interest rate hedging for a ceiling of €1,000 million with the Parent Company and €1,300 million with UniCredit Bank AG. the aforementioned ceilings include the total of underwriting transactions and any early closure transactions;

2. the Board of Directors' meeting of May 9, 2017, upon recommendation by the Risk and Related Parties Committee, approved an ordinary Significant Transaction at market conditions, consisting of the renewal of the *"Framework Agreement - Repurchase Agreements and Term Deposits with the Parent Company"*, (expiring May 9, 2018), concerning *(i)* Repurchase Agreements with the Parent Company for a maximum amount of €6.2 billion, calculated as the sum of the individual transactions in absolute value (either repos or reverse repos) and *(ii)* Term deposits with the Parent Company for an amount of €8.5 billion, calculated as the sum of the individual transactions in absolute value; these amounts were set also to cover transactions with the Parent Company that may be carried out in execution of the "liquidity framework agreement" renewed by resolution of the Board of Directors;

3. on June 6, 2017, the Board of Directors - with the favourable opinion of the Risk and Related Parties Committee - resolved on the early renewal of the *"Framework Agreement for the transactions on current accounts held with UniCredit"*, an ordinary Significant Transaction at market conditions valid up to July 6, 2018, which will enable the Bank to manage its liquidity in euro and in foreign currencies through specific current accounts already held with UniCredit S.p.A. for an amount of less than €1,000 million understood as a single transaction (single payment and single withdrawal);

4. on July 4, 2017, the Board of Directors - with the favourable opinion of the Risk and Related Parties Committee - resolved on the renewal of the *"Framework Resolution - Trading of financial instruments with related-party institutional counterparties"*, an ordinary Significant Transaction at market conditions valid up to July 3, 2018, which enables the Bank to carry out trading in derivatives with related-party institutional counterparties, up to a maximum permitted limit of: (i) €1 billion with UniCredit Bank AG and (ii) €500 million with Mediobanca S.p.A.;

5. on September 19, 2017 the Board of Directors, subject to the positive opinion of the Risk and Related Parties Committee, approved the renewal of the *"Framework resolution - Stock lending activity with institutional clients"*, an ordinary Significant Transaction under market conditions (valid up to September 18, 2018) that enables the Bank to enter into stock lending transactions with institutional counterparties related parties, with a ceiling of: (i) €500 million with UniCredit Bank AG and (ii) €200 million with Mediobanca S.p.A.;

6. on November 7, 2017 the Board of Directors, subject to the positive opinion of the Risk and Related Parties Committee, approved the renewal of the *"Framework resolution - Liquidity investment with the Parent Company"* (formerly "Short/medium-term liquidity investment with the Parent Company", passed on December 6, 2016 and expiring on December 6, 2017), an ordinary Significant Transaction under market conditions (valid up to November 7, 2018) that has as its object the subscription of UniCredit bonds with an estimated ceiling of €2.7 billion, estimated based on the amount of bonds maturing in the subsequent year and the possibility of buying and selling bonds of the Parent in connection with the introduction of the new IFRS9;

# Related-Party Transactions (Continued)

7. finally, on December 5, 2017, the Board of Directors - with the favourable opinion of the Risk and Related Parties Committee - approved the signature of a new life insurance brokerage contract between FinecoBank S.p.A. and Aviva S.p.A. (related party), to replace the agreement originally signed in 2002 by UniCredit Xelion Banca S.p.A., which was replaced by FinecoBank S.p.A. as a result of the merger. The projected figures as at December 31, 2017 (€13.4 million net to be recognised to the Bank) meant that the transaction was categorised as a “Significant Transaction”. The transaction is an “ordinary Significant Transaction at market conditions”.

In relation to the above transactions, the Bank provided a simplified disclosure to CONSOB pursuant to Art. 13, paragraph 3, letter c) of CONSOB Regulation 17221/2010.
In the year ended December 31, 2017, no other transactions were undertaken with related parties that could significantly affect the Bank’s asset situation and results, or atypical and/or unusual transactions, including intercompany and related party transactions. Minor transactions were also carried out with the Parent Company, other Group Companies and/or with related parties in general, both Italian and foreign, within the ordinary course of business and related financial activities of the Bank, at market or standard conditions.

Lastly, with regard to transactions of significant financial and economic relevance, during 2012, the Bank issued 5 bank guarantees in favour of the Italian Revenue Agency upon (guaranteed) request by UniCredit, with indefinite duration (specifically, valid until the Italian Revenue Agency issues a declaration of receipt of the payment by UniCredit at the end of the collection process, in the event of an unfavourable outcome for UniCredit, or until a ruling is issued in favour of the Bank by means of final judgement), for a total amount of €256 million, plus interest accrued and accruing until request for payment from the Italian Revenue Agency. The bank guarantees were issued to secure the obligations assumed by UniCredit in relation to five VAT refund suspension orders issued by the Italian Revenue Agency, and entail the assumption by the Bank of an irrevocable payment commitment on demand, within 30 days and without any exceptions. In 2013, following the settlement of an overall assessment notice issued by the Regional Department of Liguria, for €4.5 million, replaced by another assessment notice issued by the same Department up to the amount settled, a guarantee already issued by the Bank was replaced, with amounts unchanged; this transaction did not change the commitments undertaken according to the forms, procedures and risks already assessed during 2012, which remain unchanged.

## Transactions with Group companies

The Bank is subject to the direction and coordination of UniCredit S.p.A. and, consequently, pursuant to Article 2497 bis paragraph 4 of the Italian Civil Code, the key figures from the last approved financial statements of UniCredit S.p.A. are provided in Part C - Section 20 of the Notes to the Consolidated Accounts.

The following table provides a summary of outstanding assets, liabilities, guarantees and commitments as at December 31, 2017 in relation to Group companies, with the exception of Fineco AM Limited, which is consolidated.

(Amounts in € thousand)

| | ASSETS | LIABILITIES | GUARANTEES AND COMMITMENTS |
|---|---|---|---|
| Transactions with Parent Company UniCredit S.p.A. | 13,838,693 | 797,362 | 2,381,070 |
| Transactions with companies controlled by UniCredit S.p.A. | 653 | 41,105 | - |

For detailed information on transactions with group companies and other related parties see the comments in this regard in Part H of the Notes to the Consolidated Accounts.

The following table provides a summary of outstanding assets, liabilities, guarantees and commitments as at December 31, 2017 with Fineco AM Limited, which is consolidated.

(Amounts in € thousand)

| | ASSETS | LIABILITIES | GUARANTEES AND COMMITMENTS |
|---|---|---|---|
| Transactions with the subsidiary Fineco AM Limited | 46 | - | - |

## Number of treasury shares of the parent company

As at December 31, 2017, the Bank held 60,397 treasury shares, corresponding to 0.01% of the share capital, for an amount of €0.4 million. A total of 1,408,834 shares were purchased in 2015 in relation to the “2014 PFA Plan” stock-granting plan for Fineco personal financial advisors and network managers, and a total of 31,519 were purchased in the first quarter of 2017 in relation to the “2016 PFA Plan” for personal financial advisors identified as “Key personnel” in accordance with what was authorised by the Fineco Ordinary Shareholders’ Meeting on April 12, 2016. In implementation of the “2014 PFA Plan”, during FY2016 and FY2017, Personal Financial Avisors and Network Managers were allocated, respectively, 694,509 shares and 685,447 shares.

The Bank does not hold shares of its Parent Company, even through other companies or third parties.

# Sustainability

## 1. Strategy

Our Bank is characterised by a unique business model that effectively combines powerful digital banking and brokerage platforms with the physical touch of extensive network of financial advisors. The One Stop Solution is a distinctive feature of the Bank that allows us to gain a strong competitive advantage: high-quality products and services are accessible from a single current account, making life easier for our customers. Our business model is constantly focused on excellence and assures our customers a unique customer experience.

Fineco was founded on three main pillars: efficiency, innovation and transparency, which are the keys to our strategy and provide a clear guide to our path of sustainable growth.

**EFFICIENCY**
Strong focus on IT and operations, more flexibility, lower costs

**INNOVATION**
Anticipating new needs by simplifying customers' lives

**TRANSPARENCY**
Fairness and respect for all our stakeholders

Having been built from scratch, our Bank has no legacy; this allows us to be more efficient. Efficiency is a fundamental part of all the Bank's actions: thanks to our proprietary back-end, internal development and automated processes, we can benefit from a lean and efficient cost structure and rapid time-to-market in delivering new products and services.

Innovation is the way to achieve our mission: simplify the lives of customers with easy-to-use services and anticipate their needs, leveraging on increasing digitalization. Fairness and transparency in dealing with customers are part of our DNA. We strongly believe that these key factors are the basis to creating value that is sustainable in the long term for all our stakeholders.

Our work is based on passion, innovation and efficiency and on the quality of our people and services. We strive every day to support people's wellbeing and progress in the local communities where we operate. Continuous engagement with our stakeholders at all levels of the organisation is essential to our decision making processes, which aim to create long-term value. In defining our sustainable growth strategy, we are inspired by the "OECD Guidelines for Multinational Enterprises".

Our daily activities are at all times inspired by five Fundamental Principles, which we share with the UniCredit Group:

### Customers First

High-quality customer experience based on efficiency, innovation and transparency. Customer centrality is fundamental to ensure excellence in all services.

### People Development

Our employees are one of our main competitive advantages. We promote professional growth through dedicated development plans and training programmes designed to improve work-life balance.

### Cooperation & Synergies

We use streamlined processes thanks to a very efficient internal organisation. Close internal collaboration and internalisation of processes are key to achieving service excellence and robust operating efficiency.

### Risk Management

Thanks to a highly diversified business model, we are able to deal with all different market phases, reducing risks but without missing out on opportunities.

### Execution & Discipline

Efficient and well integrated governance enables us to simplify decision-making processes.

## a. Stakeholder Engagement

Our main internal and external stakeholders and dialogue tools are:

| | |
|---|---|
| CUSTOMERS | • Evaluation of customer satisfaction |
| | • Instant feedback |
| | • Evaluation of brand reputation |
| | • *Customer Care* |
| | • *Social Media* |
| EMPLOYEES | • *"People survey"* on working life at Fineco and in the Group |
| | • Annual Performance Management for employees / Talent Management Review for talent / Executive Development Plan for Executives |
| | • Intranet portal |
| | • Orientation session with heads of the banking business, Human Resources and trade union organisations |
| | • Ad-hoc research on specific topics (e.g. *Smart Work*) |
| PERSONAL FINANCIAL ADVISORS | • Dedicated platform |
| | • Specific meetings at different levels *(Area Manager, General Manager, Team, one-to-one)* |
| | • Calls e web conferences |
| | • Workshops and dedicated working groups |
| | • Committees |
| | • Training |
| SHAREHOLDERS | • General Shareholders' Meeting |
| | • Meetings with analysts, investors and *proxy advisors* |
| | • Investor Relations activities |
| REGULATORS | • Meetings |

# 2. Customers

Increasing digitisation in Italy is changing consumer behaviour and expectations in everyday life. This structural trend means that more and more customers choose their main bank based on the quality of the services and products offered and the overall customer experience, rather than based merely on geographical proximity. For this reason, continuous improvement of customer experience is essential for us.
To simplify the lives of our customers, our offer is based on the *One Stop Solution* concept: the customer can access banking, brokerage and investment services through a single current account. However, offering a "single solution" is not enough: Our goal is to offer excellence at all times. Thanks to our deep internal IT culture, we are able to take full advantage of the value derived from knowing our customers, who use our platforms extensively. That is why we are constantly developing products and services that are easy to use, of the highest quality, and able to satisfy all their financial needs.
Communication with our customers is based on constant dialogue through the internal Customer Care service and the network of financial advisors: it is very important for us to listen to customers and ensure that they have suitable ways to submit feedback and complaints. We want to be there for our customers whenever they need help. We handle over 300,000 contacts every month, via telephone, e-mail, chat and SMS, maintaining high service levels. Approximately 93% of contacts are resolved directly in conversation with the customer. Our customers' complaints are always analysed, understood and recorded. We devote a lot of attention to them in order to improve the quality of our services. In 2017 we managed more than 5,000 complaints, equating to 1.7% of the contacts received.
According to research conducted by TNS Infratest in 2016, customer satisfaction reached 96%.

# Sustainability (Continued)

Lest we forget, Fineco was the most recommended bank in the world through word of mouth in 2015, according to The Boston Consulting Group. The research was based on 227,000 interviews covering 650 brands in 8 countries and 7 sectors, identifying the companies that have obtained the most effective word of mouth thanks to their customer experience.

In addition, in 2017, consulting firm KPMG named FinecoBank the leading financial brand in Italy for the quality of its customer experience and sixth overall among major domestic and international players, out of over 140 domestic and international brands, from a sample of over 2,500 customers. The study assigned each company a Customer Experience Excellence Score based on the average of the individual scores achieved in the "Six Pillars" of customer experience: Personalisation, Integrity, Expectations, Resolution, Time and Effort, and Empathy.

## 3. Employees

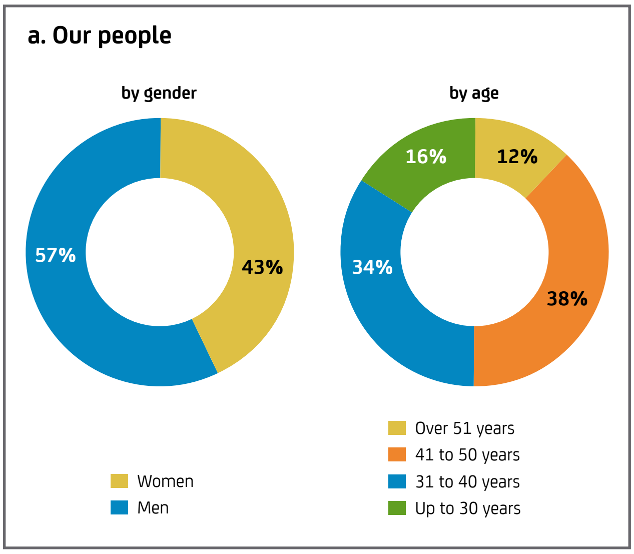
Our employees are the key to our Bank's success and the lifeblood of our business. Our goal is to support them throughout their professional lives by listening to their needs, assessing their skills, implementing training programmes and development plans, and promoting diversity, inclusion and work-life balance.

The commitment of our people is fundamental to the proper functioning of our business; we want our employees to be aware of their contribution and believe in supporting the company in pursuing this path.

The Bank invests in developing a sustainable, trust-based environment.

The *People Survey* - an annual initiative - is the most important communication and listening tool we have, and broad participation demonstrates the involvement of our employees. Based on the 2017 survey, our Engagement Index[14] stands at 81% - a very positive result that is typical of successful companies.

One of our main objectives is to create an environment in which people can create sustainable value for customers through total commitment to the company. Fineco's people have a wide range of technical and managerial skills, abilities and experience, but above all they have an innovative and entrepreneurial mindset. We share a common vision and values and work each day in accordance with the five Fundamental Principles (customer-centricity, personal development, cooperation and synergies, risk management, execution and discipline). Our values are the backbone of our activities and one of our company's main objectives is to translate Values and Strategy into results, through a very pragmatic approach.




The average age of employees at the end of 2017 is 40 years.

We invest in attracting, managing and fostering the development of millennials, which makes Fineco one of the most desired companies to work at. We want to be a company where people can make full use of their own skills, abilities and potential. That is why we believe in developing our employees by investing in them, offering opportunities for rapid growth and to become a specialist in any field.

We contact talented young people through their favourite communication channels: social media. To this end, the Bank has launched a new *social branding initiative called #FinecoPeople*, which offers engaging content on LinkedIn for specific targets; in addition, FinecoBank's pages on Facebook and Twitter are constantly updated with targeted news.

The main entry point for new recruits to FinecoBank is Customer Care, which acts as a "talent incubator" where young people have the opportunity to acquire a deep knowledge of the Bank's products, services and processes. At the end of the hands-on training course (about 2 years), they have the opportunity to further specialise within Customer Care or to undertake a horizontal growth process at Fineco or elsewhere in the Group thanks to an intense internal job rotation program. By the end of 2017, 16% of the total workforce[15] was employed by Customer Care.

14. The Engagement Index is the main indicator of a work environment and is based on six questions related to the level of satisfaction / commitment, pride, loyalty and desire to support the company.

15. Full Time Equivalent (FTE)

## b. Performance management

As part of the UniCredit Group, UniCredit's Competency Model[16] and Global Job Model[17] are also the foundations for the management and development of Fineco employees.

In particular, the UniCredit Competency Model acts as the ground on which all employees are assessed through UniCredit Performance Management (UPM), while Executives and Talented Employees are assessed through the Executive Development Plan (EDP) and the *Talent Management Review (TMR)*.

*UniCredit Performance Management* is the groupwide performance assessment and development process that, once a year, assesses and keeps track of individual and team results against a predefined set of expected performance and behaviours.

The *Talent Management Review (TMR)* is the annual Leadership development process for the Group's talents, whose objective is to promote professional and managerial growth and define individual development plans, while the Executive Development Plan (EDP) is the Leadership development process dedicated to all Executives.

For Executives who have a significant impact on our risk profile (the so-called Identified Personnel), specific performance targets are selected from our "KPI Bluebook" catalogue of key performance indicators.

The *KPI Bluebook* provides the framework for setting and evaluating objectives within the Group's incentive system and provides general guidelines for the assignment of objectives as well as a dashboard of the Group's approved KPIs. According to these guidelines, half of the strategic performance objectives must be based on sustainability factors (e.g. KPIs that incorporate the concept of creating value over time, taking into account different stakeholders) and at least one performance target must be risk-adjusted or risk-related. This approach ensures that the sustainability of all actions is taken into account in leadership assessments and remuneration decisions.

During 2017, we promoted a culture of feedback at all levels, working on transparency in evaluation processes, training and professional development in order to improve motivation and commitment.

The annual review allows us to plan, manage and develop a sustainable leadership pipeline that results in career and succession plans and identifies actions to be taken in support of leadership development. Our learning and development initiatives are designed to meet colleagues' professional growth needs.

## c. Diversity and inclusion

In order to run a sustainable and successful business, we are investing in a highly diversified workforce and an inclusive working environment. The aim is that the talents, skills, experiences and diverse perspectives of our people can be fully expressed in this environment, in order to promote greater innovation, identify and manage risks more effectively, and improve collaboration and workforce flexibility.

We have adopted a comprehensive policy on gender equality since 2013. The policy sets out principles and guidelines to ensure a level playing field in which all employees can realise their full potential, regardless of gender. At December 31, 2017, 43% of FinecoBank employees were women.

Fineco has always stressed the importance of gender pay equality at all levels; we added this KPI to all the performance evaluation sheets of the Significant Identified Personnel in 2017. The analysis carried out in 2017 shows that there is no gender pay gap in Fineco.

We are committed at all times to promoting gender balance, bridging generation gaps in the workplace and supporting people with disabilities. In 2017, we participated in a Diversity Day organised by the Politecnico di Milano - a project that promotes diversity management and the recruitment of people with disabilities and those in protected categories. This event was attended by more than 400 people and was organised in partnership with private companies, universities, public institutions, the media and communities.

## d. Work-life balance

We also promote the wellbeing of our employees and their families by providing welfare and work-life balance support services that meet their needs throughout their lives, delivered through an integrated welfare system that provides, for example, enhanced public health care with specific coverage provided by the Group.

We have also introduced a flexible working project to help improve the work-life balance of our employees and offer them greater flexibility in how they manage their time. In 2017, more than 250 colleagues were able to work remotely from home, which had a positive impact on their level of engagement and performance. This new way of working provides greater empowerment and ability to work towards goals.

To "create a better workplace", we are investing in the renovation of workspaces at our Reggio Emilia office, where we have changed the layout of the offices and common areas to make them more comfortable. This process is also currently underway at the Milan office.

In addition, by installing a BikeMI station outside Fineco's offices (see point 8 - "Local communities and environmental impact" "for more details), we have set ourselves the goal of simplifying how our employees get to work with a new way to reduce pollution and promote a healthy lifestyle.

16. UniCredit's Competency Model describes how all UniCredit people must behave in their day-to-day work.

17. The Global Job Model is a cutting-edge system that describes and assesses describes all roles within UniCredit and assists in the comprehensive, simple and consistent management of people and processes.

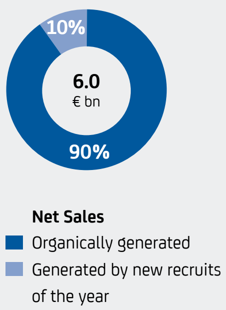
# Sustainability (Continued)

## 4. Personal financial advisors (PFA)

Fineco's network of personal financial advisors is the third largest in Italy by size and assets under management.
It is a strategic business channel for the Bank, both for acquiring new customers and for managing and increasing the loyalty of existing customers.

The focus of the network is based on two parallel tracks: growth and asset quality.

**GROWTH**




Our business model is primarily based on organic growth. We believe that this strategy is sustainable in the long term - also from a cost point of view - and positions the Bank perfectly to deal with possible future pressure on margins and other potential challenges. It is easier for us to pursue this path because we can rely on highly satisfied customers and high quality services. In 2017, out of net sales of €6.0 billion, 90% was generated organically and 10% through new PFAs recruited in the year. For our Bank, recruitment is focused exclusively on improving the quality of the existing network. We mainly look for experienced professionals in the network sector, as well as in traditional banks and private banking. We aim to attract professionals who make the relationship with customers one of the core aspects of their work and who want to test themselves against the market and expand the area they work in. We offer them a comprehensive joining program, aimed at enabling them to analyse their portfolios adequately and consequently to be fast and agile in making transfers and providing flexible and personalised financial support, so as to ensure customer satisfaction and meet individual needs. Fineco also invests in "millennials" - the advisors of tomorrow - by adding them to our commercial network through a recruitment programme that uses social channels, partnerships with universities and traditional channels. To help them develop in their careers, Fineco provides three types of tools: training support from the qualifying exam preparation stage to two years after joining the network; ad-hoc economic support for 24 months; operational support from a local trainer.

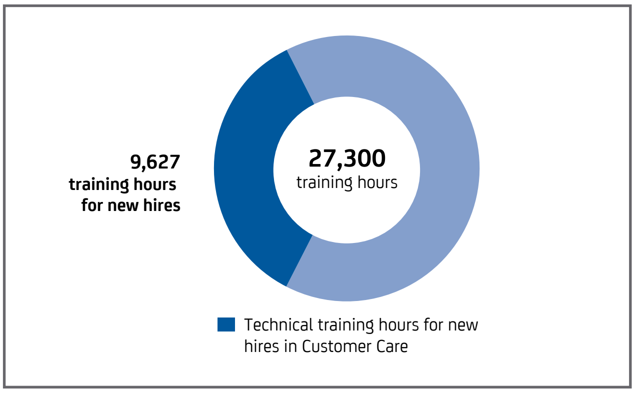
**QUALITY**

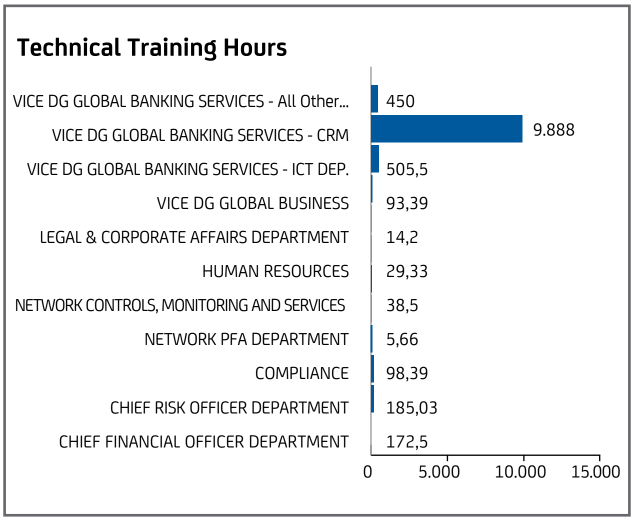
Quality is something that has to be considered from different angles.
First and foremost, there is the quality of the relationship with the customer. It is extremely important that our customers trust their advisors, which is why they aim to provide 360° advisory services; starting from the analysis of the customer's needs, requirements and expectations, advisors follow an approach based on finding solutions, without aiming purely to make sales but to respond to the customer's expectations and build a long-term trusting relationship.
Then there is the quality of the services offered, which is by no mean less important. Thanks to cutting-edge investment solutions, our financial advisors are able to offer portfolios that meet clients' needs and ensure constant monitoring of risk over time, while taking objectives as well as risk tolerance into account.

Growth and quality are also driven by efficiency. To support our advisors in their work, we adopt a cyborg-advisory approach: thanks to a consulting platform that is highly technologically advanced and extremely "modern" in terms of the investment solutions offered, we enable our advisors to manage more and more customers, including remotely. The platform guarantees prompt assistance when needed and the ability to make new proposals or to carry out rebalancing during the life of the relationship, depending on different market scenarios and on any changes in customer needs. In addition, starting from our open architecture platform - which is one of the most comprehensive on the market - investment solutions ("Guided Products & Services") enable advisors to work without conflicts of interest, ensuring that customers get the best solutions for them.
Therefore, taking advantage also of our experience in innovation, we allow our advisors to devote much more time to the management of customer relations, to analyse and investigate their needs and how they can change over time, constantly increasing the quality of the services offered and strengthening the relationship of mutual trust. We have developed *X-Net*, the new *Cyborg Advisory Platform*

dedicated to personal financial advisors, which is the based on Fineco's leading digital retail technology. X-Net is a state-of-the-art, easy-to-use platform that provides Fineco advisors with an integrated solution featuring intuitive and customisable technology. Financial advisors are therefore placed at the heart of a system of advanced digital services, which simplify their work and help to strengthen client relationships. The new *X-net* platform is one of the pillars of the future advice model because it follows the cyborg advisory approach, which - unlike robot advisory - retains the central role of consultants, but with the fundamental assistance of technology. In addition, with the *Web and Mobile Collaboration* service, Fineco customers can easily, quickly, securely and remotely manage the investment suggestions from their financial advisor, from their mobile or PC, making it even easier for personal financial advisors and customers to interact. Thanks to *Web and Mobile Collaboration*, advisors benefit from faster and paperless management of forms, which also gives customers the advantage of a more convenient and flexible service. The service is completely integrated with *X-Net*.

This business model has also made us attractive in the Private customer segment. At the end of 2017, 39% of customer TFA were from customers with over €500 thousand with us: this totalled €25.9 billion, up 16% compared to the end of 2016, confirming the Private segment as the area where the Bank is growing fastest.




## 5. Training

### a. Employees

The Human Resources function plays an important role in helping the Bank to ensure that all employees have or acquire the right skills.
FinecoBank provided 27,300 hours of training in 2017, reaching all employees.
Training is constantly evolving and continually adapted to the challenges our company faces on a daily basis. In recent years, one of our main objectives has been to strengthen our risk and compliance culture in order to make our business sustainable and well protected.
For this reason, 2017 again saw the Bank pay particular attention to mandatory training for all employees, who attended courses both through e-learning - using the Group's *MyLearning* training platform - and where necessary through live seminars.
The main topics covered were: anti-money laundering, anti-corruption, operational risk, privacy and data security, and conflicts of interest. The results were monitored to ensure that all employees learned the subject matter, thereby protecting the Bank from operational, legal and reputational risks.
In addition, to improve business development and enhance employee specialisation, numerous training sessions were organised on technical skills, in collaboration with external suppliers, strategic partners and universities.

In Customer Care, where the average age is the lowest in the Bank, technical training hours for new hires totalled 9,627; in addition, to maintain a high quality of service and customer focus, frequent soft-skills training courses are organised on communication.
In 2017, FinecoBank organised a training course for *CRM Team Leaders* consisting of seminars, coaching and hands-on training. The aim of this initiative was to strengthen their managerial skills and manage their role in a coherent and effective manner.
Since 2017, we have enhanced English learning with the introduction of a course available to all colleagues through an e-learning platform that offers over 5,000 business English segments and virtual classrooms.
Fineco also offers seminars and telephone training courses according to professional requirements. In some cases, one-to-one business English courses have been provided.

## b. Personal financial advisors (PFA)

Personal financial advisors play an increasingly important role as qualified professionals who support their customers in achieving their life goals.

For this reason, training in 2017 focused first of all on awareness of the role of personal financial advisors, concentrating on the development of their skills through sessions that combined both the purely technical point of view and the commercial point of view, including group work and business workshops.

PFA training then focused on ensuring full awareness of the market scenario and its possible evolution, in order to provide the consultant with a genuine competitive advantage. This was also aided by training on the available technological tools, which have been developed in-house by the Bank and are continually being improved and rolled out as a way to increase productivity and the quality of the services offered.

The training sessions were organised and developed in full cooperation with Network management and were aimed at driving up performance and fostering a sense of belonging.

More than 112 thousand hours of training were provided in 2017 (seminars and online, including through webinars):

- more than 82 thousand hours of mandatory training;
- more than 30 thousand hours of business training;

Finally, to drive the growth and development of advisory services, a range of training courses were organised based on the profile of the personal financial advisors and their ability to represent the Bank's strategy. These were high-level training opportunities held both in Italy and abroad (in some cases involving prestigious international business schools) for consultants identified according to a specific internal process, and were held in addition to the ordinary training for all consultants.

The Bank has also invested in young personal financial advisors through a two-year training course allowing them to acquire the technical and soft skills needed in the profession. In particular, 50 courses were provided for a total of over 1,000 training days.

## c. Customers

Training for customers, meanwhile, is aimed at giving them greater knowledge of the financial markets, market movers, available financial products, and the services offered by the Bank as a lead-in to trading and investments. In line with our role as a market leader in trading, we feel a strong sense of responsibility for building greater financial knowledge and investment awareness among our customers and in the wider community. Therefore, we start with basic issues such as placing an order, before moving on to leveraging and short selling. We also look closely at techniques and ways to make the customer increasingly aware of the transactions they carry out in the financial markets: technical and fundamental analysis, analysis of the risk/return ratio of the various trading strategies, and money management.

Particular attention is paid to the most common "emotional errors" in behavioural finance that often lead investors to make irrational decisions, which can have highly detrimental effects on the performance of their portfolios and which can jeopardise long-term planning. These initiatives are aimed at strengthening the financial culture of our clients and focus on the three rules for professional financial planning: have clear objectives and a clear time horizon, diversify your investments, and finally manage emotion in complex market phases to avoid making emotional and irrational choices.

The in-depth discussion of these issues, carried out with the support of external professionals and on an integrated multi-channel platform, forms a genuine learning and growth path that is designed to provide the participant with a structured way approach the markets and to be able to correctly assess the risk/opportunity ratio.

To put it into figures, in 2017 16,000 people participated in Fineco courses across various channels:

- 127 seminars across the country: these are not only held in the main Italian cities, but also rotated each year between new towns and cities to assess the level of interest in this type of initiative;
- 123 webinars, enabling participants to chat directly with experts;
- 163 short videos, which are always available and explain the various subjects in a few minutes.

## 6. Shareholders

Fineco proactively promotes constant and effective communication with investors and the global financial community, emphasising its commitment to transparency. The relationship is managed through periodic meetings and conference calls with institutional shareholders and analysts. The *Investor Relations* team provides accurate, effective and timely communications on the Bank's financial performance, strategy and development, in order to facilitate a fair valuation of the Bank and build its shareholder base in the long term.

In 2017 we engaged with the financial community through:

- 16 days spent attending international conferences,
- 11 days of roadshows around the world,
- one-to-one meetings / group meetings / conference calls,

making contact with 394 institutional investors (+10% y/y). The Bank also held four official conference calls to present quarterly financial results to the market.

In 2017, we launched a proactive dialogue with socially responsible investors (SRI) and sustainability rating agencies, with a view to improving our communication with the market and disclosure of non-financial information. Our goal is to interact and communicate constantly with investors, to discuss not only our financial performance but also our social and environmental results, as results in both areas are closely linked. This is just the beginning of a long-term sustainability journey.

In July 2017, Standard Ethics - an independent agency that assigns sustainability ratings on demand - updated our Standard Ethics Rating to "EE", which is "full investment grade" and assigned to sustainable companies with a low reputational risk profile and strong long-term growth prospects. The Standard Ethics Rating is a sustainability and governance assessment based on the voluntary principles and guidelines of the United Nations, the Organisation for Economic Cooperation and Development (OECD) and the European Union. FinecoBank is also on the *Standard Ethics Italian Banks Index*© and the *Standard Ethics Italian Index* (comprising the largest 40 companies listed on the Borsa italiana FTSE-MIB), and among the leading indexes and benchmarks for environmental, social and governance performance.

In 2017, we also took part in the first Italian Sustainability Day organised by Borsa Italiana to support dialogue between listed companies and financial stakeholders, exploring issues relating to ESG (environmental, social and governance) metrics.

## 7. Regulators

We work constantly with regulators to foster a competitive and sustainable financial market.

Relations with regulatory authorities are based on the principles of integrity, transparency, fairness, professionalism and cooperation, and comply with current legal procedures by using and transmitting complete documents and declarations.

In July 2017, Fineco and UniCredit were the first banks in Italy to be admitted to the optional "collaborative compliance scheme" with the Italian Revenue Agency, following an application filed at the end of 2016. This important outcome was achieved by meeting subjective and objective requirements, which principally included the presence of an effective system to identify, measure, manage and control the tax risk, as required by the law and the Italian Revenue Agency's instructions, which are based largely on the OECD's recommendations on the subject. The system establishes a closer relationship of trust and cooperation with the Italian Revenue Agency, increasing the level of certainty on the most significant tax issues under fully transparent arrangements, through constant and preventive dialogue on situations that could generate tax risks.

## 8. Local communities and environmental impact

Our increased commitment to minimising our environmental impact has been focused on dematerialisation, leveraging innovations such as "remote digital signatures" and "electronic signatures", which significantly reduce paper usage and mailouts.

In particular, we have rolled out new digital ways of signing contracts and orders. These functions are available both to customers operate directly through the Bank's website and to customers who operate through the network of personal financial advisors. As at December 31, 2017, more than 70% of account opening applications sent through personal financial advisors were signed by the customer using electronic signatures, in what has become a completely digital process.

In addition, requests to sign up for certain services such as debit cards, personal loans or new credit facilities using remote digital signatures have reached utilisation rates well above 85% compared to traditional methods, freeing the customer from the need to print and send paper forms to the Bank.

More in general, the creation and delivery of new services for customers takes place through a process shared among all the project structures involved, which are aimed at creating highly automated processes, end-to-end services and digital document flows, to eliminate the need for printing by customers, personal financial advisors and the back office structures involved, effectively reducing emissions and helping the environment.

As regards relations with the local community, Fineco is in constant dialogue with the city of Milan, where it has its headquarters. Most recently, we made a commitment to sustainable mobility in the delivery of Milan's bike-sharing service (BikeMi) by paying for the installation of a bike docking station at the main entrance of the Bank. The aim of the initiative is to help reduce traffic and pollution and promote physical well-being.

We have also provided the municipal and local authorities with access to a large advertising screen outside Fineco headquarters, which can be used not only for marketing, but also for public communications and local emergencies.

# Sustainability (Continued)

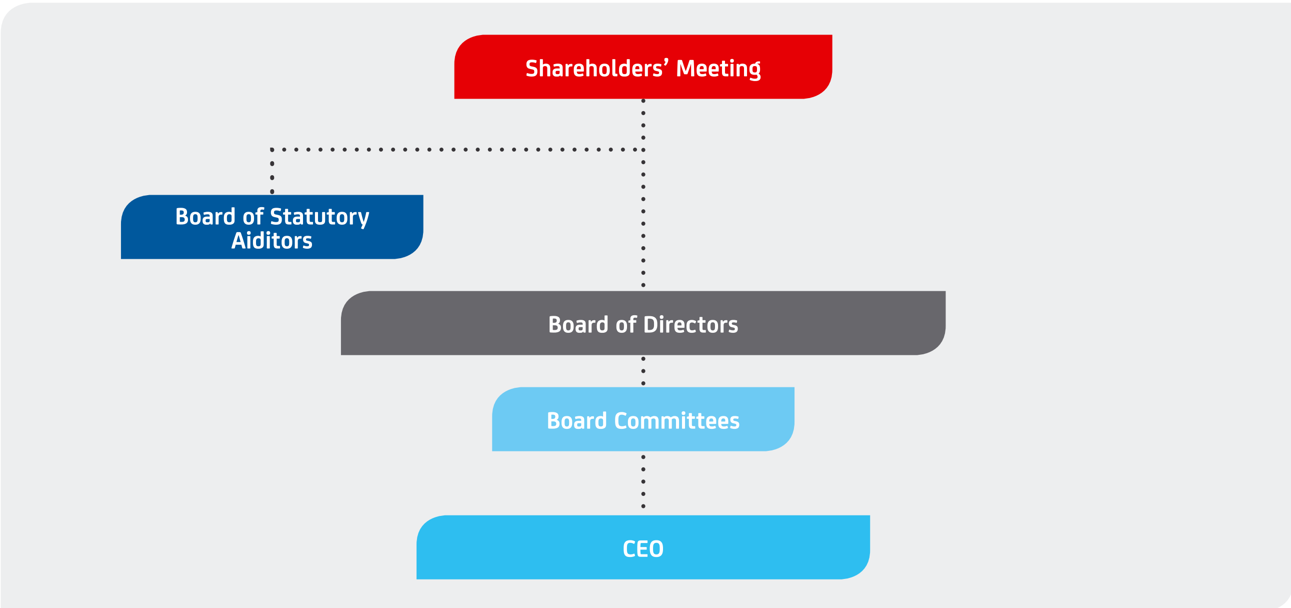
We believe that making workplaces nice, as well as functional, can have a positive impact on employees' everyday activities, helping to improve their daily working lives. That is why we started renovation work at both the Reggio Emilia and Milan offices. The Reggio Emilia office has been completely refurbished and work was completed in 2017: energy consumption is estimated to be down by about 20% thanks to the changes. Renovations are in progress at the Milan office, due to be completed by 2018. New offices, meeting rooms and training rooms have been created with a more modern layout, which will be extended to the rest of the areas as the works continue. The changes brought a 15% reduction in energy consumption at the end of December 2017.

## 9. Corporate Governance

Our Corporate Governance system promotes clear and responsible banking business, contributing to the creation of sustainable long-term value. It is based on principles that are recognised in international best practice as fundamental to good governance: the central role of the Board of Directors, the correct management of conflicts of interest, an efficient internal control system and transparency in relations with the market, with particular reference to reporting corporate management decisions[18].

In particular, we adopt a traditional management and control system based on two bodies appointed by the Shareholders' Meeting: the Board of Directors, which exercises the powers of strategic supervision and management of the Company, and the Board of Statutory Auditors, which performs administrative supervisory functions. This traditional system awards certain mandatory powers to the Shareholders' Meeting and enables appropriate engagement between management and shareholders on fundamental elements of governance, such as: the appointment and dismissal of directors; the appointment of the members of the Board of Statutory Auditors; and the appointment of external auditors to audit the accounts, setting the remuneration it is paid. The Shareholders' Meeting's powers also include approving the financial statements, the distribution of profits, resolutions on remuneration and incentive policies and practices, and the approval of the criteria for determining the compensation to be paid in the event of early termination of the employment relationship or early termination of office.

The Board of Directors is supported by the following internal committees: (i) Risk and Related Parties Committee; (ii) Remuneration Committee; (iii) Appointment Committee. The governance structure of FinecoBank as at December 31, 2017 is illustrated in the following diagram:




18. The Bank's overall corporate governance structure was designed taking into account the laws in force and the recommendations contained in the Corporate Governance Code for Listed Companies approved in July 2015 by the Italian Corporate Governance Committee. The Company must also comply with the requirements of the Supervisory Provisions issued by the Bank of Italy and in particular, with regard to corporate governance, the Supervisory Provisions on Corporate Governance. Under these provisions, FinecoBank - as a listed bank and subject to prudential supervision by the European Central Bank (ECB) - is considered a large or highly operationally complex bank and therefore complies with the provisions applicable to these financial institutions.

## a. Composition of the Board

Our Board of Directors consists of 9 members, including the Chairman and Chief Executive Officer (CEO). It was appointed by the Shareholders' Meeting of April 11, 2017 and its term of office will end at the Shareholders' Meeting called to approve the annual financial statements as at December 31, 2019[19]

The composition of the Board in office is quantitatively and qualitatively consistent with the theoretical profile approved by the Board of Directors[20], including with regard to the limits on the number of offices held. In addition, the Board of Directors meets the requirements of integrity, experience and independence (including suitability) set forth in the articles of association and current regulations.

## b. The Board of Directors in figures

**Executive and non-executive directors**

**1** chief executive officer

**8** non-executive directors

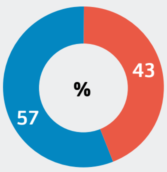
**Independent Directors**

**6** non-executive directors are classed as independent according to Legislative Decree no. 58 of February 24, 1998 ("Consolidated Finance Act") and the Corporate Governance Code for Listed Companies

**1** director is classed as independent according to the Consolidated Finance Act (the Chairman)

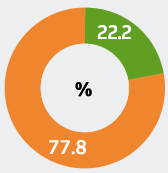
**2** Directors are not independent (the Chief Executive Officer & General Manager and a Non-Executive Director)

**Breakdown by gender**



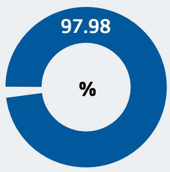

Women
Men

**Average age of the Board of Directors**




<50
50-65

**Average attendance rate at BoD meetings - 2017**




**Areas of competency of the Board of Directors**
**Each director satisfies at least 2 of the required areas of competence:**

**88.8%** banking sector and techniques for the assessment and management of banking-sector risks

**55.5%** corporate management and organisation

**77.7%** reading and understanding the accounts of a financial institution

**66.6%** corporate affairs

**88.8%** financial regulation

**66.6%** global dynamics of the economic / financial system

**77.7%** experience and familiarity with the markets in which FinecoBank operates

**55.5%** international experience and knowledge of international markets related to FinecoBank's activities

**33.3%** knowledge and skills in the field of information technology

19. The members of the Board of Directors (and of the Board of Statutory Auditors) are appointed by the Shareholders' Meeting according to the list voting mechanism. This voting system, which uses lists of competing candidates, ensures that representatives of minority shareholders are appointed.

20. In order to reappoint the administrative body, FinecoBank's Board of Directors had to identify the theoretical profile of the candidates for appointment (including in terms of professional competence and independence, where applicable). To this end, by resolution of February 7, 2017, the Board of Directors approved the document entitled "Assessment of the qualitative and quantitative composition of the Board of Directors of FinecoBank S.p.A." (published on the company website), which contains the results of the preliminary analysis conducted by the Board of Directors on its optimal qualitative/quantitative composition for the purposes of the proper performance of its functions, in specific compliance with the Supervisory Provisions on the subject.

# Sustainability (Continued)

## 10. Risk management and compliance

### a. Risk Management

Our Bank cultivates a solid risk culture based on shared values and consistent behaviour, which is necessary to ensure long-term sustainable profitability.

Fineco's Risk Management function is responsible for identifying, quantifying and mitigating the Bank's risks, using a series of rules, methodologies, policies and strategies in line with the regulatory requirements established by the Supervisory Authorities, while at the same time supporting the Bank's strategic planning.

To ensure maximum risk-return alignment, the Risk Management function adopts a Risk Appetite Framework (RAF) that establishes the level of risk acceptable to the Bank, in line with business objectives. The RAF is geared towards achieving sustainable profitability and steady business growth.

The Risk Management function is therefore responsible for assisting the Board of Directors in defining a risk appetite proposal for the Bank. This proposal comes before and feeds into the annual and multiannual budgeting process, and is in line with the strategy of the Bank and the Group. Aligning the incentive schemes for top management and the network of personal financial advisors with the RAF encourages a conservative approach to risk-taking and the maintenance of adequate risk levels.

In its lending business, the Bank has followed all the fundamental values contained in the "Charter of Integrity and the Code of Conduct of the UniCredit Group", adopted as of May 2012, refraining from transactions involving:

- financing individuals or businesses which have been found guilty of crimes (where known), including economic/financial crimes and crimes against property, or whose shareholders have been found guilty of said crimes;
- financing transactions that are not in line with the guidelines on banking set out in the Global Rules on reputational risk;
- exploiting customers with low knowledge levels or special situations, in order to obtain advantages by applying particularly onerous conditions/interest rates.

In the expansion of our Lending business, we have a strong focus on building a low-risk, high-quality portfolio.

Risk Management is also involved in cultivating and improving the risk culture as part of training activities at all levels. The Bank provides specific Board-induction training for members of the Board of Directors and the Board of Statutory Auditors. Following the appointment of the Board of Directors and the Board of Statutory Auditors, Board-induction sessions were held in 2017 that were attended by the members of the Board of Directors and the Board of Statutory Auditors.

Finally, to reinforce the company's risk culture, the Bank participates in the Group's Risk Academy initiatives, which are planned and managed by the Group's Risk Management function in conjunction with learning and training competence centres. This approach results in deeper and more uniform understanding and knowledge of risk.

### b. Compliance

We proactively monitor and manage compliance risks by carrying on our business in accordance with applicable laws, internal procedures, best practice standards and ethical principles. In doing so, our compliance function regularly defines, develops and monitors the implementation and compliance of our Bank's rules, procedures, methodologies and other compliance standards. Senior management oversees this process and promotes a robust compliance culture. If business is at the heart of our operations, then compliance is the way in which we do business.

Compliance is essential for the legitimacy and sustainability of our business. Respect for all laws, regulations and internal rules in force, both at local and Group level, allows us to prevent illegal behaviour and contribute to the fight against financial crimes. As we are committed to promoting compliance in every employee, it is essential to maintain a close relationship between Compliance and our business units.

We aim to build and implement a shared compliance culture that involves all levels of our organisation. The Group's Global Compliance Culture Policy - approved and adopted in November 2016 - defines the key principles of the compliance culture at Group level and at Fineco, as well as the roles and responsibilities of the internal functions responsible for implementing this policy (e.g. Compliance, Human Capital and Communications).

### Whistleblowing

Reporting any irregularities helps to protect the company and its reputation as well as all our colleagues. We adopted a system in 2011 through which employees and personal financial advisors can report any conduct in violation of the law or the Bank's internal rules. Any employee or financial advisor can use this mechanism if he/she has reasonable suspicion that an illegal act or potentially harmful conduct has occurred or may occur.

If an employee or personal financial advisor has reason to suspect that unacceptable conduct has occurred or is likely to occur, he or she reports this to the Fineco Compliance Officer (local anti-corruption officer), who is responsible for internal reporting systems, who ensures that the procedure is properly conducted.

If the Compliance Officer is hierarchically and functionally subordinate to the person to whom the complaint relates or if he or she is accused of the violation or has a potential interest in the report such as to compromise his or her impartiality and independence of judgement, the employee or financial advisor may contact the Internal Audit department directly as a "reserve function", sending the report to the Head of Fineco's Internal Audit Department.

This process is designed to guarantee the maximum possible confidentiality with regard to the identity of the whistleblower and the accused person and to prevent any possible retaliation or discriminatory behaviour following the report.

The channels made available to employees and personal financial advisors by the Bank to report irregularities - including anonymously - are as follows (some available 24 hours a day):

- by telephone, via the FinecoBank SpeakUp line, where employees and personal financial advisors can leave a voice message, including anonymously
- on the website, via the FinecoBank SpeakUp service, where employees and personal financial advisors can leave a written message, including anonymously
- using the dedicated e-mail address
- by writing to the dedicated postal address.

Information on whistleblowing is also made available to employees and personal financial advisors in a specific section of the company intranet dedicated to the importance of this issue, which specifies in detail how and when to make the report.

## Anti corruption (anti-bribery)

Our approach to prevent bribery and corruption is defined in the Global Anti-Corruption Compliance Policy and the related Operating Instructions adopted by the Bank. The Policy sets minimum standards for anti-corruption compliance and applies to officers and members of strategic, supervisory and executive bodies, employees and PFAs.

The anti-corruption policy aims to:

- establish principles and rules to identify and prevent potential acts of corruption in order to protect the integrity and reputation of the Bank;
- provide general information for employees on the measures taken by the Bank to identify, mitigate and manage corruption risks.

The following mechanisms have been put in place to monitor the effectiveness of the Bank's approach to combating corruption and bribery: escalation procedures for significant and strategic issues, quarterly information requests from management, analysis and testing of the results of activities relating to managing second-level controls, compliance risk assessment processes carried out for each regulatory area of the Compliance Function and internal audit inspections. The final two mechanisms (the compliance risk assessment process and the internal audit inspections) result in actions to be taken to mitigate risks, which must be completed within the established timeframe in order to ensure that the identified risks are managed.

Compliance risks are managed through a dedicated risk assessment process and second-level controls. In the event of non-compliance, specific corrective actions are implemented to mitigate any significant risks.

Our Bank has zero tolerance for corruption, prohibits "facilitation payments" and does not allow any transfer of goods to public officials without approval; political donations are also banned.

## Code of Ethics, Code of Conduct and Charter of Integrity

Our Bank has adopted a Code of Ethics to mitigate operational and reputational risk and promote a widespread culture of internal control. The Code also plays a role in the prevention of offences covered by Legislative Decree 231/2001, as it contains a series of corporate ethical principles that recommend, promote or prohibit specific actions, independent of the contents of regulatory provisions. The Code contains rules aimed at ensuring that everyone's conduct is always guided by criteria of fairness, cooperation, loyalty, transparency and mutual respect.

The Charter of Integrity affirms the principles of ethics and conduct that we recognise as our own.

The Code of Conduct defines the general principles of conduct, with the aim of promoting our culture of compliance and our commitment to sustainability.

All these documents reflect the Bank's ethical values and principles, as well as providing a robust response to stakeholders - employees, suppliers, customers, partners, local communities and institutions - by setting out specific commitments to them in terms of conduct and controls. However, our stakeholders are also asked to respect these values, thus forging a mutual bond.

The documents focus on the values of freedom, excellence, respect, transparency, integrity and fairness; they identify rules of conduct that make up specific and mandatory commitments for each employee, helping to build a corporate culture consistent with our fundamental values. This approach is intended to highlight the key values that underpin our business, as well as the rules by which our values are put into practice on a daily basis.

## 11. IT and Cyber Risk

Our Bank has a strong internal culture of IT and Operations, meaning that efficiency and innovation are part of our DNA. As at December 31, 2017, approximately 19% of our staff work in the IT Department and 24% in the Back Office.

We took a strategic decision since the beginning to manage most of the activities in these areas internally, with the dual objective of achieving better control of processes, reaching high levels of efficiency, and at the same time creating a deep internal know-how that translates into a strong competitive advantage.

The strategy of developing products and services internally allows us to offer customised and distinctive products, reducing risks while at the same time reducing the time needed to resolve any problems, while still deploying well-established technologies that guarantee stability and time-to-market.

The constant effort to offer increasingly complex products and services while maintaining ease-of-use for customers, who can access them through different channels, means we can offer flexibility through customer mobility and a superb customer experience.

The Bank also manages all security services internally. Great attention is paid to the issues of Security, to ensure complete safety for the customer while also maintaining ease-of-use.

### Cyber risk

As a multi-channel bank, managing Cyber Risk is essential for us.

Given the growing digital complexity of the world we live in, information security has become crucial for the banking industry. Cybercrime, online fraud, identity theft and hacktivism are without doubt very hot topics at the moment. Our goal is to protect our customers and our business by ensuring data security. The steps we are taking help to mitigate our exposure to operational and reputational risks, so we devote considerable resources to maintaining the security of our customers' assets and data.

Unfortunately, as the world becomes increasingly connected and moves at an ever faster pace, criminals gain many opportunities to abuse the global financial system. That is why we have invested in training employees to understand their role in the fight against financial crime. We have also put processes in place to deal with these situations quickly and effectively.

Our security strategy follows a multi-tiered approach based on deep customer knowledge, behavioural analysis and risk assessment. This enhances and makes our anti-fraud process more effective, while maintaining a high level of practicality and usability. Knowing our customers better is key to protecting them from financial crime. We must ensure that all information we have about our customers is accurate, up-to-date and complete. This helps our systems for detecting criminal activity to operate more effectively.

As regards information security, we are using a well-established risk-based internal security process, comprising qualified personnel, an advanced technological infrastructure and robust procedures.

Fineco has a strong internal IT culture, which facilitates effective operation of IT security issues. In addition, we also make limited use of external IT partners, which allows us to better understand our applications and systems.

Last but not least, we are working together with Italian law enforcement agencies, national and international security associations and well-known security firms. It should not be forgotten that a systemic approach to cybercrime can be much more effective than a one-to-one fight.

In terms of customer protection, we have adopted clear policies, structures and governance rules that cover all of our processes - from product and service design to training, incentives and customer interaction. Fineco guarantees compliance with data protection regulations by implementing the principles set out in Italian legislation and implementing Directive 95/46/EC through a new Global Privacy Policy. In April 2016, the EU Parliament adopted Regulation (EU) No 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (the General Data Protection Regulation "GDPR"). The new data protection regime - which replaces the current Directive - will enter into force on May 25, 2018 and will be directly applicable in all EU Member States without the need for specific national implementing legislation. Within the activities relating to data protection, the Compliance Risk Assessment ("CRA") and the second-level checks are designed to identify, monitor and manage compliance risks in this regulatory area.

The Bank has adopted a formal and comprehensive Security Incident Response Plan. The plan is detailed and has a number of different levels (governance, organisation, operation and reporting). In detail:

Persons and procedures

- Internal CSIRT (Computer Security Incident Response Team)
- A systematic vulnerability assessment process is in place for systems and applications (internal and external evaluations and penetration tests)
- System security is verified as standard when testing the application

Anti-fraud measures:

- Dedicated anti-fraud team
- Real-time transaction monitoring solution implemented
- Close cooperation with law enforcement agencies, banking association and security partners

## 12. Awards

Fineco received several high-profile awards once again in 2017, confirming the Bank's excellent position on the market. These awards add to others obtained in the past, such as the survey *"What really shapes the Customer Experience"* by the consulting firm BCG, which in 2015 defined Fineco as the most recommended banking brand worldwide through word of mouth.

One particular highlight was the survey "The Customer Experience Era", in which consulting firm KPMG named FinecoBank the leading financial brand in Italy for the quality of its customer experience and sixth overall out of over 140 domestic and global players. This was an important award for Fineco, because it confirms the success of a model that, building on pillars of operational efficiency, transparency and innovation, aims to meet the day-to-day needs of our customers, simplifying banking and making their lives easier.
During the year, the authoritative magazine Institutional Investor also named Alessandro Foti the best CEO in Europe in 2017 for the banking industry, in the Small & Mid-Cap category. The 2017 *"All-Europe Executive Team"* survey involved more than 1,600 institutional investors and about 1,000 analysts, operating in more than 800 companies. The recognition of Institutional Investor strengthens the positioning of Fineco as one of the most important players in the banking and financial industry at the international level.
A number of awards were also received from Global Brands Magazine, a magazine on the world's best brands. In particular, for the fourth consecutive year Fineco was the best Italian company in the Banking & Finance sector, and was named in the *"Best Financial Brand, Italy"* and *"Most Innovative Financial Advisory Brand, Italy"* categories, and for the first time in the *"Best Custom Financial Advisory Brand, Italy"* and *"Most Trusted Financial Advisory Brand, Italy"* categories. Among the various Italian banking and financial sector players nominated for the prize, Fineco stood out for the quality and innovation of its services. It was also ranked among the best companies in the advisory sector, for its advanced and personalised advisory services, and among the brands with the highest levels of trust and customer satisfaction.

**Fineco among international leaders**
An independent research by KPMG placed Fineco sixth in the 2016 ranking of best companies for Customer Experience in Italy. In the banking sector, Fineco is in the absolute first place.

Data source: KPMG Nunwood.

**The best CEO of Europe in Fineco**
In 2017 Alessandro Foti was named best CEO in Europe for the Small & MidCap category of the Banking industry.

Data source: Research conducted by Institutional Investor.

**Global Brands Magazine 2017**
Global Brands Magazine awarded Fineco as:
- Best Financial Brand, Italy
- Most Innovative Financial Advisory Brand, Italy
- Best Custom Financial Advisory Brand, Italy
- Most Trusted Financial Advisory Brand, Italy

Source: Global Brands Magazine, the international website on the world's leading brands.

**The most recommended bank**
Fineco is the world's most recommended bank by word of mouth, according to a survey by the The Boston Consulting Group.

Source: The Boston Consulting Group.

# Other information

## Report on corporate governance and proprietary structures

Pursuant to Article 123-bis, paragraph 3 of Legislative Decree no. 58 of February 24, 1998, the Report on Corporate Governance and Proprietary Structures is available at the "Governance" section of the FinecoBank website (http://www.fineco.it).

## Report on remuneration

Pursuant to Art. 84-quater, paragraph 1, of the Issuers' Regulations implementing the Legislative Decree no. 58 of February 24, 1998, the "Report on remuneration" is available on FinecoBank's website (http://www.fineco.it).

## Research and development

To promote technical solutions in line with the company mission, research and development is focused on developing software that enables the provision of increasingly innovative financial advice together with exclusive own-account trading.

More specifically, the main software applications that have been developed over the years are:

- Advice, a computer program through which the Bank enables its personal financial advisors to offer a professional advisory service to customers who want a personalised financial plan;
- Internaliser, a computer program through which the Bank executes customer orders in its own account relating to trading on financial markets as an alternative counterparty to the market;
- Powerdesk and Webtrading, software that allows the Bank to, respectively, offer customers sophisticated and efficient tools for online trading on the main international financial markets and simple solutions to complement the direct banking services.

The activities were split between developing new applications and strengthening/maintaining existing features to meet customer needs increasingly efficiently.

Lastly, in 2017, activities continued for the development of the X-Net platform (used by personal financial advisors) including the graphic overhaul of the existing tools, improving and enhancing the features of the existing tools, and the release of the "tool for customer needs".

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## Information on the time limits for convening the ordinary Shareholders' Meeting

Pursuant to Article 2364, paragraph 2, of the Italian Civil Code and Art. 6, paragraph 4, of FinecoBank's Articles of Association, the draft Annual Accounts will be submitted to the Ordinary Shareholders' Meeting for approval within 120 days from the end of the financial year.

## Non-financial declaration pursuant to article 6, paragraph 1, Legislative Decree 254 of December 30, 2016

The Bank has availed of the right to waive preparation of the Non-financial declaration pursuant to article 6, paragraph 1, Legislative Decree 254 of December 30, 2016 as both FinecoBank and Fineco AM Limited are included in the Integrated Report prepared by the Parent Company UniCredit S.p.A..

## Certification by the administrative body as to satisfaction of the conditions set out in article 16 of the Markets Regulation adopted by CONSOB resolution no. 20249 of December 28, 2017 (which replaced the regulation implementing Legislative Decree no. 58 of February 24, 1998 on markets, approved by resolution no. 16191 of October 29, 2007 as amended).

In relation to the provisions of art. 2.6.2, paragraph 9, of the Regulation on Markets Organised and Managed by Borsa Italiana S.p.A., it is hereby certified that FinecoBank - subject to management and coordination by UniCredit S.p.A. - meets all the requirements of art. 16 of the Markets Regulation adopted by CONSOB resolution no. 20249 of December 28, 2017, for the listing of shares of the subsidiaries subject to the management and coordination of other companies. In particular, the Bank has fulfilled the disclosure obligations set forth in Art. 2497-bis of the Italian Civil Code, has an independent negotiating capacity in its relations with customers and suppliers, has a Board of Directors consisting mainly of independent directors, and has a Risk and Related Parties Committee composed of independent directors (which is assigned, among other things, the functions that the Corporate Governance Code for Listed Companies assigns to the Internal Control and Risk Management Committee).

# Subsequent events and outlook

## Subsequent Events

The Board of Directors' meeting of FinecoBank held on January 10, 2018 - in consideration of the favourable opinion of the Remuneration Committee which met on January 9, 2018 - approved the following incentive systems that will be submitted to the Shareholders' Meeting called for April 11, 2018:

- 2018 Incentive System for Employees categorised as Key Personnel;
- Long-Term Incentive Plan 2018-2020 for employees;
- 2018 Incentive System for Personal Financial Advisors identified as "Key Personnel";
- Long-Term Incentive Plan 2018-2020 for Personal Financial Advisors identified as "Key Personnel".

On January 23, 2018, the Board of Directors of FinecoBank authorised the issue of an Additional Tier 1 Perp Non Call June 2023 notes issue (5.5 years) (Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes). The financial instrument is a perpetual private placement[21], issued for a total of €200 million and entirely subscribed by UniCredit S.p.A. The coupon for the first 5.5 years has been fixed at 4.82%.
The decision to carry out an intra-group issuance has many advantages: effective cost savings relating, for example, to the underwriting syndicate, and shorter issue times so as not to miss the right moment, maximising the benefits of the transaction.
In view of the particularly favourable market conditions and spread levels, the Bank decided to issue an Additional Tier 1 in order to improve the diversification of its investment portfolio.

Finally, the Board of Directors of FinecoBank on 6 February 2018, taking into account the positive opinion of the Remuneration Committee meeting on 5 February 2018, approved the implementation of the following incentive / loyalty systems:

- 2014-2017 multi-year plan top management for employees. In particular, the assignment of n. 494,493 free ordinary shares to the beneficiaries of the second tranche of the Plan, granted in 2015, and consequently a free share capital increase for a total amount of 163,182.69 euros with immediate effect;
- Incentive Systems 2014, 2015, 2016 and 2017 for employees. In particular, it was approved:
  - the assignment of n. 196,557 free ordinary shares to beneficiaries of the second tranche of the 2014 Incentive Systems and of the first tranche of the 2015 Incentive Systems, and consequently a free share capital increase for a total amount of € 64,863.81 euros effective from March 30, 2018;
  - the assignment of the fourth cash tranche related to the 2016 Incentive Systems and of the third cash tranche related to the 2017 Incentive Systems;
- Incentive Systems 2015, 2016 and 2017 for Financial Advisors identified Staff. In particular, it was approved:
  - the assignment of n. 27.103 phantom shares to the beneficiaries of the 2015 Incentive System;
  - the assignment of cash tranches related to the 2016 and 2017 Incentive Systems;
- 2015-2017 Plan PFA Stock Granting Plan for Financial Advisors. In particular, it was approved:
  - the grant of the shares underlying the plan (as envisaged in the Plan rules, the number of shares to be allocated will be determined on the basis of the arithmetic mean of the official closing price of the shares of each day of listing on the electronic stock market organized and managed by Borsa Italiana SpA, in the period starting from the day before the date of assignment of the shares to the Financial Advisors on the same day of the previous month - both included - meaning by assignment date July 31, 2018);
  - the assignment to the beneficiaries of the first tranche of shares, equal to one third of the total amount.

## Outlook

As described above, in the last quarter of 2017 the Bank set up an Irish-law investment firm (Fineco Asset Management Company), which is a wholly owned subsidiary dedicated to asset management activities. Its objective is to offer its customers a range of UCITs with a strategy focused on the definition of strategic asset allocation and selection of the best international managers and, therefore, diversify and improve the offer of asset management products and further increase the Bank's competitiveness through a vertically integrated business model. Authorisation processes are underway with the competent regulatory authorities, which will presumably allow the company to be presumably operational at the end of the second quarter 2018.
Specifically, the necessary application for authorisation to carry out asset management operations was submitted to the Bank of Ireland on December 5, 2017. Furthermore, to ensure maximum tax compliance on transfer pricing, it was agreed that a bilateral tax ruling would be submitted; the prefiling phase was completed in 2017 and the application is due to be filed by the end of February 2018.

21. Unrated e unlisted.

# Subsequent events and outlook (Continued)

In response to the main trends that are redrawing customer behavioural models, Fineco confirms its focus on offering advanced financial advisory services and the digitalisation of its offerings. This includes the cyborg advisory model, aimed at improving the productivity of the Network and at the same time increasing the quality of the service provided to customers.
FinecoBank remains committed to developing the Credit area, with an increasing focus on personal loans. first- and second-home mortgages, and Credit Lombard.
The Bank will continue to pursue its strategy aimed at further strengthening its competitive positioning in the sector of integrated banking, brokerage and investing services, through the high quality and completeness of the financial services offered, which can be summed up in the concept of "one-stop solution".

# Proposal for the approval of the accounts and allocation of profit for the year

The Bank closed the year 2017 with net profit for the year of €214,283,600.37.

It is proposed to allocate the net profit for the year as follows:
- €45,609.30 to the Legal Reserve, corresponding to 0.02% of the profit for the year, having reached the limit of a fifth of the share capital;
- €40,842,738.49 to the Extraordinary Reserve;
- €173,395,252.58 to Shareholders, corresponding to a dividend of €0.285 for each of the 608,404,395 ordinary shares with a par value of €0.33 euro, constituting the share capital including the 691,050 shares relating to the capital increase approved by the Board of Directors on February 6, 2018.

The dividends not distributed in relation to treasury shares held by the Bank at the record date will be transferred to the Extraordinary reserve.

In conclusion, the Shareholders Meeting is invited to approve:
- the Separate Annual Report and Accounts for the year 2017 in their entirety;
- the allocation of the profit for the year of €214.283.600,37 as follows:
  - €45,609.30 to the Legal Reserve, corresponding to 0.02% of the profit for the year, having reached the limit of a fifth of the share capital;
  - €40,842,738.49 to the Extraordinary Reserve;
  - €173,395,252.58 to Shareholders, corresponding to a dividend of €0.285 for each of the 608,404,395 ordinary shares with a par value of €0.33 euro, constituting the share capital including the 691,050 shares relating to the capital increase approved by the Board of Directors on February 6, 2018.

Payment of the aforesaid dividend amount, in accordance with legal regulations, will take place with the value date of April 25, 2018.

The Board of Directors

Milan, February 6, 2018

FinecoBank S.p.A.
Chief Executive Officer and General Manager
Alessandro Foti

FinecoBank S.p.A.
Chairman
Enrico Cotta Ramusino

# Consolidated Financial Statements

# Consolidated balance sheet

| BALANCE SHEET - ASSETS | 31.12.2017 | 31.12.2016 |
|---|---|---|
| 10. Cash and cash balances | 613,033 | 5,077 |
| 20. Financial assets held for trading | 10,878,797 | 6,044,381 |
| 40. Available-for-sale financial assets | 1,047,689,459 | 1,319,752,248 |
| 50. Held-to-maturity investments | 4,826,390,118 | 2,437,777,200 |
| 60. Loans and receivables with banks | 13,878,117,291 | 15,735,539,575 |
| 70. Loans and receivables with customers | 2,129,219,267 | 1,016,798,235 |
| 80. Hedging derivatives | 458,102 | 552,163 |
| 90. Changes in fair value of | | |
| portfolio hedged items (+/-) | 9,590,000 | 8,658,970 |
| 120. Property, plant and equipment | 15,205,122 | 14,450,553 |
| 130. Intangible assets | 97,511,341 | 97,333,284 |
| of which | | |
| *- goodwill* | *89,601,768* | *89,601,768* |
| 140. Tax assets | 9,249,002 | 13,165,245 |
| *a) current tax assets* | *1,765,333* | *1,570,652* |
| *b) deferred* | *7,483,669* | *11,594,593* |
| *Pursuant to Law 214/2011* | *3,827,710* | *4,179,683* |
| 160. Other assets | 315,413,615 | 336,298,929 |
| **Total assets** | **22,340,335,147** | **20,986,375,860** |

| BALANCE SHEET - LIABILITIES AND SHAREHOLDERS' EQUITY | 31.12.2017 | 31.12.2016 |
|---|---|---|
| 10. Deposits from banks | 926,001,336 | 1,111,106,252 |
| 20. Deposits from customers | 20,205,035,993 | 18,801,073,396 |
| 40. Financial liabilities held for trading | 2,616,556 | 2,625,818 |
| 60. Hedging derivatives | 12,693,848 | 10,913,534 |
| 70. Changes in fair value of | | |
| portfolio hedged items (+/-) | (3,772,231) | 457,488 |
| 80. Tax liabilities | 10,233,645 | 10,048,263 |
| *a) current tax liabilities* | *10,233,645* | *10,048,263* |
| 100. Other liabilities | 338,287,009 | 251,843,036 |
| 110. Provisions for employee severance pay | 4,998,596 | 5,253,109 |
| 120. Provisions for risks and charges | 112,413,921 | 111,755,540 |
| *b) other reserves* | *112,413,921* | *111,755,540* |
| 140. Revaluation reserves | (8,340,274) | (6,794,389) |
| 170. Reserves | 323,932,039 | 278,407,921 |
| 180. Share premium reserve | 1,934,113 | 1,934,113 |
| 190. Share capital | 200,545,404 | 200,245,794 |
| 200. Treasury shares (-) | (365,178) | (4,337,809) |
| 220. Net Profit (Loss) for the year | 214,120,370 | 211,843,794 |
| **Total liabilities and Shareholders' equity** | **22,340,335,147** | **20,986,375,860** |

# Consolidated Income statement

| INCOME STATEMENT | | 2017 | 2016 |
|---|---|---|---|
| 10. | Interest income and similar revenues | 269,746,119 | 253,306,254 |
| 20. | Interest expenses and similar charges | (5,165,001) | (3,918,420) |
| **30.** | **Net interest margin** | **264,581,118** | **249,387,834** |
| 40. | Fee and commission income | 533,314,118 | 472,840,353 |
| 50. | Fee and commission expense | (263,230,897) | (229,959,174) |
| **60.** | **Net fee and commission income** | **270,083,221** | **242,881,179** |
| 70. | Dividend income and similar revenue | 54,580 | 19,805 |
| 80. | Gains (losses) on financial assets and liabilities held for trading | 47,413,142 | 48,590,105 |
| 90. | Fair value adjustments in hedge accounting | 19,195 | 68,969 |
| 100. | Gains (losses) from disposal or repurchase of: | 4,711,990 | 20,382,021 |
| | *a) loans and receivables* | *3,951,003* | *34* |
| | *b) available-for-sale financial assets* | *760,987* | *20,381,987* |
| **120.** | **Operating income** | **586,863,246** | **561,329,913** |
| 130. | Impairment losses/writebacks on: | (18,042,404) | (9,507,033) |
| | *a) loans and receivables* | *(5,157,695)* | *(4,206,369)* |
| | *b) available-for-sale financial assets* | *(12,891,185)* | *(6,724,389)* |
| | *d) other financial assets* | *6,476* | *1,423,725* |
| **140.** | **Net profit from financial activities** | **568,820,842** | **551,822,880** |
| **170.** | **Net profit from financial and insurance activities** | **568,820,842** | **551,822,880** |
| 180. | Administrative costs | (323,524,419) | (314,208,394) |
| | *a) payroll costs* | *(78,886,341)* | *(79,201,124)* |
| | *b) other administrative expenses* | *(244,638,078)* | *(235,007,270)* |
| 190. | Net provisions for risks and charges | (8,458,948) | (783,846) |
| 200. | Net impairment/write-backs on property, plant and equipment | (5,569,276) | (4,853,453) |
| 210. | Net impairment/write-backs on intangible assets | (4,799,956) | (5,098,895) |
| 220. | Other net operating income | 90,304,163 | 79,458,523 |
| **230.** | **Operating costs** | **(252,048,436)** | **(245,486,065)** |
| 270. | Gains (losses) on disposal of investments | (507,788) | 234 |
| **280.** | **Total profit (loss) before tax from continuing operations** | **316,264,618** | **306,337,049** |
| 290. | Tax expense (income) related to profit or loss from continuing operations | (102,144,248) | (94,493,255) |
| **300.** | **Total profit (loss) before tax from continuing operations** | **214,120,370** | **211,843,794** |
| **320.** | **Net Profit (Loss) for the year** | **214,120,370** | **211,843,794** |
| **340.** | **Net profit (loss) for the year attributable to the parent** | **214,120,370** | **211,843,794** |

| | 2017 | 2016 |
|---|---|---|
| Earnings per share (euro) | 0,35 | 0,35 |
| Diluted earnings per share (euro) | 0,35 | 0,35 |

**Note:**
For further information on "Earnings per share" and "Diluted earnings per share" please see Notes to the Consolidated Accounts, Part C - Information on the Income Statement, Section 21.

# Consolidated statement of comprehensive income

| | 2017 | 2016 |
|---|---|---|
| **10. Net Profit (Loss) for the year** | **214,120,370** | **211,843,794** |
| **Other comprehensive income after tax without reclassification through profit or loss** | | |
| 40. Defined benefit plans | (3,473,350) | (1,061,600) |
| **Other comprehensive income after tax with reclassification through profit or loss** | | |
| 100. Available-for-sale financial assets | 1,927,465 | (17,359,033) |
| **130. Total other comprehensive income after tax** | **(1,545,885)** | **(18,420,633)** |
| **140. Comprehensive income (item 10+130)** | **212,574,485** | **193,423,161** |
| **160. Consolidated comprehensive income attributable to the parent** | **212,574,485** | **193,423,161** |

# Statement of changes in consolidated shareholders’ equity

### Statement of Changes in Consolidated Shareholders’ Equity as at 12.31.2017

| | BALANCE AS AT 12.31.2016 | CHANGE IN OPENING BALANCE | BALANCE AS AT 01.01.2017 | ALLOCATION OF PROFIT FROM PREVIOUS YEAR | | CHANGE DURING THE YEAR | | | | | | | | | SHAREHOLDERS' EQUITY GROUP AS AT 12.31.2017 | SHAREHOLDERS' EQUITY MINORITIES AS AT 12.31.2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | SHAREHOLDERS' EQUITY TRANSACTIONS | | | | | | | | | |
| | | | | RESERVES | DIVIDENDS AND OTHER DISTRIBUTIONS | CHANGES IN RESERVES | ISSUES OF NEW SHARES | PURCHASE OF OWN SHARES | DISTRIBUTION OF EXTRAORDINARY DIVIDENDS | CHANGES IN EQUITY INSTRUMENTS | OWN SHARE DERIVATIVES | STOCK OPTIONS | CHANGES IN OWNERSHIP INTERESTS | COMPREHENSIVE INCOME YEAR 2017 | | |
| Share capital: | | | | | | | | | | | | | | | | |
| a) ordinary shares | 200,245,794 | | 200,245,794 | | | | 299,610 | | | | | | | | 200,545,404 | - |
| b) other shares | | | | | | | | | | | | | | | | |
| Share premium reserve | 1,934,113 | | 1,934,113 | | | | | | | | | | | | 1,934,113 | - |
| Reserves: | | | | | | | | | | | | | | | | |
| a) from profits | 250,247,571 | | 250,247,571 | 41,684,057 | | 208,837 | | | | | | (299,610) | | | 291,840,855 | - |
| b) other | 28,160,350 | | 28,160,350 | | | | | | | | | 3,930,834 | | | 32,091,184 | - |
| Revaluation reserves | (6,794,389) | | (6,794,389) | | | | | | | | | | | (1,545,885) | (8,340,274) | - |
| Equity instruments | | | | | | | | | | | | | | | | |
| Treasury shares | (4,337,809) | | (4,337,809) | | | | 4,144,410 | (171,779) | | | | | | | (365,178) | - |
| Profit (loss) for the year | 211,843,794 | | 211,843,794 | (41,684,057) | (170,159,737) | | | | | | | | | 214,120,370 | 214,120,370 | - |
| Shareholders' Equity Group | 681,299,424 | - | 681,299,424 | - | (170,159,737) | 208,837 | 4,444,020 | (171,779) | - | - | - | 3,631,224 | | 212,574,485 | 731,826,474 | - |
| Shareholders' Equity Minorities | - | - | - | - | - | - | - | - | - | - | - | - | | - | - | - |

The amount of the dividend paid to shareholders in 2017, totalling €170,159,736.60, corresponds to €0.28 per share.

The column "Stock options" includes the incentives plans serviced by FinecoBank shares.

The “Changes in reserves” column includes dividends not distributed in relation to any treasury shares held by the Bank at the record date, transferred to the Extraordinary reserve.

# Statement of changes in consolidated shareholders' equity

### Statement of Changes in Consolidated Shareholders' Equity as at 12.31.2016

| | | | | ALLOCATION OF PROFIT FROM PREVIOUS YEAR | | CHANGE DURING THE YEAR | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | SHAREHOLDERS' EQUITY TRANSACTIONS | | | | | | | | | |
| | BALANCE AS AT 12.31.2015 | CHANGE IN OPENING BALANCE | BALANCE AS AT 01.01.2016 | RESERVES | DIVIDENDS AND OTHER DISTRIBUTIONS | CHANGES IN RESERVES | ISSUES OF NEW SHARES | PURCHASE OF OWN SHARES | DISTRIBUTION OF EXTRAORDINARY DIVIDENDS | CHANGES IN EQUITY INSTRUMENTS | OWN SHARE DERIVATIVES | STOCK OPTIONS | CHANGES IN OWNERSHIP INTERESTS | COMPREHENSIVE INCOME YEAR 2016 | SHAREHOLDERS' EQUITY GROUP AS AT 12.31.2016 | SHAREHOLDERS' EQUITY MINORITIES AS AT 12.31.2016 |
| Share capital: | | | | | | | | | | | | | | | | |
| a) ordinary shares | 200,150,192 | | 200,150,192 | | | | 95,602 | | | | | | | | 200,245,794 | - |
| b) other shares | | | | | | | | | | | | | | | | |
| Share premium reserve | 1,934,113 | | 1,934,113 | | | | | | | | | | | | 1,934,113 | - |
| Reserves: | | | | | | | | | | | | | | | | |
| a) from profits | 214,666,022 | | 214,666,022 | 35,676,658 | | 493 | | | | | | (95,602) | | | 250,247,571 | - |
| b) other | 21,923,555 | | 21,923,555 | | | | | | | | | 6,236,795 | | | 28,160,350 | - |
| Revaluation reserves | 11,626,244 | | 11,626,244 | | | | | | | | | | | (18,420,633) | (6,794,389) | - |
| Equity instruments | | | | | | | | | | | | | | | | |
| Treasury shares | (8,555,284) | | (8,555,284) | | | | 4,217,475 | | | | | | | | (4,337,809) | - |
| Profit (loss) for the year | 191,052,791 | | 191,052,791 | (35,676,658) | (155,376,133) | | | | | | | | | 211,843,794 | 211,843,794 | - |
| Shareholders' Equity Group | 632,797,633 | - | 632,797,633 | - | (155,376,133) | 493 | 4,313,077 | - | - | - | - | 6,141,193 | | 193,423,161 | 681,299,424 | - |
| Shareholders' Equity Minorities | - | - | - | - | - | - | - | - | - | - | - | - | | - | - | - |

The amount of the dividend paid to shareholders in 2016, totalling €154,376,133.61, corresponds to €0.255 per share.
The column "Stock options" includes the incentives plans serviced by FinecoBank shares.

# Consolidated statements of cash flows

### Indirect method

| A. OPERATING ACTIVITIES | AMOUNT 2017 | 2016 |
|---|---|---|
| **1. Operations** | **361,011,174** | **293,153,682** |
| - profit (loss) for the year (+/-) | 214,120,370 | 211,843,794 |
| - unrealised gains/losses on financial assets/liabilities held for trading and on assets/liabilities at fair value through profit or loss (-/+) | (1,795,053) | (3,213,058) |
| - capital gains/losses on hedging transactions (-/+) | (19,195) | (68,969) |
| - impairment losses/write-backs (+/-) | 10,052,616 | 9,753,897 |
| - impairment losses/write-backs on tangible and intangible assets (+/-) | 10,369,232 | 9,952,348 |
| - provisions for risks and charges and other income/expenses (+/-) | 22,691,175 | 21,089,047 |
| - premiums earned (net) not collected (-) | - | - |
| - other insurance income/expense not collected (-/+) | - | - |
| - duties, taxes and tax credits not paid (+/-) | 2,728,516 | (5,054,227) |
| - net impairment losses/write-backs on disposal groups classified as held for sale after tax (+/-) | - | - |
| - other adjustments (+/-) | 102,863,513 | 48,850,850 |
| **2. Cash flows from/used by financial assets** | **669,059,301** | **(1,381,160,674)** |
| - financial assets held for trading | (3,192,436) | (567,806) |
| - financial assets at fair value through profit or loss | - | - |
| - available-for-sale financial assets | 246,011,519 | (1,313,292,726) |
| - loans and receivables with banks: on demand | - | - |
| - loans and receivables with banks: other loans and receivables | 1,514,464,034 | (1,827,055) |
| - loans and receivables with customers | (1,108,949,383) | (98,959,296) |
| - other assets | 20,725,567 | 33,486,209 |
| **3. Cash flows from/used by financial liabilities** | **1,295,521,503** | **2,646,815,393** |
| - deposits from banks: on demand | - | - |
| - deposits from banks: other payables | (175,626,539) | (295,219,062) |
| - deposits from customers | 1,404,593,717 | 2,980,283,349 |
| - debt securities in issue | - | - |
| - financial liabilities held for trading | 143,908 | 245,403 |
| - financial liabilities at fair value through profit and loss | - | - |
| - other liabilities | 66,410,417 | (38,494,297) |
| **Net cash flows from/used in operating activities** | **2,325,591,978** | **1,558,808,401** |
| **B. INVESTMENT ACTIVITIES** | | |
| **1. Cash flows from** | | |
| - sales of equity investments | - | - |
| - collected dividends on equity investments | - | - |
| - sales of financial assets held to maturity | - | - |
| - sales of tangible assets | 256,331 | 234 |
| - sales of intangible assets | - | - |
| - sales of subsidiaries and divisions | - | - |
| **2. Cash flows used in** | | |
| - purchases of equity investments | - | - |
| - purchases of held-to-maturity investments | (2,430,228,291) | (291,362,650) |
| - purchases of tangible assets | (7,083,818) | (6,884,309) |
| - purchases of intangible assets | (4,978,013) | (4,618,092) |
| - purchases of subsidiaries and divisions | | |
| **Net cash flows from/used in investing activities** | **(2,442,033,791)** | **(302,864,817)** |
| **C. FUNDING ACTIVITIES** | | |
| - issue/purchase of treasury shares | 3,972,631 | 4,217,475 |
| - issue/purchase of equity instruments | 299,610 | 95,602 |
| - dividends and other distributions | (174,394,920) | (159,688,717) |
| **Net cash flows from/used in financing activities** | **(170,122,679)** | **(155,375,640)** |
| **NET CASH FLOWS FROM/USED DURING THE YEAR** | **(286,564,492)** | **1,100,567,944** |

### RECONCILIATION

| Balance Sheet Items | | |
|---|---|---|
| Cash and cash balances at the beginning of the year | 2,284,274,859 | 1,182,228,221 |
| Net cash flows generated/used during the year | (286,564,492) | 1,100,567,944 |
| Cash and cash balances: effect of changes in exchange rates | (46,714,855) | 1,478,694 |
| Cash and cash balances at the end of the year | 1,950,995,512 | 2,284,274,859 |

**Key:**
(+) generated
(-) used

The term "Cash and cash balances" means cash recorded under item 10 of assets "Cash and cash balances" and the equivalent liquid assets recorded under item 60 of assets "Loans and receivables with banks" (consisting of current accounts and deposits maturing within 3 months) net of the equivalent liquid liabilities recorded under item 10 of liabilities "Deposits from banks" (represented by current accounts and deposits maturing within 3 months).

The item “Cash and cash balances” at the end of the year 2017 consisted of:
- Cash recognised under asset item 10 “Cash and cash balances” in the amount of €613 thousand;
- Current accounts and demand deposits recognised under asset item 60 “Loans and receivables with banks” in the amount of €1,993,139 thousand;
- net of the Current accounts and demand deposits recognised under liability item 10 “Deposits from banks” in the amount of €42,756 thousand.

The item “Cash and cash balances” at the end of the prior year consisted of:
- Cash recognised under asset item 10 “Cash and cash balances” in the amount of €5 thousand;
- Current accounts and demand deposits recognised under asset item 60 “Loans and receivables with banks” in the amount of €2,336,579 thousand;
- net of the Current accounts and demand deposits recognised under liability item 10 “Deposits from banks” in the amount of €52,309 thousand.

# Notes to the Consolidated Accounts

# Part A - Accounting Policies

# Part A - Accounting Policies

## A.1 General

### Section 1 - Statement of Compliance with IFRS

In implementation of Legislative Decree no. 38 of February 28, 2005, these consolidated Accounts of FinecoBank Banca Fineco S.p.A. (hereinafter, FinecoBank or Fineco) have been prepared in accordance with the IAS/IFRS issued by the International Accounting Standards Board (IASB), including the SIC and IFRIC interpretation documents, as endorsed by the European Commission until December 31, 2017, pursuant to EU Regulation 1606/2002 of July 19, 2002 and applicable to financial reports for the periods starting on or after January 1, 2017.

They are an integral part of the Annual Financial Report as required by art. 154-ter, paragraph 1 of the Consolidated Finance Act (TUF, Italian Legislative Decree no. 58 of February 24, 1998).

In its circular 262 of December 22, 2005 as amended, the Bank of Italy laid down the formats for the consolidated financial statements and consolidated notes to the accounts of banks and regulated financial companies that are parents of banking groups, which have been used to prepare these consolidated Accounts.

### Section 2 - Preparation criteria

As mentioned above, these consolidated Accounts have been prepared in accordance with the IFRS endorsed by the European Commission. The following documents have been used to interpret and support the application of IFRS, even though not all of them have been endorsed by the European Commission:

- The Conceptual Framework for Financial Reporting;
- Implementation Guidance, Basis for Conclusions, IFRICs and any other documents prepared by the IASB or International Financial Reporting Interpretations Committee (IFRIC) supplementing the IFRS;
- Interpretation documents on the application of IFRS in Italy prepared by the *Organismo Italiano di Contabilità* (Italian Accounting Body);
- ESMA (European Securities and Markets Authority) and Consob documents on the application of specific IFRS provisions;
- the documents prepared by the Italian Banking Association (ABI).

The consolidated accounts comprise the Consolidated Balance Sheet, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Shareholders' Equity, the Consolidated Cash Flow Statement (compiled using the indirect method), and these Notes to the Consolidated Accounts, together with the Directors' Report on Operations and the Attachments.

Pursuant to Art. 123-bis par. 3 of Consolidated Finance Act, as noted in the " Other Information" section of the Report on Operations, the Report on Corporate Governance and Ownership Structures is available in the "Governance" section of the FinecoBank website.

The figures in the financial statements are provided in euros, and in thousands of euros in the notes to the consolidated accounts, unless otherwise indicated. In accordance with the Bank of Italy Circular 262/2005, items in the Consolidated Balance Sheet, Consolidated Income Statement and Consolidated Statement of Comprehensive Income for which there is no significant information to be disclosed for the reporting period and the previous year, are not provided.

In addition, the tables in the Consolidated Notes that do not have any significant information to be disclosed are not shown either for the reporting period or the previous year.

Any discrepancies between the figures shown in the tables of the consolidated notes to the accounts is solely due to roundings.

FinecoBank presents consolidated financial statements for the first time for the year ended December 31, 2017, as required by law, as it controls Fineco AM Limited, an Irish company incorporated on October 26, 2017, and is an issuer of financial instruments traded on a public market. As these are the first consolidated financial statements, the figures from the previous year's separate financial statements of the Bank are provided for comparative purposes.

With reference to IAS 1, these consolidated financial statements have been prepared on a going concern basis, as there are no doubts or uncertainties as to the ability of the Bank and the subsidiary Fineco AM Limited to continue its business operations and to continue operating for the foreseeable future (at least for the next 12 months).

The measurement criteria adopted are therefore consistent with this assumption and with the principles of accrual based accounting, the relevance and materiality of accounting information, and the prevalence of economic substance over legal form. These criteria have not changed with respect to the previous year.

# Section 3 - Consolidation Procedures and Scope

The following was used in order to prepare the consolidated Accounts at December 31, 2017:
- the draft accounts at December 31, 2017 of FinecoBank S.p.A.;
- the accounting records at December 31, 2017, approved by the competent bodies and functions, of Fineco AM Limited, which will end its first financial year with the preparation of the financial statements as at December 31, 2018, fully consolidated.

1. The accounting value of the investment in the fully-consolidated companies is eliminated - as a result of assuming their assets and liabilities - as a contra-entry to the relevant quota of Shareholders' Equity of the Bank. Assets and liabilities, off-balance sheet transactions, revenues and charges, as well as any profits and losses incurred between companies are fully eliminated, in line with the consolidation methods adopted. A subsidiary's costs and revenues are consolidated starting from the date on which control over it was acquired, coinciding with the date on which the company was incorporated.

### 1. Interests in fully-owned subsidiaries

| COMPANY NAME | HEADQUARTERS: | REGISTERED OFFICE | TYPE OF RELATIONSHIP (1) | OWNERSHIP RELATIONSHIP | | VOTING RIGHTS % (2) |
|---|---|---|---|---|---|---|
| | | | | HELD BY | HOLDING % | |
| 1. Fineco AM Limited | Dublin | Dublin | 1 | FinecoBank | 100% | 100% |

It should be noted that Fineco AM Limited was not operational on December 31, 2017.

Key:
(1) Type of relationship:
1 = majority of voting rights and the ordinary Shareholders' Meeting
2 = dominant influence at Shareholders' Meetings
3 = agreements with other shareholders
4 = other types of control
5 = unified management pursuant to Article 26, paragraph 1, of “Italian legislative decree 87/92”
6 = unified management pursuant to Article 26, paragraph 2, of “Italian legislative decree 87/92”

(2) Availability of votes in the ordinary Shareholders' Meeting, with a distinction between actual and potential votes.

### 2. Valuations and key assumptions to define the scope of consolidation
No data to report.

### 3. Interests in fully-owned subsidiaries with major minority interests

#### *3.1 Minority interests, availability of minority votes and dividends distributed to minority shareholders*
No data to report.

#### *3.2 Significant minority interests: accounting data*
No data to report.

### 4. Significant restrictions
No data to report.

### 5. Other information
No data to report.

# Section 4 - Subsequent events

No significant events have occurred after the balance sheet date that would make it necessary to change any of the information given in the consolidated Accounts as at December 31, 2017.

The Consolidated Financial Statements at December 31, 2017 were approved by the Board of Directors of February 6, 2018, which authorised their publication also pursuant to IAS10.

# Part A - Accounting Policies (CONTINUED)

## Section 5 - Other matters

In 2017, the following accounting standards, amendments and interpretations become effective for reporting periods beginning on or after January 1, 2017:

• Amendments to IAS 7: Disclosure Initiative (EU Regulation 2017/1989);
• Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses (EU Regulation 2017/1990);

Where applicable, these accounting standards, amendments and interpretations had no impact on the consolidated financial position and results of the Bank as at December 31, 2017.
In 2017, moreover, the European Commission approved the following accounting standards, amendments and interpretations become effective and mandatory for reporting periods beginning on or after January 1, 2018:
• Amendments to IFRS 4: Implementation of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (EU Regulation 2017/1988);
• Clarifications on IFRS 15: Income from customer contracts (EU Regulation 2017/1987);
on or after January 1, 2019:
• IFRS 16 - Leasing (EU Regulation 2017/1986).
These standards and amendments have not been applied in advance by the Bank; with particular reference to the new IFRS 16 standard, refer to the information below.

With regard to accounting standards:
• IFRS 15 - Revenue from contracts with customers (EU Regulation 2016/1905);
• IFRS 9 - Financial Instruments (EU Regulation 2016/2067).
approved by the European Commission in 2016, mandatorily applicable to financial statements relating to periods beginning on or after January 1, 2018 and not applied in advance by the Bank, see below.

Finally, as at December 31, 2017, the IASB issued the following accounting standards and interpretations or revisions thereof, whose application is subject to completion of the approval process by the European Union, which is still ongoing:
• IFRS 14 - Rate-regulated activities (January 2014);
• Amendments to IFRS 10 and IAS 28: Sale or transfer of assets to a joint venture or associate (September 2014);
• Amendments to IFRS 2: Classification and measurement of share-based payments (June 2016);
• Annual Improvements to International Financial Reporting Standards, 2014-2016 Cycle (December 2016);
• IFRIC 22 - Interpretation on foreign currency transactions and advance consideration (December 2016);
• Amendments to IAS 40: Transfers of investment property (December 2016);
• IFRS 17 - Insurance contracts (May 2017);
• IFRIC 23 - Uncertainty over Income Tax Treatments (June 2017);
• Amendments to IFRS 9 - Prepayment Features with Negative Compensation (October 2017);
• Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures (October 2017);
• Annual Improvements to International Financial Reporting Standards, 2015-2017 Cycle (December 2017);
The possible effects of the future adoption of these standards, interpretations and amendments, when applicable and relevant for the Bank, are reasonably estimated as not significant; the related analyses, also in relation to pending approvals, are still to be completed.

### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the new accounting standard IFRS 9 Financial Instruments, endorsed by the European Commission on November 22, 2016 through Regulation (EU) 2016/2067, which is mandatorily applicable for annual periods beginning on or after January 1, 2018, that will replace IAS 39 Financial Instruments: recognition and measurement.
The new standard provides for a revised model for classifying and measuring financial assets and liabilities, an "expected loss" based impairment model for loans and a reformed approach to hedge accounting.
As of January 1, 2018, the application of IFRS 9 has impacts both on the Bank's consolidated income and balance sheet and the related information in the financial statements, as well as purely operational impacts.

During 2017, as part of a specific project launched for this purpose, the Bank completed the analysis and recognition of the impacts resulting from the adoption of the standard; the project activities aimed at the necessary implementations (IT architecture, processes and organisational procedures) are in their final phase.
The project - in coordination with a similar project carried out at UniCredit Group level and developed with the involvement of the Bank's reference functions and, most recently, the Board of Directors - was organised through specific work-streams, in particular:
- "Classification and Measurement" work-stream, aimed at reviewing the classification of financial instruments in line with the new criteria of IFRS9;
- "Impairment" work-stream, aimed at developing and implementing models and methodologies for the calculation of impairment losses.

## Classification and measurement of financial assets and liabilities

With regard to IAS 39, the new standard for the classification and measurement of financial assets provided for by IFRS 9 is based on the "business model" and the financial instrument's contractual cash flows (SPPI criterion - Solely Payments of Principal and Interests).

Based on the entity's business model for managing financial instruments, the assets may be classified as:

1. "held to collect" contractual cash flows ("HTC", measured at amortised cost and subject to impairment based on expected losses);
2. "held to collect cash flows and for sale" ("HTCS", measured at fair value through comprehensive income, in an equity reserve, and subject to impairment on the basis of expected losses);
3. "held as part of other business models", e.g. held for trading ("FVTPL", measured at fair value through profit and loss).

It is also possible upon initial recognition to:

- irrevocably designate a financial asset as measured at fair value through profit or loss if this eliminates or significantly reduces a mismatch ("accounting mismatch") that would otherwise arise from a different measurement of assets or liabilities or from the recognition of gains and losses on different bases;
- irrevocably designate particular investments in equity instruments, which would otherwise be measured at fair value through profit or loss, as measured at fair value through other comprehensive income items. Upon disposal, the fair value changes recognised in a specific shareholders' equity reserve are not transferred to profit or loss, but to another shareholders' equity reserve.

With regard to financial liabilities, IFRS 9 changes the accounting of the effects of changes in the so-called "own credit risk", i.e. changes in the value of financial liabilities measured at fair value linked to fluctuations of one's own credit rating. The new standard entails that the aforementioned changes shall be recognised in a Shareholders' equity reserve through other comprehensive income rather than through profit and loss, as provide for by the IAS39 standard, thus eliminating a source of volatility for economic statement results.

With regard to classification and measurement activities, the Bank finalised the identification of the business model applicable to its financial assets and completed the analysis of the existing securities and loans portfolio in order to ascertain whether contractual cash flows enable their classification as HTC assets and amortised cost valuation, where provided for. The analysis was performed both on a contract by contract basis (securities portfolio) and by defining specific clusters based on transaction features (loan portfolio).

At the end of this analysis, the Bank included the following financial assets in the HTC Business model, according to the purposes for which they are held and their expected turnover:

- customer loans (mortgages, personal loans, unsecured loans, revolving credit cards, current account credit lines and, usually, overdraft facilities);
- cash-secured securities loans to "*multi-day leverage"* retail customers;
- credit cards full payment of balance;
- deposits, loans and repurchase agreements;
- other trade receivables;
- proprietary securities for which the Objective pursued by the bank as part of its investment policy is the ownership of financial assets aimed at the collection of contractual cash flows with the aim of achieving medium/long-term profitability.

The "HTCS Business Model" includes own securities for which the Bank pursues - as part of its investment policy - the management of the its current liquidity, the maintenance of a set interest margin or the alignment of the terms of financial assets and liabilities. Sales are an integral part of this business model and, therefore, there is no turnover threshold for portfolio sales, both in terms of frequency and amount. Nevertheless, trading activity is not allowed in order to pursue the business model and any purchases must be effected taking into account a medium to long-term time horizon.

The "Other Business Models" include any assets that do not fall into the aforementioned macro-classes: these are financial assets that are not held as part of a business model whose objective is the holding of assets aimed at the collection of contractual cash flows or whose objective is pursued through both the collection of financial cash flows and the sale of financial activities.

In particular, it involves are the following activities identified by the Bank:

- financial assets connected to internalisation
- financial assets held for trading
- securities withdrawn from customers
- other securities (not included in the above points).

In order to assess whether the features of contractual cash flows support either an amortised cost valuation (HTC) or a fair value valuation with an impact on total profitability (HTCS), i.e. whether the contractual terms of financial assets provide for, at given dates, financial flows consisting solely of principal and interest payments on the outstanding capital share (SPPI criterion - Solely Payments of Principal and Interests), systems and processes have been developed to analyse the debt securities and outstanding loans portfolio (SPPI test), in compliance and in line with the parent company UniCredit S.p.A.

The tests were carried out on the securities and loans portfolio in existence at the date of the initial implementation of the accounting principle with reference to the date of their initial recognition ("inception date") and shall be carried out when a security is purchased, a new loan is marketed or the standard conditions of an existing product are changed, or when a loan with contractual conditions other than those stated in standard term sheets is issued. A potential negative result of the SPPI test ("not passed") results in the fair value measurement of the asset, with consequent different treatment compared to the standard amortised cost treatment and hedge accounting.

It should be noted that the Bank did not set minimum or false thresholds considering any clause contractual cash flow characteristics that does not comply with the SPPI requirement as a trigger that result in the test's failure, taking into account the nature of its loans and securities portfolio, consisting of plain vanilla financial assets.

# Part A - Accounting Policies (Continued)

With regard to 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). On first-time application of the standard, the Bank intends to exercise this option for equity instruments consisting of interests in UniCredit Business Integrated Solutions S.C.p.A., recognised in these financial statements for a total amount of €172, and in Consorzio Patti Chiari, for an amount of €5,000.

With regard to financial liabilities, no differences were recorded in terms of classification and measurement compared with IAS 39.

## Impairment

With regard to the credit impairment model based on the "expected loss" ("Expected Credit Loss" or "ECL") under the new standard, the IASB developed this method in order to ensure - as required by the G20 following the financial crisis - early recognition of credit losses compared to IAS 39, which is based on actual evidence that an impairment has occurred ("incurred loss"). The new impairment accounting model is also based on the concept of "lifetime" expected loss, which can also lead to the anticipation of impairment losses and their structural increase.
In this regard, for impaired assets according to IAS 39, no significant impacts are envisaged for the Bank because there are no significant conceptual differences between the incurred losses method, according to IAS 39, and the ECL method, required by IFRS 9, as the same indicators for recognition of the loss and for classification as non-performing loans requited by IAS 39 shall continue to apply. However, there are significant differences in the calculation of the ECL of receivables that experienced a significant increase in the credit risk since initial recognition (receivables classified as in "Stage 2"); however, given the amount of these exposures in the Bank's consolidated financial statements, no material impacts are expected.
The standard states that the impairment model applies to all financial instruments, i.e. financial assets recognised at amortised cost, those recognised at fair value through other comprehensive income, rental receivables and trade receivables. For the Bank, the impairment model introduced by IFRS 9 will be applied to a perimeter that will include owned securities issued by Governments and exposures towards the UniCredit Group.

The calculation model for the expected impairment loss was developed considering default exposure, the probability of default of the counterparty and its repayment capability. The valuation time-horizon differs depending on the instrument's classification: 12 months for Stage 1 receivables and for the entire term of the receivable for instruments at Stage 2 and 3. Another novelty introduced by IFRS9 for the valuation of expected losses consists in considering also future economic estimates (prospective data) available without unreasonable cost or effort, in addition to existing historical information.

The classification into the three "Stages" envisaged is carried out considering the importance of the changes in credit risk ratings compared to when they were first recognised. "Stage 1" includes exposures that did not experience a significant increase in credit risk or whose increase is deemed as being low. This Stage applies to financial instruments included in the Bank's proprietary portfolio with an "Investment Grade" rating. "Stage 2" includes exposures for which, at the valuation date, the credit risk increased significantly compared to the time they were first recognised. Finally, "Stage 3" includes exposures the show signs of objective deterioration (non-performing loans).
In defining the scope of impaired exposures, the default definition currently applied within the UniCredit Group has been adopted, which already incorporates some key principles of the "Guidelines on the application of the definition of default" issued by the EBA, such as the assessment of impairment and/or default on the basis of a given debtor's overall exposure (so-called "debtor approach ").

The methodological approach applied was agreed with the Parent Company UniCredit, as were the central assessments of the credit parameters of institutional counterparties.

At the date of first application, the key expected impacts deriving from the application of the new impairment model based on expected losses relate to unimpaired assets, with an increase in write-downs particularly for financial instruments in the Bank's own portfolio.

## Hedge accounting

With regard to hedges, the requirements of the new standard have been amended to make them more suitable to reflect companies' risk management policies; the new hedge accounting model extends the types of transactions eligible for hedge accounting, changes to the effectiveness test and different methods of accounting for forward contracts and options in a hedge accounting relationship. With regard to hedge accounting, the Bank plans to exercise the option established in paragraph 6.1.3 of IFRS 9 and, therefore, it will continue to apply IAS 39 for fair value hedges of interest rate risk on financial assets and liabilities, until the IASB has completed the accounting rules on hedge accounting.
In fact, the Bank only has these types of hedges in place and, at present, does not envisage other types of hedging.

## Final remarks

On the date of first application of IFRS 9, negative impacts resulting from the implementation of the new impairment model based on expected losses are anticipated, which - as mentioned above - will determine an increase in write-downs on unimpaired assets, particularly in the item "Loans and receivables with banks" for the portion consisting of debt securities issued by the Parent Company UniCredit and subscribed by the Bank, which is are estimated to range - net of taxes - between 55 and 65 basis points of the Bank's CET1 at December 31, 2017. Positive impacts resulting from the classification and fair value measurement of a debt security issued by UniCredit, subscribed by the Bank in prior years, with a coupon in arrears, hedged from interest rate risk through a derivative entered into with the same Parent Company, whose contractual features do not allow it to pass the SPPI Test; these impacts are estimated, gross of the tax effect, at approximately 40 basis points of the Bank's CET1 at December 31, 2017.
The effects on the carrying amount of financial instruments and impairment losses linked to the transition to IFRS9 will be recognised on January 1, 2018, as a contra-entry in Shareholders' equity.

For the sake of completeness, it should also be noted that UniCredit shares valued at fair value in IFRS 9 transition were restructured on January 2, 2018, including the contractual features of the derivative used up to that date to hedge the interest rate risk. The Bank therefore derecognised the old financial instrument recognised at December 31, 2017 and recognise the new one, whose characteristics support compliance with the SPPI Test, with consequent classification of the instrument to assets measured at amortised cost.

As a result of the implementation of IFRS9, a review of prudential rules (CRD/CRR) for the calculation of capital absorption is anticipated. In this regard, EU Regulation 2017/2395 issued on December 27, 2017 provides, as an option, that financial institutions may adopt a transition regime in order to add to CET1 the changes resulting from the adoption of the new impairment model according to the new accounting standard, with a gradual mechanism (so-called "phase-in") over 5 years starting from 2018; the Bank, in line with the choice made by the UniCredit Group, will not adopt the transition regime.

### *IFRS 15 - Revenue from contracts with customers*

IFRS 15 - Revenue from Contracts with Customers (published by the IASB on May 28, 2014), was endorsed by the European Commission on September 22, 2016 through EU Regulation 2016/1905.

The principle will replace IAS 18 - Revenue and IAS 11 - Construction Contracts, and IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers and SIC 31 - Revenues-Barter Transactions Involving Advertising Services, for annual periods starting on or after January 1, 2018 (early adoption is permitted).

The standard establishes a new revenue recognition model according to two alternative approaches ("at point in time" or "over time") to be applied to all contracts with customers except those that fall within the scope of other IAS/IFRS standards such as finance leases, insurance contracts and financial instruments. The recognition of revenue under the new model for analysing transactions, based on the transfer of control, has the following basic steps:

- identification of the contract with the customer;
- identification of performance obligations under the contract;
- determination of the price;
- allocation of price to the contract performance obligations;
- the revenue recognition criteria when the entity satisfies each performance obligation.

In order to assess the anticipated impacts of IFRS 15 on the Bank's consolidated income statement and financial position, also taking account of the clarifications on the standard published by the IASB in April 2016 and endorsed by the European Union on 6 November, 2017, the chart of accounts was analysed solely with regard to income items included in the implementation scope of the standard, identified in Item 40. "Fee and commission income" and Item 220. "Other management charges and income" (for Other income only).

The analysis performed did not highlight any significant impacts on the Bank's consolidated income statement and financial position.

### *IFRS 16 - Leasing*

IFRS16, applicable from January 1, 2019 replaces the current set of international accounting principles and interpretations on leasing and, in particular, IAS17. IFRS16 introduces a new definition of leasing and a criterion based on control ("right of use") of an asset to distinguish leasing agreements from service agreements and eliminates the current distinction between operational and financial leases. With regard to the accounting model to be applied by the lessee, the new principle provides that an asset representing the right to use the leased asset shall be recognised, together with - at the same time - the financial liability for the fees set out in the agreement.

Upon initial recognition of the aforementioned asset, when calculating the right of use, the following is included: the initial amount of the liability provided in the leasing agreement, any fees paid on or before the date on which the leased asset is made available, any initial direct costs incurred for the lease and the estimate of any costs required to remove the leased asset or restore it at the end of the agreement and under the conditions provided for therein. The debt to be recognised as a contra-entry is posted at the current net present value of outstanding fees.

The new standard also allows the possibility of not recognising contracts for "low-value assets" and leases with a contractual term of 12 months or less as leasing contracts. By contrast, the new standard does not include significant changes for the lessor.

This analysis and survey of the impacts and effects resulting from the first-time adoption of the standard by the Bank, which in any case is expected for January 1, 2019 and not early, as is permitted, together with the mandatory application of IFRS 15, and the implementation and/or adoption of any required administrative and accounting processes, will be completed in 2018.

## Interbank Deposit Guarantee Fund - Voluntary Scheme

The Bank has subscribed to the Voluntary Scheme, introduced in November 2015, through an amendment to the bylaws of the Interbank Deposit Guarantee Fund ("IDGF"). The Voluntary Scheme is an instrument for resolving bank crises through support measures in favour of banks subscribing to it, when specific conditions established by the regulations apply. The Voluntary Scheme has its own independent financial resources and the banks subscribing to it have committed to provide funds on request for implementation of the measures. On June 17, 2016, the General Meeting of the IDGF strengthened the financial resources of the Voluntary Scheme from €300 million to €700 million (with a total commitment for FinecoBank of €16.8 million).

In June 2016, the Voluntary Scheme approved a measure in favour of Cassa di Risparmio di Cesena, in relation to the capital increase approved by the latter on June 8, 2016 for €280 million.

In September 2016, the Voluntary Scheme of the IDGF made a payment for the capital increase of Cassa di Risparmio di Cesena and at the same time debited the amount pertaining to the member. Fineco's contribution to the Voluntary Scheme was recognised by the Bank, in accordance with the instructions of the Bank of Italy, amounted to €6.7 million, was recognised in equity instruments classified in the "Available-for-sale financial assets": portfolio and fully written-down in the separate accounts at December 31 2016, the notes to which the reader is referred.

# Part A - Accounting Policies (Continued)

During the meeting of July 28, 2017 the Management Board of the Voluntary Scheme approved Crédit Agricole Cariparma's proposal in favour of Caricesena, Carim and Carismi and resolved on the support measure for the reorganisation of the three banks pursuant to Article 48, paragraph 5, letter a) of Chapter II of the Articles of Association.
Following this resolution, the Extraordinary Shareholders' Meeting of the participating banks, held on September 7, 2017, approved to increase of the Scheme's resources by €95 million (from €700 million to €795 million), bringing Fineco's total commitment, net of the contribution already paid in relation to Caricesena in 2016, to €13.3 million (calculated on the basis of funds due on March 31, 2017).
The measure approved by the Management Board entailed using the Voluntary Scheme's funds to recapitalise the three banks and underwrite the tranche of their NPLs securitisation. Considering the time scale required to perfect the transaction, on September 18 and 19, 2017 Carim and Carismi, based on the resolutions adopted by the respective Boards of Directors, asked the Voluntary Schemed to effect payments for future capital increases of €55 million (€25 million for Carim and €30 million for Carismi), in order to ensure compliance with asset requirements at September 30, 2017 and provide the two banks with a capital buffer as provided for by regulatory provisions, until the closing of the transaction. On September 25, 2017, as required by the IDGF, Fineco paid its share, equal to €1.4 million, calculated by applying to the total amount of €55 million the percentage share determined based on the amounts repayable on March 31, 2017, thus reducing its share (€11.9 million). This contribution was also recognised, in accordance with the relevant instructions issued by the Bank of Italy in October 2016, under the equity instruments classified in the "Available-for-sale financial assets" portfolio.
On September 29, 2017 the National Interbank Deposit Guarantee Fund, in implementation of the resolution of the Voluntary Scheme's Management Board of September 28, 2017, signed the Framework Agreement between Crédit Agricole Cariparma, the Voluntary Scheme, Caricesena, Carim and Carismi.
On December 7, 2017 the Voluntary Scheme's Management Board therefore withdrew €455 million in order to provide the Voluntary Scheme with the financial resources required to effect payments at the time of the transaction's closing, anticipated on December 21, 2017.
On December 13, 2017 Fineco paid its share, equal to €12.2 million, calculated by applying to the total amount of €455 million the percentage share determined based on the amounts due on September 30, 2017, thus reducing its share (€0.1 million remaining). The contribution paid was recognised, as previously, as capital instruments classified in the "Available-for-sale financial assets" portfolio.
At the end of Crédit Agricole Cariparma's purchase of the three banks the Voluntary Scheme held in its balance sheet mezzanine and junior NPL securitisation securities of €170 million and cash and cash equivalents of €6 million, whilst the recapitalisations of the three banks effected were a non-recoverable expense for the Voluntary Scheme, as a result of the sale of the banks to Crédit Agricole Cariparma.
In relation to the above, in the Accounts closed at December 31, 2017 Fineco partially derecognised the equity instruments recognised in "Available-for-sale financial assets" as a result of the periodic contributions, for a total amount of €15.6 million, of which €6.7 million paid in 2016 and fully written-down in the accounts closed on December 31, 2016 and €8.9 million paid in 2017, corresponding to the share of contribution paid by the Bank and used by the Voluntary Scheme to recapitalise the three banks.
The residual amount of equity instruments that were not derecognised, equal to €4.7 million, corresponding to the share of the contribution paid by the Bank in 2017 and held by the Voluntary Scheme as cash and cash equivalents or used to subscribe the tranches of the securitisation, were impaired by €4 million in the Financial Statements at December 31, 2017 in order to align the fair value of the securities provided by the IDGF and resulting from the analysis of the advisor tasked by the aforementioned IDGF with valuing the loans and receivables underlying the aforesaid mezzanine and junior securities, calculated based on the evidence of a discounted cash flow model based on the recovery forecasts formulated by special servicers.
As at December 31, 2017, the residual commitment to the Voluntary Scheme amounts to €0.1 million and shall be used, only if actually required, to cover the operating expenses for the management of the measure.

### Contributions to guarantee and resolution funds

With regard to contribution obligations pursuant to Directive 2014/49/EU (Deposit Guarantee Schemes - DGS), the IDGF Board, during its meeting of November 15, 2017, set the amount of €406.7 million as the total ordinary contribution for 2017 pursuant to Italian Legislative Decree no. 30/2016, implementing Directive 2014/49/EU, instead of the original amount of €506.7 million. The €100 million difference, to be paid in subsequent financial years in order to reach the target level, was earmarked by the Board for flat-rate compensation of the Solidarity Fund (established by the Stability Law 2016), whose management and supply was allocated to the IDGF by law.
The reduction in the amount of ordinary DGS contributions enables allows one to limit the expenditure for the banks during the year 2017, taking into account the trend and any additional costs for members for contributions to the Solidarity Fund in 2016-2018.
The thus defined ordinary contribution is supplemented, pursuant to Article 25, paragraph 2 of the Articles of Association of the IDGF, with additional contributions of €0.6 million in total, aimed at the gradual recovery over 2017-2024 of the funds used up to now (€5.2 million).
Overall, therefore, the total contribution of member banks (standard + additional) for 2017, including funds for the Solidarity Fund, amounts to €507.3 million, of which €0.6 million relating to the additional contribution.
In implementation of the new risk-based model adopted by the IDGF for the calculation of contributions, approved by the Bank of Italy with note of June 1, 2017, pursuant to Article 96.2, paragraph 2 of TUB, the share of each Member was calculated based on the amount of protected deposits at September 30, 2017 and risk-adjusted based on each of their management ratios at June 30, 2017, pursuant to Article 28, paragraph 2, of the Articles of Association. This calculation model also involved the remeasurement of the contributions made by the members with reference to the financial years 2016 and 2015.

The share for 2017 was paid and accounted for by the Bank under item 180. Management Expenses, amounts to €10.6 million, as follows:
• €11.8 million total contribution FY 2017;
of which
  - €9.5 million ordinary contribution;
  - €0.01 million additional contribution;
  - €2.3 million for the Solidarity Fund;
• -€0.9 million adjustment in favour of the Bank for the 2016 contribution;
• -€0.4 million adjustment in favour of the Bank for the 2015 contribution.

No contribution was however requested from the Bank by the Single Resolution Board, for 2017, with regard to contribution obligations pursuant to Directive 2014/59/EU (Single Resolution Fund).

### Risks and uncertainties related to the use of estimates

In the application of the accounting policies, the management is required to make judgements, estimates and assumptions about the carrying amounts of certain assets and liabilities as well as the information regarding potential assets and liabilities. Estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances and have been used to estimate the carrying values of assets and liabilities not readily available from other sources.
Estimated figures have been used for the recognition of some of the largest value-based items in the consolidated financial statements as at December 31, 2017, as required by the accounting standards and regulations. These estimates are largely based, as regards assets, on calculations of future recoverability of the values recognised in the accounts and, as regards liabilities, on estimates of the probability of using resources to meet its obligations and the amount of resources necessary to that end, according to the rules laid down in current legislation and standards and have been made on the assumption of a going concern, on which basis these consolidated accounts have been prepared, i.e. without contemplating the possibility of the forced sale of the estimated items.
The processes adopted support the carrying values at December 31, 2017. For some of the above items the valuation is particularly complex given the uncertainty of the macroeconomic and market situation, characterised by the significant volatility of financial indicators used in the valuation process and still high levels of credit quality impairment, as well as, more generally, the uncertainty and instability in the banking sector.
For other items, however, the complexity and subjectivity of estimates is influenced by the structure of the underlying assumptions and assumptions, the number and variability of available information and the uncertainties connected with possible future outcomes of proceedings, disputes and litigation.
The parameters and information used to determine the above-mentioned values are therefore significantly affected by multiple factors, which could change rapidly in ways that are currently unforeseeable, which means that consequent future effects on the book values cannot be ruled out.
At the date of preparing these consolidated accounts we believe that there are no uncertainties such as to give rise to significant adjustments to the carrying amounts within one year.
Estimates and underlying assumptions are regularly reviewed. Any changes resulting from these reviews are recognised in the period in which the review was carried out, provided the change only concerns that period. If the revision concerns both current and future periods it is recognised accordingly in both current and future periods.
Uncertainty affecting estimates is inherent, among other factors, in the determination of:
- fair value of financial instruments not listed in active markets;
- receivables, and in general, all other financial assets/liabilities;
- employee severance pay provision (Italy) and other employee and financial advisor benefits;
- provisions for risks and charges;
- goodwill;
- deferred tax assets;
- tax liabilities.

This quantification can vary over time, also to a significant extent, according to the evolution of the national and international social and economic environment and the consequent impacts on the Bank's earnings and customer solvency and the credit quality of the counterparties, the performance of the financial markets, which influence the fluctuation in rates, prices and actuarial assumptions used to determine the estimates, as well as the evolution and developments in existing or potential disputes.
With specific reference to future cash flow projections used in the valuation of the recoverability of goodwill recorded in the balance sheet, it should be noted that the parameters and information used are significantly influenced by the macro-economic market situation, which may change unpredictably. For further information please refer to Part B - Consolidated Balance Sheet - Section 12 - Intangible assets. With specific reference to valuation techniques, unobservable inputs used in the fair value measurement and sensitivities to changes in those inputs, please refer to Section A.4. Information on fair value of this Part A. With particular regard to provisions for risks and charges for risks arising from legal disputes, see Part E - Information on risks and hedging policies - Section 1.4 - Banking Group - Operating risk).

# Part A - Accounting Policies (Continued)

**Other information**

The Consolidated Financial Statements as at December 31, 2017 are subject to audit by Deloitte & Touche S.p.A. pursuant to Italian Legislative Decree no. 39 of January 27, 2010, which is responsible for the statutory audit of the Bank's accounts in implementation of the Shareholders' Meeting resolution of April 16, 2013.

The entire document is lodged with the competent offices and entities as required by law.

## A.2 The main items of the accounts

### 1 - Financial Assets held for trading (HfT)

A financial asset is classified as held for trading if it is:
- acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for derivatives which constitute financial guarantees, see Section 18 - Other information, and derivatives designated as hedging instruments - see Section 6 - Hedge Accounting).

Like other financial instruments, on initial recognition, at settlement date, a held-for-trading financial asset is measured at its fair value, usually equal to the amount paid, excluding transaction costs and income, which are recognised through profit or loss even when directly attributable to the financial assets. Trading book derivatives are recognised at trade date.
After initial recognition these financial assets are measured at their fair value through consolidated profit or loss. An exception is the derivatives settled by delivery of an unlisted equity instrument whose fair value cannot be reliably measured, and which are measured at cost like the underlying.
A gain or loss arising from sale or redemption or a change in the fair value of a HfT financial asset is recognised in consolidated profit or loss in item 80 "Gains (losses) on financial assets and liabilities held for trading", with the exception of financial derivatives relating to a fair value option of which gains and losses, whether realised or measured, are booked in item 110. "Gains (losses) on financial assets and liabilities at fair value through profit and loss" (Please see Ch.5 - Financial Instruments at Fair Value through Profit or Loss) If the fair value of an instrument falls below zero, which may happen with derivative contracts, it is recognised in item 40. "Financial liabilities held for trading".

A derivative is a financial instrument or other contract with all three of the following characteristics:
- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (usually called the 'underlying') provided that in case of non-financial variable, this is not specific of one of the parties;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- it is settled at a future date.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.
An embedded derivative is separated from the host contract and recognised as a derivative if:
- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid (combined) instrument is not measured entirely at fair value through profit or loss.

If it is necessary to separate an embedded derivative from its host contract, but it is not possible to measure the embedded derivative separately either at acquisition or at a subsequent financial reporting date, the entire combined contract is treated as a financial asset or financial liability at fair value through profit or loss.
When an embedded derivative is separated, the host contract is recognised according to its accounting classification.
A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

### 2 - Available-for-sale Financial Assets (AfS)

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments, financial assets held for trading or financial assets at fair value through profit or loss. These assets are held for an indefinite period of time and may meet the need to ensure liquidity and face changes in interest rates, exchange rates and prices.

AfS financial assets are money market instruments, other debt instruments (included host contract of hybrid instruments from which embedded derivative has been bifurcated) or equity instruments; they include shares held as minority stakes where these do not constitute controlling, or joint control, or associate interests.
On initial recognition, at settlement date, an AfS financial asset is measured at fair value, which is usually equal to the consideration of the transaction, plus transaction costs and income directly attributable to the instrument.
In subsequent periods these assets are measured at fair value, with interest recognised at amortised cost in the income statement. Gains or losses arising out of changes in fair value are recognised in equity item 140. Consolidated "Revaluation reserves" except losses due to significant impairment and exchange rate gains or losses on monetary items (debt instruments) which are recognised under item 130.b) "Impairment losses/writebacks on AfS financial assets" and item 80. "Gains (losses) on financial assets and liabilities held for trading" in the consolidated income statement, respectively - until the financial asset is sold, at which time cumulative gains and losses are recognised in consolidated profit or loss in item 100.b) "Gains (losses) on disposal or repurchase of AfS financial assets".

The fair value changes recorded in item 140. "Revaluation reserves" in equity are also reported in the Consolidated Statement of Comprehensive Income.
Equity instruments not listed in an active market and whose fair value cannot be reliably determined due to lack or unreliability of information for the fair value measurement are valued at cost, equivalent to the last fair value reliably measured.
If there is objective evidence of impairment on an available-for-sale financial asset, the cumulative loss that had been recognised directly in consolidated equity item 140. "Revaluation reserves", is removed from equity and recognised in consolidated profit or loss under item 130.b) "Impairment losses/writebacks on available-for-sale financial assets".
In respect of debt instruments, any circumstances indicating that the borrower/issuer is experiencing financial difficulties which could prejudice the collection of the principal or interest, represent an impairment.
The impairment of equity instruments is assessed on the basis of indicators such as fair value below cost and adverse changes in the environment in which the company operates, as well as the issuer's debt service difficulties, if any.
The loss of value is normally considered as impairment, if fair value falls to less than 50% of cost or lasts for more than 18 months.

If, however, the fall in the fair value of the instrument is over 20% but less than or equal to 50% or continues for no less than 9 but no longer than 18 months, further income and market indicators shall be reviewed. If the results of the review are such as to prejudice the recovery of the amount originally invested, a lasting loss of value is recognised.

The amount taken to profit and loss is the difference between the carrying amount (value of initial recognition less any impairment loss already recognised in profit or loss) and current fair value.

Where instruments are valued at cost, the amount of the loss is determined as the difference between their carrying value and the present value of estimated future cash flows, discounted at the current market yield on similar financial assets (the recoverable amount).
If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event such as an improvement in the debtor's credit worthiness occurring after the impairment loss was recognised in consolidated profit or loss, the impairment loss is reversed and the amount of the reversal is recognised in the same consolidated profit or loss item. The reversal cannot result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss, but recognised in consolidated equity under the revaluation reserve.

## 3 - Held-to-Maturity Investments (HtM)

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than those that have the characteristics to be classified under loans and receivables with banks and loans and receivables with customers, for which there is the positive intention and ability to hold them to maturity (included the host contract of hybrid instruments after the embedded derivative has been bifurcated).
If, during the financial year, more than an insignificant amount of held-to-maturity investments are sold or reclassified before maturity, the remaining HtM financial assets shall be reclassified as available-for-sale and no financial assets shall be classified as HtM investments for the two following financial years, unless the sales or reclassifications:

- are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after substantially all of the financial asset's original principal has been collected through scheduled payments or prepayments;
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

After initial recognition at its fair value, which will usually be the price paid including transaction costs and income directly attributable to the acquisition or provision of the financial asset (even if not yet settled), a held-to-maturity financial asset is measured at amortised cost using the effective interest method. The difference between the carrying value of the asset and the amount received is taken to consolidated profit and loss under item 100.c) "Gains (losses) on disposal or repurchase of HtM financial assets" when the financial asset is derecognised.

If there is objective evidence that a held-to-maturity investment is impaired, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted using the original effective interest rate of the financial asset. The carrying amount of the asset is reduced accordingly and the loss is recognised in consolidated profit or loss under item 130.c) "Impairment losses/writebacks on held-to-maturity investments".
If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event such as an improvement in the debtor's credit worthiness occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed. The reversal cannot result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised. The amount of the reversal is recognised in the same consolidated profit or loss item. Held-to-maturity investments cannot be hedged for other than the credit/non performance risk and exchange rate risk.

In 2016, the Bank reclassified the Available-for-sale financial assets consisting of Italian and Spanish government securities to the Held-to-maturity investments portfolio. In this regard, see the information in the Separate Financial Statements for the period ended December 31, 2016, and section A.3 Disclosure on transfers between portfolios of financial assets in these notes to the consolidated financial statements.

## 4 - Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised on the date of disbursement to the borrower, which can coincide with the contract signing date.
These items include debt instruments with the above characteristics (including the primary component of structured instruments after the embedded derivative has been unbundled) or that are subject to portfolio reclassification in accordance with the rules of IAS 39.
After initial recognition at fair value, which is usually the price paid including transaction costs and income directly attributable to the acquisition or issuance of the financial asset (even if not yet paid), a loan or receivable is measured at amortised cost, which can be adjusted to take account of any write-downs/write-backs resulting from the valuation process.
A profit (or loss) on loans and receivables is recognised through consolidated profit or loss:
- when a loan or receivable is derecognised: in item 100.a) "Gains (losses) on disposal or repurchase";

or
- when a financial asset is impaired (or the impairment loss previously recognised is reversed: in item 130.a) "Net impairment losses/writebacks on (a) loans and receivables".

Interest on loans and receivables is recognised in profit or loss on an accrual basis using the effective interest rate method under item 10. "Interest income and similar revenue".
Delay interest is taken to the income statement on collection or receipt.
To measure credit exposures, the Bank refers to the reference regulations supplemented by internal and Group provisions and policies governing the classification of loans and their transfer within the various categories.
In particular, loans and receivables are reviewed in order to identify those that, following events occurring after initial recognition, show objective evidence of possible impairment. These impaired loans are reviewed and analysed periodically at least once a year.
A loan or receivable is deemed impaired when it is considered that it will probably not be possible to recover all the amounts due according to the contractual terms, or equivalent value.

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

The amount of the loss on impaired exposures classified as non-performing 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. If the original interest rate cannot be identified directly, or if identifying it would be excessively onerous, the best approximation is used.

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.

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

In the Notes to the Consolidated Accounts, write-downs of impaired loans are classified as specific in the relevant Consolidated Income Statement item even when the calculation is flat-rate or statistical, as indicated below.

When the reasons for the value adjustments are no longer deemed to exist, and this assessment is objectively attributable to an event connected to the improvement in the financial solvency of the debtor after the adjustment, a reversal is made in the same consolidated income statement item, within the amount of the amortised cost that there would have been if there had been no impairments.

Derecognition of a loan or receivable in its entirety is made when the underlying cause of the loan or receivable no longer exists, or when the loan or receivable is deemed to be irrecoverable or is written off. Write-offs are recognised directly in consolidated profit or loss under item 130(a) "Impairment losses/writebacks on loans and receivables" and reduce the amount of the principal of the loan or receivable. Reversals of all or part of amounts previously written off are recognised in the same item.

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

Specifically, the EBA has identified non-performing exposures as those that satisfy either or both of the following criteria:
- material exposures which are more than 90 days past due;
- exposures for which it is 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 EBA standards have also introduced the definition of forborne exposures. Credit exposures are defined as forborne whose original contractual terms and conditions are modified or for which a total or partial refinancing of the debt is granted, as a result of financial difficulties of the debtor. Forborne exposures may be classified in the impaired loans category (non-performing, unlikely to pay, past-due loans and overdrawn impaired exposures) or as unimpaired loans. The accounting policies regarding provisions and assessments of forborne exposures are in line with the general principle set out by IAS 39, with the clarifications given below regarding renegotiated loans classified as unlikely to pay.

The aforementioned Circular 272 establishes that the impaired assets aggregate is divided into the following categories:
- **Non-performing loans:** 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 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 exposures;
- **Unlikely to pay:** i.e. on- and off-balance sheet exposures, which do not meet the conditions for classifying the borrower 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 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;
  - loans under renegotiation involving a debt/equity swap are valued, pending swap finalisation, on the basis of the conversion agreements entered into at the reporting date. Any differences between the value of the loans and the fair value of the equity instruments on initial recognition are recognised through consolidated profit or loss as write-downs.
- **Past-due and/or overdrawn impaired exposures:** i.e. on-balance sheet exposures, other than those classified as non-performing or unlikely to pay, that are past due or overdrawn at the reporting date. The past due and/or overdrawn impaired exposures may be determined, alternatively, with respect to the individual debtor or the individual transaction. Specifically, they represent the total exposure to any borrower not included in the unlikely to pay and non-performing loans categories, who at the reporting date has expired facilities or unauthorised overdrafts that are more than 90 days past due and meet the requirements set out by local supervisory regulations for their classification under the "past due exposures" category (TSA banks) or "defaulted exposures" (IRB banks). Past-due and/or overdrawn impaired exposures are valued at a flat rate on a historical/stochastic basis by applying where available the risk rating referred to Loss Given Default (LGD) under Regulation (EU) No. 575/2013 (CRR) on prudential requirements for credit institutions and investment firms. Past due and/or overdrawn impaired exposures are calculated with respect to the individual debtor. Total exposure is recognised in this category if, at the reporting date, either of the following amounts, whichever is larger, is equal to or more than 5%:
  - the expired/overdrawn portion out of the entire exposure as at the reporting date

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

# Part A - Accounting Policies (CONTINUED)

The collective assessment of performing loans is used for groups of loans for which individually there are no indicators of impairment: to these portfolios a latent impairment can be attributed, according to the method described below, inter alia on the basis of the risk factors used under CRR prudential regulations.
Loans with similar characteristics in terms of credit risk - in relation to loan type, technical features, the borrower's sector of economic activity, geographical location, type of security or other relevant factors - are assigned different classes to which a PD (Probability of Default) and LGD (Loss Given Default) is associated for each loan; these are uniform for each class of loan.
The methods used combine the CRR prudential regulation recommendations and IFRS. The latter (IAS 39) exclude future loan losses not yet sustained, but include losses already sustained even if they were not manifest at the time of measurement, on the basis of past experience of losses on assets having a similar risk profile to the assets being measured.
The parameter for the average period from deterioration of a borrower's financial condition and its classification as an impaired loan is the Loss Confirmation Period.
The portfolio valuation is the product of the risk factors derived from the parameters used under CRR prudential regulation requirements, with a one-year time horizon, and the above loss confirmation periods (LCP) expressed as part of a year and diversified according to classes of loans and receivables on the basis of customer segments/portfolios characteristics. The confirmation period is assumed to be equal to a maximum of 12 months, at which existing accounting provisions and expected losses are equivalent.
If these indicators are not available, estimated value and standard loss percentages, based on internal historical and sectoral series, shall be used.
Allowances for unsecured loans to residents of countries experiencing debt service difficulties, where the transfer risk is not included in the rating system applied, are generally determined, country by country, with the aim of attributing latent impairment on the basis of shared parameters.
Impairment losses are recognised as a reduction of the carrying amount of the loan or receivable, whereas the risk arising from off-balance sheet items, e.g. loan commitments and loan commitments and write-downs for impairment of guarantees given, is recognised in consolidated profit and loss under item 130.d) "Impairment Losses/writebacks on other financial assets" with contra item 100. "Other Liabilities").

## 5 - Financial Instruments at Fair Value through Profit or Loss (FIaFV)

Any financial asset may be designated, in accordance with the provisions of IAS 39 as a financial instrument measured at fair value through profit and loss on initial recognition, except for the following:
• investments in equity instruments for which there is no price quoted in active markets and whose fair value cannot be reliably determined;
• derivatives.

FIaFV includes financial assets:
(i) not belonging to regulatory trading book, whose risk is:
  • connected with debt positions measured at fair value (see also item 15 "Financial liabilities at fair value through profit or loss");
  • managed by the use of derivatives not treatable as accounting hedges.
(ii) represented by hybrid (combined) instruments containing embedded derivatives that otherwise would have been separated from the host contract.

FIaFV are accounted for in a similar manner to HfT financial assets (see Section 1 - Financial assets held for trading), however gains and losses, both realised and unrealised, are recognised in item 110. "Gains (losses) on financial assets and liabilities at fair value through profit and loss".

At the balance sheet date, no financial assets classified as "Financial assets at fair value through profit and loss" were held.

## 6 - Hedge Accounting

Hedging derivatives are those created to hedge market risks (interest-rate, currency and price) to which the hedged positions are exposed. They may be described as follows:
- fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability, or an identifiable portion of such an asset or liability;
- cash flow hedge: a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction which could affect profit or loss in future periods;
- hedge of a net investment in a foreign entity, whose operations are presented in a currency other than euro.

Hedging derivatives are initially recognised on trade date and are valued at their fair value.

A hedging relationship qualifies for hedge accounting if there is formal designation and documentation of the hedging relationship including the risk management objective, the strategy for undertaking the hedge, and how the hedging instrument's prospective and retrospective effectiveness will be assessed. It is necessary to assess the hedge's effectiveness, at inception and in subsequent periods, in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.
A hedge is regarded as highly effective if, at the inception of the hedge and in subsequent periods, it is determined prospectively to remain highly effective, and the retrospectively verified that the hedge ratio (i.e. the changes in fair value of hedged items and hedging instruments) is within a range of 80-125 per cent. The hedge is assessed on an ongoing basis and thus must prospectively remain highly effective throughout the financial reporting periods for which the hedge has been designated.

The assessment of effectiveness is made at each balance-sheet date or other reporting date. If the assessment does not confirm the effectiveness of the hedge, from that time on hedge accounting is discontinued in respect of the hedge and the hedging derivative is reclassified as a held-for-trading instrument.
In addition, the hedging relationship ceases when the hedging instrument expires or is sold, terminated or exercised; the hedged item is sold, expires or is repaid; or it is no longer highly probable that the forecast transaction will occur.
Hedging derivatives are measured at fair value. In particular:

- **Fair Value Hedging** - an effective fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value is recognised through consolidated profit or loss in item 90. "Fair value adjustments in hedge accounting". The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised through profit or loss in the same item. Hedging ineffectiveness is represented by the difference between the change in the fair value of hedging instruments and the change in the fair value of hedged item. If the hedging relationship is terminated for reasons other than the sale of the hedged item, this is measured according to the original criterion dictated by the accounting standard applied to the relevant portfolio. In the case of interest-bearing instruments, the difference between the carrying amount of the hedged item on termination of the hedging and the carrying amount it would have had if the hedge had never existed, is recognised through profit or loss in interest receivable or payable over the residual life of the original hedge. If the hedged item is sold or repaid, the portion of fair value which is still unamortised is recognised immediately under item 100. "Gains (losses) on disposal or repurchase" in the consolidated income statement. The difference in fair value of the hedging derivative since the latest effectiveness testing date is recognised in consolidated profit or loss under item 90. "Fair value adjustments in hedge accounting". With regard to specific Fair Value hedging derivatives of securities included in the portfolio of "Available-for-sale financial assets", the fair value changes of the hedging instrument were recognised through consolidated profit or loss in item 90. "Fair value adjustments in hedge accounting"; fair value changes of the hedged item attributable to the hedged risk (interest rate risk) were recognised through consolidated profit or loss in the same item 90; the fair value changes of the hedged item relating to the unhedged risk (essentially the credit risk) are recognised in the Consolidated Statement of Comprehensive Income and shown in item 140. "Revaluation reserves" in consolidated equity;
- **Cash Flow Hedging** - hedges are valued at fair value. Change in the fair value of a hedging instrument that is considered effective is recognised in consolidated equity item 140 "Revaluation reserves".The ineffective portion of the gain or loss is recognised through consolidated profit or loss in item 90."Fair value adjustments in hedge accounting". If a cash flow hedge is determined to be no longer effective or the hedging relationship is terminated, the cumulative gain or loss on the hedging instrument that remains recognised in "Revaluation reserves" from the period when the hedge was effective remains separately recognised in "Revaluation reserves" until the forecast hedged transaction occurs or is determined to be no longer possible; in the latter case, the gains or losses are transferred from consolidated shareholders' equity to item 80. "Gains and losses on financial assets and liabilities held for trading" in the consolidated income statement. The overall fair value changes recorded in item 140. "Revaluation reserves" are reported in the Consolidated Statement of Comprehensive Income;
- **Hedging a Net Investment in a Foreign entity** - hedges of a net investment in a foreign entity, whose operations are presented in a currency other than euro, are accounted for similarly to cash flow hedges. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised directly in equity is recognised through profit or loss on disposal of the foreign entity. The fair value changes recorded in item 130. "Revaluation reserves" are also reported in the Consolidated Statement of Comprehensive Income. The ineffective portion of the gain or loss is recognised through consolidated profit or loss in item 90. "Fair value adjustments in hedge accounting";
- **Macro-hedged financial assets (liabilities)** - IAS 39 allows a fair-value item hedged against interest rate fluctuations to be not only a single asset or liability but also a monetary position contained in a number of financial assets or liabilities (or parts of them); accordingly, a group of derivatives can be used to offset fair-value fluctuations in hedged items due to changes in market rates. Macro hedging may not be used for net positions resulting from the offsetting of assets and liabilities. As for fair value micro hedging, macro hedging is considered highly effective if, at the inception of the hedge and throughout its life, changes in the fair value attributable to the hedged position are offset by changes in fair value of the hedging instrument and if the hedge ratio is retrospectively assessed falling within the range of 80-125 per cent. Net changes - gains or losses - in the value of the macro-hedged assets and liabilities attributable to the hedged risk are recognised in asset item 90 and liability item 70 respectively and offset the profit and loss item 90 "Fair value adjustments in hedge accounting" in the consolidated income statement. The gain or loss from remeasuring the hedging instrument at fair value is recognised in the same consolidated profit and loss item. The ineffectiveness of the hedging arises to the extent that the change in the fair value of the hedging item differs from the change in the fair value of the hedged monetary position. The extent of hedge ineffectiveness is in any case recognised in profit and loss item 90. "Fair value adjustments in hedge accounting" in the consolidated income statement.

  If the hedging relationship is terminated, for reasons other than the sale of the hedged items, cumulative gain or loss in items 90 (Assets) and 70 (Liabilities) is recognised through profit or loss in interest income or expenses, along the residual life of the hedged financial assets or liabilities.

  If the latter are sold or repaid, unamortised fair value is at once recognised through profit and loss in item 100. "Gains (Losses) on disposals/ repurchase" in the consolidated income statement.

The Bank had in place at the reporting date only macro-hedges against the interest rate risk of personal loans to retail customers, bonds issued by UniCredit subscribed by the Bank and classified under the "Loans and receivables" category and fixed-rate direct deposits.

# Part A - Accounting Policies (CONTINUED)

## 7 - Equity Investments

The initial recognition and subsequent valuation criteria for interests governed by IFRS10 Consolidated Financial Statements, IAS27 Separate Financial Statements, IAS28 Investments in associates and joint ventures and IFRS11 Joint Arrangements, are detailed to the applicable extent in Section 3. Consolidation scope and methods of Section A.1 of the Notes to the Consolidated Accounts, which also provides information on valuation and key assumptions made to establish the presence of control, joint control or significant influence in compliance with the provisions of IFRS12 (paragraphs 7-9).

The remaining Interests - other than subsidiaries, associates and joint ventures, and interests recognised in items 150. "Non-current assets and disposal groups held for sale" and 90. "Liabilities included in disposal groups classified as held for sale" (see Section 10 - Non-current assets and disposal groups held for sale) - are classed as available-for-sale financial assets and treated accordingly (see Section 2 - Available-for-sale financial assets).

## 8 - Property, Plant and Equipment (Tangible Assets)

The item includes:
- land and buildings
- furniture and fixtures
- plant and machinery
- other machinery and equipment

and is divided between:
- assets used in the business;
- assets held as investments.

Tangible assets used in the business are held for use in the production or supply of goods or services or for administrative purposes and are expected to be used during more than one period.
Property, plant and equipment also include leasehold improvements relating to assets which can be separately identified. They are classified according to the specific sub-items relating to the asset type (e.g. plants). Leasehold improvements are usually borne in order to make leased premises fit for the expected use. Improvements and additional expenses relating to property, plant and equipment identifiable but not separable are recognised in item 160. "Other assets".

Tangible assets held for investment purposes are properties covered by IAS 40, i.e. properties held in order to derive rentals and/or a capital gain.
Property, plant and equipment are initially recognised at cost including all costs directly attributable to bringing the asset into use (transaction costs, professional fees, direct transport costs incurred in bringing the asset to the desired location, installation costs and dismantling costs).
Subsequent costs are added to the carrying amount or recognised as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be reliably measured. Other expenses borne at a later time (e.g. normal maintenance costs) are recognised in the year they are incurred in consolidated profit and loss items:
- 180.b) "Other administrative expenses", if they refer to assets used in the business;

or:
- 220. "Other net operating income", if they refer to property held for investment.

After being recognised as an asset, an item of property, plant and equipment is carried at cost less any accumulated depreciation and any cumulative impairment losses.
An item with a finite useful life is subject to straight-line depreciation.

The depreciation rates used for the main categories of property, plant and equipment are as follows, reflecting their estimated useful lives:

| | |
|---|---|
| • Furnishings | 15% |
| • Motor vehicles | 25% |
| • Buildings | 3% |
| • Alarm and safety systems | 30% |
| • Lifts and lifting equipment | 7,5% |
| • Electronic equipment | 20% |
| • Ordinary office equipment | 12% |
| • Machinery, appliances and equipment | 15% |
| • Office furniture and fittings | 12% |
| • Mobile phones and photographing systems | 20% |
| • Tablets | 33,33% |

Land and buildings, if separately quantifiable, are recognised separately, even if acquired together. Land is not depreciated since it usually has an indefinite useful life. Buildings, conversely, have a finite useful life and are therefore subject to depreciation.

The estimate of the useful life of an asset is reviewed at least at each accounting period-end on the basis inter alia of the conditions of use of the asset, of maintenance conditions and expected obsolescence, and, if expectations differ from previous estimates, the depreciation amount for the current and subsequent financial years is adjusted accordingly.
If there is objective evidence that an asset has been impaired, the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i.e. the present value of future cash flows expected to originate from the asset. Any impairment loss is recognised in profit and loss item 200. “Net impairment/Write-backs on property, plant and equipment” in the consolidated income statement.
If the value of a previously impaired asset is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there had been no losses recognised on the prior-year impairment.
An intangible asset is de-recognised from the consolidated balance sheet (i) on disposal or (ii) when no future economic benefits are expected from its use or sale; and any difference between sale proceeds or recoverable value and carrying value is recognised in the consolidated profit and loss item 270. "Gains (losses) on disposal of investments" or 200. “Net impairment/write-backs on property, plant and equipment".

## 9 - Intangible assets

An intangible asset is an identifiable non-monetary without physical substance, controlled by the Company , which is expected to be used during more than one period and from which future economic benefits are probable.
Intangible assets mainly consist of goodwill, software and costs incurred for the creation of the new Fineco website.
Intangible assets other than goodwill are recognised at purchase cost, i.e. including any cost incurred to bring the asset into use, less accumulated amortisation and any recognised impairment losses.

An intangible asset with a finite life is subject to straight-line amortisation over its estimated useful life.
Residual useful life is usually assessed as follows:

| | |
|---|---|
| - software | maximum 3 years; |
| - other intangible assets | maximum 5 years. |

There are no intangible assets with an indefinite life, except for goodwill.

If there is objective evidence that an asset has been impaired, the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i.e. the present value of future cash flows expected to originate from the asset. Any impairment loss is recognised in profit and loss item 210. “Net impairment/write-backs on intangible assets” in the consolidated income statement.
If the value of a previously impaired intangible asset, other than goodwill is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there were no losses recognised on the prior-year impairment.
An intangible asset is de-recognised from the consolidated balance sheet (i) on disposal or (ii) when no additional future economic benefits are expected from its use or sale; and any difference between sale proceeds or recoverable value and carrying value is recognised in the consolidated profit and loss item 270. "Gains (losses) on disposal of investments" or 210. “Net impairment/write-backs on intangible assets".

**Goodwill**

In accordance with IFRS3, goodwill is the excess of the cost of a business combination over the interest acquired in the net fair value, at the acquisition date, of the assets and liabilities acquired.

Goodwill arising from the acquisition of subsidiaries and joint ventures (consolidated proportionately) is recognised as an intangible asset; whereas goodwill arising from the acquisition of associates is included in the acquisition cost and, then, shown as an increase in the value of the investments.
Specifically, the goodwill recorded under intangible assets in these consolidated financial statements - corresponding to the goodwill recorded in the Bank's annual financial statements - derives from the acquisitions of merged or acquired companies.
At a subsequent financial reporting date, goodwill is recognised net of any cumulative impairment losses and is not amortised.

Goodwill is tested for impairment annually. Impairment losses on goodwill are recognised in consolidated profit and loss item 260. "Impairment of goodwill". In respect of goodwill, no write-backs are allowed.
Goodwill relates to buy-outs of divisions or companies engaged in trading activities or the distribution of financial, banking and insurance products through personal financial advisors. These activities have been fully integrated with the Bank's ordinary operations; as a result, it is not possible to isolate the contribution of each company/business division from the Bank's overall business. This means that to establish the reasonableness of the value of goodwill recognised in the financial statements it is necessary to take account of FinecoBank’s comprehensive income. The cash generating unit (CGU) is the Bank as a whole.
In view of the specific business model adopted by the Bank, which involves a high level of integration between personal financial advisors and the trading and banking platform, so that the personal financial advisors network is an integral part of the overall offer, which includes banking, brokerage and investing services, an allocation of costs/revenues to the macro areas of activity is not considered relevant or meaningful.

Please see Section 13.3 Intangible assets - Other information in Part B below for further information on goodwill and related impairment tests.

# Part A - Accounting Policies (Continued)

## 10 - Non-current assets classified as held for sale

These categories include individual assets held for disposal (tangible, intangible and financial assets) or groups of assets held for sale, with the associated liabilities, as required by IFRS 5.

Individual assets (or groups of assets held for sale) are recognised in item 150. "Non-current assets and disposal groups held for sale" and 90. "Liabilities included in disposal groups classified as held for sale", respectively, at the lower of their carrying amounts and fair values less costs to sell. The revaluation reserves relating to Non-current assets held for sale, which are recorded as a contra item to changes in value relevant for this purpose), are reported separately in the Consolidated Statement of Comprehensive Income (see Part D - Consolidated Comprehensive Income).

The net balance of profits (dividends, interest income, etc.) and losses (interest expense, etc.) attributable to groups of assets or liabilities held for sale are recognised in the income statement under item 310. "Profit (Loss) after tax from discontinued operations" in the consolidated income statement. Profits and losses attributable to individual assets held for disposal are recognised in the consolidated income statement under the most appropriate item.

At the balance sheet date, the Bank held no non-current assets classified as held for sale.

## 11 - Current and Deferred Tax

Tax assets and liabilities are recognised in the consolidated balance sheet respectively in item 140. "Tax assets" and in liability item 80. "Tax liabilities".

In compliance with the "Balance sheet liability method", current and deferred tax items are:

- current tax assets, i.e. amount of tax paid in excess of income tax due under the current national tax regulations;
- current tax liabilities, i.e. tax payables due under the current Italian tax regulations;
- deferred tax assets, i.e. amounts of income tax recoverable in future fiscal years and relating to:
  - deductible temporary differences;
  - the carry-forward of unused tax losses;
  - the carry-forward of unused tax credits;
- deferred tax liabilities, i.e. the payables for income tax due in future fiscal years in respect of taxable temporary differences.

Current and deferred tax assets and tax liabilities are calculated in accordance with local tax regulations (with reference to each company consolidated on line-by-line basis) and are recognised in profit or loss on an accrual basis. More specifically, for current IRES income tax, a rate of 27.50% has been calculated; for IRAP corporate tax, the rate applied was 5.57%.

With regard to the investee Fineco AM Limited, taxes were calculated using a rate of 12.5% (as per tax legislation).

In general, deferred tax assets and liabilities arise when there is a difference between the accounting treatment and the tax treatment of the carrying amount of an asset or liability.

Deferred tax assets and liabilities are recognised applying tax rates that at the balance sheet date are expected to apply in the period when the carrying amount of the asset will be recovered or the liability will be settled on the basis of tax regulations in force, and are periodically reviewed in order to reflect any changes in regulations.

In this regard, it should be noted that the effects of the reduction in the IRES income tax rate from 27.50% to 24% introduced, with effect from January 1, 2017 effective for tax periods after the period to December 31, 2016, introduced by the Stability Law for 2016 were "neutralised" for the Bank as a result of the introduction, by the same Law, of an additional 3.5 percentage points for credit institutions effective for the same tax periods.

Furthermore, deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profit will be generated. In accordance with the provisions of IAS12, the probability that sufficient future taxable profit will be available, against which the deferred tax assets can be utilised, is reviewed periodically. The carrying amount of deferred tax assets should be reduced to the extent that it is not probable that sufficient taxable profit will be available.

Deferred tax liabilities are always recognised.

Current and deferred taxes are recognised in consolidated profit and loss item 290. "Tax expense (income) related to profit or loss from continuing operations", except for tax referred to items that in the same or in another fiscal year are credited or charged directly to equity, such as those relating to valuation gains or losses on available-for-sale financial assets, whose changes in value are recognised, after tax, under the revaluation reserves directly in the consolidated statement of comprehensive income.

Current tax assets are shown in the consolidated balance sheet net of related current tax liabilities, where the following requirements are met:

- there is a right to offset the recognised amounts; and
- there is an intention to settle the asset and liability positions with a single payment on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets are shown in the consolidated balance sheet net of related deferred tax liabilities, where the following requirements are met:

- there is a right to offset the underlying current tax assets with the current tax liabilities; and
- deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or different taxable entities which intend to settle current tax assets and liabilities on a net basis (usually under a tax consolidation agreement).

## 12 - Provisions for Risks and Charges

### Retirement Payments and Similar Obligations

Retirement provisions - i.e. provisions for employee benefits paid after leaving employment - are defined as defined contribution plans or defined benefit plans according to the economic nature of the plan.
In particular:

- defined-benefit plans provide a series of benefits depending on factors such as age, years of service and compensation policies. Under this type of plan actuarial and investment risks are borne by the company;
- defined-contribution plans are plans under which the company makes fixed contributions. Benefits are the result of the amount of contributions paid and return on contributions invested. The employer bears no actuarial and/or investment risks connected with this type of plan as it has no legal or implicit obligation to make further contributions, should the plan not be sufficient to provide benefit to all employees.

Defined-benefit plans are present-valued by an external actuary using the unit credit projection method.
This method distributes the cost of the benefit evenly over the employee's working life. The liability is determined as the present value of average future payments adjusted according to the ratio of years of service to theoretical total years of service at the time of payment of the benefit.
More specifically, the amount recognised according to IAS 19 Revised, as a net liability/asset in item 120. Provisions for risks and charges - a) Post-retirement benefit obligations is the present value of the obligation at the balance sheet date, less any pension charges relating to benefits already provided but not yet recognised, less the fair value at the balance sheet date of plan assets other than those due to directly settle the obligations adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. Actuarial gains or losses from the defined-benefit liabilities are recognised as a contra-entry to consolidated equity under item 140. Revaluation reserves are reported in the Consolidated Statement of Comprehensive Income.

The discount rate used to discount obligations (whether financed or not) relating to benefits to be provided after retirement varies according to the currency of denomination and country where the liabilities are allocated and is determined on the basis of market yield at the balance sheet date of prime issuers' bonds with an average life in keeping with that of the relevant liability.

At the balance sheet date, there were no provisions for retirement payments and similar obligations.

### Other provisions

Provisions for risks and charges consist of liabilities recognised when:
- the entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amounts recognised as provisions are the best estimate of the expenditure required to settle the present obligation. The risks and uncertainties that inevitably surround the relevant events and circumstances are taken into account in reaching the best estimate of a provision.
As regards provisions for legal disputes, the estimate includes the costs of proceedings borne by the Bank in the event of an adverse conclusion of the dispute plus the expenses to be paid to lawyers, technical advisors and/or experts who assist the Bank, to the extent that it is believed that they will not be reimbursed by the counterparties.
This estimate was determined by the Bank, in relation to the current dispute, based on the analysis of the historical trend of legal expenses incurred, by type of litigation and degree of judgment.
In addition, where the effect of the time value of money is significant (usually when the expense is expected to materialise more than 18 months after its recognition), the amount of the provision should be the present value of the best estimate of the cost required to settle the obligation. The discount rate used reflects the current market assessments.
Provisions are reviewed periodically and adjusted to reflect the current best estimate. If it becomes clear that it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provisions are used only for expenses for which they were originally recognised. Provisions for the year are recognised in the income statement item 190. Consolidated “Net provisions for risks and charges" include increases due to the passage of time; they are also net of any re-attributions.

"Other provisions" also include obligations relating to benefits due to personal financial advisors, specifically supplementary customer portfolio payments and contractual payments, which can be considered defined benefit plans; accordingly, these obligations are calculated by an actuary using the unit credit projection method (see paragraph "Retirement Payments and Similar Obligations"), and payments under non-competition agreements.

In certain cases, provisions for risks and charges (for example related to staff expenses and administrative costs) have been recognised under their own item in the consolidated income statement to better reflect their nature.

# Part A - Accounting Policies (Continued)

## 13 - Liabilities and Securities in Issue

The items Deposits from banks, Deposits from customers and Debt securities in issue are used for all forms of third-party funding other than trading liabilities or those valued at fair value.

These financial liabilities are recognised on the settlement date principle initially at fair value, which is normally the consideration received less transaction costs directly attributable to the financial liability. Subsequently these instruments are measured at amortised cost using the effective interest method.

Hybrid debt instruments relating to equity instruments, foreign exchange, credit instruments or indexes, are treated as structured instruments. The embedded derivative is separated from the host contract and recognised as a derivative, provided that separation requirements are met, and recognised at fair value. The embedded derivative is initially recognised at fair value and subsequently reassessed. Any subsequent changes in fair value are recognised in profit and loss item 80. "Gains (losses) on financial assets and liabilities held for trading". The difference between the total amount received and the initial fair value of the embedded derivative is attributed to the host contract.

Instruments convertible into treasury shares require the recognition, at the issuing date, of a financial liability and an equity component recognised in item 160. “Equity instruments”, whenever the contractual terms provide for physical delivery. The equity component is initially measured at residual value, i.e., the overall value of the instrument less the separately determined value of a financial liability with no conversion clause and the same cash flow. The financial liability is initially recognised at amortised cost using the effective interest method.
Securities in issue are recognised net of repurchased amounts; the difference between the carrying value of the liability and the amount paid to buy it in is taken to consolidated profit and loss under item 100.d) "Gains (losses) on disposals or buy-ins of financial liabilities". Subsequent disposal by the issuer is considered as a new issue which doesn't produce gains or losses.

The Bank's consolidated debts do not include covenants (see glossary in the attachments) that would cause default or restructuring events. There are no debt instruments involving convertibility to equity instruments (under IASB IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments).
At the balance sheet date, there were no debt securities in issue, hybrid debt instruments or instruments convertible into treasury shares.

## 14 - Financial liabilities held for trading

Financial liabilities held for trading include:
- derivatives that are not designated as hedging instruments;
- obligations to deliver financial assets borrowed by a short seller (i.e., an entity that sells financial assets it does not yet own);
- financial liabilities issued with an intention to repurchase them in the near term;
- financial liabilities that are part of a portfolio of financial instruments considered as a unit and for which there is evidence of a recent pattern of trading.

HfT financial liabilities, including derivatives, are measured at fair value initially and for the life of the transaction, except for derivative liabilities settled by delivery of an unlisted equity instrument whose fair value cannot reliably be measured, and which are therefore measured at cost.

## 15 - Financial Liabilities at Fair Value through Profit or Loss

According to IAS 39, financial liabilities, as well as financial assets, may also be designated on initial recognition as measured at fair value, provided that:
- this designation eliminates or considerably reduces the discrepancy that could arise from the application of different methods of measurement of assets and liabilities and related gains or losses;

or
- a group of financial assets, financial liabilities or both are managed and measured at fair value under risk management or investment strategy which is internally documented with the entity's Board of Directors or equivalent body.

This category may also include financial liabilities represented by hybrid (combined) instruments containing embedded derivatives that otherwise should have been separated from the host contract.

These transactions are recognised in the same was as the HfT financial liabilities, with gains and losses, both realised and unrealised, recognised in item 110. "Gains (losses) on financial assets and liabilities at fair value through profit and loss".
At the balance sheet date, no financial liabilities classified as "Financial liabilities at fair value through profit and loss" were held.

## 16 - Foreign currency transactions

A foreign currency transaction is recognised at the spot exchange rate of the transaction date.

Foreign currency monetary assets and liabilities are translated at the closing rate of the period.
Exchange differences arising from settlement of monetary items at rates different from those of the transaction date and unrealised exchange rate differences on foreign currency assets and liabilities not yet settled, other than assets and liabilities designated as measured at fair value and hedging instruments, are recognised in profit and loss item 80. "Gains and losses on financial assets and liabilities held for trading" in the consolidated income statement.
Non-monetary assets and liabilities recognised at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.
Non-monetary items that are measured at fair value in a foreign currency are translated at the closing rate. The exchange differences are recognised:
- in consolidated profit and loss if the financial asset is HfT;
- in the consolidated statement of comprehensive income and shown in revaluation reserves if the financial asset is AfS.

All exchange differences recorded under revaluation reserves in consolidated shareholders' equity are also reported in the Consolidated Statement of Comprehensive Income.

## 17 - Insurance assets and liabilities

IFRS4 defines insurance contracts as those agreements based on which a party (the insurer) accepts a significant insurance risk from a third party (the insured), agreeing to pay the latter in the event of damages arising from a specific future uncertain event.
These policies are recognised briefly as follows:
- item "160. Other income (net) from insurance activities" from the consolidated income statement, of gross premiums, inclusive of any amounts accrued during the financial year as a result of the underwriting of insurance contracts, net of any cancellations. Premium transferred to reinsurers during the year is also recognised in this item;
- item "130. Technical provisions" of Liabilities, any commitments to insured parties, calculated for each contract with the projection method based on standard market demographic/financial assumptions;
- item "110. Technical provisions for re-insurers" of Assets, commitments for re-insurers.

At the Accounts date, no insurance assets and liabilities were held.

## 18 - Other information

**Business Combinations**

A business combination is a transaction through which an entity obtains control of a company or of a business segment, thus bringing together different businesses into one reporting entity.

A business combination may result in a Parent-subsidiary relationship in which the acquirer is the Parent and the acquiree a subsidiary of the acquirer.

A business combination may involve the purchase of the net assets of another entity, in which case goodwill can arise, or the purchase of the equity of the other entity (mergers).

IFRS 3 requires that all business combinations shall be accounted for by applying the purchase method, that involves the following steps:
- identifying an acquirer;
- measuring the cost of the business combination;
and
- allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.
The cost of a business combination is the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer, in exchange for control of the acquiree.

The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. When this is achieved through a single exchange transaction, the date of exchange coincides with the acquisition date.

A business combination may involve more than one exchange transaction; nevertheless, the cost of the business combination remains equal to the fair value of the total shareholding acquired. This involves the revaluation at fair value - and the recognition of the effects in the Income Statement - of the equity investments previously held in the acquired entity.

# Part A - Accounting Policies (CONTINUED)

The cost of a business combination is allocated by recognising the assets, the liabilities and the identifiable contingent liabilities of the acquired company at their acquisition-date fair value. Exceptions to this principle are deferred income tax assets and liabilities, employee benefits, indemnification assets, reacquired rights, non-current assets held for sale, and share-based payment transactions that are subject to review in accordance with the principle applicable to them.

The positive difference between the cost of the business combination and the acquirer's interest at fair value, net of the identifiable assets, liabilities and contingent liabilities, must be accounted for as goodwill.

After initial recognition, goodwill is tested for impairment at least annually.

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall reassess the fair values and immediately recognise any excess remaining after that reassessment in profit or loss. If the acquisition concerns a percentage less than 100% of the assets of the acquired company, minorities are recognised.

At the acquisition date, minorities are valued:
- al fair value, or
- as a share of minority interests in the assets, liabilities and potential liabilities that can be identified for the company acquired.

### Derecognition of financial assets
Derecognition is the removal of a previously recognised financial asset from an entity's consolidated balance sheet.

Before evaluating whether, and to what extent, derecognition is appropriate, under IAS 39 an entity should determine whether the relevant conditions apply to a financial asset in its entirety or to a part of a financial asset. The standard is applied to a part of financial assets being transferred if, and only if, the part being considered for de-recognition meets one of the following conditions:
- the part comprises only specifically identified cash flows from a financial asset (or a group of assets), e.g. interest cash flows from an asset;
- the part comprises a clearly identified percentage of the cash flows from a financial asset, e.g., a 90 per cent share of all cash flows from an asset;
- the part comprises only a fully proportionate (pro rata) share of specifically identified cash flow, e.g. 90 per cent share of interest cash flows from an asset.

In all other cases, the standard is applied to the financial asset in its entirety (or to the group of similar financial assets in their entirety).
An entity shall derecognise a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the contractual rights to receive the cash flows of the financial asset to a third party.
Rights to cash flow are considered to be transferred even if contractual rights to receive the asset's cash flow are retained but there is an obligation to pay this cash flow to one or more entities and all the following conditions are fulfilled (pass-through agreement):
- there is no obligation on the Company to pay uncollected amounts associated with the original asset;
- sale or pledge of the original asset is not allowed, unless it secures the obligation to pay cash flow;
- there is an obligation to transfer forthwith all cash flows received and may not invest them, except for liquidity invested for the short period between the date of receipt and that of payment, provided that the interest accrued in that period is paid on.

Recognition is also subject to verification of effective transfer of all the risks and rewards of ownership of the financial asset. If the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall de-recognise the asset (or group of assets) and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer.
Conversely, if the entity substantially retains all the risks and rewards of ownership of the asset (or group of assets), the entity shall continue to recognise the transferred asset(s). In this case it is necessary to recognise a liability corresponding to the amount received under the transfer and subsequently recognise all income accruing on the asset or expense accruing on the liability.
The main transactions that do not allow, under the above rules, total derecognition of a financial asset are securitisations, repurchase (sell and buy- backs) and securities lending transactions.
In the case of securitisations, the company does not de-recognise the financial asset on purchase of the equity tranche or provision of other forms of support of the structure which result in retention by the company of the credit risk of the securitised portfolio.
In the case of repurchase transactions and stock lending, the assets transacted are not derecognised since the terms of the transaction entail the retention of all their risks and rewards.
Lastly, it should be noted that securities lending transactions collateralised by other securities or not collateralised were recorded as off-balance sheet items.
At the reporting date, no loan securitisation transactions were present.

### Repos and securities lending
Securities received in a transaction that entails a contractual obligation to sell them at a later date or delivered under a contractual obligation to repurchase are neither recognised nor derecognised. In respect of securities purchased under an agreement to resell, the consideration is recognised as a loan to customers or banks, or as an assets held for trading; in respect of securities held in a repurchase agreement, the liability is recognised as due to banks or customers, or as financial liabilities held for trading. Revenue from these loans, being the coupons accrued on the securities and the difference between the sale/purchase and resale/repurchase prices, is recognised in profit or loss through interest income and expenses on an accruals basis.

These transactions can only be offset if, and only if, they are carried out with the same counterparty and provided that such offset is provided for in the underlying contracts.
The same rules apply to securities lending transactions collateralised by cash fully available to the lender.
The profit or loss items connected with these transactions are booked respectively:
• in the item Interest, for the positive component (borrower) and the negative component (lender) related to the return on cash paid to the lender;
• in the item Fees and commissions, for the negative component (borrower) and the positive component (lender) related to the service received (provided) through the provision of the security by the lender.
With reference to securities lending transactions collateralised by other securities, or not collateralised, the security lent or the security put up as collateral are still recognised as assets in the consolidated balance sheet, depending on the role - lender or borrower, respectively - played in the transaction.
Counterparty risk related to the latter types of securities lending or borrowing transactions is shown under the off-balance sheet exposures in the tables of Part E - Section 1 - Credit risk - A. Credit quality.

### Equity instruments

Equity instruments represent a residual interest in assets of the Company, net of liabilities. An instrument is classified as equity instrument if there are no contractual obligations to make payments in the form of principal, interest or other types of returns.
Specifically, instruments that meet the following requirements are classified as equity instruments:
• unlimited term or at least equal to the term of the company;
• full discretion of the issuer in coupon payments and redemptions, also advanced, of the principal outstanding.

Equity instruments include Additional Tier 1 instruments under Regulation (EU) No. 575/2013 (CRR) on prudential requirements for credit institutions and investment firms, which in addition to the above characteristics:
(i) maintain the issuer's full discretion as to the reinstatement of the nominal value (write-up) following a capital event that resulted in a write-down;
(ii) do not include provisions that require the issuer to make payments (must pay clauses) as a result of actual events under the control of the parties.
Equity instruments other than ordinary or savings shares, are classified in item 160. "Equity instruments" for the amount received including transaction costs attributable to the transaction. Any coupons paid, net of related taxes, are deducted from Item 170. "Reserves".
Any difference between the amount paid for extinguishing or repurchasing these instruments and their book value is recognised in item 170. "Reserves".
At the reporting date, no "Equity instruments" were issued.

### Treasury Shares

Changes in treasury shares are reported as a direct contra item to shareholders' equity, i.e. as a reduction to the latter in the amount of any purchases, and as an increase in the amount of any sales proceeds. This entails that, if treasury shares are subsequently sold, the difference between the sale price and the related post-tax repurchase cost is recognised entirely as a contra item to shareholders' equity.

### Provisions for employee severance pay

The "TFR" provision for Italy-based employee benefits is to be construed as a "post-retirement defined benefit". It is therefore recognised on the basis of an actuarial estimate of the amount of benefit accrued by employees discounted to present value. This benefit is calculated by an external actuary using the unit credit projection method (see Section 12 - under Provisions for Risks and Charges - Retirement Payments and Similar Obligations). This method distributes the cost of the benefit evenly over the employee's working life. The liability is determined as the present value of average future payments adjusted according to the ratio of years of service to total years of service at the time of payment of the benefit.
Following pension reform by Law 252 of December 5, 2005, TFR instalments accrued to December 31, 2006 (or to the date between January 1, 2007 and June 30, 2007 on which the employee opted to devolve their TFR to a supplementary pension fund) stay in the employer and are considered a post-employment defined benefit plan therefore incurring actuarial valuation, though with simplified actuarial assumptions, i.e., forecast future pay rises are not considered.
TFR instalments accrued since January 1, 2007 (date of Law 252 coming into effect) (or since the date between January 1, 2007 and June 30, 2007) are, at the employee's discretion, either paid into a pension fund or left in the company and (where the company has in excess of 50 employees) paid into an INPS Treasury fund by the employer, and are assimilated to a defined-contribution plan.
Costs relating to TFR are recognised in the Consolidated Income Statement in item 180.a) "Administrative costs: staff expenses" and include, for the part of the defined benefit plan: (i) interest cost accrued in the year, for the part of plan considered defined contribution plan (ii) the accrued instalments for the year paid into the complementary pension scheme or to the Treasury fund of INPS.
Actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of obligations at period end, are recognised in Shareholders' equity under the Revaluation reserves in accordance with IAS 19 Revised and are also shown in the Consolidated Statement of Comprehensive Income.

### Share-Based Payment

Equity-settled payments made to employees or other staff (in particular, personal financial advisors) in consideration of work services rendered or other goods received or services rendered, using shares of FinecoBank or the Group parent, which consist of:
- stock options;
- rights to receive shares upon attainment of certain objectives ("performance shares"), which are settled with equity instruments;
- Performance shares (i.e. awarded on attainment of certain objectives) settled in cash.

# Part A - Accounting Policies (Continued)

Considering the difficulty of reliably measuring the fair value of the services acquired against equity-settled payments, reference is made to the fair value of the instruments, measured at the date of their allocation.
The fair value of equity-settled payments or the purchase on the market of shares in FinecoBank in exchange of work or services is recognised as cost in consolidated profit and loss item 180. "Administrative costs" or 50. "Fee and commission expense" as a contra-entry to item 170. "Reserves" in consolidated equity, on an accruals basis over the period in which the services are acquired.
As for share-based payments settled in cash in favour of personal financial advisors, the services acquired and the liabilities assumed are measured at the latter's fair value, recognised in Item 100. "Other Liabilities". Until the liability is settled, the fair value is recalculated at each balance sheet date until the settlement date, and all changes in fair value are recognised in item 50. "Fee and commission expense".
Share based payments consisting in the payment of shares of the Parent Company directly allocated to employees of the Group Companies that involve settlement with shares of the Parent Company, under arrangements between the Company and the Parent Company for their cash settlement, are measured at fair value, calculated when the related rights are assigned, recognised as a cost in consolidated profit and loss item 180 "Administrative costs", as a contra entry to item. 100. "Other Liabilities", on an accruals basis over the period in which the services are acquired.

### Other Long-term Employee Benefits

Long-term Employee Benefits are recognised in item 100. "Other liabilities" on the basis of the measurement of the liability at the balance sheet date.

### Guarantees given and credit derivatives treated as equivalent

Guarantees given and credit derivatives treated as equivalent, in accordance with IAS 39 (contracts that require the issuer to make specified payments to the holder to indemnify the latter for actual losses borne due to the default of a specific debtor on payment at a maturity set by a debt instrument) are recognised in item 100. "Other Liabilities".
On first recognition guarantees given are recognised at fair value, which usually corresponds to the amount received when the guarantee is issued. After initial recognition, guarantees given are recognised at the greater of the initially recognised value, net of any amortised portion, and the estimated amount required to meet the obligation.
The effects of valuation, related to any impairment of the underlying, are recognised in the same balance-sheet item contra item 130.d) "Impairment losses/write-backs on other financial transactions" in the consolidated income statement.

### Offsetting Financial assets and Financial liabilities

The accounting offsetting of assets and liabilities items has been performed according to IAS 32, assessing the fulfilment of the following requirements:
- current legal enforceable right to set off the recognised amounts;
- intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accordance with IFRS 7, further information has been included in the table of the Notes to the consolidated accounts, in Part B - Other information.
Those tables show the following in particular:
- the carrying amounts, before and after the accounting offsetting effects, related to the financial assets and liabilities that meet the criteria for applying those effects;
- the amount of the exposures that do not meet the above mentioned criteria, but are included in master netting agreements, or similar agreements, that create the right to set-off only under specific circumstances (e.g., default events);
- the amount of the related collateral.

## RECOGNITION OF INCOME AND EXPENSES

### Interest Income and Expense

Interest income and expense and similar income and expense items relate to monetary items - i.e., liquidity and debt, financial instruments held for trading, measured at fair value through profit or loss or available for sale -, HtM financial assets, loans and receivables, deposits, and debt securities in issue.
Interest income and expense are recognised through profit or loss with respect to all instruments measured at amortised cost, using the effective interest method.
Interest also includes the net credit or debit balance of differentials and margins on financial derivatives:
- hedging interest-bearing assets and liabilities;
- HfT but linked for business purposes to assets and liabilities designated as measured at fair value (fair value option);
- linked for business purposes to HfT assets and liabilities paying differentials or margins on different maturities.

### Fees and Commissions

Fees and commissions are recognised according to the provision of the services from which they have arisen.
Securities trading commission is recognised at the time the service is rendered. Advisory fees and investment fund management fees are recognised on a pro-rata temporis basis.
Fees included in amortised cost used to calculate effective interest rates are not included under fees and commissions, since they are part of the effective interest rate.

### Dividends

Dividends are recognised in consolidated profit or loss in the financial year in which their distribution has been approved.

# RELEVANT IFRS DEFINITIONS

The main definitions introduced by IFRS are described below, other than those dealt with in previous sections.

## Amortised cost

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of allocating the interest income or interest expense over the life of a financial asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Commissions forming an integral part of the effective interest rate include loan drawdown fees or underwriting fees relating to a financial asset not designated at fair value, e.g., fees received as compensation for the assessment of the issuer's or borrower's financial situation, for valuation and registration of security, and generally for the completion of the transaction (management fees).

Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

## Impairment of financial assets

At each balance sheet date an entity assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to our attention about the following loss events:

a) significant financial difficulty of the issuer or obligor;

b) a breach of contract, such as a default or delinquency in interest or principal payments;

c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower which the lender would not otherwise consider;

d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

e) the disappearance of an active market for that financial asset because of financial difficulties; however, the disappearance of an active market due to the fact that a company's financial instruments are no longer traded publicly is no evidence of impairment;

f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets, including:
- adverse changes in the payment status of borrowers;

or
- national or local economic conditions that correlate with defaults on the assets.

Objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in consolidated profit and loss item 130. "Impairment losses/writebacks" and the asset's carrying value is reduced.

For instruments classified as available-for-sale financial assets that amount is equal to the balance of the negative valuation Reserve (see chapter 2 - Available-for-sale financial assets).

If the terms of a loan, receivable or held-to-maturity investment are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. If a loan, receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

# Part A - Accounting Policies (Continued)

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.
A reduction in the fair value of a financial asset below its cost or amortised cost is not necessarily an indication of impairment (e.g. reduction in the fair value of an investment in a debt instrument resulting from an increase in the risk-free interest rate).
Objective evidence of impairment is initially assessed individually; however, if it is determined that there is no objective evidence of individual impairment, the asset is included in a group of financial assets with similar credit risk characteristics and assessed collectively.

Formula-based approaches and statistical methods may be used to assess impairment losses on a group of financial assets. Models used incorporate the time value of money, and consider cash flows over the entire residual life of the asset (not just the following year) and do not give rise to an impairment loss on initial recognition of a financial asset. They take into account losses already sustained but not manifest in the group of financial assets at the time of measurement, on the basis of past experience of losses on assets having a similar credit risk to the group of assets being measured.
The process of estimating impairment losses considers all credit exposures, not only those of low credit quality, which reflect a serious impairment.

**Reversals of impairment losses**
If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed. The amount of the reversal is recognised in consolidated profit and loss item 130. "Impairment losses/writebacks" except in the case of AfS equity instruments (see Section 2 - Available-for-sale financial assets).
The reversal shall not result - at the date the impairment is reversed - in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised.

## A.3 Disclosure on transfers between portfolios of financial assets

IAS 39 and IFRS 7 allow certain financial assets to be reclassified, after initial recognition, from the “Financial assets held for trading” and “Available-for-sale financial assets” portfolios.
Specifically, the following may be reclassified:
- the financial assets held for trading or available for sale that would have satisfied the definition established by the international accounting standards for the loan portfolio (if those assets had not been respectively classified as held for training or available for sale on initial recognition) if the entity intends, and is able, to hold them for the foreseeable future or until maturity;
- "only in rare circumstances" the financial assets held for trading that did not satisfy the definition of loans upon initial recognition.

The Bank has not reclassified any financial assets from the "held-for-trading" or the portfolio to the loan portfolio.
In 2016, the Bank reclassified the "Available-for-sale financial assets" consisting of Italian and Spanish government securities to the Held-to-maturity investments portfolio, for a fair value, at the reclassification date, of €2,121,923 thousand. The reclassification was consistent with the Bank’s objective of obtaining stable income flows over the medium/long-term and in line with the business and financial outlooks stated by the Bank in its planning.
The tables below show the book value and the fair value as at December 31, 2017 of the assets reclassified in 2016, as well as the profit or loss items relating to those assets, distinguishing between those that would have been recorded if the transfer had not been made and those that were actually recorded in consolidated profit or loss or in consolidated equity, and the effects on consolidated comprehensive income.
The profit or loss items, before tax, are further separated between those arising “from measurement” (including any write-downs) and “other” (including interest and gains/losses on the disposal of the transferred assets).
The net result that would have been recognised through consolidated profit or loss for the year 2017 after the transfer, if these assets had not been reclassified, would have been a gain of €11,325 thousand, whereas the impact actually recognised after the transfer was a gain of €11,332 thousand.
The result of the valuations that would have been recognised in consolidated equity for the year 2017 after the transfer, if these assets had not been reclassified, would have been a gain of €8,875 thousand.

## A.3.1 Reclassified financial assets: book value, fair value and effects on comprehensive income

(Amounts in € thousand)

| TYPE OF FINANCIAL INSTRUMENT (1) | SOURCE PORTFOLIO (2) | TARGET PORTFOLIO (3) | BOOK VALUE AS AT 12.31.17 | FAIR VALUE AS AT 12.31.17 | INCOME ITEMS WITHOUT TRANSFER (BEFORE TAX) | | INCOME ITEMS RECOGNISED DURING THE YEAR (BEFORE TAX) | |
|---|---|---|---|---|---|---|---|---|
| | | | | | VALUATION (6) | OTHER (7) | VALUATION (8) | OTHER (9) |
| Debt securities | Available-for-sale financial assets | Held-to-maturity investments | 2,098,744 | 2,122,498 | 8,875 | 11,325 | - | 11,332 |

## A.3.2 Reclassified financial assets: Impact on comprehensive income before transfer

No data to report.

## A.3.3 Transfer of financial assets held for trading

No data to report.

## A.3.4 Effective interest rate and cash flows expected from reclassified assets

No data to report.

# A.4 Information on fair value

**Qualitative information**

This section presents a disclosure on fair value hierarchy as required by IFRS 13.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date (i.e. an exit price).

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

For financial instruments listed in active markets, fair value is determined on the basis of official prices in the principal market (most advantageous) to which the Bank has access (Mark to Market).

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from a pricing service, dealer, broker, agency that determines prices or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value is determined on the basis of the relevant market prices for the component parts.
If market quotations or other observable inputs, such as the quoted price of a similar instrument in an inactive market, are not available, the Bank should use other valuation techniques, such as:
(i) a market approach (e.g. using quoted prices for similar liabilities or equity instruments held by other parties as assets);
(ii) cost approach (e.g. it reflects the amount that would be required currently to replace the service capacity of an asset, that is the current replacement cost);
(iii) An income approach (e.g. a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset).

The Bank uses valuation models (Mark to Model) in keeping with the methods generally accepted and used by the market. Valuation models include techniques based on the discounting of future cash flows and on volatility estimates, and they are subject to revision both during their development and periodically in order to ensure their consistency with the objectives of the valuation.

These methods use inputs based on prices set in recent transactions for the instrument being valued and/or prices/quotations for instruments having similar characteristics in terms of risk profile.

# Part A - Accounting Policies (Continued)

Indeed, these prices/quotations are relevant for determining significant parameters in terms of the credit risk, liquidity risk and price risk of the instrument being valued. Reference to these "market" parameters makes it possible to limit the discretionary nature of the valuation, and ensures that the resulting fair value can be verified.
If, for one or more risk factors it is not possible to refer to market data, the valuation models employed use estimates based on historical data as inputs.

As a further guarantee of the objectivity of valuations derived from valuation models, the Bank employs:
- independent price verifications (IPVs);
- fair Value Adjustment or FVAs.

Independent price verification requires that the prices are verified monthly by Risk Management units that are independent from the units that assume the risk exposure. This verification calls for comparing and adjusting the daily price in line with valuations obtained from independent market participants. For instruments not listed in active markets, the above verification process uses prices contributed by infoproviders as a reference, and assigns a greater weighting to those prices that are considered representative of the instrument being valued. This valuation includes: the "executability" of the transaction at the price observed, the number of contributors, the degree of similarity of the financial instruments, the consistency of prices from different sources, and the process followed by the infoprovider to obtain the information.

## A.4.1 Fair value levels 2 and 3: valuation techniques and input used

To determine the fair value of Level 2 and Level 3 financial instruments that are not listed and actively traded on the market, the Bank utilises the valuation techniques widely-used in the market that are described below.

**Discounted cash flow**

Discounted cash flow valuation techniques generally consist of developing an estimate of future cash flows that are expected to occur over the life of an instrument. The model requires the estimation of the cash flow and the adoption of market's parameters for the discounting: discount rate or discount margin reflects the credit and / or funding spreads required by the market for instruments with similar risk and liquidity profiles to produce a "present value". The fair value of the contract is given by the sum of the present values of future cash flow.

**Internal valuation models - Market multiples**

The market multiples approaches based on the price of can parable assets (listed companies belonging to the same industry sector) applied to the fashion and shall statement figures and therefore represents the relationship between the price (capitalisation) and the financial statement figures. The financial statements most commonly used are earnings, shareholders' equity and sales.

***Fair Value Adjustments (FVAs)***

Fair value adjustment is defined as the amount to be added either to the market observed mid-price or to the theoretical price generated by a valuation model with the aim of obtaining a fair value of the position. The FVA thus ensure that fair value reflects the realisation amount from an actual possible market transaction.

## A.4.2 Valuation processes and sensitivity of fair value measurements

The Bank verifies that the value attributed to each trading position reflects the current fair value in an appropriate way. The fair value measurement of assets and liabilities is calculated using various techniques, including discounted cash flow models and internal measurement models. On the basis of the observability of the input used, all instruments are classified as Level 1, Level 2 or Level 3 of the fair value hierarchy. When a position is characterised by one or more significant inputs that are not directly observable, a further price verification procedure is implemented. These procedures include the revision of relevant historical data, the analysis of profits and losses, the individual valuation of each component for structural products and benchmarking. According to the Parent Group Market Risk Governance guidelines, in order to ensure the appropriate level of separation between the functions in charge of development activities and those in charge of validation processes, all valuation models developed by the front offices of Group companies are independently and centrally tested and validated by the Group Internal Validation functions. The aim of this independent control structure is to evaluate the model risk deriving from theoretical robustness, calibration techniques where applicable and appropriateness of the model for a specific product in a defined market point of views.
In addition to the daily mark to market or mark to model valuation, the Independent Price Verification (IPV) is applied monthly by the Bank's Market Risk with the aim of guaranteeing an independent fair value.

## A.4.3 Fair value hierarchy

The IFRS 13 principle establishes a fair value hierarchy according to the observability of the input used in the valuation techniques adopted.
In particular, three levels are considered:
- Level 1: the fair value of instruments classified in this level is determined based on quotation prices observed in active markets;
- Level 2: fair value for instruments classified within this level is determined according to the valuation models which use observable market inputs;
- Level 3: fair value for instruments classified within this level is determined according to valuation models which prevalently use significant inputs not observable on active markets.

## A.4.4 Other information

Hereby we provide IFRS 13 disclosure requirements.

### Assets and liabilities measured at fair value on recurring basis

#### *Fixed Income Securities*

Fixed Income Securities are priced in a two-tier process depending on the liquidity in the respective market. Liquid instruments in active markets are marked to market and consequently positions in these instruments are disclosed in reference to Fair Value Hierarchy under Level 1.

Instruments not traded in active markets are marked to model based on implied credit spread curves derived from the former Level 1 instruments. The model maximises the use of observable input and minimises the use of unobservable inputs. With this respect, depending on the proximity of the credit spread curve applied, the bonds are disclosed as Level 2 or Level 3 respectively; Level 3 is applied in case a significant unobservable credit spread is used.

In the global bond Independent Price Verification (IPV) process market prices of Level 1 bonds and pricing models for illiquid bonds are regularly verified for accuracy.

#### *Structured Financial Products*

The Bank determines the fair value of structured financial products using the appropriate valuation methodology given the nature of the embedded structure. Such instruments are classified as Level 2 or Level 3 depending on the observability of significant inputs to the model.

#### *OTC derivatives*

Fair value of derivatives not traded in an active market is determined using a valuation technique. In such cases, where active markets exist for the components of the derivative, fair value is determined on the basis of the market prices for the individual components. Valuation techniques that are based on significant inputs that are observable are referred to as Level 2 valuations, while those based on techniques that use unobservable inputs are referred to as Level 3 valuations.

#### *Equity Instruments*

Equity Instruments are assigned to Level 1 when a quoted price is available on an active market and to Level 3 when no quotations are available or quotations have been suspended indefinitely. These instruments are classifies as Level 2 only when trading volume on the market where the instrument is quoted has decreased significantly. For equity instruments measured at cost an impairment is given, if the carrying amount exceeds the recoverable amount significantly and/or over a prolonged period of time.

For the measurement of the Visa INC class "C" preferred shares, the Bank has adopted the model developed by the Parent Company to determine the fair value that converts the market price in dollars of the Visa INC class "A" shares into euro and applies a discount factor of 16%, determined by estimating the litigation risk (8%) and the illiquidity risk (8%). The litigation risk component was extracted from historical series of data provided by Visa INC, whereas the illiquidity risk component was derived from the illiquidity of the shares, which have limitations on their transferability for a particular period. The Visa INC class "C" preferred shares were assigned a fair value hierarchy of 3.

The equity instruments recognised in relation to the result of the contribution made to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund, net of the amount derecognised in the year as earmarked for the recapitalisation of the three banks and deemed to be no longer recoverable as a result of their sale to Crédit Agricole Cariparma, were valued by aligning the fair value of the mezzanine and junior securities issued to securitise the NPLs of the three banks, provided by the IDGF and resulting from the analysis of the advisor tasked with the valuation of underlying receivables, calculated using a discounted cash flow model based on recovery forecasts formulated by special servicers. These equities were classed as fair value 3.

#### *Investment Funds*

The investment funds calculate the Net Asset Value (NAV) per unit and may include investments in funds managed by the Group.

### Assets and liabilities not measured fair value or measured at fair value on a non-recurring basis

For these financial instruments fair value is calculated for disclosure purposes only and does not impact the balance sheet or the profit or loss. Additionally, since these assets and liabilities are not generally traded, there is significant management judgment required to determine their fair values as defined by IFRS 13.

#### *Loans and receivables with banks and customers*

Fair value for performing Loans and Receivables from customers and banks, recorded ad amortised cost, is determined using the discounted cash flow model adjusted for credit risk. Some portfolios are valued using simplified approaches, which however take into account their financial characteristics. Loans and receivables with banks and customers with a duration of less than 12 months for which the fair value was estimated to be equal to the book value have been assigned the level 3 fair value hierarchy.

For the UniCredit securities classified in the “Loans and Receivables” portfolio, fair value level 2 has been calculated using the Group's methodology based on discounted cash flow, which consists of producing an estimate of the estimated cash flows over the life of the instrument and discounting at a rate that incorporates the credit spread. The credit spread is calculated based on the credit spread curve of the issuer, constructed by selecting issues, also from the second market, with the same specific characteristics.

# Part A - Accounting Policies (Continued)

### *Liabilities*

Fair value for liabilities, recorded at amortised cost, is determined using the discounted cash flow model adjusted for UniCredit credit risk. The Credit Spread is determined using UCG's subordinated and non-subordinated risk curves. Deposits from banks and customers with a duration of less than 12 months for which the fair value was estimated to be equal to the book value have been assigned the level 3 fair value hierarchy.

### *Cash and cash balances*

Cash and cash balances are not carried at fair value on the Balance Sheets, but they are carried at amounts that approximate fair value, due to their short term nature and generally negligible credit risk.

### A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by level of fair value

(Amounts in € thousand)

| ASSETS/LIABILITIES DESIGNATED AT FAIR VALUE | 12.31.2017 | | | 12.31.2016 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Financial assets held for trading | 6,030 | 4,834 | 15 | 2,920 | 3,114 | 10 |
| 2. Financial assets designated at fair value through profit or loss | - | - | - | - | - | - |
| 3. Available-for-sale financial assets | 1,042,465 | - | 5,224 | 1,316,221 | - | 3,531 |
| 4. Hedging derivatives | - | 458 | - | - | 552 | - |
| 5. Property, plant and equipment | - | - | - | - | - | - |
| 6. Intangible assets | - | - | - | - | - | - |
| **Total** | **1,048,495** | **5,292** | **5,239** | **1,319,141** | **3,666** | **3,541** |
| 1. Financial liabilities held for Trading | 2,032 | 579 | 6 | 2,004 | 622 | - |
| 2. Financial liabilities designated at fair value through profit or loss | - | - | - | - | - | - |
| 3. Hedging derivatives | - | 12,694 | - | - | 10,914 | - |
| **Total** | **2,032** | **13,273** | **6** | **2,004** | **11,536** | **-** |

**Key:**
L1 = Level 1
L2 = Level 2
L3 = Level 3

In 2017 there were no transfers between levels of fair value hierarchy (level 1 and level 2).
Credit Value Adjustment (CVA) and/or Debit Value Adjustment (DVA) have not been applied in determining the fair value of derivative financial instruments.

### A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

(Amounts in € thousand)

| | FINANCIAL ASSETS HELD FOR TRADING | FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS | AVAILABLE-FOR-SALE FINANCIAL ASSETS | HEDGING DERIVATIVES | PROPERTY, PLANT AND EQUIPMENT | INTANGIBLE ASSETS |
|---|---|---|---|---|---|---|
| **1. Opening balance** | **10** | **-** | **3,531** | **-** | **-** | **-** |
| **2. Increases** | | | | | | |
| 2.1 Purchases | 5,393 | - | 13,609 | - | - | - |
| 2.2 Profits recognised in: | | | | | | |
| 2.2.1 Income Statement | 16 | - | - | - | - | - |
| - of which Unrealised gains | 6 | - | - | - | - | - |
| 2.2.2 Shareholders' Equity | X | X | 975 | - | - | - |
| 2.3 Transfers from other levels | - | - | - | - | - | - |
| 2.4 Other increases | - | - | - | - | - | - |
| **3. Decreases** | | | | | | |
| 3.1 Sales | (5,396) | - | - | - | - | - |
| 3.2 Redemptions | - | - | - | - | - | - |
| 3.3 Losses recognised in: | | | | | | |
| 3.3.1 Income Statement | (8) | - | (12,891) | - | - | - |
| - of which Unrealised losses | (1) | - | (3,995) | - | - | - |
| 3.3.2 Shareholders' Equity | X | X | - | - | - | - |
| 3.4 Transfers to other levels | - | - | - | - | - | - |
| 3.5 Other decreases | - | - | - | - | - | - |
| **4. Closing balances** | **15** | **-** | **5,224** | **-** | **-** | **-** |

The sub-items 2.2.1 Profits through profit and loss and 3.3.1 Losses through profit and loss are included, where present, in Consolidated Profit and Loss in the following items:

- Item 80: Gains (losses) on financial assets and liabilities held for trading;
- Item 110: Gains (losses) on financial assets and liabilities at fair value through profit and loss;

• Item 90: Fair value adjustments in hedge accounting.
The sub-items 2.2.2 Profits recognised in equity and 3.3.2 Losses recognised in equity arising from changes in fair value of Available-for-sale financial assets are recognised, if any, in equity item 140. Consolidated "Revaluation reserves" - except losses due to impairment and exchange rate gains or losses on monetary items (debt instruments) which are recognised under item 130. b) "Impairment losses/writebacks on AfS financial assets" and item 80. "Gains (losses) on financial assets and liabilities held for trading" of the consolidated income statement, respectively - until the financial asset is sold, at which time cumulative gains and losses are recognised in consolidated profit or loss in item 100.b) "Gains (losses) on disposal or repurchase of AfS financial assets".

### A.4.5.3 Annual changes in financial liabilities measured at fair value level 3 on a recurring basis

(Amounts in € thousand)

| | FINANCIAL LIABILITIES HELD FOR TRADING | FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS | HEDGING DERIVATIVES |
|---|---|---|---|
| **1. Opening balance** | **-** | **-** | **-** |
| **2. Increases** | | | |
| 2.1 Issues | - | - | - |
| 2.2 Losses allocated to: | | | |
| 2.2.1 Income Statement | 6 | - | - |
| - of which capital losses | 6 | - | - |
| 2.2.2 Shareholders' Equity | X | X | - |
| 2.3 Transfers from other levels | - | - | - |
| 2.4 Other increases | - | - | - |
| **3. Decreases** | | | |
| 3.1 Reimbursements | - | - | - |
| 3.2 Repurchases | - | - | - |
| 3.3 Profits recognised: | | | |
| 3.3.1 Income statement | - | - | - |
| - of which capital gains | - | - | - |
| 3.3.2 In equity | X | X | - |
| 3.4 Transfers to other levels | - | - | - |
| 3.5 Other decreases | - | - | - |
| **4. Closing balances** | **6** | **-** | **-** |

The sub-items 2.2.1 Losses through profit and loss and 3.3.1 Profits through profit and loss from financial liabilities are included, where present, in Consolidated Profit and Loss in the following items:
• Item “80: Gains (losses) on financial assets and liabilities held for trading”;
• Item “110: "Gains (losses) on financial assets and liabilities at fair value through profit and loss”;
• Item “90: Fair value adjustments in hedge accounting”.

### A.4.5.4 4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by level of fair value

(Amounts in € thousand)

| ASSET/LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR ON A NON-RECURRING BASIS | 12.31.2017 | | | | 12.31.2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | L1 | L2 | L3 | BV | L1 | L2 | L3 |
| 1. Held to maturity investments | 4,826,390 | 4,855,200 | - | - | 2,437,777 | 2,454,979 | - | - |
| 2. Loans and receivables with banks | 13,878,117 | - | 11,311,889 | 3,039,207 | 15,735,540 | - | 12,330,314 | 3,680,608 |
| 3. Loans and receivables with customers | 2,129,219 | - | - | 2,204,926 | 1,016,798 | - | - | 1,044,613 |
| 4. Property, plant and equipment held for investment | 2,304 | - | - | 3,491 | 2,397 | - | - | 4,535 |
| 5. Non-current assets and disposal groups classified as held for sale | - | - | - | - | - | - | - | - |
| **Total** | **20,836,030** | **4,855,200** | **11,311,889** | **5,247,624** | **19,192,512** | **2,454,979** | **12,330,314** | **4,729,756** |
| 1. Deposits from banks | 926,001 | - | - | 926,001 | 1,111,106 | - | - | 1,111,106 |
| 2. Deposits from customers | 20,205,036 | - | 9,622 | 20,195,477 | 18,801,073 | - | 21,894 | 18,779,261 |
| 3. Debt securities in issue | - | - | - | - | - | - | - | - |
| 4. Liabilities included in disposal groups classified as held for sale | - | - | - | - | - | - | - | - |
| **Total** | **21,131,037** | **-** | **9,622** | **21,121,478** | **19,912,179** | **-** | **21,894** | **19,890,367** |

Legenda:
L1 = Level 1 - L2 = Level 2 - L3 = Level 3 - BV = Book Value

Property, plant and equipment held for investment consist of two properties held by the Bank, the fair value of which corresponds to the market value as determined by an appraisal carried out by an external and independent valuation firm.

# Part A - Accounting Policies (Continued)

## A.5 Day-one profit/loss

Financial instruments are initially recognised at fair value on the recognition date.
The fair value of financial instruments, other than those measured at fair value through consolidated profit or loss, at the recognition date is usually assumed to be equal to the amount collected or paid.
For financial instruments held for trading and financial instruments measured at fair value, any difference from the amount collected or paid is recognised in the appropriate line items of the consolidated income statement upon initial measurement of the financial instrument.
The use of prudent valuation models, the review processes of these models and their parameters and value adjustments to reflect model risk ensure that the amount recognised in the consolidated income statement is not derived from the use of unobservable valuation parameters. In particular, the quantification of the value adjustments relating to the risk model ensures that the part of the fair value of these instruments that refers to the use of subjective parameters is not recognised through consolidated profit or loss, but rather as an adjustment to the equity value of those instruments. Accordingly, this item is only subsequently recognised through consolidated profit or loss when there is a predominance of objective parameters and, consequently, when the mentioned adjustments are no longer required.

There are no day-one profits/losses to disclose in accordance with paragraph 28 of IFRS 7.

# Part B - Consolidated Balance Sheet

# Part B - Consolidated Balance Sheet

## Assets

### Section 1 - Cash and cash balances - Item 10

**1.1 Cash and cash balances: breakdown**

(Amounts in € thousand)

| | TOTAL 12.31.2017 | TOTAL 12.31.2016 |
|---|---|---|
| (a) Cash | 613 | 5 |
| (b) Demand deposits with central banks | - | - |
| **Total** | **613** | **5** |

### Section 2 - Financial assets held for trading - Item 20

**2.1 Financial assets held for trading: product breakdown**

(Amounts in € thousand)

| | TOTAL 12. 31.2017 | | | TOTAL 12. 31.2016 | | |
|---|---|---|---|---|---|---|
| ITEM/AMOUNT | LEVEL 1 | LEVEL 2 | LEVEL 3 | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| **A. On-balance sheet assets** | | | | | | |
| 1. Debt securities | 18 | 30 | - | 44 | - | - |
| 1.1 Structured securities | 3 | - | - | 4 | - | - |
| 1.2 Other debt securities | 15 | 30 | - | 40 | - | - |
| 2. Equity instruments | 2,288 | - | 9 | 1,125 | - | 10 |
| 3. Units in investment funds. | 2,019 | - | - | 1 | - | - |
| 4. Loans | - | - | - | - | - | - |
| 4.1 Reverse repos | - | - | - | - | - | - |
| 4.2 Others | - | - | - | - | - | - |
| **Total A** | **4,325** | **30** | **9** | **1,170** | **-** | **10** |
| **B. Derivatives** | | | | | | |
| 1. Financial derivatives | 1,705 | 4,804 | 6 | 1,750 | 3,114 | - |
| 1.1 trading derivatives | 1,705 | 4,804 | 6 | 1,750 | 3,114 | - |
| 1.2 related to the fair value option | - | - | - | - | - | - |
| 1.3 other | - | - | - | - | - | - |
| 2. Credit derivatives | - | - | - | - | - | - |
| 2.1 trading derivatives | - | - | - | - | - | - |
| 2.2 related to the fair value option | - | - | - | - | - | - |
| 2.3 other | - | - | - | - | - | - |
| **Total B** | **1,705** | **4,804** | **6** | **1,750** | **3,114** | **-** |
| **Total (A+B)** | **6,030** | **4,834** | **15** | **2,920** | **3,114** | **10** |

Financial derivatives refer to the positive valuation of CFD contracts on Forex, indices, shares and interest rates and Futures used for the operational hedging of CFDs on indices and interest rates. They amounted to €4,756 thousand (€3,009 thousand as at December 31, 2016).

Sub-item B.1.1 Derivative instruments - Trading financial derivatives includes the positive valuations of spot contracts for securities classified in the HFT portfolio and currencies to be settled in times established by market practices ("regular way"). They amounted to €1,758 thousand (€1,855 thousand as at December 31, 2016).

### 2.2 Financial assets held for trading: breakdown by issuer/borrower

(Amounts in € thousand)

| ITEM/AMOUNT | TOTAL 12.31.2017 | TOTAL 12.31.2016 |
|---|---|---|
| **A. ON-BALANCE SHEET ASSETS** | | |
| **1. Debt securities** | **48** | **44** |
| a) Governments and central banks | 11 | 6 |
| b) Other public entities | - | - |
| c) Banks | 37 | 38 |
| d) Other issuers | - | - |
| **2. Equity Instruments** | **2,297** | **1,135** |
| a) Banks | 1 | 113 |
| b) Other issuers: | 2,296 | 1,022 |
| *- insurance companies* | *-* | *10* |
| *- financial companies* | *95* | *47* |
| *- non-financial companies* | *2,201* | *965* |
| *- other* | *-* | *-* |
| **3. Units in investment funds.** | **2,019** | **1** |
| **4. Loans** | **-** | **-** |
| a) Governments and central banks | - | - |
| b) Other public entities | - | - |
| c) Banks | - | - |
| d) Other entities | - | - |
| **Total A** | **4,364** | **1,180** |
| **B. DERIVATIVES** | | |
| a) Banks | | |
| - fair value | 346 | 270 |
| b) Customers | | |
| - fair value | 6,169 | 4,594 |
| **Total B** | **6,515** | **4,864** |
| **Total (A+B)** | **10,879** | **6,044** |

Item B. Derivative instruments also includes the positive valuations of spot contracts for securities classified in the HFT portfolio and currencies to be settled within times established by market practices ("regular way").
Equity securities of issuers in default were classified by the Bank as non-performing in the financial statements for a total amount of €6 thousand.

## Section 3 - Financial assets at fair value through profit or loss - Item 30

No financial assets were recorded under the balance-sheet item “Financial assets designated at fair value through profit or loss”.

## Section 4 - Available-for-sale financial assets - Item 40

### 4.1 Available-for-sale financial assets: product breakdown

(Amounts in € thousand)

| | TOTAL 12.31.2017 | | | TOTAL 12.31.2016 | | |
|---|---|---|---|---|---|---|
| ITEM/AMOUNT | LEVEL 1 | LEVEL 2 | LEVEL 3 | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| 1. Debt securities | 1,042,465 | - | - | 1,316,221 | - | - |
| 1.1 Structured securities | - | - | - | - | - | - |
| 1.2 Other debt securities | 1,042,465 | - | - | 1,316,221 | - | - |
| 2. Equity Instruments | | - | 5,224 | | - | 3,531 |
| 2.1 Carried at fair value | - | - | 5,219 | - | - | 3,526 |
| 2.2 Carried at cost | - | - | 5 | - | - | 5 |
| 3. Units in investment funds. | - | - | - | - | - | - |
| 4. Loans | - | - | - | - | - | - |
| **Total** | **1,042,465** | **-** | **5,224** | **1,316,221** | **-** | **3,531** |

“Available-for-sale financial assets” consisted of debt securities issued by governments and equity instruments not listed on an active market.

# Part B - Consolidated Balance Sheet - Asset (CONTINUED)

Investments in debt securities consisted of:
• Spanish government securities, with a book value of €725,220 thousand (€982,434 million as at December 31, 2016);
• French government securities, with a book value of €10,124 thousand (€10,296 million as at December 31, 2016);
• Spanish government securities, with a book value of €242,451 thousand (€249,940 million as at December 31, 2016);
• American government securities, with a book value of €64,671 thousand (€73,549 million as at December 31, 2016).

A portion of debt securities classified in the Available-for-sale financial assets portfolio are entirely used as collateral for bankers' drafts or guarantees with third parties for a book value of €131,101 thousand (€128,882 thousand as at December 31, 2016).

Equity instruments carried at cost refer to equity investments in companies in which the Bank does not exercise control or have a significant influence, for an amount equal to €5 thousand. These instruments are not listed, therefore the fair value may not be reliably determined.

Equity instruments recorded at fair value refer to Class "C" Visa INC preferred shares, for an amount of €4,501 thousand and to the exposure in equity instruments recognised as a result of the contribution paid to the Voluntary Scheme established by the Interbank Deposit Guarantee Fund with respect to the latter's intervention in favour of Cassa di Risparmio di Cesena, Carim and Carismi, for an amount, net of de-recognitions and value adjustments recorded through consolidated profit and loss, of €718 thousand. For further details, see Section A - Account policies, of the Notes to the Consolidated Accounts.

### 4.2 Available-for-sale financial assets: breakdown by issuer/borrower

(Amounts in € thousand)

| ITEM/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Debt securities** | **1,042,465** | **1,316,221** |
| a) Governments and central banks | 1,042,465 | 1,316,221 |
| b) Other public entities | - | - |
| c) Banks | - | - |
| d) Other issuers | - | - |
| **2. Equity Instruments** | **5,224** | **3,531** |
| a) Banks | - | - |
| b) Other issuers: | 5,224 | 3,531 |
| *- insurance companies* | - | - |
| *- financial companies* | *4,501* | *3,526* |
| *- non-financial companies* | *5* | *5* |
| *- other* | *718* | - |
| **3. Units in investment funds.** | **-** | **-** |
| **4. Loans** | **-** | **-** |
| a) Governments and central banks | - | - |
| b) Other public entities | - | - |
| c) Banks | - | - |
| d) Other entities | - | - |
| **Total** | **1,047,689** | **1,319,752** |

### 4.3 Available-for-sale financial assets: subject to micro-hedging

(Amounts in € thousand)

| ITEM/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **Financial assets subject to micro-hedging of fair value** | **-** | **342,290** |
| a) Interest rate risk | - | 342,290 |
| b) Price risk | - | - |
| c) Exchange | - | - |
| d) Credit | - | - |
| e) Multiple risks | - | - |
| **Financial assets subject to micro-hedging of cash flows** | **-** | **-** |
| a) Interest rate risk | - | - |
| b) Exchange | - | - |
| c) Other | - | - |
| **Total** | **-** | **342,290** |

The debt security micro-hedged at December 31, 2016 was repaid in 2017, as it reached its maturity.

## Section 5 - Held-to-maturity investments - Item 50

### 5.1 Held-to-maturity investments: product breakdown

(Amounts in € thousand)

| | 12.31.2017 | | | | 12.31.2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | FV | | | BV | FV | | |
| | | LEVEL 1 | LEVEL 2 | LEVEL 3 | | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| 1. Debt securities | 4,826,390 | 4,855,200 | - | - | 2,437,777 | 2,454,979 | - | - |
| - Structured | - | - | - | - | - | - | - | - |
| - Other | 4,826,390 | 4,855,200 | - | - | 2,437,777 | 2,454,979 | - | - |
| 2. Loans | - | - | - | - | - | - | - | - |
| **Total** | **4,826,390** | **4,855,200** | **-** | **-** | **2,437,777** | **2,454,979** | **-** | **-** |

**Key**
FV = fair value
BV = book value

“Held-to-maturity investments” consisted of debt securities issued:

- by the Italian Government, for a book value of €2,557,575 thousand (€1,499,270 thousand at December 31, 2016);
- by the Spanish Government, for a book value of €2,120,318 thousand (€938,508 thousand at December 31, 2016);
- by Instituto de Credito Oficial ICO, with a book value of €99,924 thousand (not present as at December 31, 2016);
- by the Polish State, with a book value of €48,572 thousand (not present as at December 31, 2016).

### 5.2 Held-to-maturity investments: issuer/borrower

(Amounts in € thousand)

| TYPE OF TRANSACTION/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Debt securities** | **4,826,390** | **2,437,777** |
| a) Governments and central banks | 4,726,466 | 2,437,777 |
| b) Other public entities | 99,924 | - |
| c) Banks | - | - |
| d) Other issuers | - | - |
| **2. Loans** | **-** | **-** |
| a) Governments and central banks | - | - |
| b) Other public entities | - | - |
| c) Banks | - | - |
| d) Other entities | - | - |
| **Total** | **4,826,390** | **2,437,777** |
| **Total fair value** | **4,855,200** | **2,454,979** |

### 5.3 Held-to-maturity investments: assets subject to micro-hedging

As at December 31, 2017, there were no “Held to maturity investments” subject to micro hedging.

# Part B - Consolidated Balance Sheet - Asset (Continued)

## Section 6 - Loans and receivables with banks - Item 60

### 6.1 Loans and receivables with banks: product breakdown

(Amounts in € thousand)

| TYPE OF TRANSACTION/AMOUNT | 12.31.2017 BV | 12.31.2017 FV LEVEL 1 | 12.31.2017 FV LEVEL 2 | 12.31.2017 FV LEVEL 3 | 12.31.2016 BV | 12.31.2016 FV LEVEL 1 | 12.31.2016 FV LEVEL 2 | 12.31.2016 FV LEVEL 3 |
|---|---|---|---|---|---|---|---|---|
| **A. Loans and receivables with Central Banks** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1. Time deposits | - | X | X | X | - | X | X | X |
| 2. Compulsory reserves | - | X | X | X | - | X | X | X |
| 3. Reverse repos | - | X | X | X | - | X | X | X |
| 4. Other | - | X | X | X | - | X | X | X |
| **B. Loans and receivables with banks** | **13,878,117** | **-** | **11,311,889** | **3,039,207** | **15,735,540** | **-** | **12,330,314** | **3,680,608** |
| **1. Loans** | **3,039,207** | **-** | **-** | **3,039,207** | **3,680,609** | **-** | **-** | **3,680,608** |
| 1.1 Current accounts and demand deposits | 1,993,139 | X | X | X | 2,336,579 | X | X | X |
| 1.2 Time deposits | 1,028,152 | X | X | X | 1,285,414 | X | X | X |
| 1.3 Other loans: | | X | X | X | | X | X | X |
| - Reverse repos | 54 | X | X | X | 53 | X | X | X |
| - Finance leases | - | X | X | X | - | X | X | X |
| - Other | 17,862 | X | X | X | 58,563 | X | X | X |
| **2. Debt securities** | **10,838,910** | **-** | **11,311,889** | **-** | **12,054,931** | **-** | **12,330,314** | **-** |
| 2.1 Structured securities | - | X | X | X | - | X | X | X |
| 2.2 Other debt securities | 10,838,910 | X | X | X | 12,054,931 | X | X | X |
| **Total** | **13,878,117** | **-** | **11,311,889** | **3,039,207** | **15,735,540** | **-** | **12,330,314** | **3,680,608** |

**Key**
FV = fair value
BV = book value

Loans and receivables with banks for current accounts and demand deposits mainly consist of accounts held with UniCredit, with a book value of €1,958,602 thousand (€2,302,659 thousand as at December 31, 2016), and to a lesser extent, of current accounts held with other banks not belonging to UniCredit group for transactions in securities.
Time deposits consist of the deposit held with UniCredit for compulsory reserves, totalling €199,104 thousand (€172,461 thousand as at December 31, 2016), in addition to time deposits held with UniCredit for a book value of €829,049 thousand (€1,112,953 thousand as at December 31, 2016), opened to invest the liquidity raised through repos with retail customers and credit institutions, with the same maturities.
The debt securities held in the portfolio and included in the category "Loans and receivables" solely consist of debt securities issued by UniCredit S.p.A. for an amount of €10,838,910 (€12,054,929 thousand as at December 31, 2016).
“Other loans: Other" relates to the amount of the initial and variance margins and collateral deposits placed with credit institutions for derivative transactions and repos, for a total amount of €14,647 thousand, of which €9,030 thousand with UniCredit (€55,660 thousand at December 31, 2016, of which €48,567 thousand with UniCredit and €3,060 thousand with UniCredit Bank AG Monaco), as well as current receivables associated with the provision of financial services for an amount of €3,215 thousand (€2,903 thousand as at December 31, 2016).
At the reporting date there were no impaired assets with respect to banks.

### 6.2 Loans and receivables with banks: assets subject to micro-hedging
No data to report.

### 6.3 Finance leases
No data to report.

# Section 7 - Loans and receivables with customers - Item 70

### 7.1 Loans and receivables with customers: product breakdown

(Amounts in € thousand)

| TYPE OF TRANSACTION/ AMOUNT | 12.31.2017 | | | | | | 12.31.2016 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | BOOK VALUE | | | FAIR VALUE | | | | | | FAIR VALUE | | |
| | | IMPAIRED | | | | | | IMPAIRED | | | | |
| | UNIMPAIRED | PURCHASED | OTHER | L1 | L2 | L3 | UNIMPAIRED | PURCHASED | OTHER | L1 | L2 | L3 |
| **Loans** | **2,126,366** | **-** | **2,853** | **-** | **-** | **2,204,926** | **1,013,140** | **-** | **3,658** | **-** | **-** | **1,044,613** |
| 1. Current accounts | 639,726 | - | 1,828 | X | X | X | 296,927 | - | 2,445 | X | X | X |
| 2. Reverse repos | 202,620 | - | 81 | X | X | X | 87,348 | - | 1 | X | X | X |
| 3. Mortgages | 516,237 | - | 14 | X | X | X | 860 | - | 24 | X | X | X |
| 4. Credit cards, personal loans and wage assignment loans | 632,249 | - | 799 | X | X | X | 503,533 | - | 1,166 | X | X | X |
| 5. Finance leases | - | - | - | X | X | X | - | - | - | X | X | X |
| 6. Factoring | - | - | - | X | X | X | - | - | - | X | X | X |
| 7. Other loans | 135,534 | - | 131 | X | X | X | 124,472 | - | 22 | X | X | X |
| **Debt securities** | - | - | - | - | - | - | - | - | - | - | - | - |
| 8. Structured securities | - | - | - | X | X | X | - | - | - | X | X | X |
| 9. Other debt securities | - | - | - | X | X | X | - | - | - | X | X | X |
| **Total** | **2,126,366** | **-** | **2,853** | **-** | **-** | **2,204,926** | **1,013,140** | **-** | **3,658** | **-** | **-** | **1,044,613** |

### 7.2 Loans and receivables with customers: breakdown by issuer/borrower

(Amounts in € thousand)

| TYPE OF TRANSACTION/AMOUNT | 12.31.2017 | | | 12.31.2016 | | |
|---|---|---|---|---|---|---|
| | | IMPAIRED | | | IMPAIRED | |
| | UNIMPAIRED | PURCHASED | OTHER | UNIMPAIRED | PURCHASED | OTHER |
| **1. Debt securities** | **-** | **-** | **-** | **-** | **-** | **-** |
| a) Governments | - | - | - | - | - | - |
| b) Other public entities | - | - | - | - | - | - |
| c) Other issuers: | - | - | - | - | - | - |
| *- non-financial companies* | - | - | - | - | - | - |
| *- financial companies* | - | - | - | - | - | - |
| *- insurance companies* | - | - | - | - | - | - |
| *- other* | - | - | - | - | - | - |
| **2. Loans to:** | **2,126,366** | **-** | **2,853** | **1,013,140** | **-** | **3,658** |
| a) Governments | - | - | - | - | - | 2 |
| b) Other public entities | - | - | - | - | - | - |
| c) Other entities: | 2,126,366 | - | 2,853 | 1,013,140 | - | 3,656 |
| *- non-financial companies* | *20,492* | - | *99* | *14,666* | - | *24* |
| *- financial companies* | *107,681* | - | *5* | *98,744* | - | *8* |
| *- insurance companies* | *16,651* | - | - | *12,174* | - | - |
| *- other* | *1,981,542* | - | *2,749* | *887,556* | - | *3,624* |
| **Total** | **2,126,366** | **-** | **2,853** | **1,013,140** | **-** | **3,658** |

### 7.3 Loans and receivables with customers: assets subject to micro-hedging

No data to report.

### 7.4 Finance leases

No data to report.

# Part B - Consolidated Balance Sheet - Asset (CONTINUED)

## Section 8 - Hedging derivatives - Item 80

### 8.1 Hedging derivatives: breakdown by type of hedge and by level

(Amounts in € thousand)

| | FV 12.31.2017 | | | NA | FV 12.31.2016 | | | NA |
|---|---|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | 12.31.2017 | L1 | L2 | L3 | 12.31.2016 |
| **A. Financial derivatives** | **-** | **458** | **-** | **151,109** | **-** | **552** | **-** | **250,000** |
| 1) Fair value | - | 458 | - | 151,109 | - | 552 | - | 250,000 |
| 2) Cash flows | - | - | - | - | - | - | - | - |
| 3) Net investment in foreign subsidiaries | - | - | - | - | - | - | - | - |
| **B. Credit derivatives** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1) Fair value | - | - | - | - | - | - | - | - |
| 2) Cash flows | - | - | - | - | - | - | - | - |
| **Total** | **-** | **458** | **-** | **151,109** | **-** | **552** | **-** | **250,000** |

Key:
NA = notional amount
FV = fair value
L1 = Level 1
L2 = Level 2
L3 = Level 3

### 8.2 Hedging derivatives: breakdown by hedged assets and risk (balance sheet value)

(Amounts in € thousand)

| | FAIR VALUE | | | | | | CASH FLOWS | | NET INVESTMENT IN FOREIGN SUBSIDIARIES |
|---|---|---|---|---|---|---|---|---|---|
| | MICRO | | | | | | | | |
| TRANSACTION/TYPE OF HEDGE | INTEREST RATE RISK | EXCHANGE RATE RISK | CREDIT RISK | PRICE RISK | MULTIPLE RISK | MACRO | MICRO | MACRO | |
| 1. Available-for-sale assets | - | - | - | - | - | X | - | X | X |
| 2. Loans and receivables | - | - | - | X | - | X | - | X | X |
| 3. Held-to-maturity investments | X | - | - | X | - | X | - | X | X |
| 4. Portfolio | X | X | X | X | X | 400 | X | - | X |
| 5. Other transactions | - | - | - | - | - | X | - | X | - |
| **Total assets** | **-** | **-** | **-** | **-** | **-** | **400** | **-** | **-** | **-** |
| 1. Financial liabilities | - | - | - | X | - | X | - | X | X |
| 2. Portfolio | X | X | X | X | X | 58 | X | - | X |
| **Total liabilities** | **-** | **-** | **-** | **-** | **-** | **58** | **-** | **-** | **-** |
| 1. Expected transactions | X | X | X | X | X | X | - | X | X |
| 2. Financial assets and financial liabilities | X | X | X | X | X | - | X | - | - |

## Section 9 - Changes in fair value of portfolio hedged financial assets - Item 90

### 9.1 Adjustments to the value of hedged assets: breakdown by hedged portfolio

(Amounts in € thousand)

| ADJUSTMENTS TO THE VALUE OF HEDGED ASSETS/COMPONENTS OF THE GROUP | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Positive changes** | **10,130** | **8,659** |
| 1.1 of specific portfolios | 10,130 | 8,659 |
| *a) loans and receivables* | *10,130* | *8,659* |
| *b) available-for-sale financial assets* | - | - |
| 1.2 overall | - | - |
| **2. Negative changes** | **(540)** | **-** |
| 2.1 of specific portfolios | (540) | - |
| *a) loans and receivables* | *(540)* | - |
| *b) available-for-sale financial assets* | - | - |
| 2.2 overall | - | - |
| **Total** | **9,590** | **8,659** |

### 9.2 Assets macro-hedged against interest rate risk

(Amounts in € thousand)

| HEDGED ASSETS | 12.31.2017 | 12.31.2016 |
|---|---|---|
| 1. Loans and receivables | 666,447 | 777,368 |
| 2. Available-for-sale financial assets | - | - |
| 3. Portfolio | - | - |
| **Total** | **666,447** | **777,368** |

Receivables subject to macro-hedging of interest rate risk consist of mortgages to retail customers and debt securities issued by UniCredit S.p.A. and classified as "Loans and Receivables".

## Section 10 - Equity investments - Item 100

No data to report.

## Section 11 - Technical provisions for re-insurers - Item 110

No data to report.

## Section 12 - Property, plant and equipment - Item 120

### 12.1 Property, plant and equipment used in the business: breakdown of assets carried at cost

(Amounts in € thousand)

| ASSET/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Owned assets** | **12,901** | **12,054** |
| a) land | - | - |
| b) buildings | - | - |
| c) office furniture and fittings | 1,480 | 1,131 |
| d) electronic systems | 9,798 | 9,560 |
| e) other | 1,623 | 1,363 |
| **2. Assets under financial lease** | **-** | **-** |
| a) land | - | - |
| b) buildings | - | - |
| c) office furniture and fittings | - | - |
| d) electronic systems | - | - |
| e) other | - | - |
| **Total** | **12,901** | **12,054** |

A description of the methods used to calculate depreciation is provided in Part A - Accounting Policies of the notes to the consolidated accounts.

### 12.2 Property, plant and equipment held for investment: breakdown of assets carried at cost

(Amounts in € thousand)

| | 12.31.2017 | | | | 12.31.2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | | FAIR VALUE | | | | FAIR VALUE | | |
| ASSET/AMOUNT | BOOK VALUE | L1 | L2 | L3 | BOOK VALUE | L1 | L2 | L3 |
| **1. Owned assets** | **2,304** | **-** | **-** | **3,491** | **2,397** | **-** | **-** | **4,535** |
| a) land | - | - | - | - | - | - | - | - |
| b) buildings | 2,304 | - | - | 3,491 | 2,397 | - | - | 4,535 |
| **2. Assets under finance lease** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| a) land | - | - | - | - | - | - | - | - |
| b) buildings | - | - | - | - | - | - | - | - |
| **Total** | **2,304** | **-** | **-** | **3,491** | **2,397** | **-** | **-** | **4,535** |

### 12.3 Property, plant and equipment used in the business: breakdown of revalued assets

No data to report.

### 12.4 Property, plant and equipment held for investment: breakdown of assets measured at fair value

No data to report.

# Part B - Consolidated Balance Sheet - Asset (Continued)

### 12.5 Property, plant and equipment used in the business: annual changes

(Amounts in € thousand)

| | LAND | BUILDINGS | OFFICE FURNITURE AND FITTINGS | ELECTRONIC SYSTEMS | OTHER | TOTAL |
|---|---|---|---|---|---|---|
| **A. Gross opening balance** | **-** | **-** | **12,559** | **28,301** | **9,875** | **50,735** |
| A.1 Total net reduction in value | - | - | (11,428) | (18,741) | (8,512) | (38,681) |
| **A.2 Net opening balance** | **-** | **-** | **1,131** | **9,560** | **1,363** | **12,054** |
| **B. Increases:** | **-** | **-** | **1,589** | **4,750** | **738** | **7,077** |
| B.1 Purchases | - | - | 1,579 | 4,748 | 737 | 7,064 |
| B.2 Capitalised expenditure on improvements | - | - | - | - | - | - |
| B.3 Write-backs | - | - | - | - | - | - |
| B.4 Increase in fair value recognised | | | | | | |
| a) in equity | - | - | - | - | - | - |
| b) through profit or loss | - | - | - | - | - | - |
| B.5 Positive exchange differences | - | - | - | - | - | - |
| B.6 Transfers from properties held for investment | - | - | - | - | - | - |
| B.7 Other changes | - | - | 10 | 2 | 1 | 13 |
| **C. Decreases:** | **-** | **-** | **(1,240)** | **(4,512)** | **(478)** | **(6,230)** |
| C.1 Sales | - | - | (7) | (249) | - | (256) |
| C.2 Depreciation | - | - | (1,233) | (3,745) | (457) | (5,435) |
| C.3 Impairment losses recognised | | | | | | |
| a) in equity | - | - | - | - | - | - |
| b) through profit or loss | - | - | - | (1) | (20) | (21) |
| C.4 Decreases in fair value recognised | | | | | | |
| a) in equity | - | - | - | - | - | - |
| b) through profit or loss | - | - | - | - | - | - |
| C.5 Negative exchange differences | - | - | - | - | - | - |
| C.6 Transfers to: | | | | | | |
| a) property, plant and equipment held for investment | - | - | - | - | - | - |
| b) assets held for sale | - | - | - | - | - | - |
| C.7 Other changes | - | - | - | (517) | (1) | (518) |
| **D. Net closing balance** | **-** | **-** | **1,480** | **9,798** | **1,623** | **12,901** |
| D.1 Total net reduction in value | - | - | (12,393) | (20,912) | (8,794) | (42,099) |
| **D.2 Gross closing balance** | **-** | **-** | **13,873** | **30,710** | **10,417** | **55,000** |
| E. Carried at cost | - | - | 1,480 | 9,798 | 1,623 | 12,901 |

The asset classes specified in the table above are carried at cost.

### 12.6 Property, plant and equipment held for investment: annual changes

(Amounts in € thousand)

| | LAND | BUILDINGS |
|---|---|---|
| **A. Gross opening balance** | **-** | **3,745** |
| A.1 Total net reduction in value | - | (1,348) |
| **A.2 Net opening balance** | **-** | **2,397** |
| **B. Increases:** | - | 20 |
| B.1 Purchases | - | - |
| B.2 Capitalised expenditure on improvements | - | 20 |
| B.3 Net increases in fair value | - | - |
| B.4 Write-backs | - | - |
| B.5 Positive exchange differences | - | - |
| B.6 Transfer from properties used in the business | - | - |
| B.7 Other changes | - | - |
| **C. Decreases:** | **-** | **(113)** |
| C.1 Sales | - | - |
| C.2 Depreciation | - | (113) |
| C.3 Decreases in fair value | - | - |
| C.4 Impairment losses | - | - |
| C.5 Negative exchange differences | - | - |
| C.6 Transfers to other asset portfolios | | |
| a) properties used in the business | - | - |
| b) non-current assets classified as held for sale | - | - |
| C.7 Other changes | - | - |
| **D. Net closing balance** | **-** | **2,304** |
| D.1 Total net reduction in value | - | (1,461) |
| **D.2 Gross closing balance** | **-** | **3,765** |
| E. Fair value measurement | - | 3,491 |

The buildings specified in the table above are carried at cost.

### 12.7 Commitments to purchase property, plant and equipment

As at December 31, 2017 the Bank had contractual commitments to purchase property, plant and equipment amounting to €629 thousand.
We also report that there are no restrictions on the ownership of tangible assets and there are no tangible assets pledged as security for liabilities.

## Section 13 - Intangible assets - Item 130

### 13.1 Intangible assets: breakdown by type assets

(Amounts in € thousand)

| | 12.31.2017 | | 12.31.2016 | |
|---|---|---|---|---|
| ASSET/AMOUNT | FINITE LIFE | INDEFINITE LIFE | FINITE LIFE | INDEFINITE LIFE |
| **A.1 Goodwill** | **X** | **89,602** | **X** | **89,602** |
| A.1.1 attributable to the group | X | 89,602 | X | 89,602 |
| A.1.2 attributable to minorities | X | | X | |
| **A.2 Other intangible assets** | **7,909** | | **7,731** | |
| A.2.1 Assets carried at cost: | 7,909 | - | 7,731 | - |
| a) Intangible assetsgenerated internally | - | - | - | - |
| b) Other assets | 7,909 | - | 7,731 | - |
| A.2.2 Assets carried at fair value: | - | - | - | - |
| a) Intangible assetsgenerated internally | - | - | - | - |
| b) Other assets | - | - | - | - |
| **Total** | **7,909** | **89,602** | **7,731** | **89,602** |

The useful life of software, considered for the calculation of amortisation, is 3 years, while the useful life of other intangible assets with definite life is 5 years. A description of the methods used to calculate depreciation is provided in Part A - Accounting Policies of the notes to the consolidated accounts.

# Part B - Consolidated Balance Sheet - Asset (Continued)

### 13.2 Intangible assets: annual changes

(Amounts in € thousand)

| | | OTHER INTANGIBLE ASSETS: GENERATED INTERNALLY | | OTHER INTANGIBLE ASSETS: OTHER | | |
|---|---|---|---|---|---|---|
| | GOODWILL | FIN | INDEF | FIN | INDEF | TOTAL |
| **A. Gross opening balance** | **124,729** | **-** | **-** | **74,833** | **-** | **199,562** |
| A.1 Total net reduction in value | (35,127) | - | - | (67,102) | - | (102,229) |
| **A.2 Net opening balance** | **89,602** | **-** | **-** | **7,731** | **-** | **97,333** |
| **B. Increases** | **-** | **-** | **-** | **4,978** | **-** | **4,978** |
| B.1 Purchases | - | - | - | 4,978 | - | 4,978 |
| B.2 Increases in internal intangible assets | X | - | - | - | - | - |
| B.3 Write-backs | X | - | - | - | - | - |
| B.4 Increases in fair value recognised: | | | | | | |
| - in equity | X | - | - | - | - | - |
| - through profit or loss | X | - | - | - | - | - |
| B.5 Positive exchange differences | - | - | - | - | - | - |
| B.6 Other changes | - | - | - | - | - | - |
| **C. Decreases** | **-** | **-** | **-** | **(4,800)** | **-** | **(4,800)** |
| C.1 Sales | - | - | - | - | - | - |
| C.2 Impairment losses | | | | | | |
| - Amortisation | X | - | - | (4,800) | - | (4,800) |
| - Write-downs | | | | | | |
| + in equity | X | - | - | - | - | - |
| + through profit or loss | - | - | - | - | - | - |
| C.3 Decreases in fair value | | | | | | |
| - in equity | X | - | - | - | - | - |
| - through profit or loss | X | - | - | - | - | - |
| C.4 Transfers to non-current assetsand discontinued operations | - | - | - | - | - | - |
| C.5 Negative exchange differences | - | - | - | - | - | - |
| C.6 Other changes | - | - | - | - | - | - |
| **D. Net closing balance** | **89,602** | **-** | **-** | **7,909** | **-** | **97,511** |
| D.1 Total net impairments | (35,127) | - | - | (71,902) | - | (107,029) |
| **E. Gross closing balance** | **124,729** | **-** | **-** | **79,811** | **-** | **204,540** |
| F. Carried at cost | 89,602 | - | - | 7,909 | - | 97,511 |

**Key**
FIN: finite life
INDEF: indefinite life

The asset classes specified in the table above are carried at cost.

### 13.3 Other information

As at December 31, 2017 the Bank had contractual commitments to purchase intangible assets amounting to €13 thousand.
We also report that there were no intangible assets acquired through government concession; no intangible assets were used as collateral for own debts; no intangible assets were held under a finance lease; and there were no revalued intangible assets.

### *Other information - Impairment test*

Under IAS 36, impairment testing of intangible assets with indefinite useful lives must be performed at least annually and, in any case, whenever there is objective evidence of the occurrence of events that may have reduced their value.

Recoverable value is the greater of the value in use (present value of future cash flows generated by the asset being valued) and the associated fair value, net of sales costs.

The recoverable value of the assets subject to impairment testing must be determined for the individual assets, unless both of the following conditions exist:
- the value in use of the asset is not estimated to be close to the fair value net of selling costs;
- the asset does not generate incoming cash flows largely independent of those coming from other assets (or group of assets).

If these conditions exist, the impairment test is conducted at the level of the Cash Generating Unit (CGU) of the asset, as required by the accounting principle.

According to IAS 36, when determining the value in use of assets subject to impairment testing, reference must be made to the cash flows of assets in their current conditions at the testing date and representing the best estimate by the management of the overall economic conditions in place during the residual useful life of the asset.

For the purposes of impairment testing, the value in use of the cash generating unit (CGU) to which the intangible assets have been assigned must be calculated considering the cash flows for all the assets and liabilities included in the CGU and not just those for which goodwill and/or the intangible asset has been recognised upon application of IFRS 3.

### *Definition of CGU*

Estimating the value in use for the purposes of any impairment testing of intangible assets, including goodwill, which do not independently generate cash flows, but only in conjunction with other business assets, requires that these assets first be attributed to operating units that are relatively autonomous in the business context (from the points of view of independent cash flows generated and of internal planning and reporting). These operating units are defined as Cash Generating Units (CGU).

Goodwill recorded in these consolidated financial statements, deriving from the separate financial statements of the Bank, relates to buy-outs of divisions or companies engaged in trading activities or the distribution of financial, banking and insurance products through personal financial advisors. These activities have been fully integrated with FinecoBank's ordinary operations, as a result it is not possible to isolate the contribution of each company/ business division from the Bank's overall income; this means that to establish the recoverability of the value of goodwill recognised in the financial statements it is necessary to take account of the Bank's comprehensive income.

The cash generating unit (CGU) to be considered for the impairment test is therefore the Bank as a whole. In view of the specific business model adopted by FinecoBank, which envisages a high level of integration between personal financial advisors and the trading and banking platform, so that the personal financial advisors network is an integral part of the overall offering of the Bank, which includes banking, brokerage and investing services, an allocation of costs/revenues per business units is not considered relevant or meaningful.

### *Estimating cash flows to determine the value in use of the CGU*

The applicable accounting principles require that the impairment test be carried out by comparing the book value of the CGU to its recoverable value. When the latter proves to be less than the book value, a write-down must be recorded in the financial statements. The recoverable value is the greater of its fair value (net of sales costs) and the related value in use.

The recoverable amount of the CGU in this case is the greater of its fair value (net of costs to sell) and the related value in use.

### *Impairment test model*

The calculation of the value in use for the purposes of impairment testing is made using the Discounted Cash Flow (DCF) model. The cash flows are determined by subtracting the annual capital requirement generated by the change in the risk-weighted assets from net profit. This capital requirement is determined by considering the long-term capitalisation to be achieved, also in light of the minimum regulatory capital requirements.

### *Cash flows*

The discounted cash flow model used is based on future cash flows estimated by management in four steps:

- year 2018, in which the budget figures were considered (subject to approval by the Board of Directors on December 5, 2017);
- period from 2019 to 2020, which considers the financial projections of the Strategic Plan (submitted for approval by the Board of Directors of December 5, 2017);
- intermediate period of five years from 2021 to 2025, for which the projections of the financial flows are extrapolated by applying beginning in the last explicit estimate period (2020) rates of growth decreasing (from 4% to 2%) to the terminal value;
- terminal value calculated using a nominal growth rate of 2%. The average Eurozone actual GDP rate from 1996 to 2016 was 1.5%. The choice of nominal 2% as "terminal value" growth rate, i.e. corresponding to ~ 0% real growth, was made for prudential reasons.

### *Discount rates of cash flows*

Future financial flows were discounted using a conservative estimate of the discount rate, incorporating the various risk factors linked to the business sector into the cost of equity (Ke). The discount rate is a nominal rate, net of taxes.

The main assumptions used by management in determining the discount rate to calculate the value in use are summarised below:

- Initial discount rate net of tax (Ke); 8.61%
- Final discount rate net of tax (Ke); 9.09%

In particular, the cost of capital for the Bank is the sum of the following:

- Risk-free rate: the average of the last 6 years of the 5-year Bund. The six-year horizon was adopted in line with the average economic cycle in the eurozone;
- Debt risk premium: the average over the last six years of the Credit Default Swap paid by UniCredit;
- Risk premium on own equity: calculated using the option-based model, based on the average volatility of over the last six years of the shares of banks operating predominantly in the same sector.

# Part B - Consolidated Balance Sheet - Asset (CONTINUED)

Moreover, for prudential reasons, the cost of capital for the Bank 2018 to the Terminal Value was raised to the level of the Germany Commercial Banking, which was considered to be the floor value at Group level.

The cost of capital used for the impairment testing has 4 target points (2018 budget, 2019 Multi Year Plan, 2020 Multi Year Plan and Terminal Value) within which a linear convergence is calculated.

### *Impairment test results*

The methodology for calculating the value in use described above (model, assumptions and parameters used) was approved by the Board of Directors on January 10, 2018. For the impairment testing the carrying amount of the goodwill and Shareholders' equity was compared with its value in use calculated using that methodology. The outcome of the tests (approved by the Board of Directors of February 6, 2018) confirmed the sustainability of the goodwill recognised in the financial statements as at December 31, 2017, with the value in use significantly higher than the carrying amount.

### *Sensitivity analysis*

Given the complexity of the measurement process and the uncertainty involved in making forecasts on future profitability, especially in the long term, some sensitivity analyses were carried out assuming changes to the main parameters used in the impairment test.

The table below shows the change in the value in use, net of book value and of shareholders' equity, in relation to changes in the main parameters used in the DCF model underlying the impairment test.

| | 1% INCREASE OF THE DISCOUNT RATE AFTER TAXES (KE) | 1% INCREASE OF CORE TIER 1 RATIO TARGET | 1% DECREASE OF THE NOMINAL GROWTH RATE FOR THE CALCULATION OF TERMINAL VALUE | 5% DECREASE OF ANNUAL EARNINGS |
|---|---|---|---|---|
| Change of value in use | -16.9% | -0.8% | -11.2% | -6.4% |

The results confirm the sustainability of the goodwill recognised in the financial statements, as none of the scenarios hypothesised revealed the need for a write-down, as the value in use, calculated applying those variations, was much higher than the book value.
It should also be noted, that the impairment test reaches the break-even assuming changes in the above parameters that are currently unreasonable. The impairment test reached a break-even with an absolute positive change in the discount rate after tax (Ke) of over 20 percentage points, i.e. with a reduction of over 75% of annual earnings (while maintaining all the other parameters and information used unchanged, in both scenarios).

It should be noted that the value of "FinecoBank" shares resulted in a market capitalisation of €5.2 billion at December 31, 2017, markedly higher than the Bank's assets and the results provided by the internal model, which confirms the implementation of prudent criteria for calculation of the value in use.

## Section 14 - Tax Assets and Tax Liabilities - Asset Item 140 and liability Item 80

The item "Tax assets" amounting to €9,249 thousand comprises:
- "Current tax assets" of €1,765 thousand;
- "Deferred tax assets" of €7,484 thousand. Deferred tax assets are shown in the consolidated balance sheet net of the related deferred tax liabilities; the detail is as follows:
  - "Deferred tax assets" of €30,530 thousand recognised as a balancing entry in the income statement;
  - "Deferred tax assets" of €6,225 thousand recognised as a balancing entry of shareholders' equity.
  - "Deferred tax liabilities" of €23,982 thousand recognised as a balancing entry in the income statement;
  - "Deferred tax liabilities" of €5,289 thousand recognised through other comprehensive income.

The item "Tax liabilities" amounting to €10,234 thousand, consists exclusively of "Current tax liabilities".

### Current Tax Assets and Liabilities

(Amounts in € thousand)

| ASSET/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **Current tax assets** | **1,765** | **1,571** |
| **Current tax liabilities** | **10,234** | **10,048** |

### Prepaid/deferred tax assets/liabilities

In accordance with the law and regulations currently in force:
- the recognition of deferred tax assets for IRES income tax purposes takes into account the expected income figures of the Bank for future years, according to the decisions made by the competent company bodies;

- the recognition of deferred tax assets for IRAP corporate tax purposes takes place on the basis of the Bank's expected income figures for future years, and takes into account changes in the legal context;
- deferred tax liabilities are recognised whenever the relevant requirements are satisfied.

When calculating prepaid/deferred tax assets/liabilities, a 27.5% IRES rate was used (24% standard rate and 3.5% additional rate for banking institutions), as well as IRAP rate of 5.57% for Italy.
With regard to Fineco AM Limited, taxes were calculated using a 12.5% rate; in particular, deferred tax assets have been recognised on the loss for the period (from incorporation to December 31, 2017) taking into account the expected profit/loss of the same in view of the expected development of the business.
There were no tax-loss carry-forwards.

### 14.1 Deferred tax assets: breakdown

(Amounts in € thousand)

| ASSET/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Allocations through profit or loss | 26,702 | 29,043 |
| Allocations through other comprehensive income | 6,225 | 7,617 |
| Impairment losses on receivables (of which pursuant to Law 214/2011) | 3,828 | 4,180 |
| **Total before IAS 12 offset** | **36,755** | **40,840** |
| Offset against deferred tax liabilities - IAS 12 | (29,271) | (29,246) |
| **Total** | **7,484** | **11,594** |

### 14.2 Deferred tax liabilities: breakdown

(Amounts in € thousand)

| ASSET/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Allocations through profit or loss | 23,982 | 23,278 |
| Allocations through other comprehensive income | 5,289 | 5,968 |
| **Total before IAS 12 offset** | **29,271** | **29,246** |
| Offset against deferred tax liabilities - IAS 12 | (29,271) | (29,246) |
| **Total** | **-** | **-** |

### 14.3 Changes in deferred tax assets (through profit or loss)

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Opening balance** | **33,223** | **39,024** |
| **2. Increases** | **3,936** | **4,281** |
| 2.1 Deferred tax assets recognised in the year | 3,532 | 4,281 |
| a) relating to prior years | - | - |
| b) due to changes in accounting policies | - | - |
| c) write-backs | - | - |
| d) other | 3,532 | 4,281 |
| 2.2 New taxes or increases in tax rates | - | - |
| 2.3 Other increases | 404 | - |
| **3. Decreases** | **(6,629)** | **(10,082)** |
| 3.1 Deferred tax assets cancelled in the year | (6,629) | (9,367) |
| a) reversals of temporary differences | (6,629) | (9,367) |
| b) write-downs of non-recoverable items | - | - |
| c) change in accounting policies | - | - |
| d) other | - | - |
| 3.2 Reduction in tax rates | - | - |
| 3.3 Other decreases | - | (715) |
| a) conversion of tax credits as per Law 214/2011 | - | - |
| b) other | - | (715) |
| **4. Closing balance** | **30,530** | **33,223** |

Increases/decreases in deferred tax assets recognised in the year through profit or loss mainly refer to the following items:
- allocations to and use of provisions for risks and charges.
- allocations to and use of provisions for future personnel costs.

# Part B - Consolidated Balance Sheet - Asset (CONTINUED)

### 14.3.1 Changes in deferred tax assets under Law 214/2011 (through profit or loss)

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Opening balance** | **4,180** | **4,401** |
| **2. Increases** | **-** | **-** |
| **3. Decreases** | **(352)** | **(221)** |
| 3.1 Reversals | (352) | (220) |
| 3.2 Conversion into tax credits | | |
| a) resulting from operating losses | - | - |
| b) resulting from tax losses | - | - |
| 3.3 Other decreases | - | (1) |
| **4. Closing balance** | **3,828** | **4,180** |

### 14.4 Changes in deferred tax liabilities (through profit or loss)

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Opening balance** | **23,278** | **22,877** |
| **2. Increases** | **712** | **467** |
| 2.1 Deferred tax liabilities arising during the year | 704 | 467 |
| a) relating to prior years | - | - |
| b) due to changes in accounting policies | - | - |
| c) other | 704 | 467 |
| 2.2 New taxes or increases in tax rates | - | - |
| 2.3 Other increases | 8 | - |
| **3. Decreases** | **(8)** | **(66)** |
| 3.1 Deferred tax liabilities de-recognised during the year | (8) | (66) |
| a) reversals of temporary differences | (8) | (66) |
| b) due to changes in accounting policies | - | - |
| c) other | - | - |
| 3.2 Reduction in tax rates | - | - |
| 3.3 Other decreases | - | - |
| **4. Closing balance** | **23,982** | **23,278** |

Increases in deferred tax liabilities recorded in the financial year as a balancing item of the income statement refer to the recognition of deferred tax liabilities resulting from the accounting and tax treatment of goodwill.

### 14.5 Changes in deferred tax assets (through equity)

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Opening balance** | **7,617** | **2,440** |
| **2. Increases** | **270** | **6,510** |
| 2.1 Deferred tax assets recognised in the year | 270 | 6,510 |
| a) relating to prior years | - | - |
| b) due to changes in accounting policies | - | - |
| c) other | 270 | 6,510 |
| 2.2 New taxes or increases in tax rates | - | - |
| 2.3 Other increases | - | - |
| **3. Decreases** | **(1,662)** | **(1,333)** |
| 3.1 Deferred tax assets cancelled in the year | (1,662) | (1,333) |
| a) reversals of temporary differences | (1,619) | (1,333) |
| b) write-downs of non-recoverable items | - | - |
| c) due to changes in accounting policies | - | - |
| d) other | (43) | - |
| 3.2 Reduction in tax rates | - | - |
| 3.3 Other decreases | - | - |
| **4. Closing balance** | **6,225** | **7,617** |

The increase in deferred tax assets recognised during the year through Shareholders' equity refers to the recognition of deferred tax assets on actuarial gains recognised in equity revaluation reserves as per IAS 19 Revised.
The decrease in deferred tax assets recognised during the year through equity mainly refer to the fair value valuation of debt securities classed as "Available-for-sale financial assets".

### 14.6 Changes in deferred tax liabilities (through equity)

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Opening balance** | **5,968** | **4,895** |
| **2. Increases** | **1,104** | **5,101** |
| 2.1 Deferred tax liabilities arising during the year | 1,104 | 5,101 |
| a) relating to prior years | - | - |
| b) due to change in accounting policies | - | - |
| c) other | 1,104 | 5,101 |
| 2.2 New taxes or increases in tax rates | - | - |
| 2.3 Other increases | - | - |
| **3. Decreases** | **(1,783)** | **(4,028)** |
| 3.1 Deferred tax liabilities de-recognised during the year | (1,783) | (4,028) |
| a) reversals of temporary differences | (1,783) | (4,028) |
| b) due to change in accounting policies | - | - |
| c) other | - | - |
| 3.2 Reduction in tax rates | - | - |
| 3.3 Other decreases | - | - |
| **4. Closing balance** | **5,289** | **5,968** |

The increase and decreases in deferred tax assets recognised during the year in equity related to the recognition and reversal of deferred tax assets as a result of the fair value measurement of debt securities classified under the " Available-for-sale financial assets" category.

### 14.7 Other information

No information to report.

# Part B - Consolidated Balance Sheet - Asset (CONTINUED)

## Section 15 - Non-current assets and disposal groups classified as held for sale and associated liabilities - Assets Item 150 and liabilities Item 90

### 15.1 Non-current assets and disposal groups classified as held for sale: breakdown by type assets

No data to report.

### 15.2 Other information

No information to report.

### 15.3 Information on equity investments in companies subject to significant influence not valued according to the equity method

No information to report.

## Section 16 - Other assets - Item 160

### 16.1 Other assets: breakdown

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Accrued income other than income to be capitalised on the related financial assets | 1,982 | - |
| Items in transit not allocated to relevant accounts | 18 | - |
| items awaiting settlement: | | |
| - notes, cheques and other documents | 4,498 | 11,558 |
| Items in processing: | | |
| - other items in processing | 99 | 27 |
| Current receivables not associated with the provision of financial services | 4,721 | 2,290 |
| Definitive items not recognised under other items: | | |
| - securities and coupons to be settled | 4,617 | 321 |
| - fees to be charged to customers | 4,985 | 30,426 |
| - other transactions | 16,016 | 11,465 |
| Tax items other than those included in item 140: | | |
| - tax advances | 242,539 | 240,923 |
| - tax credit | 6,875 | 9,132 |
| - tax advances on employee severance indemnities | 28 | 22 |
| Receivables due to disputed items not deriving from lending | 119 | 119 |
| Prepayments | 22,143 | 22,754 |
| Improvement and incremental expenses incurred on leasehold assets | 6,774 | 7,262 |
| **Total** | **315,414** | **336,299** |

# Liabilities

## Section 1 - Deposits from banks - Item 10

### 1.1 Deposits from banks: product breakdown

(Amounts in € thousand)

| TRANSACTION TYPE/COMPONENTS OF THE GROUP | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Deposits from central banks** | **-** | **-** |
| **2. Deposits from banks** | **926,001** | **1,111,106** |
| 2.1 Current accounts and demand deposits | 42,756 | 52,309 |
| 2.2 Time deposits | - | - |
| 2.3 Loans | 868,651 | 1,058,565 |
| 2.3.1 Repos | 868,651 | 1,058,565 |
| 2.3.2 Other | - | - |
| 2.4 Liabilities in respect of commitments to repurchase treasury shares | - | - |
| 2.5 Other liabilities | 14,594 | 232 |
| **Total** | **926,001** | **1,111,106** |
| ***Fair value - level 1*** | **-** | **-** |
| ***Fair value - level 2*** | **-** | **-** |
| ***Fair value - level 3*** | ***926,001*** | ***1,111,106*** |
| **Total fair value** | **926,001** | **1,111,106** |

### 1.2 Breakdown of item 10 "Deposits from banks": subordinated debts

No data to report.

### 1.3 Breakdown of item 10 "Deposits from banks": structured debts

No data to report.

### 1.4 Deposits from banks subject to micro-hedging

No data to report.

### 1.5 Amounts payable under finance leases

No data to report.

## Section 2 - Deposits from customers - Item 20

### 2.1 Deposits from customers: product breakdown

(Amounts in € thousand)

| TRANSACTION TYPE/COMPONENTS OF THE GROUP | 12.31.2017 | 12.31.2016 |
|---|---|---|
| 1. Current accounts and demand deposits | 19,935,285 | 18,319,307 |
| 2. Time deposits | 9,631 | 159,124 |
| 3. Loans | 146,410 | 231,376 |
| 3.1 Repos | 146,410 | 231,376 |
| 3.2 Other | - | - |
| 4. Liabilities in respect of commitments to repurchase treasury shares | - | - |
| 5. Other liabilities | 113,710 | 91,266 |
| **Total** | **20,205,036** | **18,801,073** |
| ***Fair value - level 1*** | **-** | **-** |
| ***Fair value - level 2*** | ***9,622*** | ***21,894*** |
| ***Fair value - level 3*** | ***20,195,477*** | ***18,779,261*** |
| **Total fair value** | **20,205,099** | **18,801,155** |

### 2.2 Breakdown of item 20 "Deposits from customers": subordinated debts

No data to report.

### 2.3 Breakdown of item 20 "Deposits from customers": structured debts

No data to report.

# Part B - Consolidated Balance Sheet - Liabilities (CONTINUED)

### 2.4 Deposits from customers subject to micro-hedging
No data to report.

### 2.5 Amounts payable under finance leases
No data to report.

## Section 3 - Debt securities in issue - Item 30
No data to report.

## Section 4 - Financial liabilities held for trading - Item 40

### 4.1 Financial liabilities held for trading: product breakdown
(Amounts in € thousand)

| | 12.31.2017 | | | | | 12.31.2016 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | FV | | | | | FV | | | |
| TYPE OF TRANSACTION/AMOUNT | NA | L1 | L2 | L3 | FV* | NA | L1 | L2 | L3 | FV* |
| **A. On-balance sheet liabilities** | | | | | | | | | | |
| 1. Deposits from banks | - | - | - | - | - | - | - | - | - | - |
| 2. Deposits from customers | 578 | 382 | - | - | 382 | 687 | 239 | - | - | 239 |
| 3. Debt securities | - | - | - | - | X | - | - | - | - | X |
| 3.1 Bonds | - | - | - | - | X | - | - | - | - | X |
| 3.1.1 Structured | - | - | - | - | X | - | - | - | - | X |
| 3.1.2 Other bonds | - | - | - | - | X | - | - | - | - | X |
| 3.2 Other securities | - | - | - | - | X | - | - | - | - | X |
| 3.2.1 Structured | - | - | - | - | X | - | - | - | - | X |
| 3.2.2 Others | - | - | - | - | X | - | - | - | - | X |
| **Total A** | **578** | **382** | **-** | **-** | **382** | **687** | **239** | **-** | **-** | **239** |
| **B. Derivatives** | | | | | | | | | | |
| 1. Financial derivatives | X | 1,650 | 579 | 6 | X | X | 1,765 | 622 | - | X |
| 1.1 Trading derivatives | X | 1,650 | 579 | 6 | X | X | 1,765 | 622 | - | X |
| 1.2 Related to the fair value option | X | - | - | - | X | X | - | - | - | X |
| 1.3 Other | X | - | - | - | X | X | - | - | - | X |
| 2. Credit derivatives | X | - | - | - | X | X | - | - | - | X |
| 2.1 Trading derivatives | X | - | - | - | X | X | - | - | - | X |
| 2.2 Related to the fair value option | X | - | - | - | X | X | - | - | - | X |
| 2.3 Other | X | - | - | - | X | X | - | - | - | X |
| **Total B** | **X** | **1,650** | **579** | **6** | **X** | **X** | **1,765** | **622** | **-** | **X** |
| **Total (A+B)** | **X** | **2,032** | **579** | **6** | **X** | **X** | **2,004** | **622** | **-** | **X** |

**Key**
FV = fair value
FV* = Fair value calculated excluding the changes in value due to the change in the issuer's credit rating since the issue date
NA = Nominal or Notional amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

Financial derivatives refer to the negative valuation of CFD contracts on Forex, indices, shares and interest rates and Futures used for the operational hedging of CFDs on indices and interest rates. They amounted to €565 thousand (€590 thousand as at December 31, 2016).
Sub-item B.1.1 Derivative instruments - Trading financial derivatives includes the negative valuations of spot contracts for securities classified in the HFT portfolio and currencies to be settled in times established by market practices ("regular way"). They amounted to €1,670 thousand (€1,797 thousand as at December 31, 2016).

### 4.2 Breakdown of item 40 "Financial liabilities held for trading": subordinated liabilities
No data to report.

### 4.3 Breakdown of item 40 "Financial liabilities held for trading": structured debts
No data to report.

## Section 5 - Financial liabilities at fair value through profit or loss - Item 50

As at December 31, 2017, no financial liabilities were recognised under the balance-sheet item "Financial Liabilities at fair value through profit or loss".

## Section 6 - Hedging derivatives - Item 60

### 6.1 Hedging derivatives: breakdown by type of hedge and by level

(Amounts in € thousand)

| ITEM/AMOUNT | FAIR VALUE 12.31.2017 L1 | FAIR VALUE 12.31.2017 L2 | FAIR VALUE 12.31.2017 L3 | NA 12.31.2017 | FAIR VALUE 12.31.2016 L1 | FAIR VALUE 12.31.2016 L2 | FAIR VALUE 12.31.2016 L3 | NA 12.31.2016 |
|---|---|---|---|---|---|---|---|---|
| **A. Financial derivatives** | **-** | **12,694** | **-** | **1,085,339** | **-** | **10,914** | **-** | **1,107,368** |
| 1) Fair value | - | 12,694 | - | 1,085,339 | - | 10,914 | - | 1,107,368 |
| 2) Cash flows | - | - | - | - | - | - | - | - |
| 3) Net investment in foreign subsidiaries | - | - | - | - | - | - | - | - |
| **B. Credit derivatives** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1) Fair value | - | - | - | - | - | - | - | - |
| 2) Cash flows | - | - | - | - | - | - | - | - |
| **Total** | **-** | **12,694** | **-** | **1,085,339** | **-** | **10,914** | **-** | **1,107,368** |

**Key:**
NA = notional amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

The hedging derivatives as at December 31, 2017 included the negative fair value of derivatives entered into with UniCredit for €9,320 thousand (€7,849 thousand with UniCredit and €3,065 with UniCredit Bank AG Milano as at December 31, 2016).

### 6.2 Hedging derivatives: breakdown by hedged assets and risk

(Amounts in € thousand)

| TRANSACTION/TYPE OF HEDGE | FAIR VALUE MICRO INTEREST RATE RISK | FAIR VALUE MICRO EXCHANGE RATE RISK | FAIR VALUE MICRO CREDIT RISK | FAIR VALUE MICRO PRICE RISK | FAIR VALUE MICRO MULTIPLE RISK | FAIR VALUE MACRO | CASH FLOWS MICRO | CASH FLOWS MACRO | NET INVESTMENT IN FOREIGN SUBSIDIARIES |
|---|---|---|---|---|---|---|---|---|---|
| 1. Available-for-sale assets | - | - | - | - | - | X | - | X | X |
| 2. Loans and receivables | - | - | - | X | - | X | - | X | X |
| 3. Held-to-maturity investments | X | - | - | X | - | X | - | X | X |
| 4. Portfolio | X | X | X | X | X | 9,568 | X | - | X |
| 5. Other transactions | - | - | - | - | - | X | - | X | - |
| **Total assets** | **-** | **-** | **-** | **-** | **-** | **9,568** | **-** | **-** | **-** |
| 1. Financial liabilities | - | - | - | X | - | X | - | X | X |
| 2. Portfolio | X | X | X | X | X | 3,126 | X | - | X |
| **Total liabilities** | **-** | **-** | **-** | **-** | **-** | **3,126** | **-** | **-** | **-** |
| 1. Expected transactions | X | X | X | X | X | X | - | X | X |
| 2. Financial assets and financial liabilities | X | X | X | X | X | - | X | - | - |

## Section 7 - Changes in fair value of portfolio hedged financial liabilities - Item 70

### 7.1 Adjustments to the value of hedged financial liabilities

(Amounts in € thousand)

| ADJUSTMENTS TO THE VALUE OF HEDGED LIABILITIES/COMPONENTS OF THE GROUP | 12.31.2017 | 12.31.2016 |
|---|---|---|
| 1. Positive changes to financial liabilities | - | 457 |
| 2. Negative changes to financial liabilities | (3,772) | - |
| **Total** | **(3,772)** | **457** |

# Part B - Consolidated Balance Sheet - Liabilities (Continued)

### 7.2 Financial liabilities subject to macro-hedging of interest rate risk: breakdown

(Amounts in € thousand)

| HEDGED LIABILITIES | 12.31.2017 | 12.31.2016 |
|---|---|---|
| 1. Customer deposits | 570,000 | 250,000 |
| **Total** | **570,000** | **250,000** |

## Section 8 - Tax liabilities - Item 80

See section 14 of assets.

## Section 9 - Liabilities included in disposal groups classified as held for sale - Item 90

See section 15 of assets.

## Section 10 - Other liabilities - Item 100

### 10.1 Other liabilities: breakdown

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Accrued expenses other than those to be capitalised for the financial liabilities concerned | 148 | 141 |
| Other liabilities relative to employees | 11,378 | 7,259 |
| Other liabilities due to directors and statutory auditors | 148 | 140 |
| Sums available to be paid to customers | 4,650 | 242 |
| Items in processing: | | |
| - incoming bank transfers | 423 | 1,487 |
| - other items in processing | 57 | 34 |
| items awaiting settlement: | | |
| - outgoing bank transfers | 75,288 | 52,009 |
| - POS and ATM cards | 16,581 | 7,155 |
| Current payables not related to the provision of financial services | 23,690 | 18,941 |
| Definitive items not recognised under other items: | | |
| - securities and coupons to be settled | 30,351 | 4,069 |
| - payment authorisations | 19,068 | 20,480 |
| - other items | 12,373 | 10,435 |
| Payables for share-based payments or shares of the Parent Company UniCredit | 938 | 957 |
| Illiquid items for portfolio transactions | 18,097 | 18,486 |
| Tax items other than those included in item 80: | | |
| - sums withheld from third parties as withholding agent | 22,173 | 18,398 |
| - other | 94,342 | 85,066 |
| Prepayments | 1,737 | 600 |
| Social security contributions payable | 6,845 | 5,944 |
| **Total** | **338,287** | **251,843** |

# Section 11 - Provisions for employee severance pay - Item 110

### 11.1 Provisions for employee severance pay: annual changes

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **A. Opening balance** | **5,253** | **4,846** |
| B. Increases | 125 | 502 |
| B.1 Provisions for the year | 65 | 83 |
| B.2 Other increases | 60 | 419 |
| *of which adjustments for actuarial losses on Employee Severance Fund (IAS19R)* | - | *365* |
| C. Decreases | (379) | (95) |
| C.1 Payments made | (155) | (43) |
| C.2 Other decreases | (224) | (52) |
| *of which adjustments for actuarial gains on Employee Severance Fund (IAS19R)* | *(211)* | - |
| **D. Closing balance** | **4,999** | **5,253** |

### 11.2 Other information

The "TFR" provision for Italy-based employee benefits is considered to be a "post-retirement defined benefit". It is therefore recognised on the basis of an actuarial estimate of the amount of benefit accrued by employees discounted to present value. This benefit is calculated by an external actuary using the unit credit projection method (see Part A.2 - The Main Items of the Accounts).

The Provision for employee severance pay covers the amount of the rights accrued in that respect up to December 31, 2017 by employees, under current legal regulations, as well as national collective bargaining agreements and supplementary company agreements.

The financial year under review was characterised by:

1) normal events relating to the employee severance pay provision in accordance with legal provisions and company agreements in force;
2) changes associated with employment contracts pursuant to Article 1406 and following of the Civil Code dealing with individual mobility within the Group.

In 2007, the new supplementary pension reform pursuant to Legislative Decree no. 252/2005 became effective and, as a result the amounts accrued up to December 31, 2006 were kept with the Company, whilst the amounts of employee severance pay provision accruing as of 1 January 2007 were transferred to the supplementary pension funds or the INPS Treasury fund according to the option adopted by the employees (within June 30, 2007).

The result is that:

- the employee severance fund accrued up to December 31, 2006 (or until the date of the option - falling between January 1, 2007 and June 30, 2007 - adopted by the employees if the they decided to transfer their employee severance pay provision to a supplementary pension fund) continues to be a "defined-benefit" plan and therefore subject to actuarial valuation, although based on simplified actuarial assumptions which no longer take account of estimated future pay rises;
- the amounts accrued from January 1, 2007 (or from the date of the option - falling between 1 January 2007 and June 30, 2007 - by the employees if they decided to transfer their employee severance pay provision to a supplementary pension fund), were considered as a “defined-contribution" plan (as the Company's liability ceases at the time it pays the employee severance pay provision accrued to the pension fund chosen by the employee) and therefore the related cost for the period is equal to the amounts paid to the Supplementary Pension fund or the INPS Treasury fund.

The following table shows the main actuarial assumptions used to remeasure the liability.

| DESCRIPTION OF THE MAIN ACTUARIAL ASSUMPTIONS | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Discount rate | 1.45% | 1.25% |
| Expected inflation rate | 1.40% | 1.10% |

(Amounts in € thousand)

| EMPLOYEE SEVERANCE PAY PROVISION: OTHER INFORMATION | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **Provisions for the year** | **65** | **83** |
| - Current service cost | - | - |
| - Interest expense on defined benefit obligations | 65 | 83 |
| - Gains and losses on curtailments and settlements | - | - |
| - Past service cost | - | - |
| **Actuarial gains (losses) recognised in revaluation reserves (OCI)** | **(211)** | **365** |
| - Actuarial gains (losses) for the year | (202) | 383 |
| - Actuarial gains/losses on demographic assumptions | - | - |
| - Actuarial gains/losses on financial assumptions | (9) | (18) |

# Part B - Consolidated Balance Sheet - Liabilities (Continued)

As required by IAS 19 Revised, a sensitivity analysis was conducted aimed at identifying how the present value of the liability changes when the actuarial assumptions considered most significant are changed, while keeping the other actuarial assumptions constant. A change of -25 basis points in the discount rate would result in an increase in the liability of €160 thousand (+3.20%), whereas an equivalent increase in the rate would result in a reduction of the liability of €155 thousand (-3.09%). A change of -25 basis points in the inflation rate would result in a decrease in the liability of €96 thousand (-1.93%), whereas an equivalent increase in the rate would result in an increase in the liability of €98 thousand (+1.96%).

## Section 12 - Provisions for risks and charges - Item 120

### 12.1 - Provisions for risks and charges: breakdown

(Amounts in € thousand)

| ITEM/COMPONENTS | 12.31.2017 | 12.31.2016 |
|---|---|---|
| 1. Pensions and other post-retirement benefit obligations | - | - |
| 2. Other provisions for risks and charges | 112,414 | 111,756 |
| 2.1 legal disputes | 31,056 | 33,699 |
| 2.2 staff expenses | 5,690 | 10,043 |
| 2.3 other | 75,668 | 68,014 |
| **Total** | **112,414** | **111,756** |

Item 2.1 “legal disputes” includes provisions made to cover complaints and disputes for damage to customers arising from the unlawful behaviour of the Bank's personal financial advisors, provisions relating to pending disputes with personal financial advisors (generally employment-related) and other ongoing court and out-of-court litigation with customers, in relation to normal banking activities, and other parties. This provision includes the costs of proceedings borne by the Bank in the event of an adverse conclusion of the dispute plus the estimated expenses to be paid to lawyers, technical advisors and/or experts who assist the Bank, to the extent that it is believed that they will not be reimbursed by the counterparties.
Item 2.2 "staff expenses" includes the provisions made for the variable remuneration to be paid to employees in subsequent years, which have an uncertain due date and/or amount. At December 31, 2016 the item also included integration costs provided for the Bank by the UniCredit Group Business Plan. During 2017, after entering into an agreement on February 4, 2017, these costs were reallocated to the item “Other liabilities” for the share pertaining to the subscriptions receive, whilst the share pertaining to outstanding subscriptions was recognised through consolidated profit and loss.
The item “Other” includes the Supplementary customer indemnity provision, of €64,983 thousand (€56,054 thousand as at December 31, 2016), the Provision for tax disputes (penalties and interest, of €3,931 thousand (€4,078 thousand as at December 31, 2016), the Provision for contractual payments, of €2,311 thousand (€2,184 thousand as at December 31, 2016) and other provisions made for risks related to the Bank's business and operations, of €4,443 thousand (€5,698 thousand as at December 31, 2016).

### 12.2 Provisions for risks and charges: annual changes

(Amounts in € thousand)

| | PENSION FUNDS | OTHER PROVISIONS | TOTAL |
|---|---|---|---|
| **A. Opening balance** | **-** | **111,756** | **111,756** |
| **B. Increases** | **-** | **19,929** | **19,929** |
| B.1 Provisions for the year | - | 19,251 | 19,251 |
| B.2 Changes due to the passage of time | - | 665 | 665 |
| B.3 Changes due to variations in the discount rate | - | 10 | 10 |
| B.4 Other increases | - | 3 | 3 |
| **C. Decreases** | **-** | **(19,271)** | **(19,271)** |
| C.1 Amounts used in the year | - | (14,641) | (14,641) |
| C.2 Changes due to variations in the discount rate | - | (1) | (1) |
| C.3 Other decreases | - | (4,629) | (4,629) |
| **D. Closing balance** | **-** | **112,414** | **112,414** |

“Other decreases” include the integration costs allocated to “Other liabilities” for the share pertaining to subscriptions received, as already mentioned.

### 12.3 Pensions and other post-retirement defined-benefit obligations

No data to report.

### 12.4 Provisions for risks and charges - other provisions

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---:|---:|
| **Legal disputes** | **31,056** | **33,699** |
| - Pending cases | 25,525 | 26,673 |
| - Complaints | 5,531 | 7,026 |
| **Staff expenses** | **5,690** | **10,043** |
| **Other** | **75,668** | **68,014** |
| - Supplementary customer indemnity provision | 64,983 | 56,054 |
| - Provision for contractual payments and payments under non-competition agreements | 2,311 | 2,184 |
| - Tax disputes | 3,931 | 4,078 |
| - Other provisions | 4,443 | 5,698 |
| **Total provisions for risks and charges** | **112,414** | **111,756** |

(Amounts in € thousand)

| PROVISIONS FOR RISKS AND CHARGES | TOTAL 12.31.2016 | USES | TRANSFERS AND OTHER CHANGES | ACTUARIAL GAINS (LOSSES) IAS 19R * | NET PROVISIONS ** | TOTAL 12.31.2017 |
|---|---:|---:|---:|---:|---:|---:|
| **Legal disputes** | **33,699** | **(6,467)** | **-** | **-** | **3,824** | **31,056** |
| - Pending cases | 26,673 | (3,326) | 234 | - | 1,944 | 25,525 |
| - Complaints | 7,026 | (3,141) | (234) | - | 1,880 | 5,531 |
| **Staff expenses** | **10,043** | **(3,779)** | **(4,626)** | **-** | **4,052** | **5,690** |
| **Other** | **68,014** | **(4,395)** | **-** | **5,373** | **6,676** | **75,668** |
| - Supplementary customer indemnity provision | 56,054 | (1,464) | - | 5,385 | 5,008 | 64,983 |
| - Contractual payments and payments under non-competition agreements | 2,184 | - | - | (12) | 139 | 2,311 |
| - Tax disputes | 4,078 | (147) | - | - | - | 3,931 |
| - Other provisions | 5,698 | (2,784) | - | - | 1,529 | 4,443 |
| **Total provisions for risks and charges** | **111,756** | **(14,641)** | **(4,626)** | **5,373** | **14,552** | **112,414** |

* The item "IAS 19R actuarial gains (losses)" includes the actuarial gains (losses) recognised in the item "Revaluation reserves" in application of IAS 19R.

** The item "Net provisions" includes the costs recognised in their own income statement item to better reflect their nature (e.g. "Staff expenses", "Administrative costs" and "Interest expenses and similar charges").

The following table shows the main actuarial assumptions used to measure the liability for the supplementary customer indemnity provision and the provision for contractual payments.

| DESCRIPTION OF THE MAIN ACTUARIAL ASSUMPTIONS | 12.31.2017 | 12.31.2016 |
|---|---:|---:|
| Discount rate | 1.45% | 1.25% |
| Salary increase rate | 2.60% | 2.60% |

As required by IAS 19 Revised, a sensitivity analysis was conducted aimed at identifying how the present value of the liability changes when the actuarial assumptions considered most significant are changed, while keeping the other actuarial assumptions constant.
With reference to the supplementary customer indemnity provision, a change of -25 basis points in the discount rate would result in an increase in liabilities of €1,866 thousand (+2.87%); an equivalent increase in the rate, on the other hand, would reduce the liability by €1,787 thousand (-2.75%). A change of -25 basis points in the salary base would result in a reduction in the liability of €610 thousand (-0.94%); an equivalent increase in the rate, on the other hand, would result in an increase in liabilities of €626 thousand (+0.96%).
With reference to the provision for contractual payments, a change of -25 basis points in the discount rate would result in an increase in liabilities of €38 thousand (+1.89%); an equivalent increase in the rate, on the other hand, would reduce the liability by €37 thousand (-1.82%). A change of -25 basis points in the salary base would result in a reduction in the liability of €1 thousand (-0.07%); an equivalent increase in the rate, on the other hand, would result in an increase in liabilities of €1 thousand (+0.07%).

In addition, for the other provisions recognised in the financial statements on the basis of IAS 37, where the effect of the time value of money is significant (generally when payment is to be made more than 18 months from recognition), the amount of the provision should be the present value of the best estimate of the cost required to settle the obligation. The discount rate used reflects the current market assessments. As at December 31, 2017 an analysis was conducted to assess the impact on the provision is made of a variation of +/- 25 basis points in the discount rate and no significant impacts were found.

# Part B - Consolidated Balance Sheet - Liabilities (CONTINUED)

The **Provision for legal disputes** includes provisions made to cover complaints and disputes for damage to customers arising from the unlawful behaviour of the Bank's personal financial advisors, provisions relating to pending disputes with personal financial advisors (generally employment-related) and other ongoing court and out-of-court litigation with customers, in relation to normal banking activities, and other parties. This provision includes the costs of proceedings borne by the Bank in the event of an adverse conclusion of the dispute plus the estimated expenses to be paid to lawyers, technical advisors and/or experts who assist the Bank, to the extent that it is believed that they will not be reimbursed by the counterparties.

The **Supplementary customer indemnity provision** is accrued to cover the amount of severance indemnity to be paid to the PFA network pursuant to art. 1751 of the Italian Civil Code, in the event of termination of the contract for reasons not attributable to the advisor, such as, for example, when reaching retirement age.
The amount of the obligation at the end of the period was assessed with the aid of an independent actuary.

The **Provision for staff expenses** includes provisions made in relation to the variable remuneration to be paid to employees in subsequent years which have an uncertain due date and amount.

The **Provision for contractual payments and payments under non-competition agreements** is related to a limited number of personal financial advisors; these payments are contractually provided. More specifically, the non-competition agreement is an extension of the loyalty obligation at the end of the employment contract which protects the Bank from competition from former personal financial advisors; contractual payments are a special indemnity that the Bank agrees to pay to personal financial advisors, who opted to transfer the rights and obligations arising from their contract with the Bank to third parties, where these advisors continue to keep an ethical and professional conduct with the Bank after termination of employment, with specific regard to the customer portfolio. The amount of the obligation at the end of the period relating to contractual payments was assessed with the aid of an independent actuary.

The **Provision for tax disputes** is allocated to cover tax demands received from the Italian Revenue Agency following tax audits carried out on the Bank over the years, in relation to which the Bank considers it has calculated the tax correctly and legitimately and has therefore submitted an appeal at various levels of proceedings.
The above provisions for risks and charges include the allocations for fines and interest for the additional tax being contested and requested by the Tax Authorities through tax bills or payment notices paid and for the estimated amount of legal expenses to be incurred in the various proceedings.
For more details, see Part E - Information on risks and hedging policies - Section 1.4 - Banking Group - Operational risk - paragraph "Risks arising from tax disputes and audits" of these Notes to the Consolidated Accounts.

The **Other Provisions** are mainly allocated to cover the risks related to the business and operations of the Bank. The provision specifically includes provisions for marketing and customer loyalty campaigns and the provision for training events for the personal financial advisors.

## Section 13 - Technical provisions - Item 130

### 13.1 Technical provisions: breakdown
No data to report.

### 13.2 Technical provisions: annual changes
No data to report.

## Section 14 - Redeemable shares - Item 150

### 14.1 Redeemable shares: breakdown
No data to report.

## Section 15 - Group Shareholders' equity - Items 140, 160, 170, 180, 190, 200 and 220

### 15.1 "Share capital" and "Treasury shares": breakdown

As at December 31, 2017, FinecoBank's share capital came to €200,545 million, comprising 607,713,345 ordinary shares with a par value of €0.33 each.

As at December 31, 2017 the Bank held 60,397 treasury shares, corresponding to 0.01% of the share capital, for an amount of €365 thousand. It should be noted that the shares were purchased in 2015, for a total number of 1,408,834, as part of the "2014 PFA Plan" stock granting plan in favour of Personal Financial Advisors and Network Managers of Fineco, and in the first quarter of 2017, for a total number of 31,519, with regard do the "2016 PFA Plan " incentive plan for Personal Financial Advisors identified as "key personnel", in compliance with the provisions authorised by Fineco's Ordinary Shareholders' Meeting of April 12, 2016. In implementation of the "2014 PFA Plan", during FY2016 and FY2017, Personal Financial Avisors and Network Managers were allocated, respectively, 694,509 shares and 685,447 shares.

The Bank does not hold shares of its Parent Company UniCredit S.p.A., even through other companies or third parties.

(Amounts in € thousand)

| ITEM/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| 1. Share capital | 200,545 | 200,246 |
| 2. Share premium reserve | 1,934 | 1,934 |
| 3. Reserves | 323,932 | 278,407 |
| *- Legal reserve* | *40,109* | *40,049* |
| *- Extraordinary reserve* | *251,367* | *205,860* |
| *- Treasury shares reserve* | *365* | *4,338* |
| *- Other reserves* | *32,091* | *28,160* |
| 4. (Treasury shares) | (365) | (4,338) |
| 5. Revaluation reserves | (8,340) | (6,794) |
| 6. Equity instruments | - | - |
| 7. Net Profit (Loss) for the year | 214,120 | 211,844 |
| **Total** | **731,826** | **681,299** |

On February 7, 2017, in view of the positive outcome of the verification of the minimum entry conditions (at Bank level and UniCredit Group level, where applicable) and the individual conditions (compliance of conduct and continued employment) and the favourable opinion provided by the Remuneration and Appointments Committee in its meeting of February 2, 2017, the Board of Directors of FinecoBank approved:

- for the "Group Executive Incentive System 2014 (Bonus Pool)" plan: a free capital increase, for a total amount of €5,237.76 corresponding to a total of 15,872 FinecoBank ordinary shares with a nominal value of €0.33 each (with the same characteristics as those in circulation and with regular dividend entitlement), impartial exercise of the authority granted to the Board of Directors by the Extraordinary Shareholders' Meeting of June 5, 2014, in accordance with Article 2443 of the Italian Civil Code. The dilution effect resulting from the above free capital increase has been quantified as 0.003% of the fully diluted capital;
- for the "2014-2017 Top Management Multi-Year Plan": a free capital increase, for a total amount of €208,180.50 corresponding to a total of 630,850 FinecoBank ordinary shares with a nominal value of €0.33 each (with the same characteristics as those in circulation and with regular dividend entitlement), in partial exercise of the authority granted to the Board of Directors by the Extraordinary Shareholders' Meeting of June 5, 2014, in accordance with Article 2443 of the Italian Civil Code. The dilution effect resulting from the above free capital increase has been quantified as 0.10% of the fully diluted capital;
- for the "2014 Key People Plan": a free capital increase, for a total amount of €86,191.71 corresponding to a total of 261,187 FinecoBank ordinary shares with a nominal value of €0.33 each (with the same characteristics as those in circulation and with regular dividend entitlement), in partial exercise of the authority granted to the Board of Directors by the Extraordinary Shareholders' Meeting of June 5, 2014, in accordance with Article 2443 of the Italian Civil Code. The dilution effect resulting from the above free capital increase has been quantified as 0.04% of the fully diluted capital.

The Shareholders' Meeting of April 11, 2017 approved the allocation of profit for the year 2016, amounting to €211,844 thousand, as follows:

- €60 thousand to the Legal reserve, corresponding to 0.03% of the profit for the year, having reached the limit of a fifth of the share capital;
- €41,624 thousand to the extraordinary reserve;
- to the 607,713,345 ordinary shares with a par value of €0.33, a unit dividend of €0.28 for a total amount of €170,160 thousand.

The share of dividends not distributed to treasury shares held by the bank on the record date, equal to €209 thousand, was allocated to the Extraordinary Reserve.

# Part B - Consolidated Balance Sheet - Liabilities (Continued)

### 15.2 Share capital - Number of shares of the Parent Company: annual changes

| ITEMS/TYPE | ORDINARY | OTHER |
|---|---|---|
| **A. Shares outstanding at the beginning of the year** | | |
| - fully paid | 606,805,436 | - |
| - not fully paid | - | - |
| A.1 Treasury shares (-) | (714,325) | - |
| **A.2 Shares outstanding: opening balance** | **606,091,111** | **-** |
| **B. Increases** | | |
| B.1 New issues | | |
| - against payment: | | |
| - business combinations | - | - |
| - bonds converted | - | - |
| - warrants exercised | - | - |
| - other | - | - |
| - free | | |
| - to employees | 907,909 | - |
| - to directors | - | - |
| - other | - | - |
| B.2 Sale of treasury shares | - | - |
| B.3 Other changes | 685,447 | - |
| **C. Decreases** | | |
| C.1 Cancellation | - | - |
| C.2 Purchase of treasury shares | (31,519) | - |
| C.3 Business transfers | - | - |
| C.4 Other changes | - | - |
| **D. Shares outstanding: closing balance** | **607,652,948** | **-** |
| D.1 Treasury shares (+) | 60,397 | - |
| D.2 Shares outstanding at the end of the year | - | - |
| - fully paid | 607,713,345 | - |
| - not fully paid | - | - |

The item B.3 Other changes reports the shares allocated to the personal financial advisors under the stock granting plan ("2014 PFA Plan") for FinecoBank's Personal Financial Advisors and Network Managers.

### 15.3 Share capital: other information

The shares are not subject to any right, privilege or constraint; there are no shares reserved for issue under option and sales contracts.

### 15.4 Reserves from allocation of profit from previous years: other information

The reserves from profits consist of the:
- Legal reserve, amounting to €40,109 thousand;
- Extraordinary reserve, amounting to €251,367 thousand;
- Reserve for treasury shares held, amounting to €365 thousand.

Following the allocation of FinecoBank ordinary shares held as treasury shares to the Bank's Personal Financial Advisors and Network Managers, under the third-tranche of the stock granting "2014 PFA Plan", the "Reserve for treasury shares held" was released and reclassified to the "Extraordinary reserve" by an amount of €4,144 thousand.

### 15.5 Other information

No data to report.

## Section 16 - Minority interests - Item 210

### Section 16.1 Breakdown of Item 210 "Minority interests"
No data to report.

### 16.2 Equity instruments: breakdown and annual changes
No data to report.

### Other information

### 1. Guarantees issued and commitments
(Amounts in € thousand)

| TRANSACTIONS | AMOUNT 12.31.2017 | AMOUNT 12.31.2016 |
|---|---|---|
| 1) Financial guarantees given | 256,732 | 256,752 |
| a) Banks | 256,065 | 256,065 |
| b) Customers | 667 | 687 |
| 2) Commercial guarantees given | 4 | 4 |
| a) Banks | 4 | 4 |
| b) customers | - | - |
| 3) Irrevocable commitments to lend funds | 2,324,759 | 1,241,574 |
| a) Banks | 2,125,790 | 1,018,155 |
| i) certain to be called on | 790 | 155 |
| ii) not certain to be called on | 2,125,000 | 1,018,000 |
| b) Customers | 198,969 | 223,419 |
| i) certain to be called on | 198,862 | 223,419 |
| ii) not certain to be called on | 107 | - |
| 4) Commitments underlying credit derivatives:protection sales | - | - |
| 5) Assets given as collateral for third-party obligations | - | - |
| 6) Other commitments | - | - |
| **Total** | **2,581,495** | **1,498,330** |

Financial guarantees given to banks include 5 guarantees issued in 2012 on request of UniCredit, with indefinite duration, for a total amount of €256,065 thousand.
Irrevocable commitments to lend funds certain to be called on mainly consisted of spot contracts for the purchase and sale of securities to be settled in times established by market practices ("regular way"), for an amount of €165,987 thousand, repurchase agreements to be disbursed, for an amount of €33,262 thousand.
The irrevocable commitments with Banks to lend funds not certain to be called refer to the "Liquidity Framework Agreement" entered during 2016 and renewed during the first half of 2017, under which the Bank has made a commitment to provide UniCredit a certain amount of eligible securities for the period of one month; the securities may be requested by UniCredit through repos with a maximum duration of three months. The Bank is also committed to investing the liquidity, received through the repos, in term deposits with the Parent Company with the same expiry date.

### 2. Assets given as collateral for own liabilities and commitments
(Amounts in € thousand)

| PORTFOLIOS | AMOUNT 12.31.2017 | AMOUNT 12.31.2016 |
|---|---|---|
| 1. Financial assets held for trading | - | - |
| 2. Financial assets at fair value through profit or loss | - | - |
| 3. Available-for-sale financial assets | - | - |
| 4. Held-to-maturity investments | - | - |
| 5. Loans and receivables with banks | - | 54,909 |
| 6. Loans and receivables with customers | - | - |
| 7. Property, plant and equipment | - | - |
| **Total** | **-** | **54,909** |

As at December 31, 2017, the Bank has also committed securities owned by it as collateral for bankers' drafts, as a guarantee for transactions in foreign markets, as a guarantee for transactions in derivatives, and as a guarantee for securities lending transactions.
With regard to the securities used as collateral for banker's drafts, as guarantee with third parties in relation to transactions on foreign markets: more specifically, the Bank used bonds issued by governments, classified as "Available-for-sale financial assets", for a book value of €131,101 thousand (€128,882 thousand as at December 31, 2016). Securities are used as collateral until the Bank decides to stop the transactions for which the collateral or guarantees are granted.
With regard to the securities lending transactions with customers, UniCredit securities have been committed, belonging to the "Loans and receivables" category", for a carrying amount of €890,325 thousand (€1,042,126 thousand as at December 31, 2016). For more details, see section 8. Securities lending transactions.

# Part B - Consolidated Balance Sheet - Liabilities (Continued)

### 3. Information on operating leases

With regard to outstanding non-cancellable leases, the future payments amount to:
- €1,969 thousand up to twelve months;
- €50 thousand from one to five years.

There are no sub-leases in place.

### 4. Breakdown of investments for unit-linked and index-linked policies

No data to report.

### 5. Asset management and trading on behalf of others

(Amounts in € thousand)

| TYPE OF SERVICE | AMOUNT 12.31.2017 | AMOUNT 12.31.2016 |
|---|---|---|
| **1. Execution of orders for customers** | **326,780,204** | **330,212,411** |
| Securities | 85,472,068 | 85,036,522 |
| a) purchases | 42,872,997 | 42,701,792 |
| *1. Settled* | *42,495,048* | *42,346,469* |
| *2. Unsettled* | *377,949* | *355,323* |
| b) sales | 42,599,071 | 42,334,730 |
| *1. Settled* | *42,288,571* | *41,973,535* |
| *2. Unsettled* | *310,500* | *361,195* |
| **Derivative contracts** | **241,308,136** | **245,175,889** |
| a) purchases | 120,730,831 | 122,572,275 |
| *1. Settled* | *120,378,702* | *122,309,410* |
| *2. Unsettled* | *352,129* | *262,865* |
| b) sales | 120,577,305 | 122,603,614 |
| *1. Settled* | *120,242,383* | *122,335,440* |
| *2. Unsettled* | *334,922* | *268,174* |
| **2. Segregated accounts** | **-** | **-** |
| a) individual | - | - |
| b) collective | - | - |
| **3. Custody and administration of securities** | | |
| a) third party securities on deposits: relating to custodian bank activities (excluding segregated accounts) | - | - |
| *1. securities issued by the bank preparing the accounts* | - | - |
| *2. other securities* | - | - |
| b) third party securities held in deposits (excluding segregated accounts): other | 13,393,452 | 11,399,554 |
| *1. securities issued by the bank preparing the accounts* | *2,568* | *4,827* |
| *2. other securities* | *13,390,884* | *11,394,727* |
| c) third-party securities deposited with third parties | 13,393,452 | 11,399,550 |
| d) own securities deposited with third parties | 16,236,634 | 15,461,745 |
| **4. Other transactions** | **25,223,404** | **18,342,788** |
| Order receipt and transmission | 25,223,404 | 18,342,788 |
| *a) purchases* | *12,603,177* | *9,216,044* |
| *b) sales* | *12,620,227* | *9,126,744* |

### 6. Assets subject to accounting offsetting, to master netting agreements or similar agreements

(Amounts in € thousand)

| TYPE | GROSS AMOUNT OF FINANCIAL ASSETS (A) | AMOUNT OF FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL STATEMENTS (B) | NET AMOUNT OF FINANCIAL ASSETS SHOWN IN THE FINANCIAL STATEMENTS (C=A-B) | RELATED AMOUNTS NOT SUBJECT TO ACCOUNTING OFFSETTING: FINANCIAL INSTRUMENTS (D) | RELATED AMOUNTS NOT SUBJECT TO ACCOUNTING OFFSETTING: CASH DEPOSITS RECEIVED AS GUARANTEE (E) | NET AMOUNT 12.31.2017 (F=C-D-E) | NET AMOUNT 12.31.2016 |
|---|---|---|---|---|---|---|---|
| 1. Derivatives | - | - | - | - | - | - | 552 |
| 2. Reverse repos | - | - | - | - | - | - | - |
| 3. Securities lending | 179 | - | 179 | - | - | 179 | - |
| 4. Other | - | - | - | - | - | - | - |
| **Total December 31, 2017** | **179** | **-** | **179** | **-** | **-** | **179** | **X** |
| **Total December 31, 2016** | **552** | **-** | **552** | **-** | **-** | **X** | **552** |

#### 7. Financial liabilities subject to accounting offsetting or under master netting agreements and similar ones

(Amounts in € thousand)

| TYPE | GROSS AMOUNT OF FINANCIAL LIABILITIES (A) | AMOUNT OF FINANCIAL ASSETS OFFSET IN THE FINANCIAL STATEMENTS (B) | NET AMOUNT OF FINANCIAL LIABILITIES SHOWN IN THE FINANCIAL STATEMENTS (C=A-B) | RELATED AMOUNTS NOT SUBJECT TO ACCOUNTING OFFSETTING | | NET AMOUNT 12.31.2017 (F=C-D-E) | NET AMOUNT 12.31.2016 |
|---|---|---|---|---|---|---|---|
| | | | | FINANCIAL INSTRUMENTS (D) | CASH DEPOSITS RECEIVED AS GUARANTEE (E) | | |
| 1. Derivatives | 10,523 | - | 10,523 | - | 9,350 | 1,173 | - |
| 2. Reverse repos | 764,353 | - | 764,353 | - | - | 764,353 | - |
| 3. Securities lending | 177,878 | - | 177,878 | - | - | 177,878 | - |
| 4. Other | - | - | - | - | - | - | - |
| **Total December 31, 2017** | **952,754** | **-** | **952,754** | **-** | **9,350** | **943,404** | **X** |
| **Total December 31, 2016** | **7,849** | **-** | **7,849** | **-** | **7,849** | **X** | **-** |

It should also be noted that, at December 31, 2017 there were swap derivative contracts with a positive fair value of €458 thousand and a negative fair value of €2,171 thousand, for which a positive variance margin of €1,711 thousand was paid, not shown in the table above as it is cleared at a Central Counterparty since it refers to client-trade exposures. Such exposures were subject to the prudential treatment set out in Article 305 of (EU) Regulation no. 575/2013.

#### 8. Securities lending transactions

The Bank conducts securities lending transactions on a continuous and systematic basis, with the objective of optimising the returns of customer portfolios, satisfying the requests of institutional counterparties and obtaining a profit for the Bank. The Bank operates as the borrower, borrowing the securities of its customers and using them in repos and securities lending transactions guaranteed by cash amounts with retail and institutional customers interested in the temporary ownership of the securities. Against securities lending transactions guaranteed by other securities that are not shown in Liabilities or Other balance sheet commitments, the Bank issued as collateral UniCredit bonds belonging to the "Loans and Receivables" category, held in a dedicated dossier at the custodian bank for an amount higher than that of the securities borrowed by the customers, with the aim of providing a collective guarantee.

The face value of the underlying securities not recognised as assets in the accounts totalled €772,854 thousand, while their fair value was €949,550 thousand, broken down as follows:

(Amounts in € thousand)

| SECURITIES RECEIVED ON LOAN FROM: | TYPE OF SECURITIES (NOMINAL VALUE DECEMBER 31, 2017) | | |
|---|---|---|---|
| | SOLD | SOLD IN REPOS | OTHER PURPOSES |
| Banks | - | - | - |
| Financial companies | - | 1,006 | - |
| Insurance companies | - | - | - |
| Non-financial companies | - | 3,036 | 45 |
| Other entities | 578 | 767,369 | 820 |
| **Total nominal value** | **578** | **771,411** | **865** |

(Amounts in € thousand)

| SECURITIES RECEIVED ON LOAN FROM: | TYPE OF SECURITIES (FAIR VALUE DECEMBER 31, 2017) | | |
|---|---|---|---|
| | SOLD | SOLD IN REPOS | OTHER PURPOSES |
| Banks | - | - | - |
| Financial companies | - | 1,323 | - |
| Insurance companies | - | - | - |
| Non-financial companies | - | 3,580 | 102 |
| Other entities | 382 | 943,073 | 1,090 |
| **Total fair value** | **382** | **947,976** | **1,192** |

#### 9. Disclosure on joint control activities

No data to report.

# Part C - Consolidated Income Statement

# Part C - Consolidated Income Statement

## Section 1 - Interest income and expense - Items 10 and 20

### 1.1 Interest income and similar revenues: breakdown

(Amounts in € thousand)

| ITEMS/TYPE | DEBT SECURITIES | LOANS | OTHER TRANSACTIONS | TOTAL 12.31.2017 | TOTAL 12.31.2016 |
|---|---|---|---|---|---|
| 1. Financial assets held for trading | 1 | - | - | 1 | 1 |
| 2. Financial assets at fair value through profit or loss | - | - | - | - | - |
| 3. Available-for-sale financial assets | 8,505 | - | - | 8,505 | 20,658 |
| 4. Held-to-maturity investments | 23,066 | - | - | 23,066 | 1,575 |
| 5. Loans and receivables with banks | 186,029 | 2,824 | - | 188,853 | 198,814 |
| 6. Loans and receivables with customers | - | 41,029 | - | 41,029 | 29,109 |
| 7. Hedging derivatives | - | - | 8,215 | 8,215 | 3,080 |
| 8. Other assets | - | - | 77 | 77 | 69 |
| **Total interest income** | **217,601** | **43,853** | **8,292** | **269,746** | **253,306** |

Interest accrued on impaired assets, relating exclusively to the item Loans and receivables with customers, amounted to €325 thousand (€360 thousand as at December 31, 2016).

### 1.2 Interest income and similar revenues: hedging differentials

(Amounts in € thousand)

| ITEMS | 12.31.2017 | 12.31.2016 |
|---|---|---|
| A. Positive hedging differentials | 20,102 | 35,458 |
| B. Negative hedging differentials | (11,887) | (32,378) |
| **C. Balance (A-B)** | **8,215** | **3,080** |

### 1.3 Interest income and similar revenues: other information

No information to report.

#### 1.3.1 Interest income from financial assets denominated in currency

(Amounts in € thousand)

| ITEMS/TYPE | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Interest income on foreign currency financial assets | 15,100 | 12,459 |

#### 1.3.2 Interest income on finance lease transactions

No data to report.

### 1.4 Interest expenses and similar charges: breakdown

(Amounts in € thousand)

| ITEMS/TYPE | PAYABLES | SECURITIES | OTHER TRANSACTIONS | TOTAL 12.31.2017 | TOTAL 12.31.2016 |
|---|---|---|---|---|---|
| 1. Deposits from central banks | - | - | - | - | - |
| 2. Deposits from banks | 3,070 | - | - | 3,070 | 3,006 |
| 3. Deposits from customers | (8,235) | - | - | (8,235) | (6,924) |
| 4. Debt securities in issue | - | - | - | - | - |
| 5. Financial liabilities held for trading | - | - | - | - | - |
| 6. Financial Liabilities at fair value through profit or loss | - | - | - | - | - |
| 7. Other liabilities and provisions | - | - | - | - | - |
| 8. Hedging derivatives | - | - | - | - | - |
| **Total interest expense** | **(5,165)** | **-** | **-** | **(5,165)** | **(3,918)** |

### 1.5 Interest expenses and similar charges: hedging differentials

This table has been omitted as the balance of hedging differentials is positive (please refer to the above table 1.2).

### 1.6 Interest expenses and similar charges: other information

No information to report.

#### 1.6.1 Interest expense on liabilities denominated in currency

(Amounts in € thousand)

| ITEMS/TYPE | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Interest expense on liabilities denominated in currency | (4,882) | (2,479) |

#### 1.6.2 Interest expense on finance leases

No data to report.

## Section 2 - Fee and commission income and expense - Items 40 and 50

### 2.1 Fee and commission income: breakdown

(Amounts in € thousand)

| TYPE OF SERVICE/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| (a) guarantees given | 67 | 67 |
| (b) credit derivatives | - | - |
| (c) management, brokerage and consulting services: | 484,259 | 436,906 |
| 1. securities trading | 71,072 | 75,599 |
| 2. currency trading | - | - |
| 3. segregated accounts | - | - |
| 3.1. individual | - | - |
| 3.2. collective | - | - |
| 4. custody and administration of securities | 1,079 | 964 |
| 5. custodian bank | - | - |
| 6. placement of securities | 14,307 | 14,492 |
| 7. reception and transmission of orders | 11,862 | 10,732 |
| 8. advisory services | 43,233 | 33,078 |
| 8.1. related to investments | 43,233 | 33,078 |
| 8.2. related to financial structure | - | - |
| 9. distribution of third-party services: | 342,706 | 302,041 |
| 9.1. segregated accounts | 280,210 | 252,873 |
| 9.1.1 individual | 28 | 53 |
| 9.1.2 collective | 280,182 | 252,820 |
| *of which maintenance commissions for UCIT units* | *277,309* | *250,480* |
| 9.2. insurance products | 62,495 | 49,159 |
| 9.3. other products | 1 | 9 |
| (d) collection and payment services | 28,761 | 21,758 |
| (e) securitisation servicing | - | - |
| (f ) factoring | - | - |
| (g) tax collection services | - | - |
| (h) management of multilateral trading systems | - | - |
| (i) management of current accounts | 4,716 | 5,019 |
| (j) other services | 9,798 | 5,450 |
| (k) securities lending transactions | 5,713 | 3,640 |
| **Total** | **533,314** | **472,840** |

### 2.2 Fee and commission expense: breakdown

(Amounts in € thousand)

| SERVICE/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| (a) guarantees received | - | - |
| (b) credit derivatives | - | - |
| (c) management and brokerage services: | (239,360) | (208,909) |
| 1. securities trading | (7,018) | (7,510) |
| 2. currency trading | - | - |
| 3. segregated accounts: | - | - |
| 3.1 own | - | - |
| 3.2 delegated to third parties | - | - |
| 4. custody and administration of securities | (4,692) | (4,126) |
| 5. placement of financial instruments | - | - |
| 6. cold-calling to offer securities, products and services | (227,650) | (197,273) |
| (d) collection and payment services | (21,674) | (19,022) |
| (e) other services | (399) | (304) |
| (f) securities lending transactions | (1,798) | (1,724) |
| **Total** | **(263,231)** | **(229,959)** |

# Part C - Consolidated Income Statement (Continued)

## Section 3 - Dividend income and similar revenue - Item 70

### 3.1 Dividend income and similar revenue: breakdown

(Amounts in € thousand)

| ITEM/INCOME | 12.31.2017 | | 12.31.2016 | |
|---|---|---|---|---|
| | DIVIDENDS | INCOME FROM UCITS UNITS | DIVIDENDS | INCOME FROM UCITS UNITS |
| A. Financial assets held for trading | 26 | - | 14 | - |
| B. Available-for-sale financial assets | 29 | - | 6 | - |
| C. Financial assets designated at fair value through profit or loss | - | - | - | - |
| D. Equity investments | - | X | - | X |
| **Total** | **55** | **-** | **20** | **-** |

## Section 4 - Gains (losses) on financial assets and liabilities held for trading - Item 80

### 4.1 Gains (losses) on financial assets and liabilities held for trading: breakdown

**As at December 31, 2017**

(Amounts in € thousand)

| TRANSACTION/INCOME ITEM | UNREALISED GAINS (A) | REALISED PROFITS (B) | UNREALISED LOSSES (C) | REALISED LOSSES (D) | NET PROFIT (LOSS) [(A+B)-(C+D)] |
|---|---|---|---|---|---|
| **1. Financial assets held for trading** | **28** | **84,293** | **(36)** | **(76,448)** | **7,837** |
| 1.1 Debt securities | 1 | 3,080 | (1) | (2,604) | 476 |
| 1.2 Equity instruments | 9 | 80,165 | (26) | (72,960) | 7,188 |
| 1.3 UCITS units | 18 | 1,048 | (9) | (884) | 173 |
| 1.4 Loans | - | - | - | - | - |
| 1.5 Other | - | - | - | - | - |
| **2. Financial liabilities held for trading** | **1** | **12** | **(1)** | **(8)** | **4** |
| 2.1 Debt securities | - | - | - | - | - |
| 2.2 Payables | - | - | - | - | - |
| 2.3 Other | 1 | 12 | (1) | (8) | 4 |
| **3. Other financial assets and liabilities: exchange differences** | **X** | **X** | **X** | **X** | **6,210** |
| **4. Derivatives** | **5,541** | **53,513** | **(5,280)** | **(35,134)** | **33,362** |
| 4.1 Financial derivatives: | 5,541 | 53,513 | (5,280) | (35,134) | 33,362 |
| - On debt securities and interest rates | 176 | 1,465 | (187) | (1,049) | 405 |
| - On equity securities and share indices | 5,365 | 47,244 | (5,093) | (31,822) | 15,694 |
| - On currencies and gold | X | X | X | X | 14,722 |
| - Other | - | 4,804 | - | (2,263) | 2,541 |
| 4.2 Credit derivatives | - | - | - | - | - |
| **Total** | **5,570** | **137,818** | **(5,317)** | **(111,590)** | **47,413** |

**As at December 31, 2016**

(Amounts in € thousand)

| TRANSACTION/INCOME ITEM | UNREALISED GAINS (A) | REALISED PROFITS (B) | UNREALISED LOSSES (C) | REALISED LOSSES (D) | NET PROFIT (LOSS) [(A+B)-(C+D)] |
|---|---|---|---|---|---|
| **1. Financial assets held for trading** | **4** | **103,097** | **(22)** | **(93,411)** | **9,668** |
| 1.1 Debt securities | - | 6,825 | - | (6,065) | 760 |
| 1.2 Equity instruments | 4 | 93,309 | (22) | (84,683) | 8,608 |
| 1.3 UCITS units | - | 2,963 | - | (2,663) | 300 |
| 1.4 Loans | - | - | - | - | - |
| 1.5 Other | - | - | - | - | - |
| **2. Financial liabilities held for trading** | **7** | **129** | **-** | **(28)** | **108** |
| 2.1 Debt securities | - | - | - | - | - |
| 2.2 Payables | - | - | - | - | - |
| 2.3 Other | 7 | 129 | - | (28) | 108 |
| **3. Other financial assets and liabilities: exchange differences** | **X** | **X** | **X** | **X** | **4,211** |
| **4. Derivatives** | **4,510** | **62,942** | **(3,720)** | **(39,076)** | **34,603** |
| 4.1 Financial derivatives: | 4,510 | 62,942 | (3,720) | (39,076) | 34,603 |
| - On debt securities and interest rates | 96 | 1,364 | (80) | (904) | 476 |
| - On equity securities and share indices | 4,414 | 56,725 | (3,640) | (36,091) | 21,408 |
| - On currencies and gold | X | X | X | X | 9,947 |
| - Other | - | 4,853 | - | (2,081) | 2,772 |
| 4.2 Credit derivatives | - | - | - | - | - |
| **Total** | **4,521** | **166,168** | **(3,742)** | **(132,515)** | **48,590** |

## Section 5 - Fair value adjustments in hedge accounting - Item 90

### 5.1 Fair value adjustments in hedge accounting: breakdown

(Amounts in € thousand)

| INCOME ITEM/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **A. Gains on:** | | |
| A.1 Fair value hedging instruments | 10,865 | 17,018 |
| A.2 Hedged asset items (in fair value hedge relationship) | 10,036 | 3,621 |
| A.3 Hedged liability items (in fair value hedge relationship) | 4,230 | - |
| A.4 Cash-flow hedging derivatives | - | - |
| A.5 Assets and liabilities denominated in currency | - | - |
| **Total gains on hedging activities (A)** | **25,131** | **20,639** |
| **B. Losses on:** | | |
| B.1 Fair value hedging instruments | (20,727) | (9,693) |
| B.2 Hedged asset items (in fair value hedge relationship) | (4,385) | (10,419) |
| B.3 Hedged liability items (in fair value hedge relationship) | - | (458) |
| B.4 Cash-flow hedging derivatives | - | - |
| B.5 Assets and liabilities denominated in currency | - | - |
| **Total losses on hedging activities (B)** | **(25,112)** | **(20,570)** |
| **C. Fair value adjustments in hedge accounting (A-B)** | **19** | **69** |

## Section 6 - Gains (Losses) on disposals/repurchases - Item 100

### 6.1 Gains (Losses) on disposals/repurchases: breakdown

(Amounts in € thousand)

| | 12.31.2017 | | | 12.31.2016 | | |
|---|---|---|---|---|---|---|
| ITEM/INCOME ITEM | PROFIT | LOSS | NET PROFIT (LOSS) | PROFIT | LOSS | NET PROFIT (LOSS) |
| **Financial assets** | | | | | | |
| 1. Loans and receivables with banks | 3,951 | - | 3,951 | - | - | - |
| 2. Loans and receivables with customers | - | - | - | - | - | - |
| 3. Available-for-sale financial assets | 761 | - | 761 | 20,382 | - | 20,382 |
| 3.1 Debt securities | 761 | - | 761 | 5,038 | - | 5,038 |
| 3.2 Equity instruments | - | - | - | 15,344 | - | 15,344 |
| 3.3 UCITS units | - | - | - | - | - | - |
| 3.4 Loans | - | - | - | - | - | - |
| 4. Held-to-maturity investments | - | - | - | - | - | - |
| **Total assets** | **4,712** | **-** | **4,712** | **20,382** | **-** | **20,382** |
| **Financial liabilities** | | | | | | |
| 1. Deposits from banks | - | - | - | - | - | - |
| 2. Deposits from customers | - | - | - | - | - | - |
| 3. Debt securities in issue | - | - | - | - | - | - |
| **Total liabilities** | **-** | **-** | **-** | **-** | **-** | **-** |

Income from the sale of receivables from banks, equal to €3,951 thousand, pertain to the sale of debt securities issued by UniCredit (for further details refer to the Consolidated Report on Operations), whereas income from the sale of Available-for-sale financial assets, equal to €761 thousand, pertain to the sale of government securities.

## Section 7 - Gains (losses) on financial assets and liabilities measured at fair value - Item 110

### 7.1 Gain (losses) on financial assets and liabilities measured at fair value through profit and loss: breakdown

No data to report.

# Part C - Consolidated Income Statement (Continued)

## Section 8 - Impairment losses - Item 130

### 8.1 Impairment losses on loans and receivables: breakdown

(Amounts in € thousand)

| TRANSACTION/INCOME ITEM | IMPAIRMENTS (1) | | | WRITE-BACKS (2) | | | | TOTAL 12.31.2017 | TOTAL 12.31.2016 |
|---|---|---|---|---|---|---|---|---|---|
| | MICRO | | | MICRO | | MACRO | | | |
| | WRITE-OFFS | OTHER | MACRO | A | B | A | B | | |
| A. Loans and receivables with banks | - | - | - | - | - | - | - | - | - |
| - Loans | - | - | - | - | - | - | - | - | - |
| - Debt securities | - | - | - | - | - | - | - | - | - |
| B. Loans and receivables with customers | (200) | (4,857) | (2,053) | 200 | 1,275 | - | 477 | (5,158) | (4,206) |
| Impaired related to purchase agreements | - | - | | - | - | - | | - | - |
| - Loans | - | - | X | - | - | - | X | - | - |
| - Debt securities | - | - | X | - | - | - | X | - | - |
| Other loans | (200) | (4,857) | (2,053) | 200 | 1,275 | - | 477 | (5,158) | (4,206) |
| - Loans | (200) | (4,857) | (2,053) | 200 | 1,275 | - | 477 | (5,158) | (4,206) |
| - Debt securities | - | - | - | - | - | - | - | - | - |
| **C. Total** | **(200)** | **(4,857)** | **(2,053)** | **200** | **1,275** | **-** | **477** | **(5,158)** | **(4,206)** |

**Key**
A = From interest
B = Other write-backs

### 8.2 Impairment losses on available-for-sale financial assets: breakdown

(Amounts in € thousand)

| TRANSACTION/INCOME ITEM | IMPAIRMENTS (1) | | WRITE-BACKS (2) | | TOTAL 12.31.2017 | TOTAL 12.31.2016 |
|---|---|---|---|---|---|---|
| | SPECIFIC | | SPECIFIC | | | |
| | WRITE-OFFS | OTHER | A | B | | |
| A. Debt securities | - | - | - | - | - | - |
| B. Equity Instruments | (8,896) | (3,995) | - | - | (12,891) | (6,724) |
| C. UCITS units | - | - | - | - | - | - |
| D. Loans to banks | - | - | - | - | - | - |
| E. Loans to customers | - | - | - | - | - | - |
| **F. Total** | **(8,896)** | **(3,995)** | **-** | **-** | **(12,891)** | **(6,724)** |

**Key**
A = From interest
B = Other write-backs

The specific impairments consisted exclusively of the full impairment write-down recorded on the exposure in equity instruments recognised as result of the contribution paid to the Interbank Deposit Guarantee Fund Voluntary Scheme. For further details, see Section A - Account policies, of the Notes to the Consolidated Accounts.

### 8.3 Impairment losses on held-to-maturity investments: breakdown

No data to report.

### 8.4 Net value adjustments for the impairment of other financial assets: breakdown

(Amounts in € thousand)

| TRANSACTION/INCOME ITEM | IMPAIRMENTS (1) | | | WRITE-BACKS (2) | | | | TOTAL 12.31.2017 | TOTAL 12.31.2016 |
|---|---|---|---|---|---|---|---|---|---|
| | MICRO | | | MICRO | | MACRO | | | |
| | WRITE-OFFS | OTHER | MACRO | A | B | A | B | | |
| A. Guarantees given | - | - | - | - | - | - | - | - | 1,416 |
| B. Credit derivatives | - | - | - | - | - | - | - | - | - |
| C. Commitments to disburse funds | - | - | - | - | - | - | - | - | - |
| D. Other transactions | - | - | - | - | 6 | - | - | 6 | 8 |
| **E. Total** | **-** | **-** | **-** | **-** | **6** | **-** | **-** | **6** | **1,424** |

**Key**
A = From interest
B = Other write-backs

## Section 9 - Net premiums - Item 150

### 9.1 Net premiums: breakdown

No data to report.

## Section 10 - Balance of other net operating income and charges from insurance management - Item 160

### 10.1 Balance of other net operating income and charges from insurance management: breakdown

No data to report.

### 10.2 Breakdown of the sub-item "Net changes to technical provisions"

No data to report.

### 10.3 Breakdown of the sub-item "Claims for the year"

No data to report.

### 10.4 Breakdown of the sub-item "Other income and charges from insurance management"

No data to report.

#### 10.4.1 Life insurance

No data to report.

#### 10.4.2 Damages

No data to report.

## Section 11 - Administrative costs - Item 180

### 11.1 Payroll costs: breakdown

(Amounts in € thousand)

| TYPE OF EXPENSE/SECTORS | 12.31.2017 | 12.31.2016 |
|---|---|---|
| 1) Employees | (77,232) | (77,847) |
| a) wages and salaries | (52,734) | (49,621) |
| b) social security contributions | (13,927) | (13,061) |
| c) severance pay | (912) | (918) |
| d) pension costs | - | - |
| e) allocation to employee severance pay provision | (98) | (106) |
| f) provision for retirements and similar provisions: | | |
| - defined contribution | - | - |
| - defined benefit | - | - |
| g) payments to external pension funds: | | |
| - defined contribution | (3,082) | (2,861) |
| - defined benefit | - | - |
| h) costs related to share-based payments | (2,739) | (3,471) |
| i) other employee benefits | (3,972) | (8,076) |
| l) recovery payments seconded employees | 232 | 267 |
| 2) Other staff | (363) | (218) |
| 3) Directors and statutory auditors | (1,291) | (1,136) |
| 4) Early retirement costs | - | - |
| **Total** | **(78,886)** | **(79,201)** |

Item 1 h) Employees: costs related to share-based payments, includes costs incurred by the Bank in relation to payment agreements based on financial instruments issued by the Bank and on financial instruments issued by UniCredit to employees.

# Part C - Consolidated Income Statement (Continued)

### 11.2 Average number of employees by category

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **Employees** | **1,100** | **1,066** |
| (a) executives | 27 | 26 |
| (b) managers | 330 | 317 |
| (c) remaining employees | 743 | 723 |
| **Other personnel** | **15** | **13** |

### 11.3 Pensions and other post-retirement defined-benefit obligations costs and revenues

No data to report.

### 11.4 Other employee benefits

(Amounts in € thousand)

| TYPE OF EXPENSE/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Leaving incentives | 385 | (5,517) |
| Medical plan | (1,477) | (939) |
| Luncheon vouchers | (936) | (926) |
| Seniority premiums | - | 1,116 |
| Other | (1,944) | (1,810) |
| **Total** | **(3,972)** | **(8,076)** |

### 11.5 Other administrative expenses: breakdown

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1) INDIRECT TAXES AND DUTIES** | **(98,543)** | **(90,568)** |
| **2) MISCELLANEOUS COSTS AND EXPENSES** | | |
| **A) Advertising expenses - Marketing and communication** | **(16,041)** | **(16,840)** |
| Mass media communications | (11,420) | (12,340) |
| Marketing and promotions | (4,488) | (4,251) |
| Sponsorships | (95) | (182) |
| Conventions and internal communications | (38) | (67) |
| **B) Expenses related to credit risk** | **(1,586)** | **(1,403)** |
| Credit recovery expenses | (457) | (520) |
| Commercial information and company searches | (1,129) | (883) |
| **C) Expenses related to personnel** | **(26,167)** | **(28,851)** |
| Personnel training | (479) | (320) |
| Car rental and other staff expenses | (84) | (75) |
| Personal financial adviser expenses | (25,003) | (27,822) |
| Travel expenses | (534) | (564) |
| Premises rentals for personnel | (67) | (70) |
| **D) ICT expenses** | **(32,079)** | **(31,501)** |
| Lease of ICT equipment and software | (2,467) | (3,017) |
| Software expenses: lease and maintenance | (8,092) | (6,847) |
| ICT communication systems | (5,723) | (5,078) |
| ICT services: external personnel/outsourced services | (6,723) | (7,416) |
| Financial information providers | (9,074) | (9,143) |
| **E) Consultancies and professional services** | **(4,247)** | **(2,641)** |
| Consultancy on ordinary activities | (2,665) | (1,578) |
| Consultancy for one-off regulatory compliance projects | (86) | - |
| Consultancy for strategy, business development and organisational optimisation | (385) | (216) |
| Legal expenses | (61) | (25) |
| Legal disputes | (1,050) | (822) |
| **F) Real estate expenses** | **(19,373)** | **(19,793)** |
| Real estate services | (720) | (801) |
| Repair and maintenance of furniture, machinery, and equipment | (200) | (459) |
| Maintenance of premises | (1,379) | (1,491) |
| Premises rentals | (14,387) | (14,289) |
| Cleaning of premises | (509) | (495) |
| Utilities | (2,178) | (2,258) |
| **G) Other functioning costs** | **(36,036)** | **(32,796)** |
| Surveillance and security services | (347) | (412) |
| Postage and transport of documents | (3,396) | (3,428) |
| Administrative and logistic services | (18,772) | (16,160) |
| Insurance | (3,923) | (3,630) |
| Printing and stationery | (511) | (794) |
| Association dues and fees | (8,695) | (8,080) |
| Other administrative expenses | (392) | (292) |
| **H) Ex-ante contribution to the Single Resolution Fund and Interbank Deposit Guarantee Fund** | **(10,566)** | **(10,614)** |
| **Total** | **(244,638)** | **(235,007)** |

The costs posted in 2017 for contributions paid to Deposit Guarantee Schemes (DGS) during the year, shown in item "Other administrative expenses" (point H) of Table 11.5, amounted to €10,566 in total and pertain to the ordinary and additional contribution and to the contribution to the Solidarity Fund for 2017, net of adjustments for the 2015 and 2016 contributions recalculated by the IDGF as a result of the introduction of the new risk-based model for the calculation of DGS contributions. For further details, see Section A - Account policies, of the Notes to the Consolidated Accounts.
No cost was recorded for the Single Resolution Fund (no contribution due).

# Part C - Consolidated Income Statement (Continued)

## Section 12 - Net provisions for risks and charges - Item 190

### 12.1 Net provisions for risks and charges: breakdown

(Amounts in € thousand)

| | 12.31.2017 | | | 12.31.2016 | | |
|---|---|---|---|---|---|---|
| | PROVISIONS | REALLOCATIONS | TOTAL | PROVISIONS | REALLOCATIONS | TOTAL |
| Legal disputes | (8,836) | 5,012 | (3,824) | (7,140) | 7,212 | 72 |
| Supplementary customer indemnity provision | (5,008) | - | (5,008) | (4,964) | - | (4,964) |
| Other provisions for risks and charges | (330) | 703 | 373 | (588) | 4,696 | 4,108 |
| **Total** | **(14,174)** | **5,715** | **(8,459)** | **(12,692)** | **11,908** | **(784)** |

## Section 13 - Net impairment/write-backs on property, plant and equipment - Item 200

### 13.1 Impairment/write-backs on property, plant and equipment: breakdown

(Amounts in € thousand)

| ASSET/INCOME ITEM | DEPRECIATION (A) | WRITE-DOWNS (B) | WRITE-BACKS (C) | NET PROFIT (LOSS) 12.31.2017 (A+B-C) | NET PROFIT (LOSS) 12.31.2016 |
|---|---|---|---|---|---|
| A. Property, plant and equipment | | | | | |
| A.1 Owned | (5,548) | (21) | - | (5,569) | (4,853) |
| - Used in the business | (5,435) | (21) | - | (5,456) | (4,741) |
| - Held for investment | (113) | - | - | (113) | (112) |
| A.2 Held under finance lease | - | - | - | - | - |
| - Used in the business | - | - | - | - | - |
| - Held for investment | - | - | - | - | - |
| **Total** | **(5,548)** | **(21)** | **-** | **(5,569)** | **(4,853)** |

Impairment losses were recognised in the year for insignificant amounts and mainly in relation to office furniture and fittings for which a zero value in use was determined.
A description of the methods used to calculate depreciation is provided in Part A - Accounting Policies of the Notes to the Consolidated Accounts.

## Section 14 - Net impairment/write-backs on intangible assets - Item 210

### 14.1 Impairment on intangible assets: breakdown

(Amounts in € thousand)

| ASSET/INCOME ITEM | DEPRECIATION (A) | WRITE-DOWNS (B) | WRITE-BACKS (C) | NET PROFIT (LOSS) 12.31.2017 (A+B-C) | NET PROFIT (LOSS) 12.31.2016 |
|---|---|---|---|---|---|
| A. Intangible assets | | | | | |
| A.1 Owned | (4,800) | - | - | (4,800) | (5,099) |
| - Generated internally by the company | - | - | - | - | - |
| - Other | (4,800) | - | - | (4,800) | (5,099) |
| A.2 Held under finance lease | | | | | |
| **Total** | **(4,800)** | **-** | **-** | **(4,800)** | **(5,099)** |

Impairments on intangible assets relate to software, amortised over three years and the costs incurred to create the Fineco website, amortised over 5 years.

For the disclosures required by IAS 36 paragraph 134, d), e), f) and 135, c), d), e), see Part B paragraph 13.3 Other information.

## Section 15 - Other net operating income - Item 220

### 15.1 Other operating expenses: breakdown

(Amounts in € thousand)

| TYPE/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Refunds and allowances | (141) | (199) |
| Penalties, fines and unfavourable rulings | (2,427) | (2,798) |
| Improvements and incremental expenses incurred on leasehold properties | (2,844) | (3,706) |
| Improvements and incremental expenses incurred on group properties | (29) | (19) |
| Exceptional write-downs of assets | (317) | (571) |
| Other operating expense | (244) | (7,321) |
| **Total** | **(6,002)** | **(14,614)** |

Exceptional write-downs of assets include costs incurred for credit card fraud of €261 thousand (€518 thousand as at December 31, 2016).

### 15.2 Other operating income: breakdown

(Amounts in € thousand)

| TYPE/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Recovery of expenses: | 93,368 | 85,395 |
| - recovery of ancillary expenses - other | 334 | 442 |
| - recovery of taxes | 93,034 | 84,953 |
| Rental income from real estate investments | 155 | 232 |
| Other income from current year | 2,783 | 8,445 |
| **Total** | **96,306** | **94,072** |

## Section 16 - Profit (loss) of associates - Item 240

### 16.1 Profit (Loss) of associates: breakdown

No data to report.

## Section 17 - Gains (losses) on tangible and intangible assets measured at fair value - Item 250

### 17.1 Net gains (losses) on property, plant and equipment and intangible assets measured at fair value: breakdown

No data to report.

## Section 18 - Impairment of goodwill - Item 260

### 18.1 Impairment of goodwill: breakdown

No data to report.

# Part C - Consolidated Income Statement (CONTINUED)

## Section 19 - Gains (losses) on disposal of investments - Item 270

### 19.1 Gains (losses) on disposal of investments: breakdown

(Amounts in € thousand)

| INCOME ITEM/SECTORS | 12.31.2017 | 12.31.2016 |
|---|---|---|
| A. Properties | | |
| - Gains on disposal | - | - |
| - Losses on disposal | - | - |
| B. Other assets | | |
| - Gains on disposal | 9 | - |
| - Losses on disposal | (517) | - |
| **Net profit (loss)** | **(508)** | **-** |

## Section 20 - Tax expense (income) related to profit or loss from continuing operations - Item 290

### 20.1 Tax expense (income) related to profit or loss from continuing operations: breakdown

(Amounts in € thousand)

| INCOME ITEM/SECTORS | 12.31.2017 | 12.31.2016 |
|---|---|---|
| 1. Current tax (-) | (102,274) | (95,525) |
| 2. Adjustment to current tax of prior years (+/-) | 3,924 | 6,518 |
| 3. Reduction of current tax for the year (+) | - | - |
| 3.bis Reduction of current tax for the year due to tax receivables pursuant to Law 214/2011 (+) | - | - |
| 4. Changes in deferred tax assets (+/-) | (3,098) | (5,086) |
| 5. Changes in deferred tax liabilities (+/-) | (696) | (400) |
| 6. Tax expense for the year (-) (-1+/-2+3+ 3 bis +/-4+/-5) | (102,144) | (94,493) |

### 20.2 Reconciliation of theoretical tax charge to actual tax charge

(Amounts in € thousand)

| | TOTAL 2017 | TOTAL 2016 |
|---|---|---|
| Profit before tax | 316,264 | 306,337 |

| | IRES INCOME TAX | IRAP CORPORATE TAX | TAXES OVERSEAS | TOTAL 2017 | TOTAL 2016 |
|---|---|---|---|---|---|
| **Amount corresponding to theoretical tax rate** | **(87,024)** | **(17,626)** | **23** | **(104,627)** | **(101,306)** |
| + Tax effects of charges not relevant to the calculation of taxable income | 4,085 | (1,263) | (23) | 2,799 | 6,227 |
| - Tax effects of income not relevant to the calculation of taxable income | - | - | - | - | - |
| - Tax effects deriving from the use of tax losses from previous years | - | - | - | - | - |
| - Tax effects deriving from the application of substitute taxes | (446) | - | - | (446) | (446) |
| **Amount corresponding to actual tax rate** | **(83,385)** | **(18,889)** | **-** | **(102,274)** | **(95,525)** |

## Section 21 - Profit (Loss) after tax from discontinued operations - Item 310

### 21.1 Profit (Loss) after tax from discontinued operations: breakdown

No data to report.

### 21.2 Breakdown of income tax on discontinued operations

No data to report.

# Section 22 - Minority interests - Item 330

### Section 22.1 - Breakdown of Item 330 "Minority interests profit (loss) for the year"

No data to report.

# Section 23 - Other information

FinecoBank and Fineco AM Limited belong to the UniCredit Banking Group and are subject to management and co-ordination by UniCredit S.p.A.

### 1.1 Designation of Parent Company

UniCredit S.p.A.
Registration in the Companies' Register of Milan-Monza-Brianza-Lodi
Registered in the Register of Banking Groups and Parent Company of the UniCredit Banking Group with code 2008.1

### 1.2 Registered Office of Parent Company

Registered Office and Head Office: Piazza Gae Aulenti 3 - Tower A - 20154 Milan

### 1.3 Key figures for the Parent Company (income statement, balance sheet, structure)

FinecoBank and Fineco AM Limited are subject to management and coordination of UniCredit S.p.A.; therefore, in accordance with Article 2497 bis, paragraph 4 of the Italian Civil Code the key figures of the last approved financial statements of the parent company are provided below:

### UniCredit S.p.A. - Reclassified balance sheet as at December 31, 2016

(Amounts in € million)

| ASSETS | 12.31.2016 |
|---|---:|
| Cash and cash balances | 1,852 |
| Financial assets held for trading | 14,026 |
| Loans and receivables with banks | 22,349 |
| Loans and receivables with customers | 213,237 |
| Financial investments | 108,374 |
| Hedging instruments | 8,160 |
| Property, plant and equipment | 2,341 |
| Goodwill | - |
| Other intangible assets | 5 |
| Tax assets | 12,005 |
| Non-current assets and disposal groups classified as held for sale | 7,439 |
| Other assets | 4,400 |
| **Total assets** | **394,188** |

(Amounts in € million)

| LIABILITIES AND SHAREHOLDERS' EQUITY | 12.31.2016 |
|---|---:|
| Deposits from banks | 44,381 |
| Deposits from customers and debt securities in issue | 279,648 |
| Financial liabilities held for trading | 14,557 |
| Financial liabilities at fair value through profit or loss | 2,103 |
| Hedging instruments | 8,920 |
| Provisions for risks and charges | 3,407 |
| Tax liabilities | 162 |
| Liabilities included in disposal groups classified as held for sale | 3 |
| Other liabilities | 8,310 |
| Shareholders' equity | 32,697 |
| *- capital and reserves* | *43,718* |
| *- revaluation reserves (available-for-sale financial assets - cash flow hedges - on defined benefit plans)* | *439* |
| *- net profit (loss)* | *(11,460)* |
| **Total liabilities and shareholders' equity** | **394,188** |

# Part C - Consolidated Income Statement (CONTINUED)

**UniCredit S.p.A. - Condensed Income Statement 2016**

(Amounts in € million)

| | 12.31.2016 |
|---|---|
| Net interest | 3,693 |
| Dividends and other income from equity investments | 1,173 |
| Net fee and commission income | 3,574 |
| Net trading, hedging and fair value income | 360 |
| Net other expenses/income | 110 |
| **OPERATING INCOME** | **8,910** |
| Payroll costs | (3,298) |
| Other administrative expenses | (2,839) |
| Recovery of expenses | 586 |
| Impairment/write-backs on intangible and tangible assets | (134) |
| **Operating costs** | **(5,685)** |
| **OPERATING PROFIT (LOSS)** | **3,225** |
| Net write-downs of loans and provisions for guarantees and commitments | (10,379) |
| **NET OPERATING PROFIT (LOSS)** | **(7,154)** |
| Provisions for risks and charges | (1,501) |
| Integration costs | (1,163) |
| Net income from investments | (1,444) |
| **GROSS PROFIT (LOSS) FROM CONTINUING OPERATIONS** | **(11,262)** |
| Income tax for the year | (198) |
| Goodwill impairment | - |
| **NET PROFIT** | **(11,460)** |

### 1.4 Disclosure of auditing fees pursuant to art. 149 paragraph bis of Issuers' Regulation

The table below provides details of the fees (net of VAT and expenses) paid to the independent auditing firm Deloitte & Touche S.p.A. and entities within the network that the external auditors belongs to.

(Amounts in € million)

| TYPE OF SERVICE | SERVICE PROVIDER | FEES |
|---|---|---|
| Accounting Audit | Deloitte & Touche S.p.A. | 169,245 |
| Certification services | Deloitte & Touche S.p.A. | 95,000 |
| Other Services | Deloitte Consulting S.r.l | 30,000 |
| | | **294,245** |

## Section 24 - Earnings per share

### 24.1 Average number of diluted ordinary shares

Basic earnings per share are calculated by dividing the net profit by the average number of ordinary shares outstanding during the year.

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Net profit for the period (€ thousands) | 214,120 | 211,844 |
| Average number of outstanding shares | 607,158,443 | 605,659,378 |
| Average number of outstanding shares (including potential ordinary shares with dilution effect) | 608,829,187 | 608,860,642 |
| Basic earnings per share | 0.35 | 0.35 |
| Diluted Earnings Per Share | 0.35 | 0.35 |

### 24.2 Other information

No data to report.

# Part D - Consolidated Comprehensive Income

## Statement of consolidated comprehensive income

(Amounts in € thousand)

| | ITEMS | GROSS AMOUNT | INCOME TAX | NET AMOUNT |
|---|---|---|---|---|
| **10.** | **Net Profit (Loss) for the year** | **X** | **X** | **214,120** |
| | **Other comprehensive income without reclassification through profit or loss** | | | |
| 20. | Property, plant and equipment | - | - | - |
| 30. | Intangible assets | - | - | - |
| 40. | Defined benefit plans | (5,162) | 1,689 | (3,473) |
| 50. | Non-current assets classified as held for sale | - | - | - |
| 60. | Revaluation reserve from investments accounted for using the equity method | - | - | - |
| | **Other comprehensive income with reclassification through profit or loss** | | | |
| **70.** | **Hedges of foreign investments:** | | | |
| | a) fair value changes | - | - | - |
| | b) reclassification through profit or loss | - | - | - |
| | c) other changes | - | - | - |
| **80.** | **Exchange differences:** | | | |
| | a) fair value changes | - | - | - |
| | b) reclassification through profit or loss | - | - | - |
| | c) other changes | - | - | - |
| **90.** | **Cash flow hedges:** | | | |
| | a) fair value changes | - | - | - |
| | b) reclassification through profit or loss | - | - | - |
| | c) other changes | - | - | - |
| **100.** | **Available-for-sale financial assets:** | | | |
| | a) fair value changes | 3,956 | (1,054) | 2,902 |
| | b) reclassification through profit or loss | | | |
| | - due to impairment | - | - | - |
| | - gains/losses on disposals | (2,352) | 778 | (1,574) |
| | c) other changes | 895 | (296) | 599 |
| **110.** | **Non-current assets classified as held for sale:** | | | |
| | a) fair value changes | - | - | - |
| | b) reclassification through profit or loss | - | - | - |
| | c) other changes | - | - | - |
| **120.** | **Revaluation reserve from investments accounted for using the equity method:** | | | |
| | a) fair value changes | - | - | - |
| | b) reclassification through profit or loss | | | |
| | - due to impairment | - | - | - |
| | - gains/losses on disposals | - | - | - |
| | c) other changes | - | - | - |
| **130.** | **Total other comprehensive income** | **(2,663)** | **1,117** | **(1,546)** |
| **140.** | **Comprehensive income (item 10+130)** | **(2,663)** | **1,117** | **212,574** |
| 150. | Consolidated comprehensive income attributable to minorities | - | - | - |
| **160.** | **Consolidated comprehensive income attributable to Parent Company** | **(2,663)** | **1,117** | **212,574** |

# Part E - Information on Risks and Hedging Policies

# Part E - Information On Risks And Hedging Policies

## Introduction

First of all, as Fineco AM Limited has not yet commenced operations, the information contained in this Part E - Information on risks and hedging policies in the consolidated notes to the financial statements refers to FinecoBank.
In order to ensure lean and efficient management of risks, the risk management process is structured in accordance with the organisational choices made by the Group and the provisions of the Supervisory Instructions for Banks pertaining to the internal control system.
Risk management and control is performed by the Risk Management function of the Bank in collaboration with the same function of the Parent Company, which performs its role of guidance, coordination and control of risks at Group level. The organisational model provides for a specific contact person, the Chief Risk Officer (hereinafter, "CRO") of the Parent Company, who is responsible for credit risk, market risk, operating risk and reputational risk.
The Bank is responsible for first and second-level monitoring, especially for verifying that the risk level of individual companies is compatible with the guidelines set by the Parent Company, individual company equity, and prudential supervisory rules.

**Organisational structure**
The Board of Directors of FinecoBank 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 Bank's areas of activity. These powers are to be exercised in accordance with the applicable regulations and within the limits of the Parent Company directives 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.

The CRO Department, in line with the instructions and the guidelines of the Parent Company, is responsible for credit operations and risk management. The disclosure, at various levels, is provided by the Strategic Bodies and Officers (Chief Executive Officer and General Manager, Board of Directors, Risk and Related Parties Committee). In relation to the Basel II 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 and adapting the Group Risk Appetite Framework to FinecoBank 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 Bank's overall risk profile by monitoring the various types of risk exposure, in accordance with the methods established by the Parent Company.

The Risk Management Unit prevents and monitors different components of Bank risks. The function specifically controls credit, market and operational risks to which the Bank 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 Bodies and Officers.

Given the complexity of the Bank's activities and the significant risks involved, the Board of Directors of the Bank decided to establish an Risk and Related Parties Committee to carry out internal control tasks; the committee is made up of non-executive members of the same Board and its task is to carry out adequate investigations to support the Board of Directors in its assessments and decisions on the internal control system and risk management.

Lastly, the participation by the Chief Risk Officer and Head of Risk Management in the Products Committee ensures oversight of the operational risk associated with the Bank's new business activities, as well as creating and disseminating a risk culture in the various functional areas.

## Section 1 - Banking Group risks

### 1.1 Credit risk

#### QUALITATIVE INFORMATION

*1. General aspects*
The Bank's objective is to provide an adequate range of products able to satisfy and encourage loyalty among customers, through a competitive and complete offer. The development of the products and of the product line must also seek to maintain portfolio quality and, in any event, adequate processes to monitor profitability.

The factors that generate credit risk are determined by acceptance and creditworthiness polices, which are always adequately correlated to the risk/return ratio and in line with the Risk Appetite defined by the Board of Directors.

The quality of the loan portfolio, which is constantly monitored and supported by risk mitigation instruments, is protected by scoring models that contribute to evaluation during the approval process, ensuring that it is consistent and controlled. In addition to adequate coverage of the risk levels, monitoring of the portfolio and its segmentation by product and seniority allow a better understanding of the best loan issue strategies. The identification of any high-risk areas permits intervention on the automated measurement systems as well as on disbursement standards, with the possibility to take measures to limit credit risk in advance.

In 2017 lending activity was characterised by the expansion of loan product offering, particularly through the marketing of property loans, launched in 2016, and the granting of current account credit facilities guaranteed by rotational liens on securities (Credit Lombard).
The mortgage offering mainly involves mortgages for the purchase of first and second homes (including subrogation), in addition to home-secured loans and, to a limited extent, non-residential mortgages. As at December 31, 2017, the carrying amount of mortgage loans amounted to €516 million.
Credit Lombard is the solution of FinecoBank suitable for high net worth clients who wish to obtain additional liquidity from their investments.
The Bank, moreover, continued to develop products already included in its catalogue by issuing convenience credit cards to current account holders and granting personal loans.

Choices concerning the investment of the Bank's liquidity are governed by a prudential approach aimed at containing credit risk and mainly involve deposits with UniCredit S.p.A. and the subscription of Eurozone government bonds.In order to optimise its portfolio by diversifying counterparty risk, in 2017 the Bank also increased its exposure to Spanish government securities by €1,100 million and to Italian government securities by €757 million and purchased €44 million of Polish government securities.

The Bank also issued and approved the policy "Issuer risk in bonds - Contingency Plan" aimed at defining principles and rules to efficiently and comprehensively evaluate, control and limit the issuer's risk associated with bonds in the banking book. In accordance with the policy, the Risk Management function monitors a series of indicators to analyse the exposure of the Bank's portfolio to issuer risk; through this analysis it is possible to identify the emergence of abnormal situations and assess the need for corrective actions to avoid deterioration of the portfolio position.

### *2. Credit Risk Management Policy*

#### *2.1 Organisational aspects*

The credit process can be broken down into the following stages:
- assessment of creditworthiness;
- granting/disbursement of credit;
- credit monitoring;
- management of impaired loans;
- risk measurement and control.

The assessment of creditworthiness entails ascertaining the ability of the borrower to repay. It is performed by specific centralised and specialist operating units in the various product lines disbursed to customers (personal loans, credit cards, credit lines, and mortgages). On receipt of the request, the offices in question assess the reliability of documentation, evaluate the equity and income situation, and gather information, also by consulting public records, private banks and system data such as the information contained in the Bank of Italy's risk centre and in the Group archives.

In addition to an assessment of creditworthiness by the dedicated functions, credit approval also requires that they assess the compatibility of the request with the customer's overall situation, considering the amount requested and agreeing on a different amount with the customer, where necessary, evaluate and finalise guarantees, if any, linking them to credit facilities and filing them according to specific processes. Lastly, the decision-making parties approve or reject the application on the basis of their powers or send the application to a higher decision-making body.

Credit monitoring is carried out on credit lines to check that the economic situation of the customer and the guarantor that resulted in the approval has not changed. This check may entail collecting updated system data and information, as well as information from private banks. Checks are carried out according to established processes at set intervals, and may vary according to the amount of the credit line granted.
With regard to products with payment plans and in particular for mortgages, specific measurements of outstanding amounts are made for movement between statuses. This method is also accompanied by the collection of information on the debtor customer already used when granting credit lines.
In line with the general principles laid down by the Regulatory Authority, receivables are classified on the basis of the level of impairment, which may be established on the basis of qualitative or quantitative criteria.

The management of impaired loans entails taking all action necessary to restore them to normality or to recover the credits in situations where the relationship cannot be continued. All of these measures are established by specific processes based on the type and amount of the past-due loan and the past-due period as well as taking into account any financial assets of the customer, which may be offered as collateral. Credit collection is performed through payment reminders directly carried out by the Bank as well as through reminders and debt recovery carried out by specialised, authorised external companies.
Lastly, management also entails forecasting losses on an individual basis, which is continuously updated based on the progress of recovery actions for the amounts due or based on information collected during the recovery actions.

# Part E - Information on Risks and Hedging Policies (Continued)

The measurement and control of credit risk takes place at the assessment stage with the support of scoring tools that analyse the customers' socio-demographic profiles, making an assessment of individual counterparties on a statistical basis and supplementing the assessment, on one hand, with the support of credit bureaus for better knowledge of public and private data and on the other hand, with information contained in the Bank of Italy's risk centre.
Credit risk control is also performed through the systematic assessment of the performance of loan portfolios in order to estimate expected losses and intervene on disbursement policies where necessary.

**2.1.1 Factors that generate Credit Risk**
In the course of its credit business activities the Bank is exposed to the risk that its loans may, due to the deterioration of the debtor's financial condition, not be repaid at maturity, and thus result 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 reasons for default lie in the borrower's lack of autonomous ability to ensure the repayment of the debt.
In addition to the risk associated with the granting and disbursement of credit, the Bank is also exposed to counterparty risk for all clearing and pre-clearing operations with the institutional and banking counterparties necessary to conduct the Bank's business. Counterparty risk is defined as 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. The counterparties in these transactions could default as a result of insolvency, political and economic events, lack of liquidity, operating problems or other reasons.
Other transactions involving counterparty risk are:
- entering into derivative contracts;
- purchasing and selling securities, futures, or currencies;
- holding third-party securities.

In addition, "Non-Traditional Credit Risk" is generated by leverage/short transactions conducted through securities lending. 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 Bank monitors and manages the specific risk of each counterparty and the overall risk of loan portfolios through procedures, structures and rules that steer, govern and standardise the assessment and management of credit risk, in line with the Group principles and best practice, and which are capable of extending their effectiveness to all phases of the economic cycle.

The Bank reports all information to the Parent Company that can help it in its assessment of each FIBS counterparty ("Financial Institutions, Banks and Sovereigns") that the Bank intends to have dealings with and with respect to whom a risk limit (ceiling) is to be set within which the Group intends to operate.
The assessment is conducted within the risk limits assigned to the counterparty's Economic Group, i.e. considering the Group's exposure towards all the parties legally and economically linked to the counterparty. At the end of the assessment, the Parent Company assigns the Bank a risk limit that has to be monitored.

### *2.2 Management, measurement and control system*
The measurement of credit risk during the issue process is supported by automated assessment systems (so-called credit scoring systems). These systems also incorporate all available information and facts: public and private data provided by Credit rating bureaus, Risk Center data flows or information requests submitted to the Bank of Italy, Group archives with data relating to positions shared with other Group banks and other performance information on customers, stored by the Bank. During the loan application process, attention is always focused on the possibility of optimising all information concerning customers that has been provided by the Bank, the Group and the System.
The collection of any guarantees, their assessment and the margins between the fair value of the guarantee and the amount of the loan granted are a simple kind of support to credit risk mitigation, but there is no relevant positive correlation between the value of the financial guarantee and the applicant's creditworthiness.

The collective write-downs of the "performing" loan portfolio are determined using migration rates, through transition matrices, both from performing loans to non-performing loans and for each classification status (past-due, unlikely to pay, non-performing) by combining the default rates with the expected recovery rates individually calculated for non-performing loans and taking account of any supporting guarantees. The project activities aimed at the necessary implementations (IT architecture, processes and organisational procedures) for the implementation of the new IFRS9 accounting system are in their final stage, which will entail significant changes to the system for the calculation of collective write-downs and classifications starting from January 1, 2018.

The global assessment of portfolio risks, in order to identify the sustainability of the asset and the remuneration margins, is made both with the assistance of a tool shared with the Parent Company (Credit Tableau de Board), which contains all the main risk indicators and the largest receivables of those listed, and with the support of specific product reports which identify the trend of default rates, broken down by disbursement period and default level.

The monitoring of credit risk as part of the management of the trading book is conducted by breaking it down into rating class and issuer sector, which determine the implicit risk of contracts.

*2.3 Credit risk mitigation techniques*
In order to mitigate risk when granting the different types of credit facilities, various types of collateral are obtained. Mortgages on property loans, liens on shares, bonds or investment funds, insurance contracts and government bonds are used to guarantee current account overdraft facilities.

The presence of collateral does not, however, relieve the Bank from the requirement to carry out on overall assessment of the credit risk, primarily centred around the customer's income capacity regardless of the additional guarantee provided. The valuation of the lien collateral is based on its actual value, i.e. the market value for the financial instruments listed in a regulated market. The resulting value is subject to percentage haircuts, differentiated based on the financial instruments used as security and the concentration of the instrument in the customer's portfolio provided as security.

For real estate collateral, the principles and rules are described in the policy on the granting of residential mortgages with property collateral to current account holders of FinecoBank S.p.A. The valuation of the assets is performed by external technical experts included in the Register of Engineers, Architects and Surveyors or industrial experts who are not therefore susceptible to conflict of interest.
Valuations, moreover, are subject to periodic reviews.

*2.4 Impaired financial assets*
Loans are classified as past due, unlikely to pay or non-performing in accordance with the criteria set forth by the Bank of Italy and the thresholds established by the Parent Company. The classification as non-performing, linked to the customer's insolvency, is always individual and defined on the basis of the progress of debt recovery actions. The loss estimate for positions classified as past due and unlikely to pay is also individual.
The classification criterion used for overdrawn accounts is related to the performance of debt recovery activity or the forced sale of securities to cover debts.
The reclassification of loans to a category of lower risk exposure is only authorised if the amount past due has been paid in full in observance of the original payment schedule, or if considerable payments have been made leading the Bank to believe the debt exposure is very likely to be repaid.
The procedure for the management of irregularly performing loans involves actions that may be taken to recover debts by ranking them by seniority of expiration.

## QUANTITATIVE INFORMATION

### *A. Credit quality*

**A.1 Impaired and unimpaired loans: amounts, write-downs, changes, distribution by business activity/region**

**A.1.1 Breakdown of financial assets by portfolio and credit quality (carrying value)** (Amounts in € thousand)

| PORTFOLIO/QUALITY | NON-PERFORMING LOANS | UNLIKELY TO PAY | PAST DUE IMPAIRED EXPOSURES | PAST DUE UNIMPAIRED EXPOSURES | OTHER UNIMPAIRED EXPOSURES | TOTAL |
|---|---|---|---|---|---|---|
| 1. Available-for-sale financial assets | - | - | - | - | 1,042,465 | 1,042,465 |
| 2. Held to maturity investments | - | - | - | - | 4,826,390 | 4,826,390 |
| 3. Loans and receivables with banks | - | - | - | - | 13,878,117 | 13,878,117 |
| 4. Loans and receivables with customers | 1,730 | 495 | 627 | 7,511 | 2,118,856 | 2,129,219 |
| 5. Financial assets designated at fair value through profit or loss | - | - | - | - | - | - |
| 6. Financial instruments classified as held for sale | - | - | - | - | - | - |
| **Total December 31, 2017** | **1,730** | **495** | **627** | **7,511** | **21,865,828** | **21,876,191** |
| **Total December 31, 2016** | **2,662** | **399** | **598** | **9,732** | **20,492,946** | **20,506,337** |

As at December 31, 2017 there were no impaired purchased loans.

# Part E - Information on Risks and Hedging Policies (Continued)

### A.1.2 Breakdown of exposures by portfolio and credit quality (gross and net values)

(Amounts in € thousand)

| | IMPAIRED ASSETS | | | UNIMPAIRED ASSETS | | | |
|---|---|---|---|---|---|---|---|
| PORTFOLIO/QUALITY | GROSS EXPOSURE | SPECIFIC IMPAIRMENT | NET EXPOSURE | GROSS EXPOSURE | PORTFOLIO IMPAIRMENT | NET EXPOSURE | TOTAL (NET EXPOSURE) |
| 1. Available-for-sale financial assets | - | - | - | 1,042,465 | - | 1,042,465 | 1,042,465 |
| 2. Held to maturity investments | - | - | - | 4,826,390 | - | 4,826,390 | 4,826,390 |
| 3. Loans and receivables with banks | - | - | - | 13,878,117 | - | 13,878,117 | 13,878,117 |
| 4. Loans and receivables with customers | 24,313 | (21,460) | 2,853 | 2,137,439 | (11,073) | 2,126,366 | 2,129,219 |
| 5. Financial assets designated at fair value through profit or loss | - | - | - | X | X | - | - |
| 6. Financial instruments classified as held for sale | - | - | - | - | - | - | - |
| **Total December 31, 2017** | **24,313** | **(21,460)** | **2,853** | **21,884,411** | **(11,073)** | **21,873,338** | **21,876,191** |
| **Total December 31, 2016** | **22,370** | **(18,711)** | **3,659** | **20,512,175** | **(9,497)** | **20,502,678** | **20,506,337** |

(Amounts in € thousand)

| | ASSETS WITH OF CLEARLY POOR CREDIT QUALITY | | OTHER ASSETS |
|---|---|---|---|
| PORTFOLIO/QUALITY | ACCUMULATED UNREALISED LOSSES | NET EXPOSURE | NET EXPOSURE |
| 1. Financial assets held for trading | - | - | 6,563 |
| 2. Hedging derivatives | - | - | 458 |
| **Total December 31, 2017** | **-** | **-** | **7,021** |
| **Total December 31, 2016** | **-** | **-** | **5,460** |

### A.1.3 Banking Group - On-balance sheet and off-balance-sheet credit exposures to banks: gross values, net values and past due bands

(Amounts in € thousand)

| | GROSS EXPOSURE | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | IMPAIRED ASSETS | | | | | | | |
| TYPE OF EXPOSURE/AMOUNT | UP TO 3 MONTHS | BETWEEN 3 AND 6 MONTHS | BETWEEN 6 MONTHS AND 1 YEAR | OVER 1 YEAR | UNIMPAIRED ASSETS | SPECIFIC IMPAIRMENTS | PORTFOLIO IMPAIRMENTS | NET EXPOSURE |
| **A. On-balance sheet exposures** | | | | | | | | |
| a) Non-performing loans | - | - | - | - | X | - | X | - |
| - of which: forborne exposures | - | - | - | - | X | - | X | - |
| b) Unlikely to pay | - | - | - | - | X | - | X | - |
| - of which: forborne exposures | - | - | - | - | X | - | X | - |
| c) Past-due impaired loans | - | - | - | - | X | - | X | - |
| - of which: forborne exposures | - | - | - | - | X | - | X | - |
| d) Past due non-impaired exposures | X | X | X | X | - | X | - | - |
| - of which: forborne exposures | X | X | X | X | - | X | - | - |
| e) Other unimpaired exposures | X | X | X | X | 13,878,154 | X | - | 13,878,154 |
| - of which: forborne exposures | X | X | X | X | - | X | - | - |
| **Total A** | **-** | **-** | **-** | **-** | **13,878,154** | **-** | **-** | **13,878,154** |
| **B. Off-balance sheet exposures** | | | | | | | | |
| a) Impaired | - | - | - | - | X | - | X | - |
| b) Unimpaired | X | X | X | X | 2,444,832 | X | - | 2,444,832 |
| **Total B** | **-** | **-** | **-** | **-** | **2,444,832** | **-** | **-** | **2,444,832** |
| **Total A+B** | **-** | **-** | **-** | **-** | **16,322,986** | **-** | **-** | **16,322,986** |

In the above table, item B. “Off-balance sheet exposures” includes the counterparty risk related to repos that can be classified as “Securities Financing Transactions” (SFT) defined in prudential regulations, amounting to €62,796 thousand, and the commitment to pay funds not certain to be called on relating to the Liquidity Framework Agreement signed in 2016 and renewed in 2017 with the Parent Company, amounting to €2,125,000 thousand.
There were no securities lending transactions collateralised by other securities or without a cash guarantee with banks.

**A.1.4 Banking Group - On-balance sheet credit exposures to banks: trend of gross impaired exposures:**
No data to report.

**A.1.4bis Banking Group - On-balance sheet credit exposures to banks: breakdown of gross forborne exposures by credit quality**
No data to report.

**A.1.5 Banking Group - On-balance sheet impaired credit exposures to banks: trend in total impairments**
No data to report.

**A.1.6 Banking Group - On-balance sheet and off-balance-sheet credit exposures to customers: gross values, net values and past due bands**

(Amounts in € thousand)

| | GROSS EXPOSURE | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | IMPAIRED ASSETS | | | | | | | |
| TYPE OF EXPOSURE/AMOUNT | UP TO 3 MONTHS | BETWEEN 3 AND 6 MONTHS | BETWEEN 6 MONTHS AND 1 YEAR | OVER 1 YEAR | UNIMPAIRED ASSETS | SPECIFIC IMPAIRMENTS | PORTFOLIO IMPAIRMENTS | NET EXPOSURE |
| **A. On-balance sheet exposures** | | | | | | | | |
| a) Non-performing loans | 23 | 32 | 903 | 19,890 | X | (19,118) | X | 1,730 |
| - of which: forborne exposures | - | - | 12 | 105 | X | (99) | X | 19 |
| b) Unlikely to pay | 395 | 249 | 720 | 745 | X | (1,614) | X | 495 |
| - of which: forborne exposures | 83 | 20 | 31 | 20 | X | (107) | X | 46 |
| c) Past-due impaired loans | 194 | 814 | 235 | 112 | X | (728) | X | 627 |
| - of which: forborne exposures | - | 7 | 14 | 5 | X | (12) | X | 15 |
| d) Past due non-impaired exposures | X | X | X | X | 7,770 | X | (260) | 7,511 |
| - of which: forborne exposures | X | X | X | X | 46 | X | - | 45 |
| e) Other unimpaired exposures | X | X | X | X | 7,998,537 | X | (10,814) | 7,987,723 |
| - of which: forborne exposures | X | X | X | X | 137 | X | (1) | 137 |
| **Total A** | **612** | **1,095** | **1,858** | **20,747** | **8,006,307** | **(21,460)** | **(11,074)** | **7,998,086** |
| **B. Off-balance sheet exposures** | | | | | | | | |
| a) Impaired | 7 | - | - | - | X | - | X | 7 |
| b) Unimpaired | X | X | X | X | 277,873 | X | - | 277,873 |
| **Total B** | **7** | **-** | **-** | **-** | **277,873** | **-** | **-** | **277,880** |
| **Total A+B** | **619** | **1,095** | **1,858** | **20,747** | **8,284,180** | **(21,460)** | **(11,074)** | **8,275,966** |

As at December 31, 2017, there were no unimpaired loans to customers renegotiated under collective agreements and no impaired purchased loans.

Breakdown by maturity of unimpaired past-due loans, amounting to €7,770 thousand (€9,980 thousand as at December 31, 2016), is as follows:
- past due between 1 day and 90 days of €7,669 thousand (€9,919 thousand as at December 31, 2016);
- past due between 90 days and 180 days of €47 thousand (€58 thousand as at December 31, 2016);
- past due between 180 days and 1 year of €13 thousand (€3 thousand as at December 31, 2016);
- past due exposures over 1 year of €41 thousand (not present as at December 31, 2016).

In the above table, item B. "Off-balance sheet exposures" includes the counterparty risk related to securities lending transactions collateralised by other securities and to repos that can be classified as "Securities Financing Transactions" (SFT) defined in prudential regulations, amounting to €233,903 thousand.
There were no securities lending transactions without a cash guarantee or not collateralised by other securities with customers.

# Part E - Information on Risks and Hedging Policies (Continued)

### A.1.7 Banking Group - On-balance sheet credit exposures to customers: trend of gross impaired exposures

(Amounts in € thousand)

| SOURCE/CATEGORIES | NON-PERFORMING LOANS | UNLIKELY TO PAY | PAST-DUE IMPAIRED LOANS |
|---|---|---|---|
| **A. Opening balance - gross exposure** | **19,334** | **1,906** | **1,130** |
| of which: assets sold but not derecognised | - | - | - |
| **B. Increases** | **3,276** | **4,320** | **6,947** |
| B.1 transfers from performing exposures | 76 | 294 | 6,168 |
| B.2 transfers from other categories of impaired exposures | *2,901* | *3,566* | - |
| B.3 Other increases | 299 | 460 | 779 |
| **C. Decreases** | **(1,762)** | **(4,117)** | **(6,721)** |
| C.1 transfers to performing exposures | - | (213) | (1,114) |
| C.2 de-recognitions | (888) | (49) | (2) |
| C.3 collections | (874) | (881) | (1,838) |
| C.4 proceeds from disposals | - | - | - |
| C.5 losses on disposal | - | - | - |
| C.6 transfers to other categories of impaired exposures | - | *(2,891)* | *(3,576)* |
| C.7 other decreases | - | (83) | (191) |
| **D. Gross exposure closing balance** | **20,848** | **2,109** | **1,356** |
| *of which: assets sold but not derecognised* | - | - | - |

### A.1.7bis Banking Group - On-balance sheet credit exposures to customers: breakdown of gross forborne exposures by credit quality

(Amounts in € thousand)

| SOURCE/CATEGORIES | FORBORNE EXPOSURES: NON PERFORMING EXPOSURES | FORBORNE EXPOSURES: PERFORMING EXPOSURES |
|---|---|---|
| **A. Opening balance - gross exposure** | | |
| of which: assets sold but not derecognised | - | - |
| **B. Increases** | **604** | **228** |
| B.1 transfers from performing exposures not forborne | 111 | 158 |
| B.2 transfers from performing forborne exposures | 78 | X |
| B.3 transfers from impaired forborne exposures | X | 30 |
| B.4 other increases | 415 | 40 |
| **C. Decreases** | **(564)** | **(209)** |
| C.1 transfers to performing exposures not forborne | X | - |
| C.2 transfers to performing forborne exposures | (232) | X |
| C.3 transfers to impaired forborne exposures | X | (67) |
| C.4 de-recognitions | (10) | - |
| C.5 collections | (143) | (142) |
| C.6 proceeds from disposals | - | - |
| C.7 losses on disposal | - | - |
| C.8 other decreases | (179) | - |
| **D Gross exposure closing balance** | **298** | **183** |
| of which: assets sold but not derecognised | - | - |

**A.1.8 Banking Group - On-balance sheet impaired credit exposures: trend in total impairments**

(Amounts in € thousand)

| SOURCE/CATEGORIES | NON-PERFORMING LOANS | | UNLIKELY TO PAY | | PAST-DUE IMPAIRED LOANS | |
|---|---|---|---|---|---|---|
| | TOTAL | OF WHICH: FORBORNE EXPOSURES | TOTAL | OF WHICH: FORBORNE EXPOSURES | TOTAL | OF WHICH: FORBORNE EXPOSURES |
| **A. Total opening impairment** | **(16,672)** | **(103)** | **(1,507)** | **(88)** | **(533)** | **(4)** |
| of which: assets sold but not derecognised | - | - | - | - | - | - |
| **B. Increases** | **(4,210)** | **(38)** | **(1,122)** | **(90)** | **(703)** | **(16)** |
| B.1 Value adjustments | (3,376) | (13) | (1,071) | (73) | (699) | (12) |
| B.2 Losses on disposal | - | - | - | - | - | - |
| B.3 Transfers from other categories impaired exposures | (812) | (25) | (38) | (4) | - | - |
| B.4 Other increases | (22) | - | (13) | (13) | (4) | (4) |
| **C. Decreases** | **1,764** | **42** | **1,015** | **71** | **508** | **8** |
| C.1 write-backs from assessments | 272 | 17 | 23 | 10 | 80 | - |
| C.2 Write-backs from recoveries | 604 | 15 | 366 | 36 | 136 | 4 |
| C.3 Gains on disposal | - | - | - | - | - | - |
| C.4 Write-offs | 888 | 10 | 49 | - | 2 | - |
| C.5 Transfers to other categories of impaired exposures | - | - | 564 | 25 | 286 | 4 |
| C.6 Other decreases | - | - | 13 | - | 4 | - |
| **D. Final overall impairment** | **(19,118)** | **(99)** | **(1,614)** | **(107)** | **(728)** | **(12)** |
| of which: assets sold but not derecognised | - | - | - | - | - | - |

## A.2 Internal and external ratings

**A.2.1 Banking Group - Breakdown of on-balance sheet and off-balance-sheet exposures by external rating class**

(Amounts in € thousand)

| EXPOSURES | EXTERNAL RATING CLASSES | | | | | | NO RATING | |
|---|---|---|---|---|---|---|---|---|
| | CLASS 1 | CLASS 2 | CLASS 3 | CLASS 4 | CLASS 5 | CLASS 6 | TOTAL | TOTAL |
| **A. On-balance sheet exposures** | **78,702** | **62,917** | **19,581,606** | **2,557** | **-** | **-** | **2,152,476** | **21,878,258** |
| **B. Derivatives** | **265** | **545** | **-** | **-** | **-** | **-** | **6,163** | **6,973** |
| *B.1 Financial derivatives* | *265* | *545* | - | - | - | - | *6,163* | *6,973* |
| *B.2 Credit derivatives* | - | - | - | - | - | - | - | - |
| **C. Guarantees given** | **-** | **-** | **256,070** | **-** | **-** | **-** | **667** | **256,737** |
| **D. Other commitments to disburse funds** | **-** | **-** | **2,125,206** | **-** | **-** | **-** | **39,053** | **2,164,259** |
| **E. Other** | **-** | **22,153** | **54,173** | **-** | **-** | **-** | **220,374** | **296,700** |
| **Total** | **78,967** | **85,615** | **22,017,055** | **2,557** | **-** | **-** | **2,418,733** | **24,602,927** |

The table below shows the breakdown of on-balance sheet and off-balance-sheet exposures to counterparties with an external rating. Rating agencies provide a summary assessment on the creditworthiness of different type of counterparties: Countries, Banks, Public Bodies, Insurance Companies and Businesses, usually large-scale.
The table refers to the classification set forth in the Bank of Italy Circular no. 262/2005 regarding external ratings, which envisages 6 classes of creditworthiness.
The above presentation refers to the Standard and Poor's ratings, which are also associated to the ratings of the other two main Agencies, Moody's and Fitch. When there were two credit ratings for an individual exposure provided by two rating agencies the worst rating was recognised; if there were three different ratings the two best ratings were identified and, if they were different, the worst rating from these was recognised.

As part of the calculation of statutory requirements, by using the standard risk calculation method, FinecoBank relies on the rankings of rating agencies in order to determine the weighting coefficients for exposures to Sovereign states ("Central governments and central banks", "Entities" and "Public Sector Entities" portfolio). In general, a weighting factor of 100 percent is applied to the remaining credit exposures, subject to the main exceptions established by CRR 575/2013.
Credit exposures to retail customers (consisting in personal loans, mortgages credit cards spending - both full payment of balance or revolving -, unsecured and secured loans and securities lending at December 31, 2017) were not externally ranked. Exposures with ratings to non-retail customers mainly derive from amounts due to the Parent Company for treasury activities and for hedging banking book positions through interest-rate derivatives. The remaining exposures with ratings regard receivables relating to customer trading, whose counterparties are leading banks with a high credit rating.

In the above table, item E "Other" includes the counterparty risk related to securities lending transactions guaranteed by other securities and to repos. In the above table, equity instruments have been excluded whereas units in investment funds have been included, unlike the previous tables in this section in which both were excluded.

**A.2.2 Banking Group - Breakdown of on-balance sheet and off-balance-sheet exposures by internal rating class**
This table has not been included because internal ratings are not used to managed credit risk.

# Part E - Information on Risks and Hedging Policies (Continued)

## A.3 Breakdown of secured exposures by type of collateral

### A.3.1 Banking Group - Secured exposures to banks

| | NET EXPOSURE VALUE | REAL GUARANTEES (1) | | | |
|---|---|---|---|---|---|
| | | PROPERTIES - MORTGAGES | PROPERTIES - FINANCE LEASES | SECURITIES | OTHER REAL GUARANTEES |
| **1. Secured on-balance sheet exposures:** | | | | | |
| 1.1 totally secured | 54 | - | - | 53 | - |
| - of which impaired | - | - | - | - | - |
| 1.2 partially secured | - | - | - | - | - |
| - of which impaired | - | - | - | - | - |
| **2. Secured off- Balance Sheet credit exposures:** | | | | | |
| 2.1 totally secured | - | - | - | - | - |
| - of which impaired | - | - | - | - | - |
| 2.2 partially secured | - | - | - | - | - |
| - of which impaired | - | - | - | - | - |

### A.3.2 Banking Group - Secured exposures to customers

| | NET EXPOSURE VALUE | REAL GUARANTEES (1) | | | |
|---|---|---|---|---|---|
| | | PROPERTIES - MORTGAGES | PROPERTIES - FINANCE LEASES | SECURITIES | OTHER REAL GUARANTEES |
| **1. Secured on-balance sheet exposures:** | | | | | |
| 1.1 totally secured | 1,168,917 | 515,767 | - | 645,547 | 7,530 |
| - of which impaired | 81 | - | - | 81 | - |
| 1.2 partially secured | 3,299 | 415 | - | 2,174 | - |
| - of which impaired | - | - | - | - | - |
| **2. Secured off- Balance Sheet credit exposures:** | | | | | |
| 2.1 totally secured | 38,174 | - | - | 33,774 | 4,399 |
| - of which impaired | 7 | - | - | 7 | - |
| 2.2 partially secured | 1 | - | - | - | 1 |
| - of which impaired | - | - | - | - | - |

## *B. Distribution and concentration of credit exposures*

### B.1 Banking Group - Breakdown of on-balance sheet and off-balance-sheet exposures to customers by sector (carrying value)

| EXPOSURE/COUNTERPARTY | GOVERNMENTS | | | OTHER PUBLIC ENTITIES | | |
|---|---|---|---|---|---|---|
| | NET EXPOSURE | SPECIFIC IMPAIRMENTS | PORTFOLIO IMPAIRMENTS | NET EXPOSURE | SPECIFIC IMPAIRMENTS | PORTFOLIO IMPAIRMENTS |
| **A. On-balance sheet exposures** | | | | | | |
| A.1 Non-performing loans | - | - | X | - | - | X |
| - of which: forborne exposures | - | - | X | - | - | X |
| A.2 Unlikely to pay | - | - | X | - | - | X |
| - of which: forborne exposures | - | - | X | - | - | X |
| A.3 Impaired past-due exposures | - | - | X | - | - | X |
| - of which: forborne exposures | - | - | X | - | - | X |
| A.4 Non-impaired exposures | 5,768,943 | X | - | 99,924 | X | - |
| - of which: forborne exposures | - | X | - | - | X | - |
| **TOTAL A** | **5,768,943** | **-** | **-** | **99,924** | **-** | **-** |
| **B. "Off-balance" sheet exposures** | | | | | | |
| B.1 Non-performing loans | - | - | X | - | - | X |
| B.2 Unlikely to pay | - | - | X | - | - | X |
| B.3 Other impaired assets | - | - | X | - | - | X |
| B.4 Non-impaired exposures | 371 | X | - | - | X | - |
| **Total B** | **371** | **-** | **-** | **-** | **-** | **-** |
| **TOTAL (A + B) December 31, 2017** | **5,769,314** | **-** | **-** | **99,924** | **-** | **-** |
| **TOTAL (A + B) December 31, 2016** | **3,754,173** | **(2)** | **-** | **1** | **-** | **-** |

(Amounts in € thousand)

| PERSONAL GUARANTEES (2) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| CREDIT DERIVATIVES | | | | | GUARANTEES, ETC. | | | | |
| | OTHER DERIVATIVES | | | | | | | | |
| CLN | GOVERNMENTS AND CENTRAL BANKS | OTHER PUBLIC ENTITIES | BANKS | OTHER ENTITIES | GOVERNMENTS AND CENTRAL BANKS | OTHER PUBLIC ENTITIES | BANKS | OTHER ENTITIES | TOTAL (1)+(2) |
| | | | | | | | | | |
| - | - | - | - | - | - | - | - | - | 53 |
| - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - |
| | | | | | | | | | |
| - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - |

(Amounts in € thousand)

| PERSONAL GUARANTEES (2) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| CREDIT DERIVATIVES | | | | | GUARANTEES, ETC. | | | | |
| | OTHER DERIVATIVES | | | | | | | | |
| CLN | GOVERNMENTS AND CENTRAL BANKS | OTHER PUBLIC ENTITIES | BANKS | OTHER ENTITIES | GOVERNMENTS AND CENTRAL BANKS | OTHER PUBLIC ENTITIES | BANKS | OTHER ENTITIES | TOTAL (1)+(2) |
| | | | | | | | | | |
| - | - | - | - | - | - | - | - | 44 | 1,168,888 |
| - | - | - | - | - | - | - | - | - | 81 |
| - | - | - | - | - | - | - | - | - | 2,589 |
| - | - | - | - | - | - | - | - | - | - |
| | | | | | | | | | |
| - | - | - | - | - | - | - | - | - | 38,173 |
| - | - | - | - | - | - | - | - | - | 7 |
| - | - | - | - | - | - | - | - | - | 1 |
| - | - | - | - | - | - | - | - | - | - |

(Amounts in € thousand)

| FINANCIAL COMPANIES | | | INSURANCE COMPANIES | | | INON-FINANCIAL COMPANIES | | | OTHER ENTITIES | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| NET EXPOSURE | SPECIFIC IMPAIRMENTS | PORTFOLIO IMPAIRMENTS | NET EXPOSURE | SPECIFIC IMPAIRMENTS | PORTFOLIO IMPAIRMENTS | NET EXPOSURE | SPECIFIC IMPAIRMENTS | PORTFOLIO IMPAIRMENTS | NET EXPOSURE | SPECIFIC IMPAIRMENTS | PORTFOLIO IMPAIRMENTS |
| | | | | | | | | | | | |
| 4 | (41) | X | - | - | X | 9 | (130) | X | 1,717 | (18,946) | X |
| - | (1) | X | - | - | X | - | - | X | 19 | (98) | X |
| 1 | (1) | X | - | - | X | 79 | (228) | X | 416 | (1,385) | X |
| - | - | X | - | - | X | - | - | X | 46 | (107) | X |
| - | - | X | - | - | X | 11 | (18) | X | 616 | (710) | X |
| - | - | X | - | - | X | - | - | X | 15 | (12) | X |
| 107,681 | X | (139) | 16,651 | X | - | 20,492 | X | (3,337) | 1,981,542 | X | (7,598) |
| - | X | - | - | X | - | 16 | X | - | 166 | X | (1) |
| **107,686** | **(42)** | **(139)** | **16,651** | **-** | **-** | **20,591** | **(376)** | **(3,337)** | **1,984,291** | **(21,041)** | **(7,598)** |
| | | | | | | | | | | | |
| - | - | X | - | - | X | - | - | X | - | - | X |
| - | - | X | - | - | X | - | - | X | - | - | X |
| - | - | X | - | - | X | - | - | X | 7 | - | X |
| 3,290 | X | - | - | X | - | 423 | X | - | 39,886 | X | - |
| **3,290** | **-** | **-** | **-** | **-** | **-** | **423** | **-** | **-** | **39,893** | **-** | **-** |
| **110,976** | **(42)** | **(139)** | **16,651** | **-** | **-** | **21,014** | **(376)** | **(3,337)** | **2,024,184** | **(21,041)** | **(7,598)** |
| **102,105** | **(43)** | **(144)** | **12,174** | **-** | **-** | **15,155** | **(116)** | **(3,489)** | **927,066** | **(18,552)** | **(5,863)** |

# Part E - Information on Risks and Hedging Policies (CONTINUED)

**B.2 Banking Group - Breakdown of on-balance sheet and off-balance-sheet exposures to customers by geography (carrying value)**

Exposures connected to the counterparty risk related to securities lending or borrowing transactions are not included.

(Amounts in € thousand)

| | ITALY | | OTHER EUROPEAN COUNTRIES | | AMERICA | | ASIA | | REST OF THE WORLD | |
|---|---|---|---|---|---|---|---|---|---|---|
| EXPOSURE/ GEOGRAPHICAL AREA | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT |
| **A. On-balance sheet exposures** | | | | | | | | | | |
| A.1 Non-performing loans | 1,728 | (19,103) | 2 | (15) | - | - | - | - | - | - |
| A.2 Unlikely to pay | 493 | (1,611) | 2 | (4) | - | - | - | - | - | - |
| A.3 Impaired past-due exposures | 626 | (726) | 1 | (2) | - | - | - | - | - | - |
| A.4 Non-impaired exposures | 5,345,131 | (11,068) | 2,582,854 | (3) | 66,196 | (1) | 586 | (1) | 467 | - |
| **TOTAL** | **5,347,978** | **(32,508)** | **2,582,859** | **(24)** | **66,196** | **(1)** | **586** | **(1)** | **467** | **-** |
| **B. "Off-balance" sheet exposures** | | | | | | | | | | |
| B.1 Non-performing loans | - | - | - | - | - | - | - | - | - | - |
| B.2 Unlikely to pay | - | - | - | - | - | - | - | - | - | - |
| B.3 Other impaired assets | 7 | - | - | - | - | - | - | - | - | - |
| B.4 Non-impaired exposures | 40,563 | - | 3,163 | - | 23 | - | 159 | - | 62 | - |
| **TOTAL** | **40,570** | **-** | **3,163** | **-** | **23** | **-** | **159** | **-** | **62** | **-** |
| **TOTAL December 31, 2017** | **5,388,548** | **(32,508)** | **2,586,022** | **(24)** | **66,219** | **(1)** | **745** | **(1)** | **529** | **-** |
| **TOTAL December 31, 2016** | **3,477,658** | **(28,200)** | **1,257,570** | **(7)** | **75,198** | **(2)** | **137** | **-** | **109** | **-** |

### B.3 Banking Group - Breakdown of on-balance sheet and off-balance-sheet exposures to banks by geography (carrying value)

Exposures connected to the counterparty risk related to securities lending or borrowing transactions are not included.

(Amounts in € thousand)

| EXPOSURE/ GEOGRAPHICAL AREA | ITALY | | OTHER EUROPEAN COUNTRIES | | AMERICA | | ASIA | | REST OF THE WORLD | |
|---|---|---|---|---|---|---|---|---|---|---|
| | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT |
| **A. On-balance sheet exposures** | | | | | | | | | | |
| A.1 Non-performing loans | - | - | - | - | - | - | - | - | - | - |
| A.2 Unlikely to pay | - | - | - | - | - | - | - | - | - | - |
| A.3 Impaired past-due exposures | - | - | - | - | - | - | - | - | - | - |
| A.4 Non-impaired exposures | 13,868,843 | - | 9,310 | - | - | - | - | - | 1 | - |
| **TOTAL** | **13,868,843** | **-** | **9,310** | **-** | **-** | **-** | **-** | **-** | **1** | **-** |
| **B. "Off-balance" sheet exposures** | | | | | | | | | | |
| B.1 Non-performing loans | - | - | - | - | - | - | - | - | - | - |
| B.2 Unlikely to pay | - | - | - | - | - | - | - | - | - | - |
| B.3 Other impaired assets | - | - | - | - | - | - | - | - | - | - |
| B.4 Non-impaired exposures | 2,381,231 | - | 804 | - | - | - | - | - | - | - |
| **TOTAL** | **2,381,231** | **-** | **804** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **TOTAL December 31, 2017** | **16,250,074** | **-** | **10,114** | **-** | **-** | **-** | **-** | **-** | **1** | **-** |
| **TOTAL December 31, 2016** | **17,000,418** | **-** | **10,076** | **-** | **-** | **-** | **-** | **-** | **5** | **-** |

### B.4 Significant exposures

At December 31, 2017 the following “risk positions” constituted “significant exposures” pursuant to Circular 286 of December 17, 2013, “Instructions for the prudential reporting of banks and securities firms” issued by the Bank of Italy:

a) non-weighted value: €23,262,597 thousand, of which €17,070,673 with the UniCredit Group;

b) weighted value: €111,177 thousand, none with the UniCredit Group;

c) number of “risk positions”: 7, including the UniCredit Group.

Please note that deferred tax assets within the exposure towards the Italian Central Government have been exempted and, therefore, their weighted value is null.

# Part E - Information on Risks and Hedging Policies (CONTINUED)

*C. Securitisation transactions*
No data to report.

*D. Disclosure on structured entities (other than securitisation companies)*
**D.1 Consolidated structured entities**
No data to report.

**D.2 Non-consolidated structured entities**
No data to report.

**D.2.1 Consolidated structured entities for supervisory purposes**
No data to report.

**D.2.2 Other structured entities**

## QUALITATIVE INFORMATION

The Bank has exposures towards unconsolidated structured entities as a result of investments in units issued by investment funds (UCITS) that qualify as structured entities according to IFRS 12.

## QUANTITATIVE INFORMATION

The table below shows the assets, liabilities and off-balance sheet exposure to structured entities represented by unconsolidated UCITS units.

(Amounts in € thousand)

| BALANCE SHEET ITEMS/TYPE OF STRUCTURED ENTITY | ACCOUNTING PORTFOLIOS OF THE ASSETS | TOTAL ASSETS (A) | ACCOUNTING PORTFOLIOS OF THE LIABILITIES | TOTAL LIABILITIES (B) | NET CARRYING AMOUNT (C=A-B) | MAXIMUM EXPOSURE TO LOSS (D) | DIFFERENCE BETWEEN EXPOSURE TO THE RISK OF LOSS AND THE CARRYING AMOUNT (E=D-C) |
|---|---|---|---|---|---|---|---|
| 1. UCITS | HFT | 2,019 | | - | 2,019 | 2,019 | - |

**Key**:
HFT = Financial assets held for trading

*E. Sales Transactions*
*A. Financial assets sold and partially derecognised*

## QUALITATIVE INFORMATION

The Bank carries out repos on securities not recognised in the assets, received through reverse repos and securities lending, or on securities held in the Bank's portfolio.
In 2017 the Bank also carried out transactions on securities held in the Bank's portfolio, comprising bonds issued by UniCredit S.p.A., classified in the "Loans and Receivables category", which have not been eliminated from the financial statements because the Bank conducts repos with the obligation for the buyer to resell the assets covered by the transaction upon expiration of the transaction and maintains all the risks connected to the ownership of the securities.

## QUANTITATIVE INFORMATION

**E.1 Banking Group - Financial assets sold but not derecognised: book value and full value**

| | FINANCIAL ASSETS HELD FOR TRADING | | | FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS | | | AVAILABLE-FOR-SALE FINANCIAL ASSETS | | |
|---|---|---|---|---|---|---|---|---|---|
| TYPE/PORTFOLIO | A | B | C | A | B | C | A | B | C |
| **A. On-balance sheet assets** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1. Debt securities | - | - | - | - | - | - | - | - | - |
| 2. Equity instruments | - | - | - | - | - | - | - | **-** | **-** |
| 3. Units in investment funds | - | - | - | - | - | - | - | **-** | **-** |
| 4. Loans | - | - | - | - | - | - | - | - | - |
| **B. Derivative instruments** | **-** | **-** | **-** | **X** | **X** | **X** | **X** | **X** | **X** |
| **Total December 31, 2017** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| *of which impaired* | - | - | - | - | - | - | - | - | - |
| **Total December 31, 2016** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| *of which impaired* | - | - | - | - | - | - | - | - | - |

**Key:**
A = financial assets sold and fully recognised (book value)
B = financial assets sold and partially recognised (book value)
C = financial assets sold and partially recognised (entire value)

(Amounts in € thousand)

| HELD TO MATURITY INVESTMENTSA | | | LOANS AND RECEIVABLES WITH BANKS | | | LOANS AND RECEIVABLES WITH CUSTOMERS | | | TOTAL | |
|---|---|---|---|---|---|---|---|---|---|---|
| A | B | C | A | B | C | A | B | C | 12.31.2017 | 12.31.2016 |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **54,909** |
| - | - | - | - | - | - | - | - | - | - | 54,909 |
| X | X | X | X | X | X | X | X | X | - | - |
| X | X | X | X | X | X | X | X | X | - | - |
| - | - | - | - | - | - | - | - | - | - | - |
| **X** | **X** | **X** | **X** | **X** | **X** | **X** | **X** | **X** | **-** | **-** |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **X** |
| - | - | - | - | - | - | - | - | - | - | X |
| **-** | **-** | **-** | **54,909** | **-** | **-** | **-** | **-** | **-** | **X** | **54,909** |
| - | - | - | - | - | - | - | - | - | X | **-** |

# Part E - Information on Risks and Hedging Policies (CONTINUED)

### E.2 Banking Group - Financial liabilities relating to financial assets sold and not derecognised: book value

(Amounts in € thousand)

| LIABILITY/ASSET PORTFOLIO | FINANCIAL ASSETS HELD FOR TRADING | FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS | AVAILABLE-FOR-SALE FINANCIAL ASSETS | HELD TO MATURITY INVESTMENTS | LOANS AND RECEIVABLES WITH BANKS | LOANS AND RECEIVABLES WITH CUSTOMERS | TOTAL |
|---|---|---|---|---|---|---|---|
| **1. Deposits from customers** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| a) from fully-recognised assets | - | - | - | - | - | - | - |
| b) from partially-recognised assets | - | - | - | - | - | - | - |
| **2. Deposits from banks** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| a) from fully-recognised assets | - | - | - | - | - | - | - |
| b) from partially-recognised assets | - | - | - | - | - | - | - |
| **Total December 31, 2017** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total December 31, 2016** | **-** | **-** | **-** | **-** | **55.013** | **-** | **55.013** |

### E.3 Banking Group - Sales transactions relating to financial liabilities with repayment exclusively based on assets sold and not derecognised: fair value

The table below only shows own securities not derecognised and used for repos.

| TYPE/PORTFOLIO | FINANCIAL ASSETS HELD FOR TRADING | | FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS | | AVAILABLE-FOR-SALE FINANCIAL ASSETS | |
|---|---|---|---|---|---|---|
| | A | B | A | B | A | B |
| **A. On-balance sheet assets** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1. Debt securities | - | - | - | - | - | - |
| 2. Equity instruments | - | - | - | - | - | - |
| 3. Units in investment funds | - | - | - | - | - | - |
| 4. Loans | - | - | - | - | - | - |
| **B. Derivative instruments** | **-** | **-** | **X** | **X** | **X** | **X** |
| **Total assets** | **-** | **-** | **-** | **-** | **-** | **-** |
| **C. Associated liabilities** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1. Deposits from customers | - | - | - | - | - | - |
| 2. Deposits from banks | - | - | - | - | - | - |
| **Total liabilities** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Net value as at December 31, 2017** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Net value as at December 31, 2016** | **-** | **-** | **-** | **-** | **-** | **-** |

**Key**:
A = financial assets sold and wholly recognised
B = financial assets sold and partially recognised)

*B. Assets sold and fully derecognised with recognition of continuing involvement*

No data to report.

### E.4 Banking Group - Covered bond transactions

No data to report.

(Amounts in € thousand)

| HELD-TO-MATURITY INVESTMENTS (FAIR VALUE) | | LOANS AND RECEIVABLES WITH BANKS (FAIR VALUE) | | LOANS AND RECEIVABLES WITH CUSTOMERS (FAIR VALUE) | | TOTAL | |
|---|---|---|---|---|---|---|---|
| A | B | A | B | A | B | 12.31.2017 | 12.31.2016 |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **55.291** |
| - | - | - | - | - | - | - | 55.291 |
| X | X | X | X | X | X | - | - |
| X | X | X | X | X | X | - | - |
| - | - | - | - | - | - | - | - |
| **X** | **X** | **X** | **X** | **X** | **X** | **-** | **-** |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **55.291** |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **55.013** |
| - | - | - | - | - | - | - | 55.013 |
| - | - | - | - | - | - | - | - |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **X** |
| **-** | **-** | **278** | **-** | **-** | **-** | **X** | **278** |

# Part E - Information on Risks and Hedging Policies (CONTINUED)

## INFORMATION ON SOVEREIGN EXPOSURES

The Bank is exposed to the sovereign debt of some countries, having invested a portion of its assets in debt securities issued by governments and recognised in the "Available-for-sale financial assets" and "Held to maturity investments" portfolios. The following table shows the nominal value, the book value and the fair value of these exposures as at December 31, 2017.
We also underline that the Bank holds exposures to sovereign debt securities categorised as "Financial assets held for trading" for an amount of €11 thousand.

(Amounts in € thousand)

| | NOMINAL VALUE AS AT 12.31.2017 | BOOK VALUE AS AT 12.31.2017 | FAIR VALUE AS AT 12.31.2017 | % OF FINANCIAL STATEMENT ITEM |
|---|---|---|---|---|
| **Exposures to the Italian government** | **3,080,000** | **3,282,795** | **3,300,504** | |
| Available-for-sale financial assets | 699,000 | 725,220 | 725,220 | 69.22% |
| Held-to-maturity investments | 2,381,000 | 2,557,575 | 2,575,284 | 52.99% |
| **Exposures to the Spanish government** | **2,100,000** | **2,362,769** | **2,373,266** | |
| Available-for-sale financial assets | 225,000 | 242,451 | 242,451 | 23.14% |
| Held-to-maturity investments | 1,875,000 | 2,120,318 | 2,130,815 | 43.93% |
| **Exposures to the Polish government** | **44,000** | **48,572** | **49,163** | |
| Held-to-maturity investments | 44,000 | 48,572 | 49,163 | 1.01% |
| **Exposures to the French government** | **10,000** | **10,124** | **10,124** | |
| Available-for-sale financial assets | 10,000 | 10,124 | 10,124 | 0.97% |
| **Exposures to the US government** | **66,706** | **64,671** | **64,671** | |
| Available-for-sale financial assets | 66,706 | 64,671 | 64,671 | 6.17% |
| **Total Sovereign exposures** | **5,300,706** | **5,768,931** | **5,797,728** | **25.82%** |

As at December 31, 2017, investments in debt securities issued by sovereign states accounted for 25.82% of the Bank's total assets. There were no structured debt securities among the sovereign debt securities held by the Bank. The Bank is therefore exposed to fluctuations in the price of the public debt securities of the countries listed above. Tensions or volatility in the government bond market could negatively impact on the Bank's financial position and performance.

The following table shows the sovereign ratings as at December 31, 2017 for countries to which the Bank is exposed, provided by Fitch Ratings, Moody's and Standard & Poor's.

| | ITALY | SPAIN | POLAND | FRANCE | USA |
|---|---|---|---|---|---|
| MOODY'S | Baa2 | Baa2 | A2 | Aa2 | Aaa |
| FITCH RATINGS | BBB | BBB+ | A- | AA | AAA |
| STANDARD & POOR'S | BBB | BBB+ | BBB+ | AA | AA+ |

### *F. Banking Group - Credit Risk Measurement Models*

### *1.2 - Banking Group - Market 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 Bank'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.

#### Risk Management Strategies and Processes

The Board of Directors of the Parent Company, as part of its powers of management and coordination powers, sets the strategic guidelines for the assumption of market risks by defining maximum risk appetite levels.
The Board of Directors of Bank, in line with the Group's approach, approves a general framework of reference for market risk and any significant changes, relating to the organisational structure, strategies, and methods.
The Bank's strategy is to keep the minimum level of market risk in line with business needs and the limits set by the Risk Appetite Framework approved by the Board of Directors.
Market risk in FinecoBank is defined through two sets of limits:

- Global measures of market risk (e.g. VaR): which are meant to establish a boundary to the economic capital absorption and to the economic loss accepted in trading activities; these limits must be 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 of, but act in concert with the global limits; in order to control more effectively and more specifically different risk types, desks and products, these limits are generally granular sensitivity or stress-related limits. The levels set for granular limits aim at limiting the concentration in individual risk factors and the excessive exposure in risk factors which are not sufficiently covered under VaR.

**Structure and Organisation**

In order to ensure the effective implementation of operations and the consistency of policies, methods and practices related to market risk in the Group legal entities, the Group model for activities related to market risk is based on the definition of specific responsibilities.

In its relations with FinecoBank, the Parent Company is mainly responsible for:

- establishing, implementing and refining appropriate measures at global level for measuring exposure to market risk;
- setting risk limits, based on measurements identified, in line with the risk appetite approved by the Group.

The Market Risk function of the Bank, within the Risk Management Unit, in full compliance with local legal and regulatory obligations, works together with the Financial Risk Management Italy Function of the Parent Company and is tasked primarily - but not exclusively - with:

- calculating the risk measurements for the global and granular measures for the Bank's portfolios;
- checking that the measurements are compatible with the approved limits;
- initiating the escalation process when limits are exceeded, engaging the Financial Risk Italy function of the Parent Company;
- discussing and approving new products with innovative and complex market risk profiles, providing the Financial Risk Italy function of the Parent Company with adequate information in order for the said function to issue a non-binding opinion on the matter.

**Risk measurement and reporting systems**

***Trading Book***

The main tool used by the Bank to measure the market risk of trading positions is Value at Risk (VaR), calculated using the historic simulation approach. The historic simulation method involves the daily revaluation of positions on the basis of 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 500 days.

***Banking Book***

The primary responsibility for monitoring and controlling Market Risk management in the Banking Book lies with the Bank's competent Bodies. The Parent Company is responsible for monitoring market risk in the banking book at consolidated level, while sharing this responsibility with the relevant functions of the Legal Entities at local level.

The Parent Company, defines structure, data and frequency of the necessary Group and local level 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 Bank. 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 Bank 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 analysis is the impact of changes of interest rates on accrual or reported 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. This measure provides an indication of the impact that such a shock would have on the net interest margin over the next 12 months.

The third type of risk is exchange rate 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.

# Part E - Information on Risks and Hedging Policies (CONTINUED)

**Procedures and methodologies for valuation of Trading Book positions**

The Bank ensures that the value applied to each trading book position appropriately reflects the current fair (market) value, i.e. the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of each financial instrument is based on, or derived from, observable market prices or inputs. The availability of observable prices or inputs differs by product and market, and might change over time.

If observable prices or parameters are readily and regularly available (i.e. satisfying adequate liquidity requirements), they are directly employed in the determination of fair value (mark-to-market).

In non-active markets or for certain instruments, for which observable prices or inputs are not available, fair value is calculated using valuation techniques that are appropriate for the specific instrument (mark-to-model). This approach involves estimation and judgement and, therefore, might require valuation adjustments which take into account bid-ask spreads, liquidity and counterparty risk, besides the employed pricing model. In addition, each pricing model used for fair value calculation is validated by a dedicated function independent from business units.

According to the Group Market Risk Governance Guidelines, which define principles and rules for managing and controlling activities potentially involving a market risk, in order to ensure the adequate separation between functions in charge of development activities and functions in charge of validation, all valuation models developed by the front-office functions of Group companies need to be centrally and independently tested and validated by the Market Risk functions of the Parent Company. Model validation is also carried out centrally for any novel system or analysis framework whose utilisation has a potential impact on the Bank's economic results.

In addition to daily marking to market or marking to model, Independent Price Verification (IPV) shall be performed by the Risk Management function. This is the process by which market prices or model inputs are regularly verified for accuracy and independence. While daily marking to market or marking to model may be performed by front-office dealers, verification of market prices and model inputs is performed at least monthly.

**Risk measures**

***VaR***

The VaR calculated within the measurement of the market risk of the banking and trading book uses a historical simulation approach. The choice of model adopted by the Parent Company has a series of advantages:

- easy to understand and communicate;
- does not require any explicit assumptions about the particular functional form of the distribution of yields of the risk factors;
- does not require estimation of the variance-covariance matrix of the market factors that may affect the value of the portfolio;
- captures the correlation structure reflected in the simultaneous changes in market factors, implicitly assuming that it will remain constant in the future.

On the other hand VaR models based on historical simulations do not provide any information on the amount of the loss exceeding the VaR. This why the framework established by the Parent Company uses additional instruments such as stress tests.

### *1.2.1 Interest rate risk and price risk - regulatory trading book*

## QUALITATIVE INFORMATION

**A. General Matters**

The trading book is used to hold debt securities (ordinary and subordinated, structured and plain vanilla), equity instruments, and certificates - listed and non-listed - related to brokerage activities with retail customers.

The Bank does not perform proprietary trading and does not assume speculative positions in its books. Entries in the Bank's trading book are recorded against brokerage activities with retail customers particularly during the trading of OTC instruments. Other entries in the trading book are made for the internalisation of various financial instruments when the Bank is a counterparty to the customer. This activity is performed as a result of the options introduced by the MiFID which allow the execution of orders for financial instruments in a number of execution venues including internal execution.

**B. Processes for managing and methods for measuring interest rate risk and price risk**

For both a description of internal processes for monitoring and managing risk and an illustration of the approaches used to analyse exposure, please refer to the introduction.

## QUANTITATIVE INFORMATION

### 1. Regulatory trading book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

(Amounts in € thousand)

| TYPE/UNEXPIRED TERM | ON DEMAND | UP TO 3 MONTHS | BETWEEN 3 AND 6 MONTHS | BETWEEN 6 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | BETWEEN 5 AND 10 YEARS | OVER 10 YEARS | INDEFINITE DURATION |
|---|---|---|---|---|---|---|---|---|
| **1. On-balance sheet assets** | **30** | **-** | **1** | **3** | **-** | **9** | **3** | **-** |
| 1.1 Debt securities | 30 | - | 1 | 3 | - | 9 | 3 | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | *30* | - | *1* | *3* | - | *9* | *3* | - |
| 1.2 Other assets | - | - | - | - | - | - | - | - |
| **2. On-balance sheet liabilities** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 2.1 Repos | - | - | - | - | - | - | - | - |
| 2.2 Other liabilities | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | 72 | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | 555 | 117,966 | 275 | - | - | 196 | 2,556 | - |
| + Short positions | 585 | 118,070 | 275 | - | - | 34 | 2,556 | - |
| 3.2 Without underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | 31,260 | 7,610 | 91,950 | 482 | - | - | - |
| + Short positions | - | 97,220 | 300 | 22,810 | 582 | - | - | - |

Item 3.1 Financial Derivatives with underlying securities - Other Derivatives includes spot contracts for the purchase and sale of securities, other than shares and UCITS units, to be settled in times established by market practices (“regular way”).
Item 3.2 Financial Derivatives without underlying securities - Other Derivatives includes spot contracts for the purchase and sale of foreign currencies, to be settled in times established by market practices (“regular way”).

# Part E - Information on Risks and Hedging Policies (Continued)

**Currency: Other currencies**

(Amounts in € thousand)

| TYPE/UNEXPIRED TERM | ON DEMAND | UP TO 3 MONTHS | BETWEEN 3 AND 6 MONTHS | BETWEEN 6 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | BETWEEN 5 AND 10 YEARS | OVER 10 YEARS | INDEFINITE DURATION |
|---|---|---|---|---|---|---|---|---|
| **1. On-balance sheet assets** | **-** | **-** | **-** | **-** | **-** | **1** | **-** | **-** |
| 1.1 Debt securities | - | - | - | - | - | 1 | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | - | - | - | - | - | *1* | - | - |
| 1.2 Other assets | - | - | - | - | - | - | - | - |
| **2. On-balance sheet liabilities** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 2.1 Repos | - | - | - | - | - | - | - | - |
| 2.2 Other liabilities | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | 45,769 | - | - | - | - | 58 | - |
| + Short positions | - | 46,123 | - | - | - | - | 58 | - |
| 3.2 Without underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | 130,838 | 990 | 42,445 | - | - | - | - |
| + Short positions | - | 64,429 | 7,779 | 110,202 | - | - | - | - |

The effects of changes in the yield curve on net interest margin arising from instruments in the trading book are negligible. For similar considerations regarding the banking book, see paragraph 2. Banking book: internal models and other methods of sensitivity analysis of section "2.2 Interest rate risk and price risk - banking book" below.

### 2. Regulatory trading book: distribution of exposures in equity instruments and share indices for the main stock market countries

(Amounts in € thousand)

| TYPE OF TRANSACTION/LISTING INDEX | LISTED | | | | | | UNLISTED |
|---|---|---|---|---|---|---|---|
| | USA | SWITZERLAND | ITALY | GERMANY | FRANCE | OTHER | |
| **A. Equity instruments** | | | | | | | |
| - Long positions | 2,017 | - | 232 | - | - | 46 | 2 |
| - Short positions | 341 | - | - | 35 | - | 6 | - |
| **B. Unsettled transactions on equity instruments** | | | | | | | |
| - Long positions | 45,321 | - | 104,950 | 8,890 | - | 12 | - |
| - Short positions | 44,972 | - | 104,961 | 8,855 | - | - | - |
| **C. Other derivatives on equity instruments** | | | | | | | |
| - Long positions | 1,047 | - | 82 | - | - | - | 1,440 |
| - Short positions | 3,144 | - | 265 | - | - | 45 | - |
| **D. Derivatives on share indices** | | | | | | | |
| - Long positions | 13,686 | 1,855 | 3,869 | 8,031 | 906 | 684 | - |
| - Short positions | 14,358 | 1,900 | 5,388 | 8,649 | - | 182 | - |

In relation to the lack of speculative activity and as discussed in section 2.1, the positions in equity instruments and equity indices in the regulatory trading book as at December 31, 2017 are negligible and only arise from settlement activities with institutional counterparties on behalf of customers; equally negligible is their impact on operating income, profit (loss) for the year and shareholders' equity.

**3. Regulatory trading book: internal models and other methods of sensitivity analysis**

The Bank monitors the VaR of the Trading Book on a weekly basis.
As at December 31, 2017, the daily VaR of the trading book amounted to €253.3 thousand.

### *1.2.2 Interest rate risk and price risk - banking book*

## QUALITATIVE INFORMATION

**A. General aspects, management processes and measurement methods for interest rate risk and price risk**

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

- net interest margin sources, and thus, the Bank's earnings (cash flow risk);
- the net present value of assets and liabilities, due to their impact on the present value of future cash flows (fair value risk).

In line with the Group approach, the Bank measures and monitors interest rate risk daily, within the methodological framework and the corresponding limits or thresholds set by the Parent Company. 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:

- repricing risk: the risk resulting from timing mismatches in terms of the repricing of the bank's assets and liabilities. These mismatches result in a risk associated with the rate curve. This risk relates to the Bank's exposure to changes in the slope and shape of the interest rate curve. An associated risk is the basis risk. This risk derives from the imperfect correlation in lending and borrowing interest rate changes for different instruments that may also show similar repricing characteristics;
- optionality 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 risk previously agreed with the Parent Company UniCredit S.p.A.. These limits are set in terms of VaR (calculated using the methodology described above in relation to the trading book). The Bank 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. For more details see section *2. Banking book: internal models and other methods of sensitivity analysis.*

**B. Fair value hedging activities**

Hedging strategies aimed at complying with interest rate risk limits for the banking portfolio are carried out with unlisted derivative contracts. These derivatives, which are usually interest rate swaps, are the type of contracts most used. Macro-hedging is generally used, meaning hedges related to the amounts of cash contained in asset or liability portfolios.

**C. Cash flow hedging activity**

There are currently no cash flow hedges generated by the Bank business operations.

# Part E - Information on Risks and Hedging Policies (Continued)

## QUANTITATIVE INFORMATION

### 1. Banking book: distribution by maturity (by repricing date) of financial assets and liabilities

(Amounts in € thousand)

| TYPE/UNEXPIRED TERM | ON DEMAND | UP TO 3 MONTHS | BETWEEN 3 AND 6 MONTHS | BETWEEN 6 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | BETWEEN 5 AND 10 YEARS | OVER 10 YEARS | INDEFINITE DURATION |
|---|---|---|---|---|---|---|---|---|
| **1. On-balance sheet assets** | **2,345,232** | **11,426,923** | **464,365** | **71,695** | **4,268,211** | **2,349,442** | **154,876** | **-** |
| 1.1 Debt securities | 150,084 | 10,183,100 | 10,124 | - | 3,950,858 | 2,223,658 | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | *150,084* | *10,183,100* | *10,124* | - | *3,950,858* | *2,223,658* | - | - |
| 1.2 Loans to banks | 1,509,174 | 549,685 | 413,758 | 7 | - | - | - | - |
| 1.3 Loans to customers | 685,974 | 694,138 | 40,483 | 71,688 | 317,353 | 125,784 | 154,876 | - |
| - current accounts | 640,152 | 89 | 80 | 221 | 777 | - | - | - |
| - other loans | 45,822 | 694,049 | 40,403 | 71,467 | 316,576 | 125,784 | 154,876 | - |
| *- with early redemption option* | *4,428* | *199,714* | *39,495* | *70,306* | *313,380* | *125,748* | *154,876* | - |
| *- other* | *41,394* | *494,335* | *908* | *1,161* | *3,196* | *36* | - | - |
| **2. On-balance sheet liabilities** | **19,300,504** | **414,015** | **419,018** | **180,421** | **3,329** | **-** | **-** | **-** |
| 2.1 Deposits from customers | 19,246,587 | 66,958 | 1,722 | 76,123 | 3,329 | - | - | - |
| - current accounts | 19,149,241 | - | - | - | - | - | - | - |
| - other payables | 97,346 | 66,958 | 1,722 | 76,123 | 3,329 | - | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | *97,346* | *66,958* | *1,722* | *76,123* | *3,329* | - | - | - |
| 2.2 Deposits from banks | 53,917 | 347,057 | 417,296 | 104,298 | - | - | - | - |
| - current accounts | 39,323 | - | - | - | - | - | - | - |
| - other payables | 14,594 | 347,057 | 417,296 | 104,298 | - | - | - | - |
| 2.3 Debt securities | - | - | - | - | - | - | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | - | - | - | - | - | - | - | - |
| 2.4 Other liabilities | - | - | - | - | - | - | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| 3.2 Without underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | 382,500 | 283,947 | - | - | 250,000 | 320,000 | - | - |
| + Short positions | - | 574,863 | 4,951 | 9,984 | 461,899 | 93,169 | 91,581 | - |
| **4. Other off-balance sheet transactions** | | | | | | | | |
| + Long positions | 26,346 | 8,764 | - | - | 404 | - | - | - |
| + Short positions | 8,764 | 26,750 | - | - | - | - | - | - |

## Currency: Other currencies

(Amounts in € thousand)

| TYPE/UNEXPIRED TERM | ON DEMAND | UP TO 3 MONTHSI | BETWEEN 3 AND 6 MONTHS | BETWEEN 6 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | BETWEEN 5 AND 10 YEARS | OVER 10 YEARS | INDEFINITE DURATION |
|---|---|---|---|---|---|---|---|---|
| **1. On-balance sheet assets** | **500,756** | **229,844** | **-** | **132** | **64,716** | **-** | **-** | **-** |
| 1.1 Debt securities | - | 125,271 | - | - | 64,671 | - | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | - | *125,271* | - | - | *64,671* | - | - | - |
| 1.2 Loans to banks | 498,860 | 67,676 | - | 46 | - | - | - | - |
| 1.3 Loans to customers | 1,896 | 36,897 | - | 86 | 45 | - | - | - |
| - current accounts | 266 | - | - | - | - | - | - | - |
| - other loans | 1,630 | 36,897 | - | 86 | 45 | - | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | *1,630* | *36,897* | - | *86* | *45* | - | - | - |
| **2. On-balance sheet liabilities** | **794,881** | **10,690** | **-** | **-** | **-** | **-** | **-** | **-** |
| 2.1 Deposits from customers | 791,448 | 10,690 | - | - | - | - | - | - |
| - current accounts | 786,045 | - | - | - | - | - | - | - |
| - other payables | 5,403 | 10,690 | - | - | - | - | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | *5,403* | *10,690* | - | - | - | - | - | - |
| 2.2 Deposits from banks | 3,433 | - | - | - | - | - | - | - |
| - current accounts | 3,433 | - | - | - | - | - | - | - |
| - other payables | - | - | - | - | - | - | - | - |
| 2.3 Debt securities | - | - | - | - | - | - | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | - | - | - | - | - | - | - | - |
| 2.4 Other liabilities | - | - | - | - | - | - | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| 3.2 Without underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| **4. Other off-balance sheet transactions** | | | | | | | | |
| + Long positions | 6,916 | 1,269 | - | - | - | - | - | - |
| + Short positions | 1,269 | 6,916 | - | - | - | - | - | - |

For a description of the effects of a change in interest rates on net interest margin, profit (loss) for the year, shareholders' equity and the results of scenario analysis, see paragraph *2. Banking book: internal models and other methods of sensitivity analysis.*

**2. Banking book: internal models and other methods of sensitivity analysis**

The following table provides the results of the analyses conducted.

To measure the interest rate risk contained in the Bank's financial statements it is necessary to measure the sensibility of the loans and deposits to changes in the interest rate curve. The UniCredit Group 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 availability of historic data made it possible to completely align the representation of the interest rate risk profile to the profile used by the Group and that representation provided the breakdowns below

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) | INTEREST RATE ANALYSIS (-30) |
|---|---|---|---|---|---|---|
| **12.31.2017** | 108,819 | 62,462 | 487 | 5,918 | 118,719 | -34,726 |

* 1 day holding period, 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 positive impact of €108,819 thousand. A shift of -200 basis points showed a positive impact of €62,462 thousand.

The sensitivity analysis on the value of shareholders' equity, which was conducted assuming a shift of + 1 basis point, showed a positive impact of €487 thousand.

The interest rate VaR figure for the Bank came to approximately €5,918 thousand.

Total VaR, including the Credit Spread Risk component arising mainly from Italian and Spanish government securities held as investment of liquidity, amounted to €29,918 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 €118,719 thousand. A shift of -30 basis points would have a negative impact of Euro -34,726 thousand on the interest rate over the next 12 months.

### *1.2.3 Exchange Rate Risk*

## QUALITATIVE INFORMATION

**A. General aspects, management processes and measurement methods for exchange rate risk**

As part of its treasury activities, the Bank collects funds in foreign currencies, mainly US dollars, through customer current accounts and repos, subsequently investing these funds in bonds, current accounts and time deposits, in the same currency, with the Parent Company UniCredit S.p.A. The impact on the value of balance sheet items is estimated using the Forex VaR indicator.

The VaR of the Bank's positions is not used for the calculation of the Pillar 1 capital requirement because the traditional standardised approach is used. The VaR is only used for management and risk monitoring purposes.

**B. Exchange rate risk hedging**

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

The component of exchange rate risk that contributes to the formation of the overall VaR is usually tied to the temporal mismatch between assets and liabilities in US dollars.

## QUANTITATIVE INFORMATION

### 1. Breakdown by currency of assets, liabilities and derivatives

(Amounts in € thousand)

| ITEMS | CURRENCIES US DOLLAR | POUND STERLING | SWISS FRANC | YEN | SOUTH AFRICAN RAND | OTHER CURRENCIES |
|---|---|---|---|---|---|---|
| **A. Financial assets** | **632,939** | **78,772** | **86,700** | **72** | **2,014** | **1,621** |
| A.1 Debt securities | 189,943 | - | - | - | - | - |
| A.2 Equity instruments | 6,650 | 2 | - | 6 | - | 10 |
| A.3 Loans to banks | 398,397 | 77,898 | 86,673 | 66 | 1,995 | 1,554 |
| A.4 Loans to customers | 37,949 | 872 | 27 | - | 19 | 57 |
| A.5 Other financial assets | - | - | - | - | - | - |
| **B. Other assets** | **153** | **12** | **-** | **-** | **966** | **23** |
| **C. Financial liabilities** | **637,881** | **78,339** | **86,186** | **106** | **2,059** | **1,346** |
| C.1 Deposits from banks | - | - | - | 106 | 2,059 | 1,268 |
| C.2 Deposits from customers | 637,881 | 78,339 | 86,186 | - | - | 78 |
| C.3 Debt securities | - | - | - | - | - | - |
| C.4 Other financial liabilities | - | - | - | - | - | - |
| **D. Other liabilities** | **210** | **53** | **-** | **-** | **-** | **493** |
| **E. Financial derivatives** | | | | | | |
| - Options | | | | | | |
| + Long positions | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - |
| - Other derivatives | | | | | | |
| + Long positions | 104,802 | 25,355 | 4,488 | 5,980 | 4,360 | 29,288 |
| + Short positions | 104,250 | 24,546 | 4,924 | 15,278 | 5,762 | 27,650 |
| **Total assets** | **737,894** | **104,139** | **91,188** | **6,052** | **7,340** | **30,932** |
| **Total liabilities** | **742,341** | **102,938** | **91,110** | **15,384** | **7,821** | **29,489** |
| **Difference** | **(4,447)** | **1,201** | **78** | **(9,332)** | **(481)** | **1,443** |

The impact of changes in exchange rates are quantified by the daily Forex VaR of the overall portfolio, as described in the following paragraph.

### 2. Internal models and other methods of sensitivity analysis

As at December 31, 2017, the daily Forex VaR of the overall portfolio (banking and trading books) was approximately €178 thousand.

# Part E - Information on Risks and Hedging Policies (Continued)

*1.2.4 Derivative instruments*

A. Financial derivatives

**A.1 Regulatory trading book: end of period notional amounts**

(Amounts in € thousand)

| UNDERLYING ASSET/TYPE OF DERIVATIVE | 12.31.2017 OVER THE COUNTER | 12.31.2017 CENTRAL COUNTER-PARTIES | 12.31.2016 OVER THE COUNTER | 12.31.2016 CENTRAL COUNTER-PARTIES |
|---|---|---|---|---|
| **1. Debt securities and interest rate indexes** | **1,135** | **162** | **3,519** | **2,889** |
| a) Options | 71 | - | 4 | - |
| b) Swaps | - | - | - | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | 162 | - | 2,889 |
| e) Other | 1,064 | - | 3,515 | - |
| **2. Equity instruments and share indices** | **49,482** | **14,681** | **41,993** | **26,072** |
| a) Options | 72 | - | - | - |
| b) Swaps | - | - | - | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | 14,681 | - | 26,072 |
| e) Other | 49,410 | - | 41,993 | - |
| **3. Currencies and gold** | **262,317** | **-** | **172,199** | **-** |
| a) Options | - | - | - | - |
| b) Swaps | - | - | - | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | 262,317 | - | 172,199 | - |
| **4. Commodities** | **-** | **-** | **-** | **-** |
| **5. Other underlying assets** | **-** | **-** | **-** | **-** |
| **Total** | **312,934** | **14,843** | **217,711** | **28,961** |

Letter e) Other in the “Over the counter” column consists of CFD derivatives.

**A.2 Banking book: end of period notional amounts**

**A.2.1 Hedging instruments**

(Amounts in € thousand)

| UNDERLYING ASSET/TYPE OF DERIVATIVE | 12.31.2017 OVER THE COUNTER | 12.31.2017 CENTRAL COUNTER-PARTIES | 12.31.2016 OVER THE COUNTER | 12.31.2016 CENTRAL COUNTER-PARTIES |
|---|---|---|---|---|
| **1. Debt securities and interest rate indexes** | **1,236,447** | **-** | **1,357,368** | **-** |
| a) Options | - | - | - | - |
| b) Swaps | 1,236,447 | - | 1,357,368 | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **2. Equity instruments and share indices** | **-** | **-** | **-** | **-** |
| a) Options | - | - | - | - |
| b) Swaps | - | - | - | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **3. Currencies and gold** | **-** | **-** | **-** | **-** |
| a) Options | - | - | - | - |
| b) Swaps | - | - | - | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **4. Commodities** | **-** | **-** | **-** | **-** |
| **5. Other underlying assets** | **-** | **-** | **-** | **-** |
| **Total** | **1,236,447** | **-** | **1,357,368** | **-** |

**A.2.2 Other derivatives**

No data to report.

### A.3 Financial derivatives: gross positive fair value - breakdown by product

(Amounts in € thousand)

| TRANSACTION TYPES/UNDERLYINGS | POSITIVE FAIR VALUE | | | |
|---|---|---|---|---|
| | 12.31.2017 | | 12.31.2016 | |
| | OVER THE COUNTER | CENTRAL COUNTER-PARTIES | OVER THE COUNTER | CENTRAL COUNTER-PARTIES |
| **A. Regulatory trading book** | **4,733** | **23** | **2,999** | **10** |
| a) Options | - | - | - | - |
| b) Interest rate swaps | - | - | - | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | 23 | - | 10 |
| g) Other | 4,733 | - | 2,999 | - |
| **B. Banking book - hedges** | **458** | **-** | **552** | **-** |
| a) Options | - | - | - | - |
| b) Interest rate swaps | 458 | - | 552 | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| **C. Banking book - other derivatives** | **-** | **-** | **-** | **-** |
| a) Options | - | - | - | - |
| b) Interest rate swaps | - | - | - | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| **Total** | **5,191** | **23** | **3,551** | **10** |

### A.4 Financial derivatives: negative fair value - breakdown by product

(Amounts in € thousand)

| TRANSACTION TYPES/UNDERLYINGS | NEGATIVE FAIR VALUE | | | |
|---|---|---|---|---|
| | 12.31.2017 | | 12.31.2016 | |
| | OVER THE COUNTER | CENTRAL COUNTER-PARTIES | OVER THE COUNTER | CENTRAL COUNTER-PARTIES |
| **A. Regulatory trading book** | **538** | **27** | **549** | **41** |
| a) Options | - | - | - | - |
| b) Interest rate swaps | - | - | - | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | 27 | - | 41 |
| g) Other | 538 | - | 549 | - |
| **B. Banking book - hedges** | **12,694** | **-** | **10,914** | **-** |
| a) Options | - | - | - | - |
| b) Interest rate swaps | 12,694 | - | 10,914 | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| **C. Banking book - other derivatives** | **-** | **-** | **-** | **-** |
| a) Options | - | - | - | - |
| b) Interest rate swaps | - | - | - | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| **Total** | **13,232** | **27** | **11,463** | **41** |

# Part E - Information on Risks and Hedging Policies (Continued)

### A.5 Over the counter financial derivatives: regulatory trading portfolio - notional amounts, positive and negative gross fair value by counterparty - contracts not included in netting agreement

(Amounts in € thousand)

| CONTRACTS NOT INCLUDED IN NETTING AGREEMENT | GOVERNMENTS AND CENTRAL BANKS | OTHER PUBLIC ENTITIES | BANKS | FINANCIAL COMPANIES | INSURANCE COMPANIES | NON-FINANCIAL COMPANIES | OTHER ENTITIES |
|---|---|---|---|---|---|---|---|
| **1. Debt securities and interest rate indexes** | | | | | | | |
| - notional value | 71 | - | - | - | - | - | 1,064 |
| - positive fair value | - | - | - | - | - | - | 3 |
| - negative fair value | - | - | - | - | - | - | 5 |
| - add-on | 1 | - | - | - | - | - | - |
| **2. Equity instruments and share indices** | | | | | | | |
| - notional value | - | - | - | 72 | - | 640 | 48,769 |
| - positive fair value | - | - | - | - | - | 1 | 1,880 |
| - negative fair value | - | - | - | - | - | - | 224 |
| - add-on | - | - | - | 7 | - | 64 | 4,694 |
| **3. Currencies and gold** | | | | | | | |
| - notional value | - | - | 119,806 | 9 | - | 1,023 | 141,480 |
| - positive fair value | - | - | 333 | - | - | 40 | 2,475 |
| - negative fair value | - | - | 97 | - | - | 1 | 211 |
| - add-on | - | - | - | - | - | 10 | 1,415 |
| **4. Other instruments** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - add-on | - | - | - | - | - | - | - |

### A.6 Over the counter financial derivatives: regulatory trading portfolio - notional amounts, positive and negative gross fair value by counterparty - contracts included in netting agreement

No data to report.

## A.7 Over the counter financial derivatives: banking book - notional values, positive and negative gross fair values by counterparty - contracts not covered by clearing agreements

(Amounts in € thousand)

| CONTRACTS NOT INCLUDED IN NETTING AGREEMENT | GOVERNMENTS AND CENTRAL BANKS | OTHER PUBLIC ENTITIES | BANKS | FINANCIAL COMPANIES | INSURANCE COMPANIES | NON-FINANCIAL COMPANIES | OTHER ENTITIES |
|---|---|---|---|---|---|---|---|
| **1. Debt securities and interest rate indexes** | | | | | | | |
| - notional value | - | - | 603,947 | - | - | - | - |
| - positive fair value | - | - | 458 | - | - | - | - |
| - negative fair value | - | - | 2,171 | - | - | - | - |
| - add-on | - | - | 7,968 | - | - | - | - |
| **2. Equity instruments and share indices** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - add-on | - | - | - | - | - | - | - |
| **3. Currencies and gold** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - add-on | - | - | - | - | - | - | - |
| **4. Other instruments** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - add-on | - | - | - | - | - | - | - |

## A.8 Over the counter financial derivatives: banking book - notional values, positive and negative gross fair values by counterparty - contracts covered by clearing agreements

(Amounts in € thousand)

| CONTRACTS INCLUDED IN NETTING AGREEMENT | GOVERNMENTS AND CENTRAL BANKS | OTHER PUBLIC ENTITIES | BANKS | FINANCIAL COMPANIES | INSURANCE COMPANIES | NON-FINANCIAL COMPANIES | OTHER ENTITIES |
|---|---|---|---|---|---|---|---|
| **1. Debt securities and interest rate indexes** | | | | | | | |
| - notional value | - | - | 632,500 | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | 10,523 | - | - | - | - |
| **2. Equity instruments and share indices** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| **3. Currencies and gold** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| **4. Other instruments** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |

# Part E - Information on Risks and Hedging Policies (Continued)

### A.9 OTC financial derivatives - residual life: notional values

(Amounts in € thousand)

| UNDERLYING/UNEXPIRED TERM | UP TO 1 YEAR | BETWEEN 1 AND 5 YEARS | OVER 5 YEARS | TOTAL |
|---|---|---|---|---|
| **A. Regulatory trading book** | **267,964** | **-** | **44,970** | **312,934** |
| A.1 Financial derivatives on debt securities and interest rates | 1,064 | - | 71 | 1,135 |
| A.2 Financial derivatives on equity instruments and share indices | 4,583 | - | 44,899 | 49,482 |
| A.3 Financial derivatives on exchange rates and gold | 262,317 | - | - | 262,317 |
| A.4 Financial derivatives on other instruments | - | - | - | - |
| **B. Banking book** | **19,798** | **711,899** | **504,751** | **1,236,448** |
| B.1 Financial derivative contracts on debt securities and interest rates | 19,798 | 711,899 | 504,751 | 1,236,448 |
| B.2 Financial derivatives on equity instruments and share indices | - | - | - | - |
| B.3 Financial derivatives on exchange rates and gold | - | - | - | - |
| B.4 Financial derivatives on other instruments | - | - | - | - |
| **Total as at December 31, 2017** | **287,762** | **711,899** | **549,721** | **1,549,382** |
| **Total as at December 31, 2016** | **805,714** | **477,368** | **291,997** | **1,575,079** |

### A.10 Over the counter financial derivatives: Counterparty risk/financial risk - Internal models

No data to report.

**B. Credit derivatives**

No data to report.

**C. Financial and credit derivatives**

### C.1 OTC financial and credit derivatives: net fair values and future exposures by counterparty

(Amounts in € thousand)

| | GOVERNMENTS AND CENTRAL BANKS | OTHER PUBLIC ENTITIES | BANKS | FINANCIAL COMPANIES | INSURANCE COMPANIES | NON-FINANCIAL COMPANIES | OTHER ENTITIES |
|---|---|---|---|---|---|---|---|
| **1) Bilateral arrangements - financial derivatives** | | | | | | | |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | 10,523 | - | - | - | - |
| - add-on | - | - | 1,265 | - | - | - | - |
| - net counterparty risk | - | - | - | - | - | - | - |
| **2) Bilateral arrangements - credit derivatives** | | | | | | | |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - add-on | - | - | - | - | - | - | - |
| - net counterparty risk | - | - | - | - | - | - | - |
| **3) Cross-product arrangements** | | | | | | | |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - add-on | - | - | - | - | - | - | - |
| - net counterparty risk | - | - | - | - | - | - | - |

*1.3 Banking Group - Liquidity Risk*

## QUALITATIVE INFORMATION

**A. General aspects, management processes and measurement methods for liquidity risk**
Liquidity risk can be succinctly defined as the risk that the Bank, 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 Bank are as follows:
- funding risk, the Bank may not be able to effectively address any expected or unexpected cash outflows due to the unavailability of funding sources;
- market risk, in liquidating a considerable amount of assets, the Bank may be facing a considerable (and unfavourable) change in price generated by internal or external factors;
- risk of mismatch, the risk generated by a mismatch between the amounts and/or the maturities of cash inflows and outflows;
- contingency risk, future unexpected commitments (credit facilities being drawn down, deposit withdrawals, increase of collateral) may require a higher amount of liquidity compared to that used by the Bank in ordinary operations.

To address its exposure to liquidity risk, the Bank invests the portion of liquidity that according to its internal analyses is less stable ("non-core liquidity") 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.

At the reporting date, 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 bank.

***The key principles***
"Fineco Liquidity Policy" approved by the Board of Directors of the Bank establishes the managerial autonomy of the Bank's Treasury department and sets forth the principles and rules that the Bank applies to both normal and emergency liquidity management in line with the UniCredit Group liquidity risk management.

***Roles and responsibilities***
The "Fineco Liquidity Policy" establishes the principles adopted in terms of internal governance, which envisage the involvement of the Finance, Treasury and Risk Management departments, in line with the Group's approach.

The operational management of liquidity is carried out by the Treasury department, which ensures 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 selected methods.
To this end, "Fineco Liquidity Policy" explicitly refers to Group rules regarding the implementation of first and second level monitoring, both from a regulatory and management standpoint:
1. Short-term liquidity risk management (operational liquidity), which considers the events that may impact upon the Bank's liquidity position from one day up to one year. The primary objective is to maintain the Bank's capacity to fulfil its ordinary and extraordinary payment obligations while minimising the relevant costs.
2. Structural liquidity risk management (structural risk), which considers the events that may impact upon the Bank's liquidity position over one year. The primary objective is to maintain an adequate ratio between medium/long term liabilities and medium to long-term assets, with a view to avoiding pressures on short-term funding sources (both current and future).
3. Stress tests: Liquidity risk is a low probability, high impact event. Therefore stress testing is a tool to reveal potential vulnerabilities. The Bank uses several scenarios ranging from general market crisis to idiosyncratic crisis, and combinations hereof.

In this context, the Bank 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 Bank from risks related to the transformation of maturity.

***Short term liquidity management***
Short-term liquidity management aims at ensuring that the Bank remains in a position to fulfil its cash payment obligations always, whether expected or unexpected, focused on the exposure for the first twelve months.
On a daily basis, the Bank calculates the Operative Maturity Ladder, which measures the cash inflows and outflows affecting the monetary base, with details of the main temporal buckets.
The Bank's objective is to provide sufficient short-term liquidity to deal with the particularly adverse liquidity crises for at least three months.

# Part E - Information on Risks and Hedging Policies (CONTINUED)

***Structural liquidity management***

The objective of the Bank's structural liquidity management is to maintain an adequate ratio between medium/long term assets and liabilities (generally over one year), with a view to avoiding pressures on short-term funding sources, both current and future. To this end, the Bank adopts a prudent approach to its investments of liquidity, taking into account funding maturities. The indicators used and monitored as part of the wider Risk Appetite Framework (NSFR- and NSFR-adjusted) ensure that assets and liabilities have a sustainable maturity structure.

***Liquidity Stress Test***

Stress testing is a risk management technique used to evaluate the potential effects of a specific event on an entity's financial position. As a forward looking tool, liquidity stress testing diagnostics the institution's liquidity risk.

Periodically, the Bank uses scenario analysis to evaluate the impact of simultaneous changes in various risk factors, defining a hypothetical and consistent stress event whose assumptions and size are shared and agreed with the Parent Company's functions.

***Behavioural modelling of Assets and Liabilities***

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.
More specifically, modelling of assets and 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 CFO function in collaboration with the Parent Company's Competence Line and are validated by FinecoBank's Risk Management.

***FinecoBank Contingency Liquidity Policy***

A liquidity crisis is a high impact, low probability event. Therefore, a crisis-mode operating model, that can be activated effectively in case of crisis according to an approved procedure, has been defined in FinecoBank "Contingency Plan for liquidity risk".

The ability to act in time is essential to minimise the potentially disruptive consequences of a liquidity crisis. The analytics of the Stress tests form a valuable tool to identify the expected consequences and to define up front the most suitable actions in a certain crisis scenario. In combination with Early Warning Indicators (EWI) the Bank may be able to reduce the liquidity effects in the initial stages of a crisis.

FinecoBank "Contingency Plan on liquidity risk" has the objective of ensuring effective interventions also 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 communication both internally and to the Group;
- a set of available mitigating liquidity actions;
- a set of early warning indicators that may point towards a developing crisis.

## QUANTITATIVE INFORMATION

### 1. Time breakdown by contractual residual maturity of financial assets and liabilities

(Amounts in € thousand)

| ITEM/TIME BRACKETS | ON DEMAND | BETWEEN 1 AND 7 DAYS | BETWEEN 7 AND 15 DAYS | BETWEEN 15 DAYS AND 1 MONTH | BETWEEN 1 AND 3 MONTHS | BETWEEN 3 AND 6 MONTHS | BETWEEN 6 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | OVER 5 YEARS | INDEFINITE DURATION |
|---|---|---|---|---|---|---|---|---|---|---|
| **On-balance sheet assets** | **2,194,487** | **38,766** | **425,198** | **504,807** | **384,155** | **940,400** | **985,686** | **10,986,188** | **4,254,676** | **199,104** |
| A.1 Government securities | - | - | - | 19,886 | 16,872 | 55,330 | 58,789 | 3,183,000 | 2,039,007 | - |
| A.2 Debt securities | - | 2,863 | 4,626 | 387,350 | 28,517 | 422,039 | 839,083 | 7,450,030 | 1,822,502 | - |
| A.3 Units in investment funds | 2,018 | - | - | - | - | - | - | - | - | - |
| A.4 Loans | 2,192,469 | 35,903 | 420,572 | 97,571 | 338,766 | 463,031 | 87,814 | 353,158 | 393,167 | 199,104 |
| - Banks | 1,509,174 | 545 | 166,758 | 2,421 | 180,709 | 413,335 | 7 | - | - | 199,104 |
| - Customers | 683,295 | 35,358 | 253,814 | 95,150 | 158,057 | 49,696 | 87,807 | 353,158 | 393,167 | - |
| **On-balance sheet liabilities** | **19,309,803** | **19,971** | **166,525** | **6,852** | **220,638** | **418,460** | **180,431** | **3,284** | **-** | **-** |
| B.1 Deposits and current accounts | 19,189,715 | 112 | 216 | 361 | 1,318 | 1,725 | 2,553 | 3,284 | - | - |
| - Banks | 39,323 | - | - | - | - | - | - | - | - | - |
| - Customers | 19,150,392 | 112 | 216 | 361 | 1,318 | 1,725 | 2,553 | 3,284 | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | 120,088 | 19,859 | 166,309 | 6,491 | 219,320 | 416,735 | 177,878 | - | - | - |
| **Off-balance sheet transactions** | | | | | | | | | | |
| C.1 Financial derivatives with exchange of capital | | | | | | | | | | |
| - Long positions | - | 138,306 | 49 | - | - | 300 | - | - | 2,328 | 587 |
| - Short positions | - | 137,457 | 39 | - | 162 | 300 | - | 30 | 2,238 | 586 |
| C.2 Financial derivatives without exchange of capital | | | | | | | | | | |
| - Long positions | 985 | 666 | - | 202 | 1,501 | 3,281 | 5,397 | - | - | - |
| - Short positions | 97 | - | - | - | 771 | 793 | 1,526 | - | - | - |
| C.3 Deposits and loans to be collected | | | | | | | | | | |
| - Long positions | - | 8,764 | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | 8,660 | 104 | - | - | - |
| C.4 Irrevocable commitments to lend funds | | | | | | | | | | |
| - Long positions | - | - | - | - | - | 26,221 | 124 | 404 | - | - |
| - Short positions | - | 26,346 | - | 404 | - | - | - | - | - | - |
| C.5 Financial guarantees given | - | - | - | - | - | - | - | - | - | - |
| C.6 Financial guarantees received | - | - | - | - | - | - | - | - | - | - |
| C.7 Credit derivatives with exchange of capital | | | | | | | | | | |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |
| C.8 Credit derivatives without exchange of capital | | | | | | | | | | |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |

# Part E - Information on Risks and Hedging Policies (CONTINUED)

**Currency: Other currencies**

(Amounts in € thousand)

| ITEM/TIME BRACKETS | ON DEMAND | BETWEEN 1 AND 7 DAYS | BETWEEN 7 AND 15 DAYS | BETWEEN 15 DAYS AND 1 MONTH | BETWEEN 15 DAYS AND 1 MONTH | BETWEEN 3 AND 6 MONTHS | BETWEEN 6 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | OVER 5 YEARS | INDEFINITE DURATION |
|---|---|---|---|---|---|---|---|---|---|---|
| **On-balance sheet assets** | **500,959** | **5,855** | **21,172** | **4,239** | **74,750** | **42,637** | **2,242** | **150,133** | **1** | **-** |
| A.1 Government securities | - | - | - | - | 375 | - | 375 | 66,706 | 1 | - |
| A.2 Debt securities | - | 141 | - | 254 | 808 | 42,637 | 1,735 | 83,382 | - | - |
| A.3 Units in investment funds | 1 | - | - | - | - | - | - | - | - | - |
| A.4 Loans | 500,958 | 5,714 | 21,172 | 3,985 | 73,567 | - | 132 | 45 | - | - |
| *- Banks* | *498,860* | - | *20,311* | - | *47,410* | - | *46* | - | - | - |
| *- Customers* | *2,098* | *5,714* | *861* | *3,985* | *26,157* | - | *86* | *45* | - | - |
| **On-balance sheet liabilities** | **794,919** | **2,381** | **292** | **1,520** | **6,854** | **-** | **-** | **-** | **-** | **-** |
| B.1 Deposits and current accounts | 789,516 | - | - | - | - | - | - | - | - | - |
| *- Banks* | *3,433* | - | - | - | - | - | - | - | - | - |
| *- Customers* | *786,083* | - | - | - | - | - | - | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | 5,403 | 2,381 | 292 | 1,520 | 6,854 | - | - | - | - | - |
| **Off-balance sheet transactions** | | | | | | | | | | |
| C.1 Financial derivatives with exchange of capital | | | | | | | | | | |
| - Long positions | - | 65,637 | 39 | - | - | - | - | - | 63 | - |
| - Short positions | - | 66,753 | 48 | - | - | - | - | - | 63 | - |
| C.2 Financial derivatives without exchange of capital | | | | | | | | | | |
| - Long positions | 3,771 | - | - | - | - | - | - | - | - | - |
| - Short positions | 467 | - | - | - | - | - | - | - | - | - |
| C.3 Deposits and loans to be collected | | | | | | | | | | |
| - Long positions | - | 1,269 | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | 1,269 | - | - | - | - |
| C.4 Irrevocable commitments to lend funds | | | | | | | | | | |
| - Long positions | - | - | - | - | - | 6,916 | - | - | - | - |
| - Short positions | - | 6,916 | - | - | - | - | - | - | - | - |
| C.5 Financial guarantees given | - | - | - | - | - | - | - | - | - | - |
| C.6 Financial guarantees received | - | - | - | - | - | - | - | - | - | - |
| C.7 Credit derivatives with exchange of capital | | | | | | | | | | |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |
| C.8 Credit derivatives without exchange of capital | | | | | | | | | | |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |

**Assets received as collateral or loaned as part of repos and securities lending**

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Fair value of securities received as guarantee in repos and securities lending with cash guarantee | 258.844 | 122.584 |
| Fair value of securities received on loan | 949.550 | 1.094.173 |
| Of which fair value of the securities delivered through reverse repos and securities lending with cash guarantee | (996.775) | (1.213.038) |

*Section 1.4 - Banking Group - Operating risk*

## QUALITATIVE INFORMATION

### A. General aspects, operational processes and methods for measuring operational risk

***Operational risk definition***

Operational risk is defined as 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, 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.

***Group operational risk framework***

The UniCredit Group has defined the policies and procedures for measuring and mitigating operational risk within the Group and its Subsidiaries Operational risk policies, applicable to all Group entities, are common principles that define the roles of company bodies and of the risk management function as well as the interactions with other functions involved in the process. These principles and provisions have been set out in the Group Framework for the management of operational risk and adopted in FinecoBank's Operational Risk Manual.

The methods for classifying data and verifying its completeness, scenario analysis, risk indicators and risk capital reporting and measurement are set by the Group Operational & Reputational Risks department of the Parent Company and applied by FinecoBank in its capacity as a Group Legal Entity.

A pivot element of the risk control framework is the operational risk management application, allowing the collection of the data required for operational risk control and capital measurement.

The compliance of the operational risk control and measurement system with external regulations and Group standards is assessed through an internal validation process, under the responsibility of the Group Internal Validation department of the Parent Company, which is independent from the Group Operational & Reputational Risks department.

The Bank has obtained the approval of the Bank of Italy for the use of advanced approaches (AMA) to calculate its capital requirement for operational risk with effect from June 30, 2010.

***Organisational structure***

The Board of Directors is responsible for approving all aspects relating to the Group operational risk framework and verifying the adequacy of the measurement and control system and is regularly updated on changes to the risk profile and operational risk exposure, with support from the appropriate risk committees if required.

The reports produced by Risk Management for the Board of Directors ensure that management and the control bodies are constantly updated on the trend in operational risk within the Bank and can actively intervene in the management and mitigation of the risks. The Chief Risk Officer's participation in the Products Committee also ensures oversight of the operational risk associated with the Bank's new business activities.

The Operational Risk Management (ORM) team is part of the broader Risk Management office which reports to the Chief Risk Officer of FinecoBank who in turn reports directly to the Chief Executive Officer and General Manager.

The main activities carried out by the Risk Management office in terms of operational risk are:

- recognition, classification, validation and reporting of operating losses with consequent identification of problem areas;
- assessment of potential risks through scenario analyses and risk indicators (Key Risk Indicator-KRI);
- monitoring and optimisation of the internal control system;
- policies to mitigate and transfer risk through insurance cover;
- development of an operational risk culture within the Bank;
- generating reports for the Board of Directors and Senior Management on risk trends.

***Internal validation process***

In compliance with external regulations, the operational risk control and measurement system is subject to an internal validation process established by the Parent Company, in order to verify its compliance with minimum requirements and Group standards. This process is owned by the Operational and Pillar II Risk Validation Unit, within the Group Internal Validation department.

The use of the Advanced Measurement Approach (AMA) to calculate regulatory capital requires the preparation of an annual report on the management and control system for operational risk by the Operational Risk team. This Annual Report contains a self-assessment of the system and a detailed examination of the governance structure, the process for collecting data on losses, the scenario analyses and internal control system, as well as the operational use of the measurement system.

The Report is submitted to the approval of the Board of Directors and is validated by the Internal Audit department and Group Internal Validation (GIV). For 2017, the Internal Audit department and Group GIV confirmed that adequate protection measures are in place for operating risk as well as the adequacy of the existing management and control system.

# Part E - Information on Risks and Hedging Policies (CONTINUED)

***Operational risk management***

Operational risk management consists of the review of processes to reduce the risks found and the management of the related insurance policies, with the identification of the suitable deductibles and limits.

From September 2011, a Permanent Work Group (PWG) has been established, which includes the CRO, the Risk Manager as well as Information Security & Fraud Manager and Organisation, to allow them to share their respective expertise in relation to the projects planned or in under way, new processes and products, or changes to them, and anything else that may affect the Bank's risk profile; the PWG's ultimate objective is to identify and then develop new mitigation measures.

As part of the prevention of operational risk and to control sales channels remotely, the Risk Management office has focused on fraud prevention measures.

The development of remote monitoring to prevent fraud has led to the creation of a system called System of Fraud Identification and Analysis (SoFIA). This system enables a larger amount of data and information on individual indicators to be analysed at the same time and enables possible irregularities to be detected on a daily basis through an alert system.

In this way, all of the names put forward to be checked are assessed at the same time with regard to all remote indicators (31 indicators).

On the basis of qualitative and quantitative assessments of these indicators, the assigned staff select any cases that need to be reported to the Network Controls Department, Monitoring and Network Services Department - reporting directly to the Chief Executive Officer - for subsequent examination.

Moreover, the Operational Risk team is updated annually on the results of the tests conducted in accordance with the Business Continuity and Disaster Recovery plans.

***Risk capital measurement and allocation mechanism***

UniCredit developed an internal model for measuring the capital requirement. The capital requirement is calculated on the basis of internal loss data, external loss data, scenario loss data and risk indicators.

The collection and classification of operating losses is managed by a Group system called Application for Risk Gauging On line (ARGO). In addition to being used for internal prevention and improvement purposes, the information gathered is also used to calculate Pillar 1 and 2 capital requirements.

In terms of risk indicators, there are currently 42 key risk indicators split into eight control areas (Legal, Claims, Credit Cards, Back Office, PFA, IT systems, Payment Systems, Compliance) that contribute to the calculation of the regulatory capital, which the Bank uses to measure its exposure to operational risk. If an indicator shows an irregular value, this may be related to changes in the exposure to operational risk.

Scenario analyses enable the Bank's exposure to operational risk, characterised by low frequency but high potential impact, to be estimated. The scenarios are identified by analysing internal losses, external events, risk indicator trends, critical processes, products and risk classes.

The inclusion of the data generated through the analyses of the scenario and of the trend of risk indicators are a forward-looking element of the risk capital calculation model.

Data collection and control is managed by the Bank, while the management and maintenance of the model to calculate regulatory capital is centralised for all Legal Entities of the Group at the Parent Company.

Risk capital for operational risk used for regulatory purposes as at December 31, 2017, amounted to €55,762 thousand.

***Risks arising from significant legal disputes***

The Bank is involved in individually insignificant legal proceedings over which there is considerable uncertainty regarding the outcome and the amount of possible charges, which the Bank could be forced to incur. Where it is possible to reliably estimate the amount of possible charges and the charges are considered likely, provisions have been made in an appropriate amount based on the circumstances and consistent with international accounting standards, by making the best possible estimate of the amount that the Bank will reasonably be expected to incur in discharging its obligations. Specifically, as a precaution against these obligations and customer claims that have not yet resulted in legal proceedings, as at December 31, 2017, the Bank had a provision in place for risks and charges of €31,056 thousand. This provision includes the costs of proceedings borne by the Bank in the event of an adverse conclusion of the dispute plus the estimated expenses to be paid to lawyers, any technical advisors and/or experts who assist the Bank, to the extent that it is believed that they will not be reimbursed by the counterparties.

This estimate was determined by the Bank, in relation to the current dispute, based on the analysis of the historical trend of legal expenses incurred, by type of litigation and degree of judgment, consistent with the methodology defined by the Parent Company in this regard.

***Risks arising from tax disputes and audits***

Risks arising from tax disputes and audits as at December 31, 2017 mainly relate to a notice of assessment for the year 2003 containing an objection to the use of tax credits for €2.3 million, in relation to which the bank has appealed to the Supreme Court as it considers its position to be well-founded. The bank has already paid the additional taxes and interest due.

With regard to disputes, the higher taxes, interests and penalties have already been recognised in the income statement with a contra entry, respectively, in tax liabilities and the provision for risks and charges.

Moreover, tax receivables for the amounts paid have been recognised.

In light of the foregoing, as at December 31, 2017 the Bank had in place provisions that adequately reflect the specific circumstances and are in line with international accounting standards; specifically, to tax liabilities of for a total of €5.6 million, for higher tax, and to provisions for risks and charges of €3.9 million, for penalties and interest

***The assessment of ICT operational risk***

The prudential regulations require Banks to conduct an analysis, at least annually, of the Bank's ICT risk and to submit the results of the assessment made to the Board of Directors.

In particular, the regulations have introduced standards and specific requirements for managing and assessing ICT risk that require Banks to assess the exposure to these risks, not only by gathering and analysing economic losses, but also by considering additional information, such as ICT incidents occurring and information related to the riskiness of the Bank's assets (hardware and software).

The Parent Company, in performing its role of direction, coordination and control, has established a common framework for the entire Group for the assessment of ICT risk and FinecoBank Risk Management function has adopted that framework.

The results of the analysis, conducted in collaboration with the Bank's Business, ICT and Organisation departments, were reported to the Bank's Board of Directors during 2017.

### QUANTITATIVE INFORMATION

Internal operating loss data is the main component used to calculate capital requirements against operational risk. Loss analyses enable the ORM team to make assessments on the Bank's exposure to operational risk and to identify any critical areas. As at December 31, 2017, operating losses recorded in the accounts amounted to approximately €6 million.

The main sources of operating losses are shown below by "event type", i.e. by type of event that generated them according to the Basel II Accord:

- Internal fraud: losses due to unauthorised activities, fraud, embezzlement or infringement of laws, regulations or company directives that involve at least one internal staff member of the bank or a resource hired under an agency contract (PFA);
- External fraud: losses owing to fraud, embezzlement or violation of laws by subjects external to the bank;
- employment practices and workplace safety: losses due to actions not compliant with the law or to agreements regarding employment, health and safety, to the payment of compensation for bodily harm, or to cases of discrimination or non-application of equality conditions;
- customers, products and professional practices: losses arising from non-fulfillment of professional obligations towards customers or from the nature or characteristics of the products or services provided;
- damage from external events: losses arising from external events, including natural disasters, acts of terrorism and vandalism;
- business disruption and system failures: losses owing to business disruption and system failures or interruptions;
- process management, execution and delivery: losses due to deficiencies in the completion of transactions or management of processes, as well as losses due to relations with commercial counterparties, vendors and suppliers.

## Section 2 - Insurance companies risk

No information to report.

## Section 3 - Other companies' risk

No information to report.

## Section 4 - Other risks

Although the types of risk described above represent the main categories, there are, other types that the Bank considers important. In accordance with the provisions of Basel II Pillar 2, the Bank - with the support of the Parent Company - has identified other types of risk in addition to the credit, market, operational and liquidity risks described above:

- **Business risk** is defined as the distance between the Bank's expected net result and any unforeseen and adverse variances. First of all, it may be caused by a significant deterioration of market conditions, changes to competition or the Bank'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;
- **Reputational risk**, which represents the current or future risk of a fall in profits resulting from a negative perception of the Bank's image by Customers, counterparties, shareholders, investors or Supervisory Authorities.

The Bank has not included Real Estate Risk within the Bank's scope of risk, because it does not hold significant positions in real estate, nor insurance risk, as the insurance companies are not included in its scope of consolidation.

Following the identification of the significant risks, the Parent Company establishes the best way to analyse them in qualitative and quantitative terms. The quantitative measurement is carried out by the Parent Company using data sent by the Bank and is used to calculate the Internal Capital.

# Part E - Information on Risks and Hedging Policies (Continued)

Credit, market, operational and business risks are measured quantitatively by the Parent Company, using:
- economic capital, calculation of the benefit of diversification and aggregation as a component of internal capital (including prudential cushion for model risk and variability of the economic cycle);
- Stress tests.

Internal Capital 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.
For control purposes, Internal Capital is calculated quarterly by the Parent Company based on the periodic figures sent by the Bank.
The multi-dimensional nature of risk makes it necessary to supplement the measurement of economic capital with stress testing, not only in order to estimate losses in certain scenarios, but also to ascertain the impact of their determinants.
The stress test is one of the instruments used control significant risks in order to assess the Bank's vulnerability to "exceptional but plausible" events, providing additional information to the monitoring activities.
Stress testing, in accordance with regulatory requirements, is conducted on the basis of a set of internally defined stress scenarios and is periodically performed by specific Parent Company functions.

### ICAAP - Internal Capital Adequacy Assessment Process
Measuring the risk profile is a fundamental element of the Internal Capital Adequacy Assessment Process under Pillar 2 (ICAAP).

The UniCredit Group's approach to ICAAP relies on the definition of the "Risk Governance", as a preliminary requirement, while the process consists of following phases:
- defining the scope and identifying the risks;
- assessing the risk profile;
- risk appetite setting and capital allocation;
- monitoring and reporting.

Capital adequacy is assessed by considering the balance between assumed risks, both Pillar I and Pillar II, and the available capital. With respect to Pillar II, the relevant metric is the Risk Taking Capacity, which is the ratio of available capital (Available Financial Resources - AFR) to Internal Capital.

### Risk Appetite
The main elements of the internal process for determining capital adequacy include the setting and monitoring of the risk appetite. The risk appetite is defined as the level of risk that the Bank is willing to accept for the pursuit of its strategic objectives and business plan, taking into account the interests of its customers and shareholders, capital requirements and other requirements.
The main objectives of the risk appetite are:
- explicitly assessing the risks, and their interconnections at local and Group level, that the Bank decides to assume (or avoid) in a long-term perspective;
- specifying the types of risk that the Bank intends to assume, setting targets, triggers and limits under both normal operating and stress conditions;
- ensuring a risk-return profile "ex-ante" consistent with sustainable long-term growth, as defined by the return forecasts of the strategic plan/ budget;
- ensuring that the business developed within the limits of risk tolerance established by the Board of Directors, in accordance with the applicable national and international regulations;
- supporting discussions on future policy options with regard to the risk profile;
- guiding the vision of internal and external stakeholders towards a risk profile consistent with the strategic plan;
- providing 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 Bank's business model and local and Group ICAAP. For this reason, the Risk Appetite is incorporated in the budget process.

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

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

For each of the above mentioned factors, one or more KPIs are identified, in order to quantitatively measure the Bank's positioning under several respects: absolute values, ratio between comparable measures, sensitivity analysis on defined parameters.

The Targets represent the amount of risk that the Bank is willing to take in normal operating conditions in line with its Ambitions. The Targets should be considered as reference thresholds for business development. Triggers are the maximum acceptable deviation from the targets; they are defined to ensure operations under stress within the maximum acceptable level of risk.
Limits are the maximum level of risk that the Bank accepts to assume.
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 regulatory requirements and of the supervisory bodies and considering the consistency with the Group risk appetite.
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.

# Part F - Consolidated shareholders' equity

# Part F - Consolidated shareholders' equity

## Section 1 - Consolidated Shareholders' equity

### A. QUALITATIVE INFORMATION

The Bank has made a priority of capital management and allocation on the basis of the risk assumed in order to expand its operations and create value. These activities involve the various planning and control stages and, specifically, the planning, budgeting and monitoring processes (analysis of expected and actual performance, analysis and monitoring of limits, performance analysis and monitoring of capital ratios). These activities are also planned in relation to the subsidiary Fineco AM Limited, once it has commenced operations.
Capital and its allocation are therefore extremely important in defining strategies, since on the one hand it represents the shareholders' investment in the Bank which must be adequately remunerated, on the other hand it is a scarce resource on which there are external limitations imposed by regulatory provisions.
Capital is managed dynamically: the Bank prepares the financial plan, monitors capital requirements for regulatory purposes and anticipates the appropriate steps required to achieve goals.
Monitoring refers, on one hand, to both shareholders' equity and the composition of own funds and, on the other hand, to the planning and performance of risk-weighted assets (RWA).

### B. QUANTITATIVE INFORMATION

**B.1 Consolidated Shareholders' equity: breakdown by company type**

(Amounts in € thousand)

| EQUITY ITEMS | BANKING GROUP | INSURANCE COMPANIES | OTHER COMPANIES | ELIMINATIONS AND ADJUSTMENTS FROM CONSOLIDATION | TOTAL |
|---|---|---|---|---|---|
| Share capital | 200,545 | - | - | - | 200,545 |
| Share premium reserve | 1,934 | - | - | - | 1,934 |
| Reserves | 323,932 | - | - | - | 323,932 |
| Equity instruments | - | - | - | - | - |
| (Treasury shares) | (365) | - | - | - | (365) |
| Revaluation reserves | (8,340) | - | - | - | (8,340) |
| - Available-for-sale financial assets | 1,472 | - | - | - | 1,472 |
| - Property, plant and equipment | - | - | - | - | - |
| - Intangible assets | - | - | - | - | - |
| - Hedging instruments of foreign investments | - | - | - | - | - |
| - Cash flow hedges | - | - | - | - | - |
| - Exchange differences | - | - | - | - | - |
| - Non-current assets classified as held for sale | - | - | - | - | - |
| - Actuarial gains (losses) on defined benefit plansi | (9,812) | - | - | - | (9,812) |
| - Revaluation reserves for associates carried at equity | - | - | - | - | - |
| - Special revaluation laws | - | - | - | - | - |
| Net profit (loss) for the year (+/-) of the group and minorities | 214,120 | - | - | - | 214,120 |
| **Shareholders' equity** | **731,826** | **-** | **-** | **-** | **731,826** |

**B.2 Revaluation reserves for available-for-sale financial assets: breakdown**

(Amounts in € thousand)

| | BANKING GROUP | | INSURANCE COMPANIES | | OTHER COMPANIES | | ELIMINATIONS AND ADJUSTMENTS FROM CONSOLIDATION | | TOTAL | |
|---|---|---|---|---|---|---|---|---|---|---|
| ASSET/AMOUNT | POSITIVE RESERVE | NEGATIVE RESERVE | POSITIVE RESERVE | NEGATIVE RESERVE | POSITIVE RESERVE | NEGATIVE RESERVE | POSITIVE RESERVE | NEGATIVE RESERVE | POSITIVE RESERVE | NEGATIVE RESERVE |
| 1. Debt securities | 10,529 | (10,216) | - | - | - | - | - | - | 10,529 | (10,216) |
| 2. Equity instruments | 1,159 | - | - | - | - | - | - | - | 1,159 | - |
| 3. Units in investment funds. | - | - | - | - | - | - | - | - | - | - |
| 4. Loans | - | - | - | - | - | - | - | - | - | - |
| **Total 12.31.2016** | **11,688** | **(10,216)** | **-** | **-** | **-** | **-** | **-** | **-** | **11,688** | **(10,216)** |
| **Total 12.31.2017** | **12,292** | **(12,747)** | **-** | **-** | **-** | **-** | **-** | **-** | **12,292** | **(12,747)** |

### B.3 Revaluation reserves for available-for-sale financial assets: annual changes

(Amounts in € thousand)

| | DEBT SECURITIES | EQUITY INSTRUMENTS | UNITS IN INVESTMENT FUNDS | LOANS |
|---|---|---|---|---|
| **1. Opening balance** | **(707)** | **252** | **-** | **-** |
| **2. Increases** | **4,628** | **907** | **-** | **-** |
| 2.1 Fair value increases | 2,327 | 907 | - | - |
| 2.2 Reclassification through profit or loss of negative reserves | - | - | - | - |
| *- from impairment* | - | - | - | - |
| *- from disposal* | - | - | - | - |
| 2.3 Other increases | 2,301 | - | - | - |
| **3. Decreases** | **(3,608)** | **-** | **-** | **-** |
| 3.1 Fair value reductions | (332) | - | - | - |
| 3.2 Impairment losses | - | - | - | - |
| 3.3 Reclassification through profit or loss of positive reserves: from disposal | (1,574) | - | - | - |
| 3.4 Other changes | (1,702) | - | - | - |
| **4. Closing balances** | **313** | **1,159** | **-** | **-** |

### B.4 Revaluation reserves on defined benefit obligations: annual changes

(Amounts in € thousand)

| | ACTUARIAL GAINS (LOSSES) ON DEFINED BENEFITS PLANS |
|---|---|
| **1. Opening balance** | **(6,339)** |
| **2. Increases** | **-** |
| 2.1 Fair value increases | - |
| 2.2 Other Changes | - |
| **3. Decreases** | **(3,473)** |
| 3.1 Fair value reductions | (3,473) |
| 3.2 Other Changes | - |
| **4. Closing balances** | **(9,812)** |

## Section 2 - Own funds and banking regulatory ratios

FinecoBank is not obliged to report on own funds and consolidated regulatory ratios because it is part of the UniCredit Group. Therefore, please see Part F of the Notes to the corporate Accounts.

## Section 3 - Regulatory capital and insurance ratios

No information to report.

# Part G - Business combinations

## Section 1 - Business combinations completed during the year

No information to report.

## SECTION 2 - Business combinations completed after year-end

No information to report.

## SECTION 3 - Retrospective adjustments

No information to report.

# Part H - Related-party transactions

# Part H - Related-party transactions

Information on the fees paid to key management personnel and on related-party transactions, pursuant to IAS 24 is shown below

## 1. Details of compensation for key management personnel

Key management personnel are persons having authority and responsibility for planning, directing, and controlling the Companies' activities, directly or indirectly. This category includes Board members and members of the Board of Statutory Auditors, pursuant to requirements of the Bank of Italy Circular no. 262 of December 22, 2005 as amended and updated, as well as the Chief Executive Officer and General Manager, the Deputy General Manager/ GBS Manager, the Chief Financial Officer, the PFA Network Commercial Manager, the Deputy General Manager/Direct Bank Manager and the Investment & Wealth Management Services Manager.

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Fees paid to "Key Management Personnel", Directors and the Board of Statutory Auditors | | |
| a) short-term benefits | 5,470 | 5,231 |
| b) post-employment benefits | 213 | 218 |
| *of which under defined benefit plans* | - | - |
| *of which under defined contribution plans* | *213* | *218* |
| c) other long-term employee benefits | - | - |
| d) termination benefits | - | - |
| e) share-based payments | 2,479 | 3,082 |
| **TOTAL** | **8,162** | **8,531** |

## 2. Related-party transactions

In order to ensure continued compliance with applicable legal and regulatory provisions on corporate disclosure on transactions with related parties, during the Board of Directors' Meeting of June 6, 2017 and with the prior positive opinion of the Risk and Related Parties Committee and the Board of Statutory Auditors, the Bank approved the current *"Procedures for the management of transactions with persons in conflict of interest"*.
The aforementioned procedures include the provisions to be complied with when managing:

- Related-Party transactions pursuant to the Consob Regulation adopted by resolution 17221 of March 12, 2010 as amended by resolution 17389 of June 23, 2010;
- Transactions with Associated Persons pursuant to the regulations on *"Risk activities and conflicts of interest with Associated Persons"*, laid down by Bank of Italy Circular 263/2006, Title V, Chapter 5 (*"New regulations for the prudential supervision of banks"*, as amended);
- obligations of Bank Officers pursuant to Article 136 of Legislative Decree 385 of September 1, 1993, *"Consolidated Law on Banking"*.

Given that the Bank belongs to the UniCredit Group, the aforementioned Procedures are also based on the *"UniCredit Global Policy for the management of transactions with persons in conflict of interest"* and the relevant *"Global Operational Instructions"* issued by UniCredit to subsidiaries as part of its management and co-ordination.
Considering the above, the following transactions approved during 2017 are recorded:

1. on February 7th, 2017 the Board of Directors, upon recommendation by the Audit and Related Parties Committee, approved the renewal of the *"Framework Resolution related to the entering into of hedging derivative contracts with the Parent Company or companies in the UniCredit Group"*, an ordinary Significant Transaction at market conditions with validity up until February 7th, 2018, which enables the Bank to enter into hedging derivatives with the Parent Company and with UniCredit Bank AG for commercial assets or liabilities that, for ALM purposes, require interest rate hedging for a ceiling of €1,000 million with the Parent Company and €1,300 million with UniCredit Bank AG. the aforementioned ceilings include the total of underwriting transactions and any early closure transactions;

2. the Board of Directors' meeting of May 9, 2017, upon recommendation by the Risk and Related Parties Committee, approved an ordinary Significant Transaction at market conditions, consisting of the renewal of the *"Framework Agreement - Repurchase Agreements and Term Deposits with the Parent Company"*, (expiring May 9, 2018), concerning (i) Repurchase Agreements with the Parent Company for a maximum amount of €6.2 billion, calculated as the sum of the individual transactions in absolute value (either repos or reverse repos) and (ii) Term deposits with the Parent Company for an amount of €8.5 billion, calculated as the sum of the individual transactions in absolute value; these amounts were set also to cover transactions with the Parent Company that may be carried out in execution of the "liquidity framework agreement" renewed by resolution of the Board of Directors;

3. on 6 June 2017, the Board of Directors, subject to the positive opinion of the Risk and Related Parties Committee, approved the early renewal of the *"Framework Agreement for the transactions on current accounts held with UniCredit"*, an ordinary Significant transaction under market conditions with validity up to June 6, 2018 that will enable the Bank to manage its liquidity in euro and in foreign currencies through specific current accounts already held with UniCredit S.p.A. for an amount of less than €1,000 million understood as a single transaction (single payment and single withdrawal);

4. on July 4, 2017, the Board of Directors - with the favourable opinion of the Risk and Related Parties Committee - resolved on the renewal of the *"Framework Resolution - Trading of financial instruments with related-party institutional counterparties"*, an ordinary Significant Transaction at market conditions valid up to July 3, 2018, which enables the Bank to carry out trading in derivatives with related-party institutional counterparties, up to a maximum permitted limit of: (i) €1 billion with UniCredit Bank AG and (ii) €500 million with Mediobanca S.p.A.;

5. on September 19, 2017 the Board of Directors, subject to the positive opinion of the Risk and Related Parties Committee, approved the renewal of the *"Framework resolution - Stock lending activity with institutional clients"*, an ordinary Significant Transaction under market conditions (valid up to September 18, 2018) that enables the Bank to enter into stock lending transactions with institutional counterparties related parties, with a ceiling of: (i) €500 million with UniCredit Bank AG and (ii) €200 million with Mediobanca S.p.A.;

6. on November 7, 2017 the Board of Directors, subject to the positive opinion of the Risk and Related Parties Committee, approved the renewal of the *"Framework resolution - Liquidity investment with the Parent Company" (formerly "Short/medium-term liquidity investment with the Parent Company"*, passed on December 6, 2016 and expiring on December 6, 2017), an ordinary Significant Transaction under market conditions (valid up to November 7, 2018) that has as its object the subscription of UniCredit bonds with an estimated ceiling of €2.7 billion, estimated based on the amount of bonds maturing the following year and the possibility of buying and selling bonds of the Parent connected to the introduction of new accounting standard IFRS9;

7. finally, on December 5, 2017, the Board of Directors - with the favourable opinion of the Risk and Related Parties Committee - approved the signature of a new life insurance brokerage contract between FinecoBank S.p.A. and Aviva S.p.A. (related party), to replace the agreement originally signed in 2002 by UniCredit Xelion Banca S.p.A., which was replaced by FinecoBank S.p.A. as a result of the merger. The projected figures as at December 31, 2017 (€13.4 million net to be recognised to the Bank) meant that the transaction was categorised as a "Significant Transaction". The transaction is an "ordinary Significant Transaction at market conditions".

In relation to the above transactions, the Bank provided a simplified disclosure to CONSOB pursuant to Art. 13, paragraph 3, letter c) of CONSOB Regulation 17221/2010.

In the year ended December 31, 2017, no other transactions were undertaken with related parties that could significantly affect the Bank's asset situation and results, or atypical and/or unusual transactions, including intercompany and related party transactions.
Minor transactions were also carried out with the Parent Company, other Group Companies and/or with related parties in general, both Italian and foreign, within the ordinary course of business and related financial activities of the Bank, at market or standard conditions.

Lastly, with regard to transactions of significant financial and economic relevance, during 2012, the Bank issued 5 bank guarantees in favour of the Italian Revenue Agency upon (guaranteed) request by UniCredit, with indefinite duration (specifically, valid until the Italian Revenue Agency issues a declaration of receipt of the payment by UniCredit at the end of the collection process, in the event of an unfavourable outcome for UniCredit, or until a ruling is issued in favour of the Bank by means of final judgement), for a total amount of €256 million, plus interest accrued and accruing until request for payment from the Italian Revenue Agency. The bank guarantees were issued to secure the obligations assumed by UniCredit in relation to five VAT refund suspension orders issued by the Italian Revenue Agency, and entail the assumption by the Bank of an irrevocable payment commitment on demand, within 30 days and without any exceptions. In 2013, following the settlement of an overall assessment notice issued by the Regional Department of Liguria, for €4.5 million, replaced by another assessment notice issued by the same Department up to the amount settled, a guarantee already issued by the Bank was replaced, with amounts unchanged; this transaction did not change the commitments undertaken according to the forms, procedures and risks already assessed during 2012, which remained unchanged.

# Part H - Related-Party Transactions (Continued)

The following statement shows the outstanding assets, liabilities, guarantees and commitments as at December 31, 2017, for each group of related parties pursuant to IAS 24:

(Amounts in € thousand)

| | AMOUNTS AS AT DECEMBER 31, 2017 | | | |
|---|---|---|---|---|
| | DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL | OTHER RELATED PARTIES | TOTAL | % OF CARRYING AMOUNT |
| Financial assets held for trading | - | 30 | 30 | 0.28% |
| Loans and receivables with banks | - | 2 | 2 | 0.00% |
| Loans and receivables with customers | 16 | 9,373 | 9,389 | 0.44% |
| **Total assets** | **16** | **9,405** | **9,421** | **0.04%** |
| Deposits from banks | - | 637 | 637 | 0.07% |
| Deposits from customers | 1,389 | 38,383 | 39,772 | 0.20% |
| Other liabilities | 148 | 36 | 184 | 0.05% |
| **Total liabilities** | **1,537** | **39,056** | **40,593** | **0.18%** |
| **Guarantees given and commitments** | **-** | **-** | **-** | **-** |

The following table sets out the impact of transactions with related parties on the main Consolidated Income Statement items, for each group of related parties.

(Amounts in € thousand)

| | INCOME STATEMENT AS AT DECEMBER 31, 2017 | | | |
|---|---|---|---|---|
| | DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL | OTHER RELATED PARTIES | TOTAL | % OF CARRYING AMOUNT |
| Interest income and similar revenues | - | 14 | 14 | 0.01% |
| Fee and commission income | 4 | 35,037 | 35,041 | 6.57% |
| Fee and commission expense | - | (354) | (354) | 0.13% |
| Gains (losses) on financial assets and liabilities held for trading | - | (6) | (6) | -0.01% |
| Other administrative expenses | - | (148) | (148) | 0.06% |
| Other net operating income | 29 | 7 | 36 | 0.04% |
| **Total income statement** | **33** | **34,550** | **34,583** | |

With regard to the category "Directors, Board of Statutory Auditors and Key Management Personnel", in application of the special regulations laid down in Article 136 of Legislative Decree 385/93 (Consolidated Law on Banking), the obligations established for persons that perform administrative, management and control functions pursuant to those regulations were unanimously approved by a resolution of the Board of Directors with the favourable vote of all members of the Board of Statutory Auditors, in accordance with Article 136 of said Consolidated Law on Banking.
The category *"Directors, Board of Statutory Auditors and Key Management Personnel"* includes their dealings with the Bank (excluding their fees, which are discussed in point 1. Details of compensation for key management personnel) and the Parent Company UniCredit, mainly concerning assets for credit card use, liabilities for funds held by them with the Bank and costs and revenues generated from the aforesaid assets and liabilities.

The "other related parties" category includes:
- close family members of key management personnel (i.e., relatives who could be expected to influence, or be influenced by the party involved);
- companies controlled (or jointly controlled) by, or associated with, "key management personnel" or their close family members;
- associates, and their subsidiaries, of the Parent Company UniCredit;
- shareholders, and their subsidiaries, of the Parent Company UniCredit.

Transactions with "Other related parties", mainly refer to:
- assets for credit card use and liabilities for funds held with the Bank or securities lending transactions guaranteed by sums of money;
- assets for current receivables associated with the provision of financial services, mainly referring to fees for the placement of asset management and insurance products;
- costs and revenues generated from the above assets and liabilities, mainly referring to subscription and management fee and commission income related to the placement of asset management and insurance products and insurance premiums.

Amounts as at December 31, 2017 and the income components accrued in 2017 relating to the Parent Company UniCredit and the UniCredit group companies are not included, as they are presented further below.

### Transactions with the parent company and other unicredit group companies

(Amounts in € thousand)

| TOTAL TRANSACTIONS WITH UNICREDIT GROUP COMPANIES | 12.31.2017 | % OF CARRYING AMOUNT |
|---|---|---|
| **Assets** | **13,839,346** | **61.95%** |
| Loans and receivables with banks | 13,834,737 | 99.69% |
| Loans and receivables with customers | 15 | 0.00% |
| Other assets | 4,594 | 1.46% |
| **Liabilities** | **838,467** | **3.75%** |
| Deposits from banks | 824,135 | 89.00% |
| Hedging derivative liabilities | 9,320 | 73.42% |
| Other liabilities | 5,012 | 1.48% |
| **Guarantees and commitments** | **2,381,070** | **92.24%** |
| Guarantees issued and commitments | 2,381,070 | 92.24% |
| **Income Statement** | **240,120** | |
| Interest income and similar revenues | 196,380 | 72.80% |
| Interest expenses and similar charges | 2,771 | -53.65% |
| Fee and commission income | 62,658 | 11.75% |
| Fee and commission expense | (6,527) | 2.48% |
| Fair value adjustments in hedge accounting | (5,951) | n.c. |
| Gains (losses) from disposal or repurchase | 3,951 | 83.85% |
| Administrative costs | (13,336) | 4.12% |
| Other net operating income | 174 | 0.19% |

The following table summarises transactions with UniCredit group companies as at December 31, 2017. With reference to relations with Pioneer Investment Management SGR S.p.A. and Pioneer Asset Management SA Luxemburg, it should be noted that only the income statement figures accrued up to the companies' exit from the UniCredit Group have been indicated.

(Amounts in € thousand)

| COMPANY | ASSETS | LIABILITIES | GUARANTEES AND COMMITMENTS | INCOME STATEMENT |
|---|---|---|---|---|
| UniCredit S.p.A. | 13,838,693 | 797,362 | 2,381,070 | 187,589 |
| UniCredit Bank AG | 56 | 40,348 | - | 463 |
| UniCredit Bank AG, Milan | - | - | - | 237 |
| UniCredit Factoring S.p.A. | - | - | - | 10 |
| UniCredit Leasing S.p.A. | - | - | - | 3 |
| UniCredit Luxemburg Finance SA | 10 | - | - | 55 |
| UniCredit Business Integrated Solutions S.C.p.A. | 572 | 740 | - | (9,882) |
| Pioneer Investment Management SGR S.p.A. | - | - | - | 4,480 |
| Cordusio Società Fiduciaria per Azioni | 15 | 17 | - | (1) |
| Pioneer Asset Management SA Luxemburg | - | - | - | 57,166 |
| **Total** | **13,839,346** | **838,467** | **2,381,070** | **240,120** |

# Part H - Related-Party Transactions (Continued)

The following tables contain a breakdown of the items relating to Assets, Liabilities, Guarantees and Commitments, Costs and Revenue for each individual Group company.

## Transactions with parent companies

(Amounts in € thousand)

| TRANSACTIONS WITH UNICREDIT S.P.A. | TOTAL 12.31.2017 |
|---|---|
| **Assets** | **13,838,693** |
| Loans and receivables with banks | 13,834,695 |
| Other assets | 3,998 |
| **Liabilities** | **797,362** |
| Deposits from banks | 783,786 |
| Hedging derivative liabilities | 9,320 |
| Other liabilities | 4,256 |
| **Guarantees** | **256,070** |
| Guarantees given | 256,070 |
| **Commitments** | **2,125,000** |
| Commitments to lend funds | 2,125,000 |
| **Income Statement** | **187,589** |
| Interest income and similar revenues | 198,880 |
| Interest expenses and similar charges | 2,754 |
| Fee and commission income | 236 |
| Fee and commission expense | (6,487) |
| Fair value adjustments in hedge accounting | (8,493) |
| Gains (losses) from disposal or repurchase | 3,951 |
| Administrative costs | (3,271) |
| Other net operating income | 19 |

## Transactions with companies controlled by UniCredit S.p.A

(Amounts in € thousand)

| TRANSACTIONS WITH UNICREDIT BANK AG | TOTAL 12.31.2017 |
|---|---|
| **Assets** | **56** |
| Loans and receivables with banks | 42 |
| Other assets | 14 |
| **Liabilities** | **40,348** |
| Deposits from banks | 40,348 |
| **Income Statement** | **463** |
| Interest income and similar revenues | 99 |
| Interest expenses and similar charges | 17 |
| Fee and commission income | 357 |
| Fee and commission expense | (10) |

(Amounts in € thousand)

| TRANSACTIONS WITH UNICREDIT BANK AG, MILAN | TOTAL 12.31.2017 |
|---|---|
| **Income Statement** | **237** |
| Interest income and similar revenues | (2,599) |
| Fee and commission income | 333 |
| Fair value adjustments in hedge accounting | 2,542 |
| Administrative costs | (39) |

(Amounts in € thousand)

| TRANSACTIONS WITH UNICREDIT LEASING S.P.A. | TOTAL 12.31.2017 |
|---|---|
| **Income Statement** | **3** |
| Administrative costs | 3 |

(Amounts in € thousand)

| TRANSACTIONS WITH UNICREDIT FACTORING S.P.A. | TOTAL 12.31.2017 |
|---|---|
| **Income Statement** | **10** |
| Administrative costs | 10 |

(Amounts in € thousand)

| TRANSACTIONS WITH UNICREDIT LUXEMBOURG FINANCE SA | TOTAL 12.31.2017 |
|---|---|
| **Assets** | **10** |
| Other assets | 10 |
| **Income Statement** | **55** |
| Fee and commission income | 55 |

(Amounts in € thousand)

| TRANSACTIONS WITH UNICREDIT BUSINESS INTEGRATED SOLUTIONS S.C.P.A. | TOTAL 12.31.2017 |
|---|---|
| **Assets** | **572** |
| Other assets | 572 |
| **Liabilities** | **740** |
| Other liabilities | 740 |
| **Income Statement** | **(9,882)** |
| Fee and commission income | 2 |
| Administrative costs | (10,039) |
| Other net operating income | 155 |

(Amounts in € thousand)

| TRANSACTIONS WITH PIONEER INVESTMENT MANAGEMENT SGR S.P.A. | TOTAL 12.31.2017 |
|---|---|
| **Income Statement** | **4,480** |
| Fee and commission income | 4,480 |

(Amounts in € thousand)

| TRANSACTIONS WITH CORDUSIO SOCIETÀ FIDUCIARIA PER AZIONI | TOTAL 12.31.2017 |
|---|---|
| **Assets** | **15** |
| Loans and receivables with customers | 15 |
| **Liabilities** | **17** |
| Other liabilities | 17 |
| **Income Statement** | **(1)** |
| Fee and commission income | 29 |
| Fee and commission expense | (30) |

(Amounts in € thousand)

| TRANSACTIONS WITH PIONEER ASSET MANAGEMENT SA LUXEMBOURG | TOTAL 12.31.2017 |
|---|---|
| **Income Statement** | **57,166** |
| Fee and commission income | 57,166 |

# Part I - Share-based payments

# Part I - Share-based payments

**A. QUALITATIVE INFORMATION**

## 1. Description of share-based payments

### 1.1 Outstanding instruments

The Medium & Long Term Incentive Plans for employees and financial advisors of the Bank include the following types of instruments:
- Equity-Settled Share Based Payments that involve payments settled with shares of the parent UniCredit S.p.A. and of the Bank;
- Cash Settled Share Based Payments that involve payments made in cash[22].

The above categories refer to the allocation of the following instruments:
- **Stock Options** allocated to selected Top & Senior Managers and Key Talents and consisting of rights to subscribe UniCredit shares;
- **Group Executive Incentive Systems** that offers eligible Group Executives a variable remuneration for which payment will be made within a maximum of five years. The beneficiaries receive a payment in cash and/or UniCredit shares, in relation to the achievement of performance conditions (other than marked conditions) stated in the Plan Rules;
- **Group Executive Incentive System (Bonus Pool)**, offering selected Executives and relevant personnel identified on the basis of regulatory requirements, a bonus structure consisting of immediate payments (following performance evaluation) and deferred payments in cash and ordinary UniCredit or FinecoBank shares, over a maximum period of 6 years. This payment structure ensures that bonuses are aligned to shareholders' interests and is subject to malus clauses (which apply in the event that specific profitability, liquidity and capital thresholds are not met at Group and/or at Country/Division level) and clawback clauses (to the extent they are legally applicable) in accordance with the plan rules (both represent vesting conditions other than market conditions);
- **Employee Share Ownership Plan (ESOP - Let's Share)**, which offers eligible Bank employees the possibility to buy UniCredit ordinary shares with the advantage of involving the granting of free ordinary shares ("Free Shares" or rights to receive them) measured on the basis of the shares purchased by each Participant ("Investment Share") during the "Enrolment Period". The granting of free ordinary shares is subordinated to vesting conditions stated in the Plan Rules;
- **Stock granting for employees** that grants the free allocation of FinecoBank shares to beneficiaries belonging to the category of Key management personnel (*"2014-2017 Multi-year Plan Top Management"*). Shares will be allocated to the beneficiaries in 4 yearly tranches starting from 2017. The plan is subject to access conditions (profitability and capital thresholds) and clawback clauses (as legally applicable) in accordance with its rules;
- **Stock granting for personal financial advisors** offering the allocation of free shares of FinecoBank to the network's personal financial advisors, subject to the achievement by the Bank's entire PFA network of a set net sales target for the year 2014 (*"2014 PFA Plan"*) and for the three-year period 2015-2017 (*"2015-2017 PFA Plan"*). The shares will be allocated to the respective beneficiaries in 3 annual instalments from 2015, under the *"2014 PFA Plan"* and from 2018 under the *"2015-2017 PFA Plan"*. The plans are subject to access conditions (profitability and capital thresholds) and clawback clauses (as legally applicable) in accordance with the plan rules;
- **Group Incentive System 2015 PFA**, offering selected financial advisors, identified as key personnel in accordance with regulatory requirements, an incentive system consisting of immediate cash payments (following performance evaluation) and deferred payments and the allocation of Phantom Shares, over a period of 5 years. This payment structure ensures that bonuses are aligned to shareholders' interests and is subject to malus clauses (which apply in the event that specific profitability, liquidity and capital thresholds are not met at Group and/or at Country/Division level) and clawback clauses (to the extent they are legally applicable) in accordance with the plan rules (both vesting conditions other than market conditions);
- **PFA Systems**, offering selected financial advisors, identified as key personnel in accordance with regulatory requirements, incentive systems consisting of immediate cash payments (following performance evaluation) and deferred payments, in cash and FinecoBank ordinary shares, over a period of 5 years. This payment structure ensures that bonuses are aligned to shareholders' interests and is subject to malus clauses (which apply in the event that specific profitability, liquidity and capital thresholds are not met at Group and/or FinecoBank level) and clawback clauses (to the extent they are legally applicable) in accordance with the plan rules (both vesting conditions other than market conditions).

Shares for employee incentive plans envisaging the allocation of FinecoBank shares will be issued through free capital increases in accordance with Article 2349 of the Italian Civil Code.
The financial instruments for incentive plans for the Bank's financial advisors involving the allocation of FinecoBank shares will be obtained through market purchases in implementation of the authorisation of the Bank Shareholders' Meeting pursuant to Article 2357 of the Italian Civil Code and of the Supervisory Authority.

It should also be noted that, in line with the provisions of amendment VII to the Circular 285 of the Bank of Italy of November 19, 2014 (Remuneration and bonus policies and practices), a specific policy ("Severance") was approved by the Shareholders' Meeting in 2017, updating the original document approved in 2015. When severance payments are made to Key Personnel, they may be subject to deferred payment mechanisms, in cash and shares, for the portion exceeding the indemnity in lieu of statutory notice and/or notice required under a collective agreement, similarly to the management of the variable compensation of this category of employees, in line with the regulations in force from time to time. As at December 31, 2017, no severance had been paid to Key Personnel.

22. Commensurate to the economic value of FinecoBank S.p.A.'s equity instruments.

## 1.2 Measurement model

### *1.2.1 Stock Options*

The Hull and White Evaluation Model has been adopted to measure the economic value of Stock Options.
This model is based on a trinomial tree price distribution using the Boyle's algorithm and estimates the early exercise probability on the basis of a deterministic model connected to:

- reaching a Market Share Value equal to an exercise price-multiple (M);
- probability of beneficiaries' early exit (E) after the end of the Vesting Period.

The income statement and balance sheet effects are recognised during the vesting period of the instruments.
No new Stock Option Plans were granted in 2017.

### *1.2.2 Group Executive Incentive System*

The amount of the incentive is determined on the basis of the achievement of quantitative and qualitative goals stated by the plan. In particular, the overall evaluation is expressed as a percentage, from a minimum of 0% to a maximum of 150% (non market vesting conditions). This percentage, adjusted by the application of a risk/opportunity factor - Group Gate - at first payment and multiplied by the incentive, determines the actual amount that will be paid to the beneficiary.
The balance-sheet and income statement effects are spread according to the term of the Plans.

#### *1.2.2.1 Group Executive Incentive System (Bonus Pool)*

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.
The plan is divided into clusters, each of which may include two to three deferred share-based payment instalments according to the period defined by the plan rules.
The profit and loss and net equity effects are recognised on the basis of the instruments' vesting period.

#### *1.2.2.2 Group Executive Incentive System 2016 (Bonus Pool)*

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.
The plan is divided into three deferred share-based payment instalments according to the period defined by the plan rules.

| | FINECOBANK SHARES GRANTED | | | |
|---|---|---|---|---|
| | GROUP EXECUTIVE INCENTIVE SYSTEM 2016 (BONUS POOL) | | | |
| | 2019 INSTALMENT | 2020 INSTALMENT | 2021 INSTALMENT | 2022 INSTALMENT |
| Bonus Opportunity Economic Value Grant Date | 12-Jan-16 | 12-Jan-16 | 12-Jan-16 | 12-Jan-16 |
| Number of Shares - Date of Board resolution | 07-Feb-17 | 07-Feb-17 | 07-Feb-17 | 07-Feb-17 |
| Vesting Period Start Date | 01-Jan-16 | 01-Jan-16 | 01-Jan-16 | 01-Jan-16 |
| Vesting Period End Date | 31-Dec-16 | 31-Dec-18 | 31-Dec-19 | 31-Dec-20 |
| FinecoBank Share Market Price [€] | 5.53 | 5.53 | 5.53 | 5.53 |
| Average Economic Value of Vesting conditions [€] | -0.539 | -0.819 | -1.116 | -1.692 |
| Performance Shares value per share at Grant Date [€] | 4.991 | 4.711 | 4.414 | 3.838 |

The plan was allocated in 2016 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

#### *1.2.2.3 Group Executive Incentive System 2017 (Bonus Pool)*

The new 2017 incentive system is based on a bonus pool approach, in line with regulatory requirements and market practices; this approach sets out:

- the system's sustainability, by linking it directly to business results and aligning it to relevant risk categories through specific indicators that reflect the risk appetite framework;
- the link between the bonus and the organisational structure, the bonus pool being defined at Bank level and further reviewed at Group level;
- the allocation of bonuses to beneficiaries identified as Executives and other key personnel on the basis of criteria laid down in the Regulation of the European Banking Authority (EBA), and to other specific roles, based on local regulatory requirements;
- a structure of payments spread over a period of up to 6 years and consisting of a mix of cash and shares, aligned with the latest regulatory requirements as set out in Directive 2013/36/EU (CRD IV).

The plan was assigned during the current year and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

### *1.2.3 Employee Share Ownership Plan (Let's Share Plan 2017)*

The following table shows the parameters used in relation to free shares (or rights to receive them) connected to the "Employee Share Ownership Plan" approved in 2016.

# Part I - Share-based payments (Continued)

**Measurement of Free Shares ESOP 2017**

| | FREE SHARES |
|---|---|
| Grant Date for Free Shares to employees | 31-Jul-17 |
| Vesting Period Start Date | 31-Jul-17 |
| Vesting Period End Date | 31-Jul-18 |
| *Free Shares Fair Value per unit [€]* | 17.00 |

All income statement and balance sheet effects related to free shares are booked during the vesting period (except adjustments, according to Plan Rules, that will be booked during the next closing after vesting period).
Let's Share for 2017 is a involving the use of the shares to be procured on the market. To this end, Participants delegate a broker to purchase the shares to be deposited on an account opened in their name.

### *1.2.4 Stock granting for employees*

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.

#### *1.2.4.1 2014 - 2017 Multi-year - Top management Plan*

The plan offers the allocation of free shares of FinecoBank to beneficiaries belonging to the Top Management with strategic responsibilities. The shares will be allocated to the respective beneficiaries, once the vesting period has elapsed and satisfaction of the conditions has been verified, in 4 annual tranches, starting in 2017.

| | SHARES GRANTED | | | |
|---|---|---|---|---|
| | TOP MANAGEMENT | | | |
| | FIRST INSTALMENT 2017 | SECOND INSTALMENT 2018 | THIRD INSTALMENT 2019 | FOURTH INSTALMENT 2020 |
| Bonus Opportunity Economic Value - (Grant Date) | 02-Jul-14 | 02-Jul-14 | 02-Jul-14 | 02-Jul-14 |
| Number of Shares - Date of Board resolution | 15-Jul-14 | 09-Feb-15 | 08-Feb-16 | 07-Feb-17 |
| Vesting Period Start Date | 02-Jul-14 | 02-Jul-14 | 02-Jul-14 | 02-Jul-14 |
| Vesting Period End Date | 31-Dec-16 | 31-Dec-17 | 31-Dec-18 | 31-Dec-19 |
| FinecoBank Share Market Price [€] | 3.700 | 4.725 | 6.966 | 5.53 |
| Average Economic Value of Vesting conditions [€] | -0.269 | -0.590 | -0.797 | -0.826 |
| Performance Shares value per share at Grant Date [€] | 3.431 | 4.135 | 6.169 | 4.704 |

The plan was allocated in 2014 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

### *1.2.5 Stock granting for PFAs*

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.

#### *1.2.5.1 2014 PFA Plan*

The amount of the incentive was determined on the basis of the achievement of the goals stated by the plan, subject to the Bank's entire PFA network meeting their net sales targets in 2014.
The plan helps align the interests of beneficiaries, shareholders and other stakeholders and implement effective remuneration practices, in accordance with the applicable legislative and regulatory framework. The plan is subject to verification that the conditions established by the plan rules are satisfied.
The plan was allocated in 2014 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.
On July 9, 2015, the Board of Directors resolved to settle the PFAs rights to the first tranche of the bonus in cash, instead of the allocation of FinecoBank ordinary shares, with a payment in cash corresponding to a third of the bonus consideration, made on July, 2015.

#### *1.2.5.2 2015 - 2017 PFA Plan*

The amount of the incentive will be determined on the basis of the achievement of the goals stated by the plan, subject to the Bank's entire financial advisors network meeting their cumulative net sales targets for the three-year period 2015-2017.
The plan helps align the interests of beneficiaries, shareholders and other stakeholders and implement effective remuneration practices, in accordance with the applicable legislative and regulatory framework. The plan is subject to verification that the conditions established by the plan rules are satisfied.
The plan was allocated in 2014 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

### *1.2.6 Group Incentive System 2015 PFA*

The amount of the incentive is determined on the basis of the achievement of the goals stated by the plan.
The balance-sheet and income statement effects are spread across the term of the Plan.
The economic value of the phantom shares allocated corresponds to the market price of the FinecoBank shares.
The plan was allocated in 2015 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

### *1.2.7 2016 PFA Incentive System*

The 2016 incentive system is based on a bonus pool approach, in line with regulatory requirements and market practices; this approach sets out:

- the system's sustainability, by linking it directly to business results and aligning it to relevant risk categories through specific indicators that reflect the risk appetite framework;
- the link between the bonus and the organisational structure, the bonus pool being defined at Bank level and further reviewed at Group level;
- the allocation of bonuses to beneficiaries identified as key personnel based on criteria laid down in the Regulation of the European Banking Authority (EBA), and to other specific roles, based on local regulatory requirements;
- a structure of payments spread over a period of up to 5 years and consisting of a mix of cash and shares, aligned with the latest regulatory requirements as set out in Directive 2013/36/EU (CRD IV).

The plan was assigned during the previous financial year and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

| | SHARES GRANTED | | |
|---|---|---|---|
| | 2016 PFA INCENTIVE SYSTEM | | |
| | 2019 INSTALMENT | 2020 INSTALMENT | 2021 INSTALMENT |
| Bonus Opportunity Economic Value Grant Date | 12-Jan-16 | 12-Jan-16 | 12-Jan-16 |
| Number of Shares - Date of Board resolution | 07-Feb-17 | 07-Feb-17 | 07-Feb-17 |
| Vesting Period Start Date | 01-Jan-16 | 01-Jan-16 | 01-Jan-16 |
| Vesting Period End Date | 31-Dec-16 | 31-Dec-18 | 31-Dec-19 |
| FinecoBank Share Market Price [€] | 5.53 | 5.53 | 5.53 |
| Average Economic Value of Vesting conditions [€] | -0.539 | -0.819 | -1.116 |
| Performance Shares value per share at Grant Date [€] | 4.991 | 4.711 | 4.414 |

### *1.2.8 2017 PFA Incentive System*

The new 2017 incentive system is based on a bonus pool approach, in line with regulatory requirements and market practices; this approach sets out:

- the system's sustainability, by linking it directly to business results and aligning it to relevant risk categories through specific indicators that reflect the risk appetite framework;
- the link between the bonus and the organisational structure, the bonus pool being defined at Bank level and further reviewed at Group level;
- the allocation of bonuses to beneficiaries identified as key personnel based on criteria laid down in the Regulation of the European Banking Authority (EBA), and to other specific roles, based on local regulatory requirements;
- a structure of payments spread over a period of up to 5 years and consisting of a mix of cash and shares, aligned with the latest regulatory requirements as set out in Directive 2013/36/EU (CRD IV).

The plan was assigned during the current year and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

# Part I - Share-based payments (Continued)

## B. QUANTITATIVE INFORMATION

### *1. Annual changes*

| ITEMS/NUMBER OF OPTIONS AND EXERCISE PRICE | BANKING GROUP | | | INSURANCE COMPANIES | | |
|---|---|---|---|---|---|---|
| | NUMBER OF OPTIONS | AVERAGE PRICES | AVERAGE MATURITY | NUMBER OF OPTIONS | AVERAGE PRICES | AVERAGE MATURITY |
| **A. Opening balance** | **2,937,685** | **-** | **nov-17** | **-** | **-** | |
| **B. Increases** | **632,553** | **-** | **X** | **-** | **-** | **X** |
| B.1 New issues | 632,553 | - | jan-20 | - | - | |
| B.2 Other increases | - | - | X | - | - | X |
| **C. Decreases** | **(1,598,253)** | **-** | **X** | **-** | **-** | **X** |
| C.1 Cancelled | (4,897) | - | X | - | - | X |
| C.2 Exercised | (1,593,356) | - | X | - | - | X |
| C.3 Expired | - | - | X | - | - | X |
| C.4 Other changes | - | - | X | - | - | X |
| **D. Closing balance** | **1,971,985** | **-** | **jan-19** | **-** | **-** | |
| **E. Vesting options at the end of the period** | **718,153** | **-** | **X** | **-** | **-** | **X** |

The number of shares specified in the above table only refers to plans for which the number of shares allotted to individual beneficiaries has already been defined. The average prices for the year have not been stated because only freely allocated shares were involved.

### *2. Other information*
### Effects on Profit and Loss
The income statement and balance-sheet effects of the incentive systems based on FinecoBank and UniCredit shares are shown below, except for the balance of the reserve related to equity-settled plans.
The consolidated income statement impact is determined each year based on the vesting period of the instruments.

**Financial statement presentation related to payments based on shares of FinecoBank and of the Parent Company UniCredit**

(Amounts in € thousand)

| | 12.31.2017 | | 12.31.2016 | |
|---|---|---|---|---|
| | TOTAL | VESTED PLANS | TOTAL | VESTED PLANS |
| Costs | 8,275 | | 10,573 | |
| *- connected to Equity Settled Plans* | *8,109* | | *10,623* | |
| *- connected to Cash Settled Plans* | *166* | | *(50)* | |
| Sums paid to UniCredit S.p.A. for vested plans | | 231 | | 1,653 |
| Payable due to UniCredit S.p.A. | 573 | | 757 | |
| Payable due to personal financial advisors for Cash Settled plans | 365 | | 199 | |

Please note that the charges relating to Equity Settled Plans were recognised as Administrative costs - Staff expenses with respect to the plans granted to employees and as Administrative costs or Fee and commission expense with regard to plans granted to personal financial advisors. Charges relating to Cash Settled Plans granted to financial advisors have been recognised as Fee and commission expense.

| OTHER COMPANIES | | | 12.31.2017 | | | 12.31.2016 | | |
|---|---|---|---|---|---|---|---|---|
| NUMBER OF OPTIONS | AVERAGE PRICES | AVERAGE MATURITY | NUMBER OF OPTIONS | AVERAGE PRICES | AVERAGE MATURITY | NUMBER OF OPTIONS | AVERAGE PRICES | AVERAGE MATURITY |
| **-** | **-** | | **2,937,685** | **-** | **nov-17** | **3,346,584** | **-** | **mar-17** |
| **-** | **-** | **X** | **632,553** | **-** | **X** | **591,083** | **-** | **X** |
| - | - | | 632,553 | - | jan-20 | 591,083 | - | jan-19 |
| - | - | X | - | - | X | - | - | X |
| **-** | **-** | **X** | **(1,598,253)** | **-** | **X** | **(999,982)** | **-** | **X** |
| - | - | X | (4,897) | - | X | (15,770) | - | X |
| - | - | X | (1,593,356) | - | X | (984,212) | - | X |
| - | - | X | - | - | X | - | - | X |
| - | - | X | - | - | X | - | - | X |
| **-** | **-** | | **1,971,985** | **-** | **jan-19** | **2,937,685** | **-** | **nov-17** |
| **-** | **-** | **X** | **718,153** | **-** | **X** | **907,909** | **-** | **X** |

# Part L - Segment reporting

Segment reporting information is not provided as the Bank's particular business model (given the non-operational nature of the subsidiary Fineco AM Limited) provides for a high level of integration among its different activities. The Bank offers its services (banking and investment services) through a network of personal financial advisors and online and mobile channels, that operate in a coordinated and integrated manner. The fully-comprehensive nature of the services offered allows the Bank to act as a one-stop solution for customers' banking and investment requirements.
This strategy, which is strongly anchored to the customer, means that revenues and margins relative to various products/services (investing, banking and brokerage) are highly interdependent on each other.
This integration approach has also inspired top management in setting company targets and identifying the means to achieve them.
As regards information on revenues from customers by product/service, in view of the above, reference should be made to information in Part C - Information on the income statement of these Notes to the Consolidated Accounts. FinecoBank mainly targets retail customers in Italy, as the impact of operations in the UK is still immaterial; information concerning geographic segments and the degree of dependency on main customers is therefore considered by top management as not being of material importance for information purposes, and is not therefore disclosed.

# Annexes

# Reconciliation of condensed consolidated accounts to mandatory reporting schedule

(Amounts in € thousand)

| | AMOUNTS AS AT | |
|---|---|---|
| ASSETS | 12.31.2017 | 12.31.2016 |
| Cash and cash balances = *item 10* | 613 | 5 |
| Financial assets held for trading = *item 20* | 10,879 | 6,044 |
| Loans and receivables with banks = *item 60* | 13,878,117 | 15,735,540 |
| Loans and receivables with customers = *item 70* | 2,129,219 | 1,016,798 |
| Financial investments flow | 5,874,079 | 3,757,529 |
| *40. Available-for-sale financial assets* | *1,047,689* | *1,319,752* |
| *50. Held-to-maturity investments* | *4,826,390* | *2,437,777* |
| Hedging instruments | 10,048 | 9,211 |
| *80. Hedging derivatives* | *458* | *552* |
| *90. Changes in fair value of portfolio hedged financial assets* | *9,590* | *8,659* |
| Property, plant and equipment = *item 120* | 15,205 | 14,451 |
| Goodwill = *item 130. Intangible assets of which: goodwill* | 89,602 | 89,602 |
| Other intangible assets = *item 130 net of goodwill* | 7,909 | 7,731 |
| Tax assets = *item 140* | 9,249 | 13,165 |
| Other assets = *item 160* | 315,415 | 336,300 |
| **Total assets** | **22,340,335** | **20,986,376** |

(Amounts in € thousand)

| | AMOUNTS AS AT | |
|---|---|---|
| LIABILITIES AND SHAREHOLDERS' EQUITY | 12.31.2017 | 12.31.2016 |
| Deposits from banks = *item 10* | 926,001 | 1,111,106 |
| Deposits from customers | 20,205,036 | 18,801,073 |
| *20. Deposits from customers* | *20,205,036* | *18,801,073* |
| Financial liabilities held for trading = *item 40* | 2,617 | 2,626 |
| Hedging instruments | 8,922 | 11,371 |
| *60. Hedging derivatives* | *12,694* | *10,914* |
| *70. Changes in fair value of portfolio hedged financial assets* | *(3,772)* | *457* |
| Provisions for risks and charges = *item 120* | 112,414 | 111,756 |
| Tax liabilities = *item 80* | 10,234 | 10,048 |
| Other liabilities | 343,285 | 257,097 |
| *100. Other liabilities* | *338,286* | *251,844* |
| *110. Provisions for employee severance pay* | *4,999* | *5,253* |
| Shareholders' Equity | 731,826 | 681,299 |
| - capital and reserves | 526,046 | 476,249 |
| *170. Reserves* | *323,932* | *278,407* |
| *180. Share premium reserve* | *1,934* | *1,934* |
| *190. Share capital* | *200,545* | *200,246* |
| *200. Treasury shares* | *(365)* | *(4,338)* |
| - revaluation reserves | (8,340) | (6,794) |
| *140. Revaluation reserves of which: Available-for-sale financial assets* | *1,472* | *(455)* |
| *140. Revaluation reserves for actuarial net gains (losses) for defined benefit plans* | *(9,812)* | *(6,339)* |
| - net profit = *item 220* | 214,120 | 211,844 |
| **Total liabilities and shareholders' equity** | **22,340,335** | **20,986,376** |

(Amounts in € thousand)

| INCOME STATEMENT | YEAR 2017 | YEAR 2016 |
|---|---|---|
| Net interest | 264,581 | 249,388 |
| *30. Net interest margin* | *264,581* | *249,388* |
| Dividends and other income from equity investments | 29 | 6 |
| *70. Dividend income and similar revenue* | *55* | *19* |
| *less: dividends from held-for-trading equity instruments included in item 70* | *(26)* | *(13)* |
| Net fee and commission income = item 60 | 270,083 | 242,881 |
| *60. Net fee and commission income* | *270,083* | *242,881* |
| Net trading, hedging and fair value income | 48,219 | 69,054 |
| *80. Gains (losses) on financial assets and liabilities held for trading* | *47,413* | *48,590* |
| *+ dividends from held-for-trading equity instruments (from item 70)* | *26* | *13* |
| *90. Fair value adjustments in hedge accounting* | *19* | *69* |
| *100. Gains (losses) on disposal or repurchase of: b) available-for-sale financial assets* | *761* | *20,382* |
| Net other expenses/income | 3,760 | (2,211) |
| *220. Other operating expenses/income* | *90,303* | *79,457* |
| *less: other operating income - of which: recovery of expenses* | *(93,367)* | *(85,395)* |
| *less: adjustments of leasehold improvements* | *2,873* | *3,726* |
| *100. Gains (losses) on disposal or repurchase of: a) loans and receivables* | *3,951* | *-* |
| **OPERATING INCOME** | **586,672** | **559,118** |
| Payroll costs | (79,294) | (73,698) |
| *180. Administrative expenses - a) staff expenses* | *(78,886)* | *(79,201)* |
| *less: integration costs* | *(408)* | *5,503* |
| Other administrative expenses | (236,945) | (228,119) |
| *180. Administrative expenses- b) other administrative expenses* | *(244,638)* | *(235,007)* |
| *+ adjustments of leasehold improvements* | *(2,873)* | *(3,726)* |
| *- ex-ante contributions to the Single Resolution Fund (SRF) Deposit Guarantee Systems (DGS)* | *10,566* | *10,614* |
| Recovery of expenses | 93,367 | 85,395 |
| *220. Other operating expenses/income - of which: recovery of expenses* | *93,367* | *85,395* |
| Impairment/write-backs on intangible and tangible assets | (10,369) | (9,952) |
| *200. Impairment/write-backs on property, plant and equipment* | *(5,569)* | *(4,853)* |
| *210. Impairment/write-backs on intangible assets* | *(4,800)* | *(5,099)* |
| **Operating costs** | **(233,241)** | **(226,374)** |
| **OPERATING PROFIT (LOSS)** | **353,431** | **332,744** |
| Net impairment losses on loans and provisions for guaranteed and commitments | (5,151) | (4,199) |
| *130. Impairment losses/writebacks on: a) loans and receivables* | *(5,158)* | *(4,206)* |
| *130. Impairment losses/writebacks on: d) other financial assets* | *7* | *1,423* |
| *less: net value adjustments for the impairment of other financial assets - contribution to the Interbank Fund for the Protection of Deposits* | *-* | *(1,416)* |
| **NET OPERATING PROFIT (LOSS)** | **348,280** | **328,545** |
| Provisions for risks and charges | (19,025) | (9,981) |
| *190. Net provisions for risks and charges* | *(8,459)* | *(783)* |
| *+ ex-ante contributions to the Single Resolution Fund (SRF) Deposit Guarantee Systems (DGS)* | *(10,566)* | *(10,614)* |
| *+ net value adjustments for the impairment of other financial assets - contribution to the National Interbank Deposit Guarantee Fund* | *-* | *1,416* |
| Integration costs | 408 | (5,503) |
| Net income from investments | (13,399) | (6,724) |
| *130. Impairment losses/writebacks on: b) available-for-sale financial assets* | *(12,891)* | *(6,724)* |
| *270. Gains (losses) on disposal of investments* | *(508)* | *-* |
| **PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | **316,264** | **306,337** |
| Income tax for the period | (102,144) | (94,493) |
| *290. Income tax for the year* | *(102,144)* | *(94,493)* |
| **NET PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | **214,120** | **211,844** |
| **PROFIT (LOSS) FOR THE YEAR** | **214,120** | **211,844** |
| **NET PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP** | **214,120** | **211,844** |

# Certification of consolidated annual Financial Statements pursuant to article 81-ter of Consob regulation no. 11971 Of may 14, 1999 and subsequent amendments

# Certification of consolidated annual Financial Statements pursuant to article 81-ter of Consob regulation no. 11971 Of may 14, 1999 and subsequent amendments

1. The undersigned, Alessandro Foti, as Managing Director and General Manager of FinecoBank S.p.A., and Lorena Pelliciari, as Nominated Official in charge of drawing up company accounts of FinecoBank S.p.A, taking into account the provisions of Article 154-bis, par. 3 and 4 of Legislative Decree 58 of February 24, 1998, do hereby certify:
   - the adequacy in relation to the Company's features and
   - the actual application

   of the administrative and accounting procedures used in the preparation of the consolidated financial statements for the year ended December 31, 2017.

2. The adequacy of the administrative and accounting procedures employed to draw up the consolidated financial statements for the year has been evaluated by applying a model defined by the UniCredit Group, in accordance with the "Internal Control - Integrated Framework (CoSO)" and the "Control Objective for IT and Related Technologies (Cobit)", which are international commonly accepted standards for the internal control system and for financial reporting.

3. The undersigned also certify that:

   3.1 The consolidated financial statements:
   a) were prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation 1606/2002 of July 19, 2002;
   b) correspond to the results of the books and accounting records;
   c) are suitable to provide a fair and correct representation of the financial position and performance of the issuer and the group of companies included in the scope of consolidation;

   3.2. the Report on Operations contains a reliable operating and financial review of the issuer and the companies included in the consolidation, as well as the description of its exposure to the main risks and uncertainties.

Milan, February 6, 2018

FinecoBank S.p.A
The Chief Executive Officer and
General Manager
Alessandro Foti

FinecoBank S.p.A.
IThe Manager Responsible for Preparing
the Company's Financial Reports
Lorena Pelliciari

# Report of the External Auditors

Deloitte & Touche S.p.A.
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# INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

**To the Shareholders of**
**FinecoBank Banca Fineco S.p.A.**

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Opinion

We have audited the consolidated financial statements of FinecoBank Banca Fineco S.p.A. and its subsidiary (the "Group"), which comprise the consolidated balance sheet as at December 31, 2017, the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated equity and the consolidated statement of cash flows for the year then ended and the related consolidated explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and to art. 43 of Italian Legislative Decree no. 136/15.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of FinecoBank Banca Fineco S.p.A. (the "Bank") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| **Key audit matters – *Estimate of provisions for risks and charges related to legal disputes*** | **Audit procedures in response to the key audit matters** |
|---|---|
| Item 120 "Provisions for risks and charges" of the consolidated balance sheet - liabilities as at December 31, 2017 includes provisions for legal disputes amounting to Euro 31 million related to complaints and disputes for damage to customers arising from the unlawful behavior of the Bank's personal financial advisors, pending disputes with personal financial advisors and other ongoing court and out-of-court litigations with customers in relation to the normal banking activity. In addition to the court costs to be borne by the Bank in the event of an adverse conclusion of the dispute, these provisions include an estimate of the expenses to be paid to lawyers, technical advisors and/or experts who assist the Bank in the disputes, to the extent that it is believed that they will not be reimbursed by the counterparties.<br><br>In Part E – *Information on Risks and Hedging Policies* - Section 1.4 – *Banking Group - operational risks,* paragraph "Risks arising from significant legal disputes" of the consolidated explanatory notes, the Directors point out that, in relation to the pending legal proceedings against the Bank, which are individually irrelevant, there is considerable uncertainty about the possible outcome and the extent of the possible charge that the Bank could incur; where it is possible to reliably estimate the amount of charges and the charges themselves are considered probable, provisions have been made to the extent deemed appropriate given the specific circumstances and in accordance with the international accounting standards, making the best possible estimate of the amount that reasonably the Bank will have to pay to settle its obligations. With reference to the legal expenses, the estimate was determined by the Bank, in relation to the current disputes, based on the analysis of the historical trend of legal expenses incurred, by type of litigation and degree of judgment.<br><br>Paragraph "Risks and uncertainties related to the use of estimates" of Part A – *Accounting Policies*, A. 1 – *General*, Section 5 – *Other matters* of the consolidated explanatory notes, contains information on the subjectivity and complexity of the estimation process adopted to support the carrying amount of some items subject to evaluation. For some of them, including provisions | Our audit procedures included, among others, the following:<br><br>• analysis and understanding of the relevant controls implemented by the Bank, at the various levels of its organization, in order to identify, manage and monitor complaints from customers and legal disputes with them arising from the banking operations and the activity of the Bank's personal financial advisors;<br><br>• analysis and understanding of the process adopted by the Management – criteria, methods and assumptions – in estimating provisions, including provisions for the expected future costs related to the activity of lawyers appointed by the Bank;<br><br>• periodic meetings with the heads of the Bank's legal department for analysis and discussion of the status of litigations and complaints;<br><br>• analysis of the relevant documentation, including the register of complaints and reports prepared by control functions of the Bank;<br><br>• obtaining and examining responses to requests for information to the lawyers appointed by the Bank;<br><br>• verification, for a selection of disputes and complaints and on the basis of the data and information available gathered as a result of the above procedures, of the appropriateness of the related provision;<br><br>• verification of the appropriateness of the provision for legal expenses through the analysis of the reasonableness and appropriateness of the criteria, assumptions and parameters adopted, as well as the verification of the accuracy and completeness of the data used for the estimates.<br><br>Lastly, we verified the adequacy and compliance of the disclosures provided in the consolidated explanatory notes with respect to the requirements of the relevant accounting standards. |

| | |
|---|---|
| for risks and charges, the complexity and the subjectivity of the estimates are affected by the articulation of the assumptions, the number and variability of the information available and the uncertainties regarding the final future outcomes of proceedings and disputes.<br><br>Given the number of complaints and disputes, albeit physiological with respect to the Bank's typical operations, the uncertainties related to their outcome and the complexity and articulation of the estimation process, we considered the estimate of provisions for risks and charges for legal disputes as a key audit matter of the consolidated financial statements of FinecoBank Banca Fineco S.p.A. as at December 31, 2017. | |
| **Key audit matters – *Disbursement, classification and evaluation of loans to customers*** | **Audit procedures in response to the key audit matters** |
| As represented in the consolidated explanatory notes, Part B – *Consolidated Balance Sheet* and in the report on operations, as at December 31, 2017 loans to customers of FinecoBank Banca Fineco S.p.A. amount to Euro 2,129 million (net book value, including Euro 24.3 million of non-performing loans net of impairment losses of Euro 21.5 million).<br><br>As part of this item, the loans portfolio with ordinary customers, consisting mainly of personal loans, mortgages, current accounts and credit cards, shows an overall increase of 121.1% compared to the previous year, also in relation to the disbursement, in 2017, of Euro 521 million of mortgages.<br>During the year ended December 31, 2017, credit activity has been characterized by the expansion of the offer of credit products, especially through the offer of mortgage loans, a business launched by the Bank at the end of 2016. The disbursement mainly concerned loans for the purchase of first and second home (including subrogation), as well as *home-secured* loans and, on a residual basis, mortgages on non-residential properties.<br><br>Part A – *Accounting Policies* of the consolidated explanatory notes includes the description of the processes for the classification and evaluation of credit exposures for which the Bank refers to the sector regulations, supplemented by the internal provisions governing the classification and transfer rules within the various risk categories and | We have preliminarily acquired a knowledge of the credit process which included, in particular, the understanding of the organizational and procedural safeguards established by the Bank's internal regulations and implemented by the Bank itself with reference to:<br>• assessment of creditworthiness in order to grant the credit;<br>• measurement and monitoring of credit quality;<br>• classification and evaluation of credit exposures in compliance with the sector regulations and in accordance with applicable accounting standards.<br><br>This activity included the verification of the implementation of the corresponding Bank processes and related procedures, as well as the operational effectiveness of the relevant controls regarding the credit grant and disbursement process.<br><br>The audit procedures performed included, among others, the following:<br><br>• analysis and understanding of the IT systems and applications used, also with the support of IT experts belonging to our network;<br><br>• obtaining and examining responses to requests of confirmations to the customers;<br><br>• obtaining and analysis of the monitoring |

| | |
|---|---|
| evaluation methods. Part E - *Information on Risks and Hedging Policies* also illustrates the credit risk management policies.<br><br>Considering the significance of the amount of loans to customers recorded in the consolidated financial statements, the complexity of systems of measurement, management and control of credit risk adopted by the Bank, both in the grant and disbursement phase and subsequently, which involve an articulated classification activity of credit exposures and an evaluation process characterized by a relevant discretionary component, we have considered loans to customers, with particular reference to the mortgages due to their significant increase during the year, as a key audit matter of the consolidated financial statements of FinecoBank Banca Fineco S.p.A. as at December 31, 2017. | reports prepared by competent Bank departments and organizational units involved;<br><br>• as regard performing loans, verification, on a sample basis, of the classification in accordance with the sector regulations and examination of the reasonableness of the evaluation criteria and of the assumptions adopted by the Bank in determining the impairment losses for each class of credit;<br><br>• as regard non-performing loans, verification on a sample basis of the classification and of the related evaluation in compliance with the sector regulations and the applicable accounting standards.<br><br>Lastly, we verified the adequacy and compliance of the disclosures provided in the consolidated explanatory notes with respect to the requirements of the applicable accounting standards and the relevant legislation. |

**Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements**

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and to art. 43 of Italian Legislative Decree no. 136/15 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of FinecoBank Banca Fineco S.p.A. or the termination of the business or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these consolidated financial statements.

Deloitte.



As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report.

**Other information communicated pursuant to art. 10 of the EU Regulation 537/2014**

The Shareholders' Meeting of FinecoBank Banca Fineco S.p.A. has appointed us on April 16, 2013 as auditors of the Bank for the years from December 31, 2013 to December 31, 2021.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of FinecoBank Banca Fineco S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of the Group as at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, paragraph 4 of Legislative Decree 58/98 with the consolidated financial statements of the Group as at December 31, 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and ownership structure are consistent with the consolidated financial statements of the Group as at December 31, 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the company and of the related context acquired during the audit, we have nothing to report.

### Exemption from the preparation of the non-financial statement

As described in the report on operations, the Directors of FinecoBank Banca Fineco S.p.A. made use of the exemption from the preparation of the non-financial statement pursuant to art. 6, paragraph 1, of Legislative Decree 30 December 2016, no. 254.

DELOITTE & TOUCHE S.p.A.

*Signed by*
**Paolo Gibello Ribatto**
Partner

Milan, Italy
March 15, 2018

*This report has been translated into the English language solely for the convenience of international readers.*

# Financial Statements of FinecoBank S.p.A.

# Financial Statements

# Balance sheet

| BALANCE SHEET - ASSETS | | 12.31.2017 | 12.31.2016 |
|---|---|---|---|
| 10. | Cash and cash balances | 613,033 | 5,077 |
| 20. | Financial assets held for trading | 10,878,797 | 6,044,381 |
| 40. | Available-for-sale financial assets | 1,047,689,459 | 1,319,752,248 |
| 50. | Held-to-maturity investments | 4,826,390,118 | 2,437,777,200 |
| 60. | Loans and receivables with banks | 13,877,651,228 | 15,735,539,575 |
| 70. | Loans and receivables with customers | 2,129,219,267 | 1,016,798,235 |
| 80. | Hedging derivatives | 458,102 | 552,163 |
| 90. | Changes in fair value of portfolio hedged items (+/-) | 9,590,000 | 8,658,970 |
| 100. | Investments in associates and joint ventures | 500,000 | - |
| 110. | Property, plant and equipment | 15,205,122 | 14,450,553 |
| 120. | Intangible assets | 97,511,341 | 97,333,284 |
| | of which | | |
| | *- goodwill* | *89,601,768* | *89,601,768* |
| 130. | Tax assets | 9,225,684 | 13,165,245 |
| | *a) current tax assets* | *1,765,333* | *1,570,652* |
| | *b) deferred* | *7,460,351* | *11,594,593* |
| | *Pursuant to Law 214/2011* | *3,827,710* | *4,179,683* |
| 150. | Other assets | 315,459,327 | 336,298,929 |
| **Total assets** | | **22,340,391,478** | **20,986,375,860** |

| BALANCE SHEET - LIABILITIES AND SHAREHOLDERS' EQUITY | | 12.31.2017 | 12.31.2016 |
|---|---|---|---|
| 10. | Deposits from banks | 926,001,336 | 1,111,106,252 |
| 20. | Deposits from customers | 20,205,035,993 | 18,801,073,396 |
| 40. | Financial liabilities held for trading | 2,616,556 | 2,625,818 |
| 60. | Hedging derivatives | 12,693,848 | 10,913,534 |
| 70. | Changes in fair value of portfolio hedged items (+/-) | (3,772,231) | 457,488 |
| 80. | Tax liabilities | 10,233,645 | 10,048,263 |
| | *a) current tax liabilities* | *10,233,645* | *10,048,263* |
| 100. | Other liabilities | 338,180,110 | 251,843,036 |
| 110. | Provisions for employee severance pay | 4,998,596 | 5,253,109 |
| 120. | Provisions for risks and charges | 112,413,921 | 111,755,540 |
| | *b) other reserves* | *112,413,921* | *111,755,540* |
| 130. | Revaluation reserves | (8,340,274) | (6,794,389) |
| 160. | Reserves | 323,932,039 | 278,407,921 |
| 170. | Share premium reserve | 1,934,113 | 1,934,113 |
| 180. | Share capital | 200,545,404 | 200,245,794 |
| 190. | Treasury shares (-) | (365,178) | (4,337,809) |
| 200. | Net Profit (Loss) for the year | 214,283,600 | 211,843,794 |
| **Total liabilities and Shareholders' equity** | | **22,340,391,478** | **20,986,375,860** |

# Income statement

| INCOME STATEMENT | 2017 | 2016 |
|---|---|---|
| 10. Interest income and similar revenues | 269,746,119 | 253,306,254 |
| 20. Interest expenses and similar charges | (5,165,001) | (3,918,420) |
| **30. Net interest margin** | **264,581,118** | **249,387,834** |
| 40. Fee and commission income | 533,314,118 | 472,840,353 |
| 50. Fee and commission expense | (263,230,692) | (229,959,174) |
| **60. Net fee and commission income** | **270,083,426** | **242,881,179** |
| 70. Dividend income and similar revenue | 54,580 | 19,805 |
| 80. Gains (losses) on financial assets and liabilities held for trading | 47,413,142 | 48,590,105 |
| 90. Fair value adjustments in hedge accounting | 19,195 | 68,969 |
| 100. Gains (losses) from disposal or repurchase of: | 4,711,990 | 20,382,021 |
| *a) loans and receivables* | *3,951,003* | *34* |
| *b) available-for-sale financial assets* | *760,987* | *20,381,987* |
| **120. Operating income** | **586,863,451** | **561,329,913** |
| 130. Impairment losses on: | (18,042,404) | (9,507,033) |
| *a) loans and receivables* | *(5,157,695)* | *(4,206,369)* |
| *b) available-for-sale financial assets* | *(12,891,185)* | *(6,724,389)* |
| *d) other financial assets* | *6,476* | *1,423,725* |
| **140. Net profit from financial activities** | **568,821,047** | **551,822,880** |
| 150. Administrative costs | (323,383,787) | (314,208,394) |
| *a) payroll costs* | *(78,852,608)* | *(79,201,124)* |
| *b) other administrative expenses* | *(244,531,179)* | *(235,007,270)* |
| 160. Net provisions for risks and charges | (8,458,948) | (783,846) |
| 170. Net impairment/write-backs on property, plant and equipment | (5,569,276) | (4,853,453) |
| 180. Net impairment/write-backs on intangible assets | (4,799,956) | (5,098,895) |
| 190. Other net operating income | 90,349,875 | 79,458,523 |
| **200. Operating costs** | **(251,862,092)** | **(245,486,065)** |
| 240. Gains (losses) on disposal of investments | (507,788) | 234 |
| **250. Total profit (loss) before tax from continuing operations** | **316,451,167** | **306,337,049** |
| 260. Tax expense (income) related to profit or loss from continuing operations | (102,167,567) | (94,493,255) |
| **270. Total profit (loss) after tax from continuing operations** | **214,283,600** | **211,843,794** |
| **290. Net Profit (Loss) for the year** | **214,283,600** | **211,843,794** |

| | 2017 | 2016 |
|---|---|---|
| Earnings per share (euro) | 0,35 | 0,35 |
| Diluted earnings per share (euro) | 0,35 | 0,35 |

**Note:**
For further information on "Earnings per share" and "Diluted earnings per share" please see Notes to the Accounts, Part C - Information on the Income Statement, Section 21.

# Statement of comprehensive income

| | 2017 | 2016 |
|---|---|---|
| **10. Net Profit (Loss) for the year** | **214,283,600** | **211,843,794** |
| **Other comprehensive income after tax without reclassification through profit or loss** | | |
| 40. Defined benefit plans | (3,473,350) | (1,061,600) |
| **Other comprehensive income after tax with reclassification through profit or loss** | | |
| 100. Available-for-sale financial assets | 1,927,465 | (17,359,033) |
| **130. Total other comprehensive income after tax** | **(1,545,885)** | **(18,420,633)** |
| **140. Comprehensive income (item 10+130)** | **212,737,715** | **193,423,161** |

# Statement of changes in shareholders' equity

### Statement of changes in shareholders' equity as at 12.31.2017

| | | | | ALLOCATION OF PROFIT FROM PREVIOUS YEAR | | CHANGE DURING THE YEAR | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | OPERAZIONI SUL PATRIMONIO NETTO | | | | | | |
| | BALANCE AS AT 12.31.2016 | CHANGE IN OPENING BALANCE | BALANCE AS AT 01.01.2017 | RESERVES | DIVIDENDS AND OTHER DISTRIBUTIONS | CHANGES IN RESERVES | ISSUES OF NEW SHARES | PURCHASE OF OWN SHARES | DISTRIBUTION OF EXTRAORDINARY DIVIDENDS | CHANGES IN EQUITY INSTRUMENTS | OWN SHARE DERIVATIVES | STOCK OPTIONS | COMPREHENSIVE INCOME YEAR 2017 | SHAREHOLDERS' EQUITY AS AT 12.31.2017 |
| Share capital: | | | | | | | | | | | | | | |
| a) ordinary shares | 200,245,794 | | 200,245,794 | | | | 299,610 | | | | | | | 200,545,404 |
| b) other shares | | | | | | | | | | | | | | |
| Share premium reserve | 1,934,113 | | 1,934,113 | | | | | | | | | | | 1,934,113 |
| Reserves: | | | | | | | | | | | | | | |
| a) from profits | 250,247,571 | | 250,247,571 | 41,684,057 | | 208,837 | | | | | | (299,610) | | 291,840,855 |
| b) other | 28,160,350 | | 28,160,350 | | | | | | | | | 3,930,834 | | 32,091,184 |
| Revaluation reserves | (6,794,389) | | (6,794,389) | | | | | | | | | | (1,545,885) | (8,340,274) |
| Equity instruments | | | | | | | | | | | | | | |
| Treasury shares | (4,337,809) | | (4,337,809) | | | | 4,144,410 | (171,779) | | | | | | (365,178) |
| Profit (loss) for the year | 211,843,794 | | 211,843,794 | (41,684,057) | (170,159,737) | | | | | | | | 214,283,600 | 214,283,600 |
| Shareholders' equity | 681,299,424 | - | 681,299,424 | - | (170,159,737) | 208,837 | 4,444,020 | (171,779) | - | - | - | 3,631,224 | 212,737,715 | 731,989,704 |

The amount of the dividend paid to shareholders in 2017, totalling €170,159,736.60, corresponds to €0.28 per share.

The column "Stock options" includes the incentives plans serviced by FinecoBank shares.

The “Changes in reserves” column includes dividends not distributed in relation to any treasury shares held by the Bank at the record date, transferred to the Extraordinary reserve.

# Statement of changes in shareholders' equity

## Statement of changes in shareholders’ equity as at 12.31.2016

| | BALANCE AS AT 12.31.2015 | CHANGE IN OPENING BALANCE | BALANCE AS AT 01.01.2016 | ALLOCATION OF PROFIT FROM PREVIOUS YEAR: RESERVES | ALLOCATION OF PROFIT FROM PREVIOUS YEAR: DIVIDENDS AND OTHER DISTRIBUTIONS | CHANGE DURING THE YEAR: CHANGES IN RESERVES | SHAREHOLDERS' EQUITY TRANSACTIONS: ISSUES OF NEW SHARES | SHAREHOLDERS' EQUITY TRANSACTIONS: PURCHASE OF OWN SHARES | SHAREHOLDERS' EQUITY TRANSACTIONS: DISTRIBUTION OF EXTRAORDINARY DIVIDENDS | SHAREHOLDERS' EQUITY TRANSACTIONS: CHANGES IN EQUITY INSTRUMENTS | SHAREHOLDERS' EQUITY TRANSACTIONS: OWN SHARE DERIVATIVES | SHAREHOLDERS' EQUITY TRANSACTIONS: STOCK OPTIONS | COMPREHENSIVE INCOME YEAR 2016 | SHAREHOLDERS' EQUITY AS AT 12.31.2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Share capital: | | | | | | | | | | | | | | |
| a) ordinary shares | 200,150,192 | | 200,150,192 | | | | 95,602 | | | | | | | 200,245,794 |
| b) other shares | | | | | | | | | | | | | | |
| Share premium reserve | 1,934,113 | | 1,934,113 | | | | | | | | | | | 1,934,113 |
| Reserves: | | | | | | | | | | | | | | |
| a) from profits | 214,666,022 | | 214,666,022 | 35,676,658 | | 493 | | | | | | (95,602) | | 250,247,571 |
| b) other | 21,923,555 | | 21,923,555 | | | | | | | | | 6,236,795 | | 28,160,350 |
| Revaluation reserves | 11,626,244 | | 11,626,244 | | | | | | | | | | (18,420,633) | (6,794,389) |
| Equity instruments | | | | | | | | | | | | | | |
| Treasury shares | (8,555,284) | | (8,555,284) | | | | 4,217,475 | - | | | | | | (4,337,809) |
| Profit (loss) for the year | 191,052,791 | | 191,052,791 | (35,676,658) | (155,376,133) | | | | | | | | 211,843,794 | 211,843,794 |
| Shareholders' equity | 632,797,633 | - | 632,797,633 | - | (155,376,133) | 493 | 4,313,077 | - | - | - | - | 6,141,193 | 193,423,161 | 681,299,424 |

The amount of the dividend paid to shareholders in 2016, totalling €154,376,133.61, corresponds to €0.255 per share.
The column "Stock options" includes the incentives plans serviced by FinecoBank shares.

# Cash flow statement

### Indirect method

| A. OPERATING ACTIVITIES | AMOUNT 2017 | 2016 |
|---|---|---|
| **1. Operations** | **361,197,723** | **293,153,682** |
| - profit (loss) for the year (+/-) | 214,283,600 | 211,843,794 |
| - unrealised gains/losses on financial assets/liabilities held for trading and on assets/liabilities at fair value through profit or loss (-/+) | (1,795,053) | (3,213,058) |
| - capital gains/losses on hedging transactions (-/+) | (19,195) | (68,969) |
| - impairment losses/write-backs (+/-) | 10,052,616 | 9,753,897 |
| - impairment losses/write-backs on tangible and intangible assets (+/-) | 10,369,232 | 9,952,348 |
| - provisions for risks and charges and other income/expenses (+/-) | 22,691,175 | 21,089,047 |
| - duties, taxes and tax credits not paid (+/-) | 2,728,516 | (5,054,227) |
| - net impairment losses/write-backs on disposal groups classified as held for sale after tax (+/-) | - | - |
| - other adjustments (+/-) | 102,886,832 | 48,850,850 |
| **2. Cash flows from/used by financial assets** | **669,013,589** | **(1,381,160,674)** |
| - financial assets held for trading | (3,192,436) | (567,806) |
| - financial assets at fair value through profit or loss | - | - |
| - available-for-sale financial assets | 246,011,519 | (1,313,292,726) |
| - loans and receivables with banks: on demand | - | - |
| - loans and receivables with banks: other loans and receivables | 1,514,464,035 | (1,827,055) |
| - loans and receivables with customers | (1,108,949,383) | (98,959,296) |
| - other assets | 20,679,854 | 33,486,209 |
| **3. Cash flows from/used by financial liabilities** | **1,295,414,604** | **2,646,815,393** |
| - deposits from banks: on demand | - | - |
| - deposits from banks: other payables | (175,626,539) | (295,219,062) |
| - deposits from customers | 1,404,593,717 | 2,980,283,349 |
| - debt securities in issue | - | - |
| - financial liabilities held for trading | 143,908 | 245,403 |
| - financial liabilities at fair value through profit and loss | - | - |
| - other liabilities | 66,303,518 | (38,494,297) |
| **Net cash flows from/used in operating activities** | **2,325,625,916** | **1,558,808,401** |
| **B. INVESTMENT ACTIVITIES** | | |
| **1. Cash flows from** | | |
| - sales of equity investments | - | - |
| - collected dividends on equity investments | - | - |
| - sales of financial assets held to maturity | - | - |
| - sales of tangible assets | 256,331 | 234 |
| - sales of intangible assets | - | - |
| - disposals of businesses | - | - |
| **2. Cash flows used in** | | |
| - purchases of equity investments | (500,000) | - |
| - purchases of held-to-maturity investments | (2,430,228,291) | (291,362,650) |
| - purchases of tangible assets | (7,083,818) | (6,884,309) |
| - purchases of intangible assets | (4,978,013) | (4,618,092) |
| - purchases of divisions | | |
| **Net cash flows from/used in investing activities** | **(2,442,533,791)** | **(302,864,817)** |
| **C. FUNDING ACTIVITIES** | | |
| - issue/purchase of treasury shares | 3,972,631 | 4,217,475 |
| - issue/purchase of equity instruments | 299,610 | 95,602 |
| - dividends and other distributions | (174,394,920) | (159,688,717) |
| **Net cash flows from/used in financing activities** | **(170,122,679)** | **(155,375,640)** |
| **NET CASH FLOWS FROM/USED DURING THE YEAR** | **(287,030,554)** | **1,100,567,944** |

### RECONCILIATION

| Balance Sheet Items | | |
|---|---|---|
| Cash and cash balances at the beginning of the year | 2,284,274,859 | 1,182,228,221 |
| Net cash flows generated/used during the year | (287,030,554) | 1,100,567,944 |
| Cash and cash balances: effect of changes in exchange rates | (46,714,855) | 1,478,694 |
| Cash and cash balances at the end of the year | 1,950,529,450 | 2,284,274,859 |

**Key:**
(+) generated
(-) used

The term "Cash and cash balances" means cash recorded under item 10 of assets "Cash and cash balances" and the equivalent liquid assets recorded under item 60 of assets "Loans and receivables with banks" (consisting of current accounts and deposits maturing within 3 months) net of the equivalent liquid liabilities recorded under item 10 of liabilities "Deposits from banks" (represented by current accounts and deposits maturing within 3 months).

The item “Cash and cash balances” at the end of the year 2017 consisted of:
- Cash recognised under asset item 10 “Cash and cash balances” in the amount of €613 thousand;
- Current accounts and demand deposits recognised under asset item 60 “Loans and receivables with banks” in the amount of €1,992,673 thousand;
- net of the Current accounts and demand deposits recognised under liability item 10 “Deposits from banks” in the amount of €42,756 thousand.

The item “Cash and cash balances” at the end of the prior year consisted of:
- Cash recognised under asset item 10 “Cash and cash balances” in the amount of €5 thousand;
- Current accounts and demand deposits recognised under asset item 60 “Loans and receivables with banks” in the amount of €2,336,579 thousand;
- net of the Current accounts and demand deposits recognised under liability item 10 “Deposits from banks” in the amount of €52,309 thousand.

# Notes to the Accounts

# Part A - Accounting Policies

# Part A - Accounting Policies

## A.1 General

### Section 1 - Statement of Compliance with IFRS

In implementation of Legislative Decree no. 38 of February 28, 2005, these Financial Reports and Accounts of FinecoBank Banca Fineco S.p.A. (hereinafter, FinecoBank or Fineco) have been prepared in accordance with the IAS/IFRS issued by the International Accounting Standards Board (IASB), including the SIC and IFRIC interpretation documents, as endorsed by the European Commission until December 31, 2017, pursuant to EU Regulation 1606/2002 of July 19, 2002 and applicable to financial reports for the periods starting on or after January 1, 2017.

They are an integral part of the Annual Financial Report as required by art. 154-ter, paragraph 1 of the Consolidated Finance Act (TUF, Italian Legislative Decree no. 58 of February 24, 1998).

In its circular 262 of December 22, 2005 as amended, the Bank of Italy laid down the formats for the financial statements and explanatory notes to the accounts of banks and regulated financial companies that are parents of banking groups, which have been used to prepare these consolidated Accounts.

### Section 2 - Preparation criteria

As mentioned above, these Accounts have been prepared in accordance with the IFRS endorsed by the European Commission. The following documents have been used to interpret and support the application of IFRS, even though not all of them have been endorsed by the European Commission:
- The Conceptual Framework for Financial Reporting;
- Implementation Guidance, Basis for Conclusions, IFRICs and any other documents prepared by the IASB or International Financial Reporting Interpretations Committee (IFRIC) supplementing the IFRS;
- Interpretation documents on the application of IFRS in Italy prepared by the Organismo Italiano di Contabilità (Italian Accounting Body);
- ESMA (European Securities and Markets Authority) and Consob documents on the application of specific IFRS provisions;
- the documents prepared by the Italian Banking Association (ABI).

The Accounts comprise the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement (compiled using the indirect method), and these Notes to the Accounts, together with the Directors' Report on Operations and the Attachments.

Pursuant to Art. 123-bis par. 3 of Consolidated Finance Act, as noted in the " Other Information" section of the Report on Operations, the Report on Corporate Governance and Ownership Structures is available in the "Governance" section of the FinecoBank website.

The figures in the financial statements are provided in euros, and in thousands of euros in the notes to the accounts, unless otherwise indicated. In accordance with the Bank of Italy Circular 262/2005, items in the Balance Sheet, Income Statement and Statement of Comprehensive Income for which there is no significant information to be disclosed for the reporting period and the previous year, are not provided.

In addition, the tables in the Notes that do not have any significant information to be disclosed are not shown either for the reporting period or the previous year.
Any lack of discrepancies between the figures shown in the tables of the notes to the accounts is solely due to roundings.

With reference to IAS 1, these consolidated Financial Statements have been prepared on a going concern basis, as there are no doubts or uncertainties as to the Bank's ability to continue its business operations and to continue operating for the foreseeable future (at least for the next 12 months).

The measurement criteria adopted are therefore consistent with this assumption and with the principles of accrual based accounting, the relevance and materiality of accounting information, and the prevalence of economic substance over legal form. These criteria have not changed with respect to the previous year.

### Section 3 - Subsequent events

No significant events have occurred after the balance sheet date that would make it necessary to change any of the information given in the Accounts as at December 31, 2017.

The Separate Financial Statements at December 31, 2017 were approved by the Board of Directors of February 6, 2018, which authorised their publication also pursuant to IAS10.

## Section 4 - Other Matters

In 2017, the following accounting standards, amendments and interpretations become effective for reporting periods beginning on or after January 1, 2017:

- Amendments to IAS 7: Disclosure Initiative (EU Regulation 2017/198);
- Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses (EU Regulation 2017/1990).

Where applicable, these accounting standards, amendments and interpretations had no impact on the financial position and results of the Bank as at December 31, 2017.

In 2017, moreover, the European Commission approved the following accounting standards, amendments and interpretations become effective and mandatory for reporting periods beginning on or after January 1, 2018:

- Amendments to IFRS 4: Implementation of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (EU Regulation 2017/1988);
- Clarifications on IFRS 15: Income from customer contracts (EU Regulation 2017/1987);

on or after January 1, 2019:

- IFRS 16 - Leasing (EU Regulation 2017/1986).

These standards and amendments have not been applied in advance by the Bank; with particular reference to the new IFRS 16 standard, refer to the information below.

With regard to accounting standards:

- IFRS 15 - Revenue from contracts with customers (EU Regulation 2016/1905);
- IFRS 9 - Financial Instruments (EU Regulation 2016/2067).

approved by the European Commission in 2016, mandatorily applicable to financial statements relating to periods beginning on or after January 1, 2018 and not applied in advance by the Bank, see below.

Finally, as at December 31, 2017, the IASB issued the following accounting standards and interpretations or revisions thereof, whose application is subject to completion of the approval process by the European Union, which is still ongoing:

- IFRS 14 - Rate-regulated activities (January 2014);
- Amendments to IFRS 10 and IAS 28: Sale or transfer of assets to a joint venture or associate (September 2014);
- Amendments to IFRS 2: Classification and measurement of share-based payments (June 2016);
- Annual Improvements to International Financial Reporting Standards, 2014-2016 Cycle (December 2016);
- IFRIC 22 - Interpretation on foreign currency transactions and advance consideration (December 2016);
- Amendments to IAS 40: Transfers of investment property (December 2016);
- IFRS 17 - Insurance contracts (May 2017);
- IFRIC 23 - Uncertainty over Income Tax Treatments (June 2017);
- Amendments to IFRS 9 - Prepayment Features with Negative Compensation (October 2017);
- Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures (October 2017);
- Annual Improvements to International Financial Reporting Standards, 2015-2017 Cycle (December 2017).

The possible effects of the future adoption of these standards, interpretations and amendments, when applicable and relevant for the Bank, are reasonably estimated as not significant; the related analyses, also in relation to pending approvals, are still to be completed.

### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the new accounting standard IFRS 9 Financial Instruments, endorsed by the European Commission on November 22, 2016 through Regulation (EU) 2016/2067, which is mandatorily applicable for annual periods beginning on or after January 1, 2018, that will replace IAS 39 Financial Instruments: recognition and measurement.

The new standard provides for a revised model for classifying and measuring financial assets and liabilities, an "expected loss" based impairment model for loans and a reformed approach to hedge accounting.

As of January 1, 2018, the application of IFRS 9 has impacts both on the Bank's income and balance sheet and the related information in the financial statements, as well as purely operational impacts.

During 2017, as part of a specific project launched for this purpose, the Bank completed the analysis and recognition of the impacts resulting from the adoption of the standard; the project activities aimed at the necessary implementations (IT architecture, processes and organisational procedures) are in their final phase.

The project - in coordination with a similar project carried out at UniCredit Group level and developed with the involvement of the Bank's reference functions and, most recently, the Board of Directors - was organised through specific work-streams, in particular:

- "Classification and Measurement" work-stream, aimed at reviewing the classification of financial instruments in line with the new criteria of IFRS9;
- "Impairment" work-stream, aimed at developing and implementing models and methodologies for the calculation of impairment losses.

**Classification and measurement of financial assets and liabilities**

With regard to IAS 39, the new standard for the classification and measurement of financial assets provided for by IFRS 9 is based on the "business model" and the financial instrument's contractual cash flows (SPPI criterion - Solely Payments of Principal and Interests).
Based on the entity's business model for managing financial instruments, the assets may be classified as:

1. "held to collect" contractual cash flows ("HTC", measured at amortised cost and subject to impairment based on expected losses);
2. "held to collect cash flows and for sale" ("HTCS", measured at fair value through comprehensive income, in an equity reserve, and subject to impairment on the basis of expected losses);
3. "held as part of other business models", e.g. held for trading ("FVTPL", measured at fair value through profit and loss).

It is also possible upon initial recognition to:

- irrevocably designate a financial asset as measured at fair value through profit or loss if this eliminates or significantly reduces a mismatch ("accounting mismatch") that would otherwise arise from a different measurement of assets or liabilities or from the recognition of gains and losses on different bases;
- irrevocably designate particular investments in equity instruments, which would otherwise be measured at fair value through profit or loss, as measured at fair value through other comprehensive income items. Upon disposal, the fair value changes recognised in a specific shareholders' equity reserve are not transferred to profit or loss, but to another shareholders' equity reserve.

With regard to financial liabilities, IFRS 9 changes the accounting of the effects of changes in the so-called "own credit risk", i.e. changes in the value of financial liabilities measured at fair value linked to fluctuations of one's own credit rating. The new standard entails that the aforementioned changes shall be recognised in a Shareholders' equity reserve through other comprehensive income rather than through profit and loss, as provide for by the IAS39 standard, thus eliminating a source of volatility for economic statement results.

With regard to classification and measurement activities, the Bank finalised the identification of the business model applicable to its financial assets and completed the analysis of the existing securities and loans portfolio in order to ascertain whether contractual cash flows enable their classification as HTC assets and amortised cost valuation, where provided for. The analysis was performed both on a contract by contract basis (securities portfolio) and by defining specific clusters based on transaction features (loan portfolio).
At the end of this analysis, the Bank included the following financial assets in the HTC Business model, according to the purposes for which they are held and their expected turnover:

- customer loans (mortgages, personal loans, unsecured loans, revolving credit cards, current account credit lines and, usually, overdraft facilities);
- cash-secured securities loans to *"multi-day leverage*" retail customers;
- credit cards full payment of balance;
- deposits, loans and repurchase agreements;
- other trade receivables;
- proprietary securities for which the Objective pursued by the bank as part of its investment policy is the ownership of financial assets aimed at the collection of contractual cash flows with the aim of achieving medium/long-term profitability.

The "HTCS Business Model" includes own securities for which the Bank pursues - as part of its investment policy - the management of the its current liquidity, the maintenance of a set interest margin or the alignment of the terms of financial assets and liabilities. Sales are an integral part of this business model and, therefore, there is no turnover threshold for portfolio sales, both in terms of frequency and amount. Nevertheless, trading activity is not allowed in order to pursue the business model and any purchases must be effected taking into account a medium to long-term time horizon.
The "Other Business Models" include any assets that do not fall into the aforementioned macro-classes. These are financial assets that are not held as part of a business model whose objective is the holding of assets aimed at the collection of contractual cash flows or whose objective is pursued through both the collection of financial cash flows and the sale of financial activities.
In particular, it involves are the following activities identified by the Bank:

- internalisation
- trading
- securities withdrawn from customers
- other securities (not included in the above points).

In order to assess whether the features of contractual cash flows support either an amortised cost valuation (HTC) or a fair value valuation with an impact on total profitability (HTCS), i.e. whether the contractual terms of financial assets provide for, at given dates, financial flows consisting solely of principal and interest payments on the outstanding capital share (SPPI criterion - Solely Payments of Principal and Interests), systems and processes have been developed to analyse the debt securities and outstanding loans portfolio (SPPI test), in compliance and in line with the parent company UniCredit S.p.A.
The tests were carried out on the securities and loans portfolio in existence at the date of the initial implementation of the accounting principle with reference to the date of their initial recognition ("inception date") and shall be carried out when a security is purchased, a new loan is marketed or the standard conditions of an existing product are changed, or when a loan with contractual conditions other than those stated in standard term sheets is issued. A potential negative result of the SPPI test ("not passed") results in the fair value measurement of the asset, with consequent different treatment compared to the standard amortised cost treatment and hedge accounting.
It should be noted that the Bank did not set minimum or false thresholds considering any clause contractual cash flow characteristics that does not comply with the SPPI requirement as a trigger that result in the test's failure, taking into account the nature of its loans and securities portfolio, consisting of plain vanilla financial assets.

With regard to 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). On first-time application of the standard, the Bank intends to exercise this option for equity instruments consisting of interests in UniCredit Business Integrated Solutions S.C.p.A., recognised in these financial statements for a total amount of €172, and in Consorzio Patti Chiari, for an amount of €5,000.

With regard to financial liabilities, no differences were recorded in terms of classification and measurement compared with IAS 39.

### Impairment

With regard to the credit impairment model based on the "expected loss" ("Expected Credit Loss" or "ECL") under the new standard, the IASB developed this method in order to ensure - as required by the G20 following the financial crisis - early recognition of credit losses compared to IAS 39, which is based on actual evidence that an impairment has occurred ("incurred loss"). The new impairment accounting model is also based on the concept of "lifetime" expected loss, which can also lead to the anticipation of impairment losses and their structural increase.
In this regard, for impaired assets according to IAS 39, no significant impacts are envisaged for the Bank because there are no significant conceptual differences between the incurred losses method, according to IAS 39, and the ECL method, required by IFRS 9, as the same indicators for recognition of the loss and for classification as non-performing loans requited by IAS 39 shall continue to apply. However, there are significant differences in the calculation of the ECL of receivables that experienced a significant increase in the credit risk since initial recognition (receivables classified as in "Stage 2"); however, given the amount of these exposures in the Bank's financial statements, no material impacts are expected.
The standard states that the impairment model applies to all financial instruments, i.e. financial assets recognised at amortised cost, those recognised at fair value through other comprehensive income, rental receivables and trade receivables. For the Bank, the impairment model introduced by IFRS 9 will be applied to a perimeter that will include owned securities issued by Governments and exposures towards the UniCredit Group.

The calculation model for the expected impairment loss was developed considering default exposure, the probability of default of the counterparty and its repayment capability. The valuation time-horizon differs depending on the instrument's classification: 12 months for Stage 1 receivables and for the entire term of the receivable for instruments at Stage 2 and 3. Another novelty introduced by IFRS9 for the valuation of expected losses consists in considering also future economic estimates (prospective data) available without unreasonable cost or effort, in addition to existing historical information.
The classification into the three "Stages" envisaged is carried out considering the importance of the changes in credit risk ratings compared to when they were first recognised. "Stage 1" includes exposures that did not experience a significant increase in credit risk or whose increase is deemed as being low. This Stage~~ applies to financial instruments included in the Bank's proprietary portfolio with an "Investment Grade" rating. "Stage 2" includes exposures for which, at the valuation date, the credit risk increased significantly compared to the time they were first recognised. Finally, "Stage 3" includes exposures the show signs of objective deterioration (non-performing loans).
In defining the scope of impaired exposures, the default definition currently applied within the UniCredit Group has been adopted, which already incorporates some key principles of the "Guidelines on the application of the definition of default" issued by the EBA, such as the assessment of impairment and/or default on the basis of a given debtor's overall exposure (so-called "debtor approach").

The methodological approach applied was agreed with the Parent Company UniCredit, as were the central assessments of the credit parameters of institutional counterparties.

At the date of first application, the key expected impacts deriving from the application of the new impairment model based on expected losses relate to unimpaired assets, with an increase in write-downs particularly for financial instruments in the Bank's own portfolio.

### Hedge accounting

With regard to hedges, the requirements of the new standard have been amended to make them more suitable to reflect companies' risk management policies; the new hedge accounting model extends the types of transactions eligible for hedge accounting, changes to the effectiveness test and different methods of accounting for forward contracts and options in a hedge accounting relationship. With regard to hedge accounting, the Bank plans to exercise the option established in paragraph 6.1.3 of IFRS 9 and, therefore, it will continue to apply IAS 39 for fair value hedges of interest rate risk on financial assets and liabilities, until the IASB has completed the accounting rules on hedge accounting.
In fact, the Bank only has these types of hedges in place and, at present, does not envisage other types of hedging.

### Final remarks

On the date of first application of IFRS 9, negative impacts resulting from the implementation of the new impairment model based on expected losses are anticipated, which - as mentioned above - will determine an increase in write-downs on unimpaired assets, particularly in the item "Loans and receivables with banks" for the portion consisting of debt securities issued by the Parent Company UniCredit and subscribed by the Bank, which is are estimated to range - net of taxes - between 55 and 65 basis points of the Bank's CET1 at December 31, 2017. Positive impacts resulting from the classification and fair value measurement of a debt security issued by UniCredit, subscribed by the Bank in prior years, with a coupon in arrears, hedged from interest rate risk through a derivative entered into with the same Parent Company, whose contractual features do not allow it to pass the SPPI Test; these impacts are estimated, gross of the tax effect, at approximately 40 basis points of the Bank's CET1 at December 31, 2017.
The effects on the carrying amount of financial instruments and impairment losses linked to the transition to IFRS9 will be recognised on January 1, 2018, as a contra-entry in Shareholders' equity.

# Part A - Accounting Policies (Continued)

For the sake of completeness, it should also be noted that UniCredit shares valued at fair value in IFRS 9 transition were restructured on January 2, 2018, including the contractual features of the derivative used up to that date to hedge the interest rate risk. The Bank therefore derecognised the financial instrument recognised at December 31, 2017 and recognise the new one, whose characteristics support compliance with the SPPI Test, with consequent classification of the instrument to assets measured at amortised cost.

As a result of the implementation of IFRS9, a review of prudential rules (CRD/CRR) for the calculation of capital absorption is anticipated. In this regard, EU Regulation 2017/2395 issued on December 27, 2017 provides, as an option, that financial institutions may adopt a transition regime in order to add to CET1 the changes resulting from the adoption of the new impairment model according to the accounting standard, with a gradual mechanism (so-called "phase-in") over 5 years starting from 2018; the Bank, in line with the choice made by the UniCredit Group, will not adopt the transition regime.

***IFRS 15 - Revenue from contracts with customers***

IFRS 15 - Revenue from Contracts with Customers (published by the IASB on May 28, 2014), was endorsed by the European Commission on September 22, 2016 through EU Regulation 2016/1905.
The principle will replace IAS 18 - Revenue and IAS 11 - Construction Contracts, and IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers and SIC 31 - Revenues-Barter Transactions Involving Advertising Services, for annual periods starting on or after January 1, 2018 (early adoption is permitted).
The standard establishes a new revenue recognition model according to two alternative approaches ("at point in time" or "over time") to be applied to all contracts with customers except those that fall within the scope of other IAS/IFRS standards such as finance leases, insurance contracts and financial instruments. The recognition of revenue under the new model for analysing transactions, based on the transfer of control, has the following basic steps:

- identification of the contract with the customer;
- identification of performance obligations under the contract;
- determination of the price;
- allocation of price to the contract performance obligations;
- the revenue recognition criteria when the entity satisfies each performance obligation.

In order to assess the anticipated impacts of IFRS 15 on the Bank's income statement and financial position, also taking account of the clarifications on the standard published by the IASB in April 2016 and endorsed by the European Union on 6 November, 2017, the chart of accounts was analysed solely with regard to income items included in the implementation scope of the standard, identified in Item 40. "Fee and commission income" and Item 190. "Other management charges and income" (for Other income only).
The analysis performed did not highlight any significant impacts on the Bank's income statement and financial position.

***IFRS 16 - Leasing***

IFRS16, applicable from January 1, 2019 replaces the current set of international accounting principles and interpretations on leasing and, in particular, IAS17.
IFRS16 introduces a new definition of leasing and a criterion based on control ("right of use") of an asset to distinguish leasing agreements from service agreements and eliminates the current distinction between operational and financial leases. With regard to the accounting model to be applied by the lessee, the new principle provides that an asset representing the right to use the leased asset shall be recognised, together with - at the same time - the financial liability for the fees set out in the agreement.
Upon initial recognition of the aforementioned asset, when calculating the right of use, the following is included: the initial amount of the liability provided in the leasing agreement, any fees paid on or before the date on which the leased asset is made available, any initial direct costs incurred for the lease and the estimate of any costs required to remove the leased asset or restore it at the end of the agreement and under the conditions provided for therein. The debt to be recognised as a contra-entry is posted at the current net present value of outstanding fees. The new standard also allows the possibility of not recognising contracts for "low-value assets" and leases with a contractual term of 12 months or less as leasing contracts.
By contrast, the new standard does not include significant changes for the lessor.
This analysis and survey of the impacts and effects resulting from the first-time adoption of the standard by the Bank, which in any case is expected for January 1, 2019 and not early, as is permitted, together with the mandatory application of IFRS 15, and the implementation and/or adoption of any required administrative and accounting processes, will be completed in 2018.

**Interbank Deposit Guarantee Fund - Voluntary Scheme**

The Bank has subscribed to the Voluntary Scheme, introduced in November 2015, through an amendment to the bylaws of the Interbank Deposit Guarantee Fund ("IDGF"). The Voluntary Scheme is an instrument for resolving bank crises through support measures in favour of banks subscribing to it, when specific conditions established by the regulations apply. The Voluntary Scheme has its own independent financial resources and the banks subscribing to it have committed to provide funds on request for implementation of the measures.
On June 17, 2016, the General Meeting of the IDGF strengthened the financial resources of the Voluntary Scheme from €300 million to €700 million (with a total commitment for FinecoBank of €16.8 million).
In June 2016, the Voluntary Scheme approved a measure in favour of Cassa di Risparmio di Cesena, in relation to the capital increase approved by the latter on June 8, 2016 for €280 million.
In September 2016, the Voluntary Scheme of the IDGF made a payment for the capital increase of Cassa di Risparmio di Cesena and at the same time debited the amount pertaining to the member. The contribution to the Voluntary Scheme was recognised by the Bank, in accordance with the instructions of the Bank of Italy, amounted to €6.7 million, was recognised in equity instruments classified in the "Available-for-sale financial assets:" portfolio and fully written-down in the separate accounts at December 31 2016, the notes to which the reader is referred.

During the meeting of July 28, 2017 the Management Board of the Voluntary Scheme approved Crédit Agricole Cariparma's proposal in favour of Caricesena, Carim and Carismi and resolved on the support measure for the reorganisation of the three banks pursuant to Article 48, paragraph 5, letter a) of Chapter II of the Articles of Association.
Following this resolution, the Extraordinary Shareholders' Meeting of the participating banks, held on September 7, 2017, approved to increase of the Scheme's resources by €95 million (from €700 million to €795 million), bringing Fineco's total commitment, net of the contribution already paid in relation to Caricesena in 2016, to €13.3 million (calculated on the basis of funds due on March 31, 2017).
The measure approved by the Management Board entailed using the Voluntary Scheme's funds to recapitalise the three banks and underwrite the tranche of their NPLs securitisation. Considering the time scale required to perfect the transaction, on September 18 and 19, 2017 Carim and Carismi, based on the resolutions adopted by the respective Boards of Directors, asked the Voluntary Schemed to effect payments for future capital increases of €55 million (€25 million for Carim and €30 million for Carismi), in order to ensure compliance with asset requirements at September 30, 2017 and provide the two banks with a capital buffer as provided for by regulatory provisions, until the closing of the transaction. On September 25, 2017, as required by the IDGF, Fineco paid its share, equal to €1.4 million, calculated by applying to the total amount of €55 million the percentage share determined based on the amounts repayable on March 31, 2017, thus reducing its share (€11.9 million). This contribution was also recognised, in accordance with the relevant instructions issued by the Bank of Italy in October 2016, under the equity instruments classified in the "Available-for-sale financial assets" portfolio.
On September 29, 2017 the National Interbank Deposit Guarantee Fund, in implementation of the resolution of the Voluntary Scheme's Management Board of September 28, 2017, signed the Framework Agreement between Crédit Agricole Cariparma, the Voluntary Scheme, Caricesena, Carim and Carismi.
On December 7, 2017 the Voluntary Scheme's Management Board withdrew €455 million in order to provide the Scheme with the financial resources required to effect payments at the time of the transaction's closing, anticipated on December 21, 2017.
On December 13, 2017 Fineco paid its share, equal to €12.2 million, calculated by applying to the total amount of €455 million the percentage share determined based on the amounts due on September 30, 2017, thus reducing its share (€0.1 million remaining). The contribution paid was recognised, as previously, as capital instruments classified in the "Available-for-sale financial assets" portfolio.
At the end of Crédit Agricole Cariparma's purchase of the three banks the Voluntary Scheme held in its balance sheet mezzanine and junior NPL securitisation securities of €170 million and cash and cash equivalents of €6 million, whilst the recapitalisations of the three banks effected were a non-recoverable expense for the Voluntary Scheme, as a result of the sale of the banks to Crédit Agricole Cariparma.
In relation to the above, in the Accounts closed at December 31, 2017 Fineco partially derecognised the equity instruments recognised in "Available-for-sale financial assets" as a result of the periodic contributions, for a total amount of €15.6 million, of which €6.7 million paid in 2016 and fully written-down in the accounts closed on December 31, 2016 and €8.9 million paid in 2017, corresponding to the share of contribution paid by the Bank and used by the Voluntary Scheme to recapitalise the three banks.
The residual amount of equity instruments that were not derecognised, equal to €4.7 million, corresponding to the share of the contribution paid by the Bank in 2017 and held by the Voluntary Scheme as cash and cash equivalents or used to subscribe the mezzanine and junior tranches of the securitisation, were impaired by €4 million in the Financial Statements at December 31, 2017 in order to align the fair value of the securities provided by the IDGF and resulting from the analysis of the advisor tasked by the aforementioned IDGF with valuing the loans and receivables underlying the aforesaid mezzanine and junior securities, calculated based on the evidence of a discounted cash flow model based on the recovery forecasts formulated by special servicers.
As at December 31, 2017, the residual commitment to the Voluntary Scheme amounts to €0.1 million and shall be used, only if actually required, to cover the operating expenses for the management of the measure.

### Contributions to guarantee and resolution funds

With regard to contribution obligations pursuant to Directive 2014/49/EU (Deposit Guarantee Schemes - DGS), the IDGF Board, during its meeting of November 15, 2017, set the amount of €406.7 million as the total ordinary contribution for 2017 pursuant to Italian Legislative Decree no. 30/2016, implementing Directive 2014/49/EU, instead of the original amount of €506.7 million. The €100 million difference, to be paid in subsequent financial years in order to reach the target level, was earmarked by the Board for flat-rate compensation of the Solidarity Fund (established by the Stability Law 2016), whose management and supply was allocated to the IDGF by law.
The reduction in the amount of ordinary GDS contributions limited the expenditure for the banks during 2017, taking into account the trend and any additional costs for members for contributions to the Solidarity Fund in 2016-2018.
The thus defined ordinary contribution is supplemented, pursuant to Article 25, paragraph 2 of the Articles of Association of the IDGF, with additional contributions of €0.6 million in total, aimed at the gradual recovery over 2017-2024 of the funds used up to now (€5.2 million).
Overall, therefore, the total contribution of member banks (standard + additional) for 2017, including funds for the Solidarity Fund, amounts to €507.3 million, of which €0.6 million relating to the additional contribution.
In implementation of the new risk-based model adopted by the IDGF for the calculation of contributions, approved by the Bank of Italy with note of June 1, 2017, pursuant to Article 96.2, paragraph 2 of TUB, the share of each Member was calculated based on the amount of protected deposits at September 30, 2017 and risk-adjusted based on each of their management ratios at June 30, 2017, pursuant to Article 28, paragraph 2, of the Articles of Association. This calculation model also involved the remeasurement of the contributions made by the members with reference to the financial years 2016 and 2015.

# Part A - Accounting Policies (Continued)

The share for 2017 was paid and accounted for by the Bank under item 150. Management Expenses, amounting to €10.6 million, as follows:
- €11.8 million total contribution FY 2017;
  of which
    - €9.5 million ordinary contribution;
    - €0.01 million additional contribution;
    - €2.3 million for the Solidarity Fund;
- -€0.9 million adjustment in favour of the Bank for the 2016 contribution;
- -€0.4 million adjustment in favour of the Bank for the 2015 contribution.

No contribution was requested from the Bank by the Single Resolution Board, for 2017, with regard to contribution obligations pursuant to Directive 2014/59/EU (Single Resolution Fund).

### Risks and uncertainties related to the use of estimates

In the application of the accounting policies, the management is required to make judgements, estimates and assumptions about the carrying amounts of certain assets and liabilities as well as the information regarding potential assets and liabilities. Estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances and have been used to estimate the carrying values of assets and liabilities not readily available from other sources.
Estimated figures have been used for the recognition of some of the largest value-based items in the inancial statements as at December 31, 2017, as required by the accounting standards and regulations. These estimates are largely based, as regards assets, on calculations of future recoverability of the values recognised in the accounts and, as regards liabilities, on estimates of the probability of using resources to meet its obligations and the amount of resources necessary to that end, according to the rules laid down in current legislation and standards and have been made on the assumption of a going concern, on which basis these consolidated accounts have been prepared, i.e. without contemplating the possibility of the forced sale of the estimated items.
The processes adopted support the carrying values at December 31, 2017. For some of the above items the valuation is particularly complex given the uncertainty of the macroeconomic and market situation, characterised by the significant volatility of financial indicators used in the valuation process and still high levels of credit quality impairment, as well as, more generally, the uncertainty and instability in the banking sector.
For other items, however, the complexity and subjectivity of estimates is influenced by the structure of the underlying assumptions and assumptions, the number and variability of available information and the uncertainties connected with possible future outcomes of proceedings, disputes and litigation.
The parameters and information used to determine the above-mentioned values are therefore significantly affected by multiple factors, which could change rapidly in ways that are currently unforeseeable, which means that consequent future effects on the book values cannot be ruled out.
At the date of preparing these accounts we believe that there are no uncertainties such as to give rise to significant adjustments to the carrying amounts within one year.
Estimates and underlying assumptions are regularly reviewed. Any changes resulting from these reviews are recognised in the period in which the review was carried out, provided the change only concerns that period. If the revision concerns both current and future periods it is recognised accordingly in both current and future periods.
Uncertainty affecting estimates is inherent, among other factors, in the determination of:
- fair value of financial instruments not listed in active markets;
- receivables, and in general, all other financial assets/liabilities;
- employee severance pay provision (Italy) and other employee and financial advisor benefits;
- provisions for risks and charges;
- goodwill;
- deferred tax assets;
- tax liabilities;

this quantification can vary over time, also to a significant extent, according to the evolution of the national and international social and economic environment and the consequent impacts on the Bank's earnings and customer solvency and the credit quality of the counterparties, the performance of the financial markets, which influence the fluctuation in rates, prices and actuarial assumptions used to determine the estimates, as well as the evolution and developments in existing or potential disputes.
With specific reference to future cash flow projections used in the valuation of the recoverability of goodwill recorded in the balance sheet, it should be noted that the parameters and information used are significantly influenced by the macro-economic market situation, which may change unpredictably. For further information, see Part B - Balance Sheet - Section 12 - Intangible assets. With specific reference to valuation techniques, unobservable inputs used in the fair value measurement and sensitivities to changes in those inputs, please refer to Section A.4. Information on fair value of this Part A. With particular regard to provisions for risks and charges for risks arising from legal disputes, see Part E - Information on risks and hedging policies - Section 4 - Operating risks.

### Other information

The Financial Statements as at December 31, 2017 are subject to audit by Deloitte & Touche S.p.A. pursuant to Italian Legislative Decree no. 39 of January 27, 2010, which is responsible for the statutory audit of the Bank's accounts in implementation of the Shareholders' Meeting resolution of April 16, 2013.

The entire document is lodged with the competent offices and entities as required by law.

# A.2 The main items of the accounts

## 1 - Financial Assets held for trading (HfT)

A financial asset is classified as held for trading if it is:
- acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for derivatives which constitute financial guarantees, see Section 17 - Other information, and derivatives designated as hedging instruments - see Section 6 - Hedge Accounting).

Like other financial instruments, on initial recognition, at settlement date, a held-for-trading financial asset is measured at its fair value, usually equal to the amount paid, excluding transaction costs and income, which are recognised through profit or loss even when directly attributable to the financial assets. Trading book derivatives are recognised at trade date.

After initial recognition these financial assets are measured at their fair value through profit or loss. An exception is the derivatives settled by delivery of an unlisted equity instrument whose fair value cannot be reliably measured, and which are measured at cost like the underlying.

A gain or loss arising from sale or redemption or a change in the fair value of a HfT financial asset is recognised in profit or loss in item 80 "Gains (losses) on financial assets and liabilities held for trading", with the exception of financial derivatives relating to a fair value option of which gains and losses, whether realised or measured, are booked in item 110. "Gains (losses) on financial assets and liabilities at fair value through profit and loss" (Please see Ch.5 - Financial Instruments at Fair Value through Profit or Loss) If the fair value of an instrument falls below zero, which may happen with derivative contracts, it is recognised in item 40. "Financial liabilities held for trading".

A derivative is a financial instrument or other contract with all three of the following characteristics:
- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (usually called the 'underlying') provided that in case of non-financial variable, this is not specific of one of the parties;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- it is settled at a future date.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

An embedded derivative is separated from the host contract and recognised as a derivative if:
- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid (combined) instrument is not measured entirely at fair value through profit or loss.

If it is necessary to separate an embedded derivative from its host contract, but it is not possible to measure the embedded derivative separately either at acquisition or at a subsequent financial reporting date, the entire combined contract is treated as a financial asset or financial liability at fair value through profit or loss.

When an embedded derivative is separated, the host contract is recognised according to its accounting classification.

A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

## 2 - Available-for-sale Financial Assets (AfS)

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments, financial assets held for trading or financial assets at fair value through profit or loss. These assets are held for an indefinite period of time and may meet the need to ensure liquidity and face changes in interest rates, exchange rates and prices.

AfS financial assets are money market instruments, other debt instruments (included host contract of hybrid instruments from which embedded derivative has been bifurcated) or equity instruments; they include shares held as minority stakes where these do not constitute controlling, or joint control, or associate interests.

On initial recognition, at settlement date, an AfS financial asset is measured at fair value, which is usually equal to the consideration of the transaction, plus transaction costs and income directly attributable to the instrument.

In subsequent periods these assets are measured at fair value, with interest recognised at amortised cost in the income statement. Gains or losses arising out of changes in fair value are recognised in equity item 130. "Revaluation reserves" - except losses due to significant impairment and exchange rate gains or losses on monetary items (debt instruments) which are recognised under item 130.b) "Impairment losses/writebacks on AfS financial assets" and item 80. "Gains (losses) on financial assets and liabilities held for trading" in the income statement, respectively - until the financial asset is sold, at which time cumulative gains and losses are recognised in profit or loss in item 100.b) "Gains (losses) on disposal or repurchase of AfS financial assets".

# Part A - Accounting Policies (Continued)

The fair value changes recorded in item 130. "Revaluation reserves" in equity are also reported in the Statement of Comprehensive Income.
Equity instruments not listed in an active market and whose fair value cannot be reliably determined due to lack or unreliability of information for the fair value measurement are valued at cost, equivalent to the last fair value reliably measured.
If there is objective evidence of impairment on an available-for-sale financial asset, the cumulative loss that had been recognised directly in equity item 130. "Revaluation reserves", is removed from equity and recognised in profit or loss under item 130.b) "Impairment losses/writebacks on available-for-sale financial assets".
In respect of debt instruments, any circumstances indicating that the borrower/issuer is experiencing financial difficulties which could prejudice the collection of the principal or interest, represent an impairment.
The impairment of equity instruments is assessed on the basis of indicators such as fair value below cost and adverse changes in the environment in which the company operates, as well as the issuer's debt service difficulties, if any.
The loss of value is normally considered as impairment, if fair value falls to less than 50% of cost or lasts for more than 18 months.

If however the fall in the fair value of the instrument is over 20% but less than or equal to 50% or continues for no less than 9 but no longer than 18 months, the Bank reviews further income and market indicators. If the results of the review are such as to prejudice the recovery of the amount originally invested, an impairment is recognised.

The amount taken to profit and loss is the difference between the carrying amount (value of initial recognition less any impairment loss already recognised in profit or loss) and current fair value.

Where instruments are valued at cost, the amount of the loss is determined as the difference between their carrying value and the present value of estimated future cash flows, discounted at the current market yield on similar financial assets (the recoverable amount).
If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event such as an improvement in the debtor's credit worthiness occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed and the amount of the reversal is recognised in the same profit or loss item. The reversal cannot result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss, but recognised in equity under the revaluation reserve.

## 3 - Held-to-Maturity Investments (HtM)

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than those that have the characteristics to be classified under loans and receivables with banks and loans and receivables with customers, for which there is the positive intention and ability to hold them to maturity (included the host contract of hybrid instruments after the embedded derivative has been bifurcated).

If, during the financial year, more than an insignificant amount of held-to-maturity investments are sold or reclassified before maturity, the remaining HtM financial assets shall be reclassified as available-for-sale and no financial assets shall be classified as HtM investments for the two following financial years, unless the sales or reclassifications:

- are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after substantially all of the financial asset's original principal has been collected through scheduled payments or prepayments;
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

After initial recognition at its fair value, which will usually be the price paid including transaction costs and income directly attributable to the acquisition or provision of the financial asset (even if not yet settled), a held-to-maturity financial asset is measured at amortised cost using the effective interest method. The difference between the carrying value of the asset and the amount received is taken to profit and loss under item 100.c) "Gains (losses) on disposal or repurchase of HtM financial assets" when the financial asset is derecognised.
If there is objective evidence that a held-to-maturity investment is impaired, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted using the original effective interest rate of the financial asset. The carrying amount of the asset is reduced accordingly and the loss is recognised in profit or loss under item 130.c) "Impairment losses/writebacks on held-to-maturity investments".
If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event such as an improvement in the debtor's credit worthiness occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed. The reversal cannot result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised. The amount of the reversal is recognised in the same profit or loss item. Held-to-maturity investments cannot be hedged for other than the credit/non performance risk and exchange rate risk.

In 2016, the Bank reclassified the Available-for-sale financial assets consisting of Italian and Spanish government securities to the Held-to-maturity investments portfolio. in this regard, see the information in the Separate Financial Statements for the period ended December 31, 2016, and section A.3 Disclosure on transfers between portfolios of financial assets in these notes to the financial statements.

## 4 - Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised on the date of disbursement to the borrower, which can coincide with the contract signing date.
These items include debt instruments with the above characteristics (including the primary component of structured instruments after the embedded derivative has been unbundled) or that are subject to portfolio reclassification in accordance with the rules of IAS 39.
After initial recognition at fair value, which is usually the price paid including transaction costs and income directly attributable to the acquisition or issuance of the financial asset (even if not yet paid), a loan or receivable is measured at amortised cost, which can be adjusted to take account of any write-downs/write-backs resulting from the valuation process.
A profit (or loss) on loans and receivables is recognised through profit or loss:

- when a loan or receivable is derecognised: in item 100.a) "Gains (losses) on disposal or repurchase";

or

- when a financial asset is impaired (or the impairment loss previously recognised is reversed: in item 130.a) "Net impairment losses/writebacks on (a) loans and receivables".

Interest on loans and receivables is recognised in profit or loss on an accrual basis using the effective interest rate method under item 10. "Interest income and similar revenue".
Delay interest is taken to the income statement on collection or receipt.
To measure credit exposures, the Bank refers to the reference regulations supplemented by internal and Group provisions and policies governing the classification of loans and their transfer within the various categories.

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

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

Allowances for impairment of loans and receivables are based on the present value of expected cash flows of principal and interest; in determining the present value of future cash flows, the basic requirement is the identification of estimated collections, the timing of collections and the discount rate used. The amount of the loss on impaired exposures classified as non-performing 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. If the original interest rate cannot be identified directly, or if identifying it would be excessively onerous, the best approximation is used.

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.

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

In the Notes to the Accounts, write-downs of impaired loans are classified as specific in the relevant Income Statement item even when the calculation is flat-rate or statistical, as indicated below.

When the reasons for the value adjustments are no longer deemed to exist, and this assessment is objectively attributable to an event connected to the improvement in the financial solvency of the debtor after the adjustment, a reversal is made in the same income statement item, within the amount of the amortised cost that there would have been if there had been no impairments.

Derecognition of a loan or receivable in its entirety is made when the underlying cause of the loan or receivable no longer exists, or when the loan or receivable is deemed to be irrecoverable or is written off. Write-offs are recognised directly in profit or loss under item 130 (a) "Impairment losses/writebacks on loans and receivables" and reduce the amount of the principal of the loan or receivable. Reversals of all or part of amounts previously written off are recognised in the same item.

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

# Part A - Accounting Policies (Continued)

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 EBA standards have also introduced the definition of forborne exposures. Credit exposures are defined as forborne whose original contractual terms and conditions are modified or for which a total or partial refinancing of the debt is granted, as a result of financial difficulties of the debtor. Forborne exposures may be classified in the impaired loans category (non-performing, unlikely to pay, past-due loans and overdrawn impaired exposures) or as unimpaired loans. The accounting policies regarding provisions and assessments of forborne exposures are in line with the general principle set out by IAS 39, with the clarifications given below regarding renegotiated loans classified as unlikely to pay.

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

- **Non-performing loans:** 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 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 exposures;
- **Unlikely to pay:** i.e. on- and off-balance sheet exposures which do not meet the conditions for classifying the borrower 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 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;
  - loans under renegotiation involving a debt/equity swap are valued, pending swap finalisation, on the basis of the conversion agreements entered into at the reporting date. Any differences between the value of the loans and the fair value of the equity instruments on initial recognition are recognised through profit or loss as write-downs.
- Past-due and/or overdrawn impaired exposures: i.e. on-balance sheet exposures, other than those classified as non-performing or unlikely to pay, that are past due or overdrawn at the reporting date. The past due and/or overdrawn impaired exposures may be determined, alternatively, with respect to the individual debtor or the individual transaction. Specifically, they represent the total exposure to any borrower not included in the unlikely to pay and non-performing loans categories, who at the reporting date has expired facilities or unauthorised overdrafts that are more than 90 days past due and meet the requirements set out by local supervisory regulations for their classification under the "past due exposures" category (TSA banks) or "defaulted exposures" (IRB banks). Past-due and/or overdrawn impaired exposures are valued at a flat rate on a historical/stochastic basis by applying where available the risk rating referred to Loss Given Default (LGD) under Regulation (EU) No. 575/2013 (CRR) on prudential requirements for credit institutions and investment firms.

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

and

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

The collective assessment of performing loans is used for groups of loans for which individually there are no indicators of impairment: to these portfolios a latent impairment can be attributed, according to the method described below, inter alia on the basis of the risk factors used under CRR prudential regulations.

Loans with similar characteristics in terms of credit risk - in relation to loan type, technical features, the borrower's sector of economic activity, geographical location, type of security or other relevant factors - are assigned different classes to which a PD (Probability of Default) and LGD (Loss Given Default) is associated for each loan; these are uniform for each class of loan.

The methods used combine the CRR prudential regulation recommendations and IFRS. The latter (IAS 39) exclude future loan losses not yet sustained, but include losses already sustained even if they were not manifest at the time of measurement, on the basis of past experience of losses on assets having a similar risk profile to the assets being measured.

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

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

If these indicators are not available, estimated value and standard loss percentages, based on internal historical and sectoral series, shall be used.
Allowances for unsecured loans to residents of countries experiencing debt service difficulties, where the transfer risk is not included in the rating system applied, are generally determined, country by country, with the aim of attributing latent impairment on the basis of shared parameters.
Impairment losses are recognised as a reduction of the carrying amount of the loan or receivable, whereas the risk arising from off-balance sheet items, e.g. loan commitments and loan commitments and write-downs for impairment of guarantees given, is recognised in profit and loss under item 130.d) "Impairment Losses/writebacks on other financial assets" with contra item 100. "Other Liabilities").

## 5 - Financial Instruments at Fair Value through Profit or Loss (FIaFV)

Any financial asset may be designated, in accordance with the provisions of IAS 39 as a financial instrument measured at fair value through profit and loss on initial recognition, except for the following:
• investments in equity instruments for which there is no price quoted in active markets and whose fair value cannot be reliably determined;
• derivatives.

FIaFV includes financial assets:
(i) not belonging to regulatory trading book, whose risk is:
  • connected with debt positions measured at fair value (see also item 15 "Financial liabilities at fair value through profit or loss");
  • managed by the use of derivatives not treatable as accounting hedges.
(ii) represented by hybrid (combined) instruments containing embedded derivatives that otherwise would have been separated from the host contract.

FIaFV are accounted for in a similar manner to HfT financial assets (see Section 1 - Financial assets held for trading), however gains and losses, both realised and unrealised, are recognised in item 110. "Gains (losses) on financial assets and liabilities at fair value through profit and loss".

At the reporting date the Bank did not hold any financial assets classified as "Financial assets at fair value through profit and loss".

## 6 - Hedge Accounting

Hedging derivatives are those created to hedge market risks (interest-rate, currency and price) to which the hedged positions are exposed. They may be described as follows:
- fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability, or an identifiable portion of such an asset or liability;
- cash flow hedge: a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction which could affect profit or loss in future periods;
- hedge of a net investment in a foreign entity, whose operations are presented in a currency other than euro.
Hedging derivatives are initially recognised on trade date and are valued at their fair value.

A hedging relationship qualifies for hedge accounting if there is formal designation and documentation of the hedging relationship including the risk management objective, the strategy for undertaking the hedge, and how the hedging instrument's prospective and retrospective effectiveness will be assessed. It is necessary to assess the hedge's effectiveness, at inception and in subsequent periods, in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.
A hedge is regarded as highly effective if, at the inception of the hedge and in subsequent periods, it is determined prospectively to remain highly effective, and the retrospectively verified that the hedge ratio (i.e. the changes in fair value of hedged items and hedging instruments) is within a range of 80-125 per cent. The hedge is assessed on an ongoing basis and thus must prospectively remain highly effective throughout the financial reporting periods for which the hedge has been designated.

The assessment of effectiveness is made at each balance-sheet date or other reporting date. If the assessment does not confirm the effectiveness of the hedge, from that time on hedge accounting is discontinued in respect of the hedge and the hedging derivative is reclassified as a held-for-trading instrument.
In addition, the hedging relationship ceases when the hedging instrument expires or is sold, terminated or exercised; the hedged item is sold, expires or is repaid; or it is no longer highly probable that the forecast transaction will occur.

Hedging derivatives are measured at fair value. In particular:
- **Fair Value Hedging** - an effective fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value is recognised through profit or loss in item 90. "Fair value adjustments in hedge accounting"; the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised through profit or loss in the same item. Hedging ineffectiveness is represented by the difference between the change in the fair value of hedging instruments and the change in the fair value of hedged item. If the

hedging relationship is terminated for reasons other than the sale of the hedged item, this is measured according to the original criterion dictated by the accounting standard applied to the relevant portfolio. In the case of interest-bearing instruments, the difference between the carrying amount of the hedged item on termination of the hedging and the carrying amount it would have had if the hedge had never existed, is recognised through profit or loss in interest receivable or payable over the residual life of the original hedge. If the hedged item is sold or repaid, the portion of fair value which is still unamortised is recognised immediately under item 100. "Gains (losses) on disposal or repurchase". The difference in fair value of the hedging derivative since the latest effectiveness testing date is recognised in profit or loss under item 90. "Fair value adjustments in hedge accounting". With regard to specific Fair Value hedging derivatives of securities included in the portfolio of "Available-for-sale financial assets", the fair value changes of the hedging instrument were recognised through profit or loss in item 90. "Fair value adjustments in hedge accounting"; fair value changes of the hedged item attributable to the hedged risk (interest rate risk) were recognised through profit or loss in the same item 90; the fair value changes of the hedged item relating to the unhedged risk (essentially the credit risk) are recognised in the Statement of Comprehensive Income and shown in item 130. "Revaluation reserves" in equity;

- **Cash Flow Hedging** - hedges are valued at fair value Change in the fair value of a hedging instrument that is considered effective is recognised in equity item 130 "Revaluation reserves". The ineffective portion of the gain or loss is recognised through profit or loss in item 90. "Fair value adjustments in hedge accounting". If a cash flow hedge is determined to be no longer effective or the hedging relationship is terminated, the cumulative gain or loss on the hedging instrument that remains recognised in "Revaluation reserves" from the period when the hedge was effective remains separately recognised in "Revaluation reserves" until the forecast hedged transaction occurs or is determined to be no longer possible; in the latter case, the gains or losses are transferred from shareholders' equity to item 80. "Gains and losses on financial assets and liabilities held for trading". The overall fair value changes recorded in item 130. "Revaluation reserves" are reported in the Statement of Comprehensive Income.
- **Hedging a Net Investment in a Foreign entity** - hedges of a net investment in a foreign entity, whose operations are presented in a currency other than euro, are accounted for similarly to cash flow hedges. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised directly in equity is recognised through profit or loss on disposal of the foreign entity. The fair value changes recorded in item 130. "Revaluation reserves" are also reported in the Statement of Comprehensive Income. The ineffective portion of the gain or loss is recognised through profit or loss in item 90. "Fair value adjustments in hedge accounting";
- **macro-hedged financial assets (liabilities)** - IAS 39 allows a fair-value item hedged against interest rate fluctuations to be not only a single asset or liability but also a monetary position contained in a number of financial assets or liabilities (or parts of them); accordingly, a group of derivatives can be used to offset fair-value fluctuations in hedged items due to changes in market rates. Macro hedging may not be used for net positions resulting from the offsetting of assets and liabilities. As for fair value micro hedging, macro hedging is considered highly effective if, at the inception of the hedge and throughout its life, changes in the fair value attributable to the hedged position are offset by changes in fair value of the hedging instrument and if the hedge ratio is retrospectively assessed falling within the range of 80-125 per cent. Net changes - gains or losses - in the value of the macro-hedged assets and liabilities attributable to the hedged risk are recognised in asset item 90 and liability item 70 respectively and offset the profit and loss item 90 "Fair value adjustments in hedge accounting". The gain or loss from remeasuring the hedging instrument at fair value is recognised in the same profit and loss item.

The ineffectiveness of the hedging arises to the extent that the change in the fair value of the hedging item differs from the change in the fair value of the hedged monetary position. The extent of hedge ineffectiveness is in any case recognised in profit and loss item 90. "Fair value adjustments in hedge accounting".
If the hedging relationship is terminated, for reasons other than the sale of the hedged items, cumulative gain or loss in items 90 (Assets) and 70 (Liabilities) is recognised through profit or loss in interest income or expenses, along the residual life of the hedged financial assets or liabilities.
If the latter are sold or repaid, unamortised fair value is at once recognised through profit and loss in item 100. "Gains (Losses) on disposals/repurchase.

The Bank had in place at the reporting date only specific fair value hedges of debt securities issued by governments and classified in the "Available-for-sale financial assets" portfolio and macro-hedges against the interest rate risk of personal loans to retail customers, of bonds issued by UniCredit subscribed by the Bank and classified under the *"Loans and receivables"* category and fixed-rate direct deposits.

## 7 - Equity Investments

Equity investments are equity instruments and consequently defined as financial instruments under IAS 32.
Investments in equity instruments made with the intention of establishing or maintaining a long-term operational relationship with the investee are strategic investments.
The following are the types of equity investment:

### Subsidiaries

Entities, including structured entities, over which the Group has direct or indirect control, are considered subsidiaries. Control over an entity entails the Group's ability to exercise power in order to influence the variable returns to which the Group is exposed through its relationship with them.
In order to verify the existence of control, the Group considers the following factors:

- the purpose and establishment of the investee in order to identify which are the entity's objectives, the activities that determine its returns and how these activities are governed;
- the power in order to understand whether the Group has contractual rights that attribute the ability to govern the relevant activities; to this end only substantial rights that provide practical ability to govern are considered;

- the exposure held in relation to the investee in order to assess whether the Group has relations with the investee, the returns of which are subject to changes depending on the investee's performance;
- the existence of potential "principal - agent" relationships.

If the relevant activities are governed through voting rights, the existence of control is verified considering the voting rights held, including the potential ones, and the existence of any shareholders' or other agreements which attribute the right to control the majority of the voting rights, to appoint the majority of the governing body or in any case the power to determine the entity's financial and operating policies.

Subsidiaries may also include any "structured entity" in which the voting rights are not significant for establishing control, including special purpose entities and investment funds.

In the case of structured entities, the existence of control is ascertained considering both the contractual rights that enable governance of the relevant activities of the entity (or those that contribute most to the results) and the Group's exposure to the variability of returns deriving from these activities.

### Joint venture

A joint venture is an entity over which a company has:
- a joint-control agreement;
- rights to the entity's net assets.

Joint control exists only when the decisions relating to significant activities require the unanimous consent of the parties sharing control.

At the reporting date, the Bank held no investments in joint ventures.

### Associates

An associate is a company over which the investor has significant influence and which are not wholly-owned subsidiaries or joint ventures.
It is presumed that the investor has significant influence if the investor:
- holds, directly or indirectly, at least 20 per cent of the voting power of an investee, or
- is able, also through shareholders' agreements, to exercise significant influence through:
- representation on the board of directors or equivalent governing body of the investee;
- participation in policy-making process, including participation in decisions about dividends or other distributions;
- material transactions between the investor and the investee;
- interchange of managerial personnel;
- provision of essential technical information.

It is to be pointed out that only companies which are governed through voting rights can be classified as subject to significant influence.
At the reporting date, the Bank held no investments in associates.

Investments in subsidiaries, associates and joint ventures are measured at cost.

The purchase price of an equity investment is the sum of:
- the fair value, at the date of acquisition, of the assets sold, liabilities assumed and equity instruments issued by the purchaser in exchange for control of the investee;

and
- any cost directly attributable to the acquisition.

If there is evidence that an equity investment may have become impaired, its carrying value is compared with its recoverable value, which is determined on the basis of its value in use, in turn calculated by means of valuation models in general use in financial business, which discount expected future cash flow from the equity investment.

If it is not possible to obtain sufficient information the value in use is considered to be the net worth of the company. If the recovery value is less than the carrying value, the difference is recognised through profit or loss in item "210. Profit (loss) of associates". If the reasons for impairment are removed following a subsequent event occurring after the recognition of impairment, write-backs are made through same profit or loss item.

Equity investments considered strategic investments not covered by the above definitions and not recognised in item "140. Non-current assets and disposal groups held for sale" and "90. Liabilities included in disposal groups classified as held for sale" (see Section 10 - Non-current assets and disposal groups held for sale) - are classed as available-for-sale financial assets and treated accordingly (see Section 2 - Available-for-sale financial assets).

## 8 - Property, Plant and Equipment (Tangible Assets)

The item includes:
- land and buildings
- furniture and fixtures
- plant and machinery
- other machinery and equipment

# Part A - Accounting Policies (Continued)

and is divided between:
- assets used in the business;
- assets held as investments.

Tangible assets used in the business are held for use in the production or supply of goods or services or for administrative purposes and are expected to be used during more than one period.
Property, plant and equipment also include leasehold improvements relating to assets which can be separately identified. They are classified according to the specific sub-items relating to the asset type (e.g. plants). Leasehold improvements are usually borne in order to make leased premises fit for the expected use. Improvements and additional expenses relating to property, plant and equipment identifiable but not separable are recognised in item 150 "Other assets".

Tangible assets held for investment purposes are properties covered by IAS 40, i.e. properties held in order to derive rentals and/or a capital gain.
Property, plant and equipment are initially recognised at cost including all costs directly attributable to bringing the asset into use (transaction costs, professional fees, direct transport costs incurred in bringing the asset to the desired location, installation costs and dismantling costs).
Subsequent costs are added to the carrying amount or recognised as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be reliably measured. Other expenses borne at a later time (e.g. normal maintenance costs) are recognised in the year they are incurred in profit and loss items:
-150.b) "Other administrative expenses", if they refer to assets used in the business;
or:
-190. "Other net operating income", if they refer to property held for investment.
After being recognised as an asset, an item of property, plant and equipment is carried at cost less any accumulated depreciation and any cumulative impairment losses.
An item with a finite useful life is subject to straight-line depreciation.

The depreciation rates used for the main categories of property, plant and equipment are as follows, reflecting their estimated useful lives:

| | |
|---|---|
| • Furnishings | 15% |
| • Motor vehicles | 25% |
| • Buildings | 3% |
| • Alarm and safety systems | 30% |
| • Lifts and lifting equipment | 7.5% |
| • Electronic equipment | 20% |
| • Ordinary office equipment | 12% |
| • Machinery, appliances and equipment | 15% |
| • Office furniture and fittings | 12% |
| • Mobile phones and photographing systems | 20% |
| • Tablets | 33.33% |

Land and buildings, if separately quantifiable, are recognised separately, even if acquired together. Land is not depreciated since it usually has an indefinite useful life. Buildings, conversely, have a finite useful life and are therefore subject to depreciation.
The estimate of the useful life of an asset is reviewed at least at each accounting period-end on the basis inter alia of the conditions of use of the asset, of maintenance conditions and expected obsolescence, and, if expectations differ from previous estimates, the depreciation amount for the current and subsequent financial years is adjusted accordingly.
If there is objective evidence that an asset has been impaired, the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i.e. the present value of future cash flows expected to originate from the asset. Any value adjustment is recognised in profit and loss item 170. “Net impairment/Write-backs on property, plant and equipment".
If the value of a previously impaired asset is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there had been no losses recognised on the prior-year impairment.
An intangible asset is de-recognised (i) on disposal or (ii) when no future economic benefits are expected from its use or sale; and any difference between sale proceeds or recoverable value and carrying value is recognised in the profit and loss item “240. Gains (losses) on disposal of investments" or “170. Net impairment/write-backs on property, plant and equipment".

## 9 - Intangible assets

An intangible asset is an identifiable non-monetary without physical substance, controlled by the Bank, which is expected to be used during more than one period and from which future economic benefits are probable.
Intangible assets mainly consist of goodwill, software and costs incurred for the creation of the new Fineco website.
Intangible assets other than goodwill are recognised at purchase cost, i.e. including any cost incurred to bring the asset into use, less accumulated amortisation and any recognised impairment losses.
An intangible asset with a finite life is subject to straight-line amortisation over its estimated useful life.
Residual useful life is usually assessed as follows:
- software maximum 3 years;
- other intangible assets maximum 5 years.

There are no intangible assets with an indefinite life, except for goodwill.

If there is objective evidence that an asset has been impaired, the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i.e. the present value of future cash flows expected to originate from the asset. Any impairment loss is recognised in profit and loss item 180. "Net impairment/write-backs on intangible assets".
If the value of a previously impaired intangible asset, other than goodwill is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there were no losses recognised on the prior-year impairment.
An intangible asset is de-recognised (i) on disposal or (ii) when no additional future economic benefits are expected from its use or sale; and any difference between sale proceeds or recoverable value and carrying value is recognised in the profit and loss item "240. Gains (losses) on disposal of investments" or "180. Net impairment/write-backs on intangible assets".

**Goodwill**

In accordance with IFRS3, goodwill is the excess of the cost of a business combination over the interest acquired in the net fair value, at the acquisition date, of the assets and liabilities acquired.

Goodwill arising from the acquisition of companies through merger or absorption is recognised as an intangible asset, whereas goodwill arising from the acquisition of subsidiaries, associates and joint ventures is included in the acquisition cost and, then, shown as an increase in the value of the investments. At a subsequent financial reporting date, goodwill is recognised net of any cumulative impairment losses and is not amortised.

Goodwill is tested for impairment annually. Impairment losses on goodwill are recognised in profit and loss item 230. "Impairment of goodwill". In respect of goodwill, no write-backs are allowed.
Goodwill relates to buy-outs of divisions or companies engaged in trading activities or the distribution of financial, banking and insurance products through personal financial advisors. These activities have been fully integrated with the Bank's ordinary operations; as a result, it is not possible to isolate the contribution of each company/business division from the Bank's overall business. This means that to establish the reasonableness of the value of goodwill recognised in the financial statements it is necessary to take account of FinecoBank's comprehensive income. The cash generating unit (CGU) is the Bank as a whole.
In view of the specific business model adopted by the Bank, which involves a high level of integration between personal financial advisors and the trading and banking platform, so that the personal financial advisors network is an integral part of the overall offer, which includes banking, brokerage and investing services, an allocation of costs/revenues to the macro areas of activity is not considered relevant or meaningful.

Please see Section 12.3 Intangible assets - Other information in Part B below for further information on goodwill and related impairment tests.

## 10 - Non-current Assets Held for Sale

These categories include individual assets held for disposal (tangible, intangible and financial assets) or groups of assets held for sale, with the associated liabilities, as required by IFRS 5.
Individual assets (or groups of assets held for sale) are recognised in item 140. "Non-current assets and disposal groups held for sale" and 90. "Liabilities included in disposal groups classified as held for sale", respectively, at the lower of their carrying amounts and fair values less costs to sell.
The revaluation reserves relating to Non-current assets held for sale, which are recorded as a contra item to changes in value relevant for this purpose, are reported separately in the Statement of Comprehensive Income (see Part D - Comprehensive Income).
The net balance of profits (dividends, interest income, etc.) and losses (interest expense, etc.) attributable to groups of assets or liabilities held for sale are recognised in the income statement under item 280. "Profit (Loss) after tax from discontinued operations". Profits and losses attributable to individual assets held for disposal are recognised in the income statement under the most appropriate item.

At the balance sheet date the Bank held no non-current assets classified as held for sale.

# Part A - Accounting Policies (Continued)

## 11 - Current and Deferred Tax

Tax assets and liabilities are recognised in the balance sheet respectively in asset item 130. "Tax assets" and in liability item 80. "Tax liabilities".
In compliance with the "Balance sheet liability method", current and deferred tax items are:

- current tax assets, i.e. amount of tax paid in excess of income tax due under the current national tax regulations;
- current tax liabilities, i.e. tax payables due under the current Italian tax regulations;
- deferred tax assets, i.e. amounts of income tax recoverable in future fiscal years and relating to:
  - deductible temporary differences;
  - the carry-forward of unused tax losses;
  - the carry-forward of unused tax credits;
- deferred tax liabilities, i.e. the payables for income tax due in future fiscal years in respect of taxable temporary differences.

Current and deferred tax assets and tax liabilities are calculated in accordance with local tax regulations and are recognised in profit or loss on an accrual basis. More specifically, for current IRES income tax, a rate of 27.50% has been calculated; for IRAP corporate tax, the rate applied was 5.57%.
In general, deferred tax assets and liabilities arise when there is a difference between the accounting treatment and the tax treatment of the carrying amount of an asset or liability.
Deferred tax assets and liabilities are recognised applying tax rates that at the balance sheet date are expected to apply in the period when the carrying amount of the asset will be recovered or the liability will be settled on the basis of tax regulations in force, and are periodically reviewed in order to reflect any changes in regulations.
In this regard, it should be noted that the effects of the reduction in the IRES income tax rate from 27.50% to 24% introduced, with effect from January 1, 2017 effective for tax periods after the period to December 31, 2016, introduced by the Stability Law for 2016 were "neutralised" for the Bank as a result of the introduction, by the same Law, of an additional 3.5 percentage points for credit institutions effective for the same tax periods.
Furthermore, deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profit will be generated. In accordance with the provisions of IAS12, the probability that sufficient future taxable profit will be available, against which the deferred tax assets can be utilised, is reviewed periodically. The carrying amount of deferred tax assets should be reduced to the extent that it is not probable that sufficient taxable profit will be available.
Deferred tax liabilities are always recognised.
Current and deferred taxes are recognised in profit and loss item 260. "Tax expense (income) related to profit or loss from continuing operations", except for tax referred to items that in the same or in another fiscal year are credited or charged directly to equity, such as those relating to valuation gains or losses on available-for-sale financial assets, whose changes in value are recognised, after tax, under the revaluation reserves directly in the statement of comprehensive income.
Current tax assets are shown in the balance sheet net of related current tax liabilities, where the following requirements are met:

- there is a right to offset the recognised amounts; and
- there is an intention to settle the asset and liability positions with a single payment on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets are shown in the balance sheet net of related deferred tax liabilities, where the following requirements are met:

- there is a right to offset the underlying current tax assets with the current tax liabilities; and
- deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or different taxable entities which intend to settle current tax assets and liabilities on a net basis (usually under a tax consolidation agreement).

## 12 - Provisions for risks and charges

### Retirement Payments and Similar Obligations

Retirement provisions - i.e. provisions for employee benefits paid after leaving employment - are defined as defined contribution plans or defined benefit plans according to the economic nature of the plan.
In particular:

- Defined-benefit plans provide a series of benefits depending on factors such as age, years of service and compensation policies. Under this type of plan actuarial and investment risks are borne by the company.
- Defined-contribution plans are plans under which the company makes fixed contributions. Benefits are the result of the amount of contributions paid and return on contributions invested. The employer bears no actuarial and/or investment risks connected with this type of plan as it has no legal or implicit obligation to make further contributions, should the plan not be sufficient to provide benefit to all employees.

Defined-benefit plans are present-valued by an external actuary using the unit credit projection method.
This method distributes the cost of the benefit evenly over the employee's working life. The liability is determined as the present value of average future payments adjusted according to the ratio of years of service to theoretical total years of service at the time of payment of the benefit.

More specifically, the amount recognised according to IAS 19 Revised, as a net liability/asset in item 120. Provisions for risks and charges - a) Post-retirement benefit obligations is the present value of the obligation at the balance sheet date, less any pension charges relating to benefits already provided but not yet recognised, less the fair value at the balance sheet date of plan assets other than those due to directly settle the obligations adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. Actuarial gains or losses from the defined-benefit liabilities are recognised through other comprehensive income under Revaluation reserves in item 140. Revaluation reserves are reported in the Statement of Comprehensive Income.
The discount rate used to discount obligations (whether financed or not) relating to benefits to be provided after retirement varies according to the currency of denomination and country where the liabilities are allocated and is determined on the basis of market yield at the balance sheet date of prime issuers' bonds with an average life in keeping with that of the relevant liability.

At the balance sheet date, the Bank did not have provisions for retirement payments and similar obligations.

### Other Provisions

Provisions for risks and charges consist of liabilities recognised when:
- the entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amounts recognised as provisions are the best estimate of the expenditure required to settle the present obligation. The risks and uncertainties that inevitably surround the relevant events and circumstances are taken into account in reaching the best estimate of a provision. As regards provisions for legal disputes, the estimate includes the costs of proceedings borne by the Bank in the event of an adverse conclusion of the dispute plus the expenses to be paid to lawyers, technical advisors and/or experts who assist the Bank, to the extent that it is believed that they will not be reimbursed by the counterparties. This estimate was determined by the Bank, in relation to the current dispute, based on the analysis of the historical trend of legal expenses incurred, by type of litigation and degree of judgment.
In addition, where the effect of the time value of money is significant (usually when the expense is expected to materialise more than 18 months after its recognition), the amount of the provision should be the present value of the best estimate of the cost required to settle the obligation. The discount rate used reflects the current market assessments.

Provisions are reviewed periodically and adjusted to reflect the current best estimate. If it becomes clear that it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provisions are used only for expenses for which they were originally recognised. Provisions for the year are recognised in the income statement item 160. “Net provisions for risks and charges" include increases due to the passage of time; they are also net of any re-attributions.

"Other provisions" also include obligations relating to benefits due to personal financial advisors, specifically supplementary customer portfolio payments and contractual payments, which can be considered defined benefit plans; accordingly, these obligations are calculated by an actuary using the unit credit projection method (see paragraph "Retirement Payments and Similar Obligations"), and payments under non-competition agreements.

In certain cases, provisions for risks and charges (for example related to staff expenses and administrative costs) have been recognised under their own item in the income statement to better reflect their nature.

## 13 - Liabilities and Securities in Issue

The items Deposits from banks, Deposits from customers and Debt securities in issue are used for all forms of third-party funding other than trading liabilities or those valued at fair value.

These financial liabilities are recognised on the settlement date principle initially at fair value, which is normally the consideration received less transaction costs directly attributable to the financial liability. Subsequently these instruments are measured at amortised cost using the effective interest method.

Hybrid debt instruments relating to equity instruments, foreign exchange, credit instruments or indexes, are treated as structured instruments. The embedded derivative is separated from the host contract and recognised as a derivative, provided that separation requirements are met, and recognised at fair value. The embedded derivative is initially recognised at fair value and subsequently reassessed. Any subsequent changes in fair value are recognised in profit and loss item 80. "Gains (losses) on financial assets and liabilities held for trading". The difference between the total amount received and the fair value of the embedded derivative is attributed to the host contract.

Instruments convertible into treasury shares require the recognition, at the issuing date, of a financial liability and an equity component recognised in item 150. “Equity instruments”, whenever the contractual terms provide for physical delivery. The equity component is initially measured at residual value, i.e., the overall value of the instrument less the separately determined value of a financial liability with no conversion clause and the same cash flow. The financial liability is initially recognised at amortised cost using the effective interest method.

# Part A - Accounting Policies (Continued)

Securities in issue are recognised net of repurchased amounts; the difference between the carrying value of the liability and the amount paid to buy it in is taken to profit and loss under item 100.d) "Gains (losses) on disposals or buy-ins of financial liabilities". Subsequent disposal by the issuer is considered as a new issue which doesn't produce gains or losses.

The Bank's debts do not include covenants (see glossary in the attachments) that would cause default or restructuring events. There are no debt instruments involving convertibility to equity instruments (under IASB IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments).

At the balance sheet date, the Bank did not have any debt securities in issue and had not issued any hybrid debt instruments or instruments convertible into own shares.

## 14 - Financial Liabilities Held for Trading

Financial liabilities held for trading include:
- derivatives that are not designated as hedging instruments;
- obligations to deliver financial assets borrowed by a short seller (i.e., an entity that sells financial assets it does not yet own);
- financial liabilities issued with an intention to repurchase them in the near term;
- financial liabilities that are part of a portfolio of financial instruments considered as a unit and for which there is evidence of a recent pattern of trading.

HfT financial liabilities, including derivatives, are measured at fair value initially and for the life of the transaction, except for derivative liabilities settled by delivery of an unlisted equity instrument whose fair value cannot reliably be measured, and which are therefore measured at cost.

## 15 - Financial Liabilities at Fair Value through Profit or Loss

According to IAS 39, financial liabilities, as well as financial assets, may also be designated on initial recognition as measured at fair value, provided that:
- this designation eliminates or considerably reduces the discrepancy that could arise from the application of different methods of measurement of assets and liabilities and related gains or losses;

or
- a group of financial assets, financial liabilities or both are managed and measured at fair value under risk management or investment strategy which is internally documented with the Bank's Board of Directors or equivalent body.

This category may also include financial liabilities represented by hybrid (combined) instruments containing embedded derivatives that otherwise should have been separated from the host contract.
These transactions are recognised in the same was as the HfT financial liabilities, with gains and losses, both realised and unrealised, recognised in item 110. "Gains (losses) on financial assets and liabilities at fair value through profit and loss".

At the balance sheet date the Bank did not hold any financial liabilities classified as "Financial liabilities at fair value through profit or loss".

## 16 - Foreign Currency Transactions

A foreign currency transaction is recognised at the spot exchange rate of the transaction date.

Foreign currency monetary assets and liabilities are translated at the closing rate of the period.

Exchange differences arising from settlement of monetary items at rates different from those of the transaction date and unrealised exchange rate differences on foreign currency assets and liabilities not yet settled, other than assets and liabilities designated as measured at fair value and hedging instruments, are recognised in profit and loss item 80. "Gains and losses on financial assets and liabilities held for trading".
Non-monetary assets and liabilities recognised at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.
Non-monetary items that are measured at fair value in a foreign currency are translated at the closing rate. The exchange differences are recognised:
- in profit and loss if the financial asset is HfT;
- in the statement of comprehensive income and shown in revaluation reserves if the financial asset is AfS.

All exchange differences recorded under revaluation reserves in shareholders' equity are also reported in the Statement of Comprehensive Income.

## 17 - Other information

### Business combinations

A business combination is a transaction through which an entity obtains control of a company or of a business segment, thus bringing together different businesses into one reporting entity.
A business combination may result in a Parent-subsidiary relationship in which the acquirer is the Parent and the acquiree a subsidiary of the acquirer.
A business combination may involve the purchase of the net assets of another entity, in which case goodwill can arise, or the purchase of the equity of the other entity (mergers).
IFRS 3 requires that all business combinations shall be accounted for by applying the purchase method, that involves the following steps:
- identifying an acquirer;
- measuring the cost of the business combination;
and
- allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

The cost of a business combination is the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer, in exchange for control of the acquiree.

The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. When this is achieved through a single exchange transaction, the date of exchange coincides with the acquisition date.

A business combination may involve more than one exchange transaction; nevertheless, the cost of the business combination remains equal to the fair value of the total shareholding acquired. This involves the revaluation at fair value - and the recognition of the effects in the Income Statement - of the equity investments previously held in the acquired entity.

The cost of a business combination is allocated by recognising the assets, the liabilities and the identifiable contingent liabilities of the acquired company at their acquisition-date fair value. Exceptions to this principle are deferred income tax assets and liabilities, employee benefits, indemnification assets, reacquired rights, non-current assets held for sale, and share-based payment transactions that are subject to review in accordance with the principle applicable to them.

The positive difference between the cost of the business combination and the acquirer's interest at fair value, net of the identifiable assets, liabilities and contingent liabilities, must be accounted for as goodwill.

After initial recognition, goodwill is tested for impairment at least annually.

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall reassess the fair values and immediately recognise any excess remaining after that reassessment in profit or loss.
In the case of business combinations resulting in a Parent company-subsidiary (acquirer-acquiree) relationship, the equity investment is accounted for under the cost method.

### Derecognition of financial assets

Derecognition is the removal of a previously recognised financial asset from an entity's balance sheet.

Before evaluating whether, and to what extent, derecognition is appropriate, under IAS 39 an entity should determine whether the relevant conditions apply to a financial asset in its entirety or to a part of a financial asset. The standard is applied to a part of financial assets being transferred if, and only if, the part being considered for de-recognition meets one of the following conditions:
• the part comprises only specifically identified cash flows from a financial asset (or a group of assets), e.g. interest cash flows from an asset;
• the part comprises a clearly identified percentage of the cash flows from a financial asset, e.g., a 90 per cent share of all cash flows from an asset;
• the part comprises only a fully proportionate (pro rata) share of specifically identified cash flow, e.g. 90 per cent share of interest cash flows from an asset.
In all other cases, the standard is applied to the financial asset in its entirety (or to the group of similar financial assets in their entirety).
An entity shall derecognise a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the contractual rights to receive the cash flows of the financial asset to a third party.
Rights to cash flow are considered to be transferred even if contractual rights to receive the asset's cash flow are retained but there is an obligation to pay this cash flow to one or more entities and all the following conditions are fulfilled (pass-through agreement):
• there is no obligation on the Bank to pay uncollected amounts associated with the original asset;
• sale or pledge of the original asset is not allowed, unless it secures the obligation to pay cash flow;
• there is an obligation to transfer forthwith all cash flows received and may not invest them, except for liquidity invested for the short period between the date of receipt and that of payment, provided that the interest accrued in that period is paid on.

# Part A - Accounting Policies (Continued)

Recognition is also subject to verification of effective transfer of all the risks and rewards of ownership of the financial asset. If the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall de-recognise the asset (or group of assets) and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer.
Conversely, if the entity substantially retains all the risks and rewards of ownership of the asset (or group of assets), the entity shall continue to recognise the transferred asset(s). In this case it is necessary to recognise a liability corresponding to the amount received under the transfer and subsequently recognise all income accruing on the asset or expense accruing on the liability.
The main transactions that do not allow, under the above rules, total derecognition of a financial asset are securitisations, repurchase (sell and buy- backs) and securities lending transactions.
In the case of securitisations, the company does not de-recognise the financial asset on purchase of the equity tranche or provision of other forms of support of the structure which result in retention by the company of the credit risk of the securitised portfolio.
In the case of repurchase transactions and stock lending, the assets transacted are not derecognised since the terms of the transaction entail the retention of all their risks and rewards.
Lastly, it should be noted that securities lending transactions collateralised by other securities or not collateralised were recorded as off-balance sheet items.

At the reporting date, no loan securitisation transactions were present.

### Repos and securities lending

Securities received in a transaction that entails a contractual obligation to sell them at a later date or delivered under a contractual obligation to repurchase are neither recognised nor derecognised. In respect of securities purchased under an agreement to resell, the consideration is recognised as a loan to customers or banks, or as an assets held for trading; In respect of securities held in a repurchase agreement, the liability is recognised as due to banks or customers, or as financial liabilities held for trading. Revenue from these loans, being the coupons accrued on the securities and the difference between the sale/purchase and resale/repurchase prices, is recognised in profit or loss through interest income and expenses on an accruals basis.
These transactions can only be offset if, and only if, they are carried out with the same counterparty and provided that such offset is provided for in the underlying contracts.
The same rules apply to securities lending transactions collateralised by cash fully available to the lender.
The profit or loss items connected with these transactions are booked respectively:
- in the item Interest, for the positive component (borrower) and the negative component (lender) related to the return on cash paid to the lender;
- in the item Fees and commissions, for the negative component (borrower) and the positive component (lender) related to the service received (provided) through the provision of the security by the lender.

With reference to securities lending transactions collateralised by other securities, or not collateralised, the security lent or the security put up as collateral are still recognised as assets in the balance sheet, depending on the role - lender or borrower, respectively - played in the transaction.

Counterparty risk related to the latter types of securities lending or borrowing transactions is shown under the off-balance sheet exposures in the tables of Part E - Section 1 - Credit risk - A. Credit quality.

### Equity instruments

Equity instruments represent a residual interest in assets of the Bank, net of liabilities. An instrument is classified as equity instrument if there are no contractual obligations to make payments in the form of principal, interest or other types of returns.
Specifically, instruments that meet the following requirements are classified as equity instruments:
- unlimited term or at least equal to the term of the company;
- full discretion of the issuer in coupon payments and redemptions, also advanced, of the principal outstanding.

Equity instruments include Additional Tier 1 instruments under Regulation (EU) No. 575/2013 (CRR) on prudential requirements for credit institutions and investment firms, which in addition to the above characteristics:
(i) maintain the issuer’s full discretion as to the reinstatement of the nominal value (write-up) following a capital event that resulted in a write-down;
(ii) do not include provisions that require the issuer to make payments (must pay clauses) as a result of actual events under the control of the parties.

Equity instruments other than ordinary or savings shares, are classified in item 150. "Equity instruments" for the amount received including transaction costs attributable to the transaction. Any coupons paid, net of related taxes, are deducted from Item 160. "Reserves". Any difference between the amount paid for extinguishing or repurchasing these instruments and their book value is recognised in item 160. "Reserves".

At the balance sheet date, the Bank had not issued any "Equity instruments".

### Treasury Shares

Changes in treasury shares are reported as a direct contra item to shareholders' equity, i.e. as a reduction to the latter in the amount of any purchases, and as an increase in the amount of any sales proceeds. This entails that, if treasury shares are subsequently sold, the difference between the sale price and the related post-tax repurchase cost is recognised entirely as a contra item to shareholders' equity.

## Provisions for employee severance pay

The "TFR" provision for Italy-based employee benefits is to be construed as a "post-retirement defined benefit". It is therefore recognised on the basis of an actuarial estimate of the amount of benefit accrued by employees discounted to present value. This benefit is calculated by an external actuary using the unit credit projection method (see Section 12 - under Provisions for Risks and Charges - Retirement Payments and Similar Obligations). This method distributes the cost of the benefit evenly over the employee's working life. The liability is determined as the present value of average future payments adjusted according to the ratio of years of service to total years of service at the time of payment of the benefit.

Following pension reform by Law 252 of December 5, 2005, TFR instalments accrued to December 31, 2006 (or to the date between January 1, 2007 and June 30, 2007 on which the employee opted to devolve their TFR to a supplementary pension fund) stay in the employer and are considered a post-employment defined benefit plan therefore incurring actuarial valuation, though with simplified actuarial assumptions, i.e., forecast future pay rises are not considered.

TFR instalments accrued since January 1, 2007 (date of Law 252 coming into effect) (or since the date between January 1, 2007 and June 30, 2007) are, at the employee's discretion, either paid into a pension fund or left in the company and (where the company has in excess of 50 employees) paid into an INPS Treasury fund by the employer, and are assimilated to a defined-contribution plan.

Costs relating to TFR are recognised in the Income Statement in item 150.a) "Administrative costs: staff expenses" and include, for the part of the defined benefit plan: (i) interest cost accrued in the year, for the part of plan considered defined contribution plan (ii) the accrued instalments for the year paid into the complementary pension scheme or to the Treasury fund of INPS.

Actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of obligations at period end, are recognised in Shareholders' equity under the Revaluation reserves in accordance with IAS 19 Revised and are also shown in the Statement of Comprehensive Income.

## Share-Based Payment

Equity-settled payments made to employees or other staff (in particular, personal financial advisors) in consideration of work services rendered or other goods received or services rendered, using shares of FinecoBank or the Group parent, which consist of:

- stock options;
- rights to receive shares upon attainment of certain objectives (“performance shares”), which are settled with equity instruments;
- Performance shares (i.e. awarded on attainment of certain objectives) settled in cash.

Considering the difficulty of reliably measuring the fair value of the services acquired against equity-settled payments, reference is made to the fair value of the instruments, measured at the date of their allocation.

The fair value of equity-settled payments or the purchase on the market of shares in the Bank in exchange of work or services is recognised as cost in profit and loss item 150. “Administrative costs” or 50. “Fee and commission expense” as a contra-entry to item 160. "Reserves", on an accruals basis over the period in which the services are acquired.

As for share-based payments settled in cash in favour of personal financial advisors, the services acquired and the liabilities assumed are measured at the latter’s fair value, recognised in Item 100. "Other Liabilities". Until the liability is settled, the fair value is recalculated at each balance sheet date until the settlement date, and all changes in fair value are recognised in item 50. “Fee and commission expense”.

Share based payments consisting in the payment of shares of the Parent Company directly allocated to employees of the Bank that involve settlement with shares of the Parent Company, under arrangements between the Bank and the Parent Company for their cash settlement, are measured at fair value, calculated when the related rights are assigned, recognised as a cost in profit and loss item 150 "Administrative costs", as a contra entry to item. 100. "Other Liabilities", on an accruals basis over the period in which the services are acquired.

## Other Long-term Employee Benefits

Long-term Employee Benefits are recognised in item 100. "Other liabilities" on the basis of the measurement of the liability at the balance sheet date.

## Guarantees given and credit derivatives treated as equivalent

Guarantees given and credit derivatives treated as equivalent, in accordance with IAS 39 (contracts that require the issuer to make specified payments to the holder to indemnify the latter for actual losses borne due to the default of a specific debtor on payment at a maturity set by a debt instrument) are recognised in item 100. "Other Liabilities".

On first recognition guarantees given are recognised at fair value, which usually corresponds to the amount received when the guarantee is issued. After initial recognition, guarantees given are recognised at the greater of the initially recognised value, net of any amortised portion, and the estimated amount required to meet the obligation.

The effects of valuation, related to any impairment of the underlying, are recognised in the same balance-sheet item contra item 130.d) "Impairment losses/write-backs on other financial transactions" in the income statement.

## Offsetting Financial assets and Financial liabilities

The accounting offsetting of assets and liabilities items has been performed according to IAS 32, assessing the fulfilment of the following requirements:

- current legal enforceable right to set off the recognised amounts;
- intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

# Part A - Accounting Policies (CONTINUED)

In accordance with IFRS 7, further information have been included in the table of Note to the accounts, in Part B - Other information.
Those tables show the following in particular:
- the carrying amounts, before and after the accounting offsetting effects, related to the financial assets and liabilities that meet the criteria for applying those effects;
- the amount of the exposures that do not meet the above mentioned criteria, but are included in master netting agreements, or similar agreements, that create the right to set-off only under specific circumstances (e.g., default events);
- the amount of the related collateral.

## RECOGNITION OF INCOME AND EXPENSES

### Interest Income and Expense

Interest income and expense and similar income and expense items relate to monetary items - i.e., liquidity and debt , financial instruments held for trading, measured at fair value through profit or loss or available for sale -, HtM financial assets, loans and receivables, deposits, and debt securities in issue.

Interest income and expense are recognised through profit or loss with respect to all instruments measured at amortised cost, using the effective interest method.
Interest also includes the net credit or debit balance of differentials and margins on financial derivatives:
- hedging interest-bearing assets and liabilities;
- HfT but linked for business purposes to assets and liabilities designated as measured at fair value (fair value option);
- linked for business purposes to HfT assets and liabilities paying differentials or margins on different maturities.

### Fees and Commissions

Fees and commissions are recognised according to the provision of the services from which they have arisen.
Securities trading commission is recognised at the time the service is rendered. Advisory fees and investment fund management fees are recognised on a pro-rata temporis basis.
Fees included in amortised cost used to calculate effective interest rates are not included under fees and commissions, since they are part of the effective interest rate.

### Dividends

Dividends are recognised in profit or loss in the financial year in which their distribution has been approved.

## RELEVANT IFRS DEFINITIONS

The main definitions introduced by IFRS are described below, other than those dealt with in previous sectionsi.

### Amortised cost

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of allocating the interest income or interest expense over the life of a financial asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Commissions forming an integral part of the effective interest rate include loan drawdown fees or underwriting fees relating to a financial asset not designated at fair value, e.g., fees received as compensation for the assessment of the issuer's or borrower's financial situation, for valuation and registration of security, and generally for the completion of the transaction (management fees).
Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

### Impairment of financial assets

At each balance sheet date an entity assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.
A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to our attention about the following loss events:
g) significant financial difficulty of the issuer or obligor;
h) a breach of contract, such as a default or delinquency in interest or principal payments;
i) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower which the lender would not otherwise consider;
j) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
k) the disappearance of an active market for that financial asset because of financial difficulties; however, the disappearance of an active market due to the fact that a company's financial instruments are no longer traded publicly is no evidence of impairment;
l) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets, including:
• adverse changes in the payment status of borrowers;
or
• national or local economic conditions that correlate with defaults on the assets.

Objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit and loss item 130. "Impairment losses/writebacks" and the asset's carrying value is reduced.
For instruments classified as available-for-sale financial assets that amount is equal to the balance of the negative valuation Reserve (see chapter 2 - Available-for-sale financial assets).

If the terms of a loan, receivable or held-to-maturity investment are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. If a loan, receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.
The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.
A reduction in the fair value of a financial asset below its cost or amortised cost is not necessarily an indication of impairment (e.g. reduction in the fair value of an investment in a debt instrument resulting from an increase in the risk-free interest rate).

Objective evidence of impairment is initially assessed individually; however, if it is determined that there is no objective evidence of individual impairment, the asset is included in a group of financial assets with similar credit risk characteristics and assessed collectively.

Formula-based approaches and statistical methods may be used to assess impairment losses on a group of financial assets. Models used incorporate the time value of money, and consider cash flows over the entire residual life of the asset (not just the following year) and do not give rise to an impairment loss on initial recognition of a financial asset. They take into account losses already sustained but not manifest in the group of financial assets at the time of measurement, on the basis of past experience of losses on assets having a similar credit risk to the group of assets being measured.
The process of estimating impairment losses considers all credit exposures, not only those of low credit quality, which reflect a serious impairment.

### Reversals of impairment losses

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed. The amount of the reversal is recognised in profit and loss item 130. "Impairment losses/writebacks" except in the case of AfS equity instruments (see Section 2 - Available-for-sale financial assets).
The reversal shall not result - at the date the impairment is reversed - in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised.

# A.3 Disclosure on transfers between portfolios of financial assets

IAS 39 and IFRS 7 allow certain financial assets to be reclassified, after initial recognition, from the “Financial assets held for trading” and “Available-for-sale financial assets” portfolios.
Specifically, the following may be reclassified:

- the financial assets held for trading or available for sale that would have satisfied the definition established by the international accounting standards for the loan portfolio (if those assets had not been respectively classified as held for training or available for sale on initial recognition) if the entity intends, and is able, to hold them for the foreseeable future or until maturity;
- "only in rare circumstances" the financial assets held for trading that did not satisfy the definition of loans upon initial recognition.

The Bank has not reclassified any financial assets from the "held-for-trading" or the portfolio to the loan portfolio.
In 2016, the Bank reclassified the "Available-for-sale financial assets" consisting of Italian and Spanish government securities to the Held-to-maturity investments portfolio, for a fair value, at the reclassification date, of €2,121,923 thousand. The reclassification was consistent with the Bank’s objective of obtaining stable income flows over the medium/long-term and in line with the business and financial outlooks stated by the Bank in its planning.
The tables below show the book value and the fair value as at December 31, 2017 of the assets reclassified in 2016, as well as the profit or loss items relating to those assets, distinguishing between those that would have been recorded if the transfer had not been made and those that were actually recorded in profit or loss or in equity, and the effects on comprehensive income.
The profit or loss items, before tax, are further separated between those arising “from measurement” (including any write-downs) and “other” (including interest and gains/losses on the disposal of the transferred assets).
The net result that would have been recognised through profit or loss for the year 2017 after the transfer, if these assets had not been reclassified, would have been a gain of €11,325 thousand, whereas the impact actually recognised after the transfer was a gain of €11,332 thousand.
The result of the valuations that would have been recognised in equity for the year 2017 after the transfer, if these assets had not been reclassified, would have been a gain of €8,875 thousand.

## A.3.1 Reclassified financial assets: book value, fair value and effects on comprehensive income

(Amounts in € thousand)

| TYPE OF FINANCIAL INSTRUMENT (1) | SOURCE PORTFOLIO (2) | TARGET PORTFOLIO (3) | BOOK VALUE AS AT 12.31.2017 | FAIR VALUE AS AT 12.31.2017 | INCOME ITEMS WITHOUT TRANSFER (BEFORE TAX) | | INCOME ITEMS RECOGNISED DURING THE YEAR (BEFORE TAX) | |
|---|---|---|---|---|---|---|---|---|
| | | | | | VALUATION (6) | OTHER (7) | VALUATION (8) | OTHER (9) |
| Debt securities | Available-for-sale financial assets | Held-to-maturity investments | 2,098,744 | 2,122,498 | 8,875 | 11,325 | - | 11,332 |

## A.3.2 Reclassified financial assets: Impact on comprehensive income before transfer

No data to report.

## A.3.3 Transfer of financial assets held for trading

No data to report.

## A.3.4 Effective interest rate and cash flows expected from reclassified assets

No data to report.

## A.4 Information on fair value

**Qualitative information**
This section presents a disclosure on fair value hierarchy as required by IFRS 13.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date (i.e. an exit price).

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

For financial instruments listed in active markets, fair value is determined on the basis of official prices in the principal market (most advantageous) to which the Bank has access (Mark to Market).

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from a pricing service, dealer, broker, agency that determines prices or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value is determined on the basis of the relevant market prices for the component parts.

If market quotations or other observable inputs, such as the quoted price of a similar instrument in an inactive market, are not available, the Bank should use other valuation techniques, such as:
(i) a market approach (e.g. using quoted prices for similar liabilities or equity instruments held by other parties as assets);
(ii) cost approach (e.g. it reflects the amount that would be required currently to replace the service capacity of an asset, that is the current replacement cost);
(iii) an income approach (e.g. a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset).

The Bank uses valuation models (Mark to Model) in keeping with the methods generally accepted and used by the market. Valuation models include techniques based on the discounting of future cash flows and on volatility estimates, and they are subject to revision both during their development and periodically in order to ensure their consistency with the objectives of the valuation.

These methods use inputs based on prices set in recent transactions for the instrument being valued and/or prices/quotations for instruments having similar characteristics in terms of risk profile.

Indeed, these prices/quotations are relevant for determining significant parameters in terms of the credit risk, liquidity risk and price risk of the instrument being valued. Reference to these "market" parameters makes it possible to limit the discretionary nature of the valuation, and ensures that the resulting fair value can be verified.

If, for one or more risk factors it is not possible to refer to market data, the valuation models employed use estimates based on historical data as inputs. As a further guarantee of the objectivity of valuations derived from valuation models, the Bank employs:
- independent price verifications (IPVs);
- fair Value Adjustment or FVAs.

Independent price verification requires that the prices are verified monthly by Risk Management units that are independent from the units that assume the risk exposure. This verification calls for comparing and adjusting the daily price in line with valuations obtained from independent market participants.

For instruments not listed in active markets, the above verification process uses prices contributed by infoproviders as a reference, and assigns a greater weighting to those prices that are considered representative of the instrument being valued.

This valuation includes: the "executability" of the transaction at the price observed, the number of contributors, the degree of similarity of the financial instruments, the consistency of prices from different sources, and the process followed by the infoprovider to obtain the information.

### A.4.1 Fair value levels 2 and 3: valuation techniques and input used

To determine the fair value of Level 2 and Level 3 financial instruments that are not listed and actively traded on the market, the Bank utilises the valuation techniques widely-used in the market that are described below.

# Part A - Accounting Policies (Continued)

### Discounted cash flow
Discounted cash flow valuation techniques generally consist of developing an estimate of future cash flows that are expected to occur over the life of an instrument. The model requires the estimation of the cash flow and the adoption of market's parameters for the discounting: discount rate or discount margin reflects the credit and / or funding spreads required by the market for instruments with similar risk and liquidity profiles to produce a "present value". The fair value of the contract is given by the sum of the present values of future cash flow.

### Internal valuation models - Market multiples
The market multiples approaches based on the price of can parable assets (listed companies belonging to the same industry sector) applied to the fashion and shall statement figures and therefore represents the relationship between the price (capitalisation) and the financial statement figures. The financial statements most commonly used are earnings, shareholders' equity and sales.

### Fair Value Adjustments (FVAs)
Fair value adjustment is defined as the amount to be added either to the market observed mid-price or to the theoretical price generated by a valuation model with the aim of obtaining a fair value of the position. The FVA thus ensure that fair value reflects the realisation amount from an actual possible market transaction.

## A.4.2 - Valuation processes and sensitivity of fair value measurements
The Bank verifies that the value attributed to each trading position reflects the current fair value in an appropriate way.The fair value measurement of assets and liabilities is calculated using various techniques, including discounted cash flow models and internal measurement models.On the basis of the observability of the input used, all instruments are classified as Level 1, Level 2 or Level 3 of the fair value hierarchy. When a position is characterised by one or more significant inputs that are not directly observable, a further price verification procedure is implemented.These procedures include the revision of relevant historical data, the analysis of profits and losses, the individual valuation of each component for structural products and benchmarking.
According to the Parent Group Market Risk Governance guidelines, in order to ensure the appropriate level of separation between the functions in charge of development activities and those in charge of validation processes, all valuation models developed by the front offices of Group companies are independently and centrally tested and validated by the Group Internal Validation functions. The aim of this independent control structure is to evaluate the model risk deriving from theoretical robustness, calibration techniques where applicable and appropriateness of the model for a specific product in a defined market point of views.
In addition to the daily mark to market or mark to model valuation, the Independent Price Verification (IPV) is applied monthly by the Bank's Market Risk with the aim of guaranteeing an independent fair value.

## A.4.3 Fair value hierarchy
The IFRS 13 principle establishes a fair value hierarchy according to the observability of the input used in the valuation techniques adopted.
In particular, three levels are considered:
- Level 1: the fair value of instruments classified in this level is determined based on quotation prices observed in active markets;
- Level 2: fair value for instruments classified within this level is determined according to the valuation models which use observable market inputs;
- Level 3: fair value for instruments classified within this level is determined according to valuation models which prevalently use significant inputs not observable on active markets.

## A.4.4 Other information
Hereby we provide IFRS 13 disclosure requirements.

### Assets and liabilities measured at fair value on recurring basis
***Fixed Income Securities***
Fixed Income Securities are priced in a two-tier process depending on the liquidity in the respective market. Liquid instruments in active markets are marked to market and consequently positions in these instruments are disclosed in reference to Fair Value Hierarchy under Level 1.
Instruments not traded in active markets are marked to model based on implied credit spread curves derived from the former Level 1 instruments. The model maximises the use of observable input and minimises the use of unobservable inputs. With this respect, depending on the proximity of the credit spread curve applied, the bonds are disclosed as Level 2 or Level 3 respectively; Level 3 is applied in case a significant unobservable credit spread is used.
In the global bond Independent Price Verification (IPV) process market prices of Level 1 bonds and pricing models for illiquid bonds are regularly verified for accuracy.

### *Structured Financial Products*

The Bank determines the fair value of structured financial products using the appropriate valuation methodology given the nature of the embedded structure. Such instruments are classified as Level 2 or Level 3 depending on the observability of significant inputs to the model.

### *OTC derivatives*

Fair value of derivatives not traded in an active market is determined using a valuation technique. In such cases, where active markets exist for the components of the derivative, fair value is determined on the basis of the market prices for the individual components. Valuation techniques that are based on significant inputs that are observable are referred to as Level 2 valuations, while those based on techniques that use unobservable inputs are referred to as Level 3 valuations.

### *Equity Instruments*

Equity Instruments are assigned to Level 1 when a quoted price is available on an active market and to Level 3 when no quotations are available or quotations have been suspended indefinitely. These instruments are classifies as Level 2 only when trading volume on the market where the instrument is quoted has decreased significantly. For equity instruments measured at cost an impairment is given, if the carrying amount exceeds the recoverable amount significantly and/or over a prolonged period of time.

For the measurement of the Visa INC class "C" preferred shares, the Bank has adopted the model developed by the Parent Company to determine the fair value that converts the market price in dollars of the Visa INC class "A" shares into euro and applies a discount factor of 16%, determined by estimating the litigation risk (8%) and the illiquidity risk (8%). The Visa INC class "C" preferred shares were assigned a fair value hierarchy of 3. The litigation risk component was extracted from historical series of data provided by Visa INC, whereas the illiquidity risk component was derived from the illiquidity of the shares, which have limitations on their transferability for a particular period. The Visa INC class "C" preferred shares were assigned a fair value hierarchy of 3.

The equity instruments recognised in relation to the result of the contribution made to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund, net of the amount derecognised in the year as earmarked for the recapitalisation of the three banks and deemed to be no longer recoverable as a result of their sale to Crédit Agricole Cariparma, were valued by aligning the fair value of the mezzanine and junior securities issued to securitise the NPLs of the three banks, provided by the IDGF and resulting from the analysis of the advisor tasked with the valuation of underlying receivables, calculated using a discounted cash flow model based on recovery forecasts formulated by special servicers. These equities were classed as fair value 3.

### *Investment Funds*

The investment funds calculate the Net Asset Value (NAV) per unit and may include investments in funds managed by the Group.

## Assets and liabilities not measured fair value or measured at fair value on a non-recurring basis

For these financial instruments fair value is calculated for disclosure purposes only and does not impact the balance sheet or the profit or loss. Additionally, since these assets and liabilities are not generally traded, there is significant management judgment required to determine their fair values as defined by IFRS 13.

### *Loans and receivables with banks and customers*

Fair value for performing Loans and Receivables from customers and banks, recorded ad amortised cost, is determined using the discounted cash flow model adjusted for credit risk. Some portfolios are valued using simplified approaches, which however take into account their financial characteristics. Loans and receivables with banks and customers with a duration of less than 12 months for which the fair value was estimated to be equal to the book value have been assigned the level 3 fair value hierarchy.

For the UniCredit securities classified in the “Loans and Receivables” portfolio, fair value level 2 has been calculated using the Group's methodology based on discounted cash flow, which consists of producing an estimate of the estimated cash flows over the life of the instrument and discounting at a rate that incorporates the credit spread. The credit spread is calculated based on the credit spread curve of the issuer, constructed by selecting issues, also from the second market, with the same specific characteristics.

### *Liabilities*

Fair value for liabilities, recorded at amortised cost, is determined using the discounted cash flow model adjusted for UniCredit credit risk. The Credit Spread is determined using UCG's subordinated and non-subordinated risk curves.

Deposits from banks and customers with a duration of less than 12 months for which the fair value was estimated to be equal to the book value have been assigned the level 3 fair value hierarchy.

### *Cash and cash balances*

Cash and cash balances are not carried at fair value on the Balance Sheets, but they are carried at amounts that approximate fair value, due to their short term nature and generally negligible credit risk.

# Part A - Accounting Policies (Continued)

### A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by level of fair value

(Amounts in € thousand)

| ASSETS/LIABILITIES DESIGNATED AT FAIR VALUE | 12.31.2017 | | | 12.31.2016 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Financial assets held for trading | 6,030 | 4,834 | 15 | 2,920 | 3,114 | 10 |
| 2. Financial assets designted at fair value through profit or loss | - | - | - | - | - | - |
| 3. Available-for-sale financial assets | 1,042,465 | - | 5,224 | 1,316,221 | - | 3,531 |
| 4. Hedging derivatives | - | 458 | - | - | 552 | - |
| 5. Property, plant and equipment | - | - | - | - | - | - |
| 6. Intangible assets | - | - | - | - | - | - |
| **Total** | **1,048,495** | **5,292** | **5,239** | **1,319,141** | **3,666** | **3,541** |
| 1. Financial liabilities held for Trading | 2,032 | 579 | 6 | 2,004 | 622 | - |
| 2. Financial liabilities designated at fair value through profit or loss | - | - | - | - | - | - |
| 3. Hedging derivatives | - | 12,694 | - | - | 10,914 | - |
| **Total** | **2,032** | **13,273** | **6** | **2,004** | **11,536** | **-** |

**Key:**
L1 = Level 1
L2 = Level 2
L3 = Level 3

In 2017 there were no transfers between levels of fair value hierarchy (level 1 and level 2).
Credit Value Adjustment (CVA) and/or Debit Value Adjustment (DVA) have not been applied in determining the fair value of derivative financial instruments.

### A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

(Amounts in € thousand)

| | FINANCIAL ASSETS HELD FOR TRADING | FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS | AVAILABLE-FOR-SALE FINANCIAL ASSETS | HEDGING DERIVATIVES | PROPERTY, PLANT AND EQUIPMENT | INTANGIBLE ASSETS |
|---|---|---|---|---|---|---|
| **1. Opening balance** | **10** | **-** | **3,531** | **-** | **-** | **-** |
| **2. Increases** | | | | | | |
| 2.1 Purchases | 5,393 | - | 13,609 | - | - | - |
| 2.2 Profits recognised in: | | | | | | |
| 2.2.1 Income Statement | 16 | - | - | - | - | - |
| - of which Unrealised gains | 6 | - | - | - | - | - |
| 2.2.2 Shareholders' Equity | X | X | 975 | - | - | - |
| 2.3 Transfers from other levels | - | - | - | - | - | - |
| 2.4 Other increases | - | - | - | - | - | - |
| **3. Decreases** | | | | | | |
| 3.1 Sales | (5,396) | - | - | - | - | - |
| 3.2 Redemptions | - | - | - | - | - | - |
| 3.3 Losses recognised in: | | | | | | |
| 3.3.1 Income Statement | (8) | - | (12,891) | - | - | - |
| - of which Unrealised losses | (1) | - | (3,995) | - | - | - |
| 3.3.2 Shareholders' Equity | X | X | - | - | - | - |
| 3.4 Transfers to other levels | - | - | - | - | - | - |
| 3.5 Other decreases | - | - | - | - | - | - |
| **4. Closing balances** | **15** | **-** | **5,224** | **-** | **-** | **-** |

The sub-items 2.2.1 Profits through profit and loss and 3.3.1 Losses through profit and loss are included, where present, in Profit and Loss in the following items:

- Item 80: Gains and losses on financial assets and liabilities held for trading;
- Item 110: Gains and losses on financial assets/liabilities at fair value through profit or loss;
- Item 90: Fair value adjustments in hedge accounting.

The sub-items 2.2.2 Profits recognised in equity and 3.3.2 Losses recognised in equity arising from changes in fair value of Available-for-sale financial assets are recognised, if any, in equity item 130. "Revaluation reserves" - except losses due to impairment and exchange rate gains or losses on monetary items (debt instruments) which are recognised under item 130. b) "Impairment losses/writebacks on AfS financial assets" and item 80. "Gains (losses) on financial assets and liabilities held for trading" of the income statement, respectively - until the financial asset is sold, at which time cumulative gains and losses are recognised in profit or loss in item 100.b) "Gains (losses) on disposal or repurchase of AfS financial assets".

### A.4.5.3 Annual changes in financial liabilites measured at fair value on a recurring basis (level 3)

(Amounts in € thousand)

| | FINANCIAL LIABILITIES HELD FOR TRADING | FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS | HEDGING DERIVATIVES |
|---|---|---|---|
| **1. Opening balance** | **-** | **-** | **-** |
| **2. Increases** | | | |
| 2.1 Issues | - | - | - |
| 2.2 Losses allocated to: | | | |
| 2.2.1 Income Statement | 6 | - | - |
| - of which capital losses | 6 | - | - |
| 2.2.2 Shareholders' Equity | X | X | - |
| 2.3 Transfers from other levels | - | - | - |
| 2.4 Other increases | - | - | - |
| **3. Decreases** | | | |
| 3.1 Reimbursements | - | - | - |
| 3.2 Repurchases | - | - | - |
| 3.3 Profits recognised: | | | |
| 3.3.1 Through profit or loss | - | - | - |
| - of which capital gains | - | - | - |
| 3.3.2 In equity | X | X | - |
| 3.4 Transfers to other levels | - | - | - |
| 3.5 Other decreases | - | - | - |
| **4. Closing balances** | **6** | **-** | **-** |

The sub-items 2.2.1 Losses through profit and loss and 3.3.1 Profits through profit and loss from financial liabilities are included, where present, in Consolidated Profit and Loss in the following items:
- Item 80: Gains and losses on financial assets and liabilities held for trading;
- Item 110: Gains and losses on financial assets/liabilities at fair value through profit or loss;
- Item 90: Fair value adjustments in hedge accounting.

### A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown

(Amounts in € thousand)

| ASSET/LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR ON A NON-RECURRING BASIS | 12.31.2017 | | | | 12.31.2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | L1 | L2 | L3 | BV | L1 | L2 | L3 |
| 1. Held to maturity investments | 4,826,390 | 4,855,200 | - | - | 2,437,777 | 2,454,979 | - | - |
| 2. Loans and receivables with banks | 13,877,651 | - | 11,311,889 | 3,038,741 | 15,735,540 | - | 12,330,314 | 3,680,608 |
| 3. Loans and receivables with customer | 2,129,219 | - | - | 2,204,926 | 1,016,798 | - | - | 1,044,613 |
| 4. Property, plant and equipment held for investment | 2,304 | - | - | 3,491 | 2,397 | - | - | 4,535 |
| 5. Non-current assets and disposal groups classified as held for sale | - | - | - | - | - | - | - | - |
| **Total** | **20,835,564** | **4,855,200** | **11,311,889** | **5,247,158** | **19,192,512** | **2,454,979** | **12,330,314** | **4,729,756** |
| 1. Deposits from banks | 926,001 | - | - | 926,001 | 1,111,106 | - | - | 1,111,106 |
| 2. Deposits from customers | 20,205,036 | - | 9,622 | 20,195,477 | 18,801,073 | - | 21,894 | 18,779,261 |
| 3. Debt securities in issue | - | - | - | - | - | - | - | - |
| 4. Liabilities included in disposal groups classified as held for sale | - | - | - | - | - | - | - | - |
| **Total** | **21,131,037** | **-** | **9,622** | **21,121,478** | **19,912,179** | **-** | **21,894** | **19,890,367** |

**Key:**
L1 = Level 1 - L2 = Level 2 - L3 = Level 3 - BV = Book Value

Property, plant and equipment held for investment consist of two properties held by the Bank, the fair value of which corresponds to the market value as determined by an appraisal carried out by an external and independent valuation firm.

# Part A - Accounting Policies (Continued)

## A.5 Day-one profit/loss

Financial instruments are initially recognised at fair value on the recognition date.
The fair value of financial instruments, other than those measured at fair value through profit or loss, at the recognition date is usually assumed to be equal to the amount collected or paid.
For financial instruments held for trading and financial instruments measured at fair value, any difference from the amount collected or paid is recognised in the appropriate line items of the income statement upon initial measurement of the financial instrument.
The use of prudent valuation models, the review processes of these models and their parameters and value adjustments to reflect model risk ensure that the amount recognised in the income statement is not derived from the use of unobservable valuation parameters. In particular, the quantification of the value adjustments relating to the risk model ensures that the part of the fair value of these instruments that refers to the use of subjective parameters is not recognised through profit or loss, but rather as an adjustment to the equity value of those instruments. Accordingly, this item is only subsequently recognised through profit or loss when there is a predominance of objective parameters and, consequently, when the mentioned adjustments are no longer required.

There are no day-one profits/losses to disclose in accordance with paragraph 28 of IFRS 7.

# Part B - Balance sheet

# Part B - Balance sheet

## Assets

### Section 1 - Cash and cash balances - Item 10

**1.1 Cash and cash balances: breakdown**

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| (a) Cash | 613 | 5 |
| (b) Demand deposits with central banks | - | - |
| **Total** | **613** | **5** |

### Section 2 - Financial assets held for trading - Item 20

**2.1 Financial assets held for trading: product breakdown**

(Amounts in € thousand)

| | 12.31.2017 | | | 12.31.2016 | | |
|---|---|---|---|---|---|---|
| ITEM/AMOUNT | LEVEL 1 | LEVEL 2 | LEVEL 3 | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| **A. On-balance sheet assets** | | | | | | |
| 1. Debt securities | 18 | 30 | - | 44 | - | - |
| 1.1 Structured securities | 3 | - | - | 4 | - | - |
| 1.2 Other debt securities | 15 | 30 | - | 40 | - | - |
| 2. Equity instruments | 2,288 | - | 9 | 1,125 | - | 10 |
| 3. Units in investment funds | 2,019 | - | - | 1 | - | - |
| 4. Loans | - | - | - | - | - | - |
| 4.1 Reverse repos | - | - | - | - | - | - |
| 4.2 Others | - | - | - | - | - | - |
| **Total A** | **4,325** | **30** | **9** | **1,170** | **-** | **10** |
| **B. Derivatives** | | | | | | |
| 1. Financial derivatives | 1,705 | 4,804 | 6 | 1,750 | 3,114 | - |
| 1.1 trading derivatives | 1,705 | 4,804 | 6 | 1,750 | 3,114 | - |
| 1.2 related to the fair value option | - | - | - | - | - | - |
| 1.3 other | - | - | - | - | - | - |
| 2. Credit derivatives | - | - | - | - | - | - |
| 2.1 trading derivatives | - | - | - | - | - | - |
| 2.2 related to the fair value option | - | - | - | - | - | - |
| 2.3 other | - | - | - | - | - | - |
| **Total B** | **1,705** | **4,804** | **6** | **1,750** | **3,114** | **-** |
| **Total (A+B)** | **6,030** | **4,834** | **15** | **2,920** | **3,114** | **10** |

Financial derivatives refer to the positive valuation of CFD contracts on Forex, indices, shares and interest rates and Futures used for the operational hedging of CFDs on indices and interest rates. They amounted to €4,756 thousand (€3,009 thousand as at December 31, 2016).

Sub-item B.1.1 Derivative instruments - Trading financial derivatives includes the positive valuations of spot contracts for securities classified in the HFT portfolio and currencies to be settled in times established by market practices ("regular way"). They amounted to €1,758 thousand (€1,855 thousand as at December 31, 2016).

### 2.2 Financial assets held for trading: breakdown by issuer/borrower

(Amounts in € thousand)

| ITEM/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **A. ON-BALANCE SHEET ASSETS** | | |
| **1. Debt securities** | **48** | **44** |
| a) Governments and central banks | 11 | 6 |
| b) Other public entities | - | - |
| c) Banks | 37 | 38 |
| d) Other issuers | - | - |
| **2. Equity Instruments** | **2,297** | **1,135** |
| a) Banks | 1 | 113 |
| b) Other issuers: | 2,296 | 1,022 |
| *- insurance companies* | - | *10* |
| *- financial companies* | *95* | *47* |
| *- non-financial companies* | *2,201* | *965* |
| *- other* | - | - |
| **3. Units in investment funds.** | **2,019** | **1** |
| **4. Loans** | **-** | **-** |
| a) Governments and central banks | - | - |
| b) Other public entities | - | - |
| c) Banks | - | - |
| d) Other entities | - | - |
| **Total A** | **4,364** | **1,180** |
| **B. DERIVATIVES** | | |
| a) Banks | | |
| *- fair value* | 346 | 270 |
| b) Customers | | |
| *- fair value* | 6,169 | 4,594 |
| **Total B** | **6,515** | **4,864** |
| **Totale (A+B)** | **10,879** | **6,044** |

Item B. Derivative instruments also includes the positive valuations of spot contracts for securities classified in the HFT portfolio and currencies to be settled within times established by market practices ("regular way").

Equity securities of issuers in default were classified by the Bank as non-performing in the financial statements for a total amount of €6 thousand.

## Section 3 - Financial assets at fair value through profit or loss - Item 30

The Bank has not recognised any financial assets under the balance-sheet item “Financial assets designated at fair value through profit or loss”.

## Section 4 - Available-for-sale financial assets - Item 40

### 4.1 Available-for-sale financial assets: product breakdown

(Amounts in € thousand)

| | 12.31.2017 | | | 12.31.2016 | | |
|---|---|---|---|---|---|---|
| ITEM/AMOUNT | LEVEL 1 | LEVEL 2 | LEVEL 3 | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| 1. Debt securities | 1,042,465 | - | - | 1,316,221 | - | - |
| 1.1 Structured securities | - | - | - | - | - | - |
| 1.2 Other debt securities | 1,042,465 | - | - | 1,316,221 | - | - |
| 2. Equity Instruments | | - | 5,224 | | - | 3,531 |
| 2.1 Carried at fair value | - | - | 5,219 | - | - | 3,526 |
| 2.2 Carried at cost | - | - | 5 | - | - | 5 |
| 3. Units in investment funds | - | - | - | - | - | - |
| 4. Loans | - | - | - | - | - | - |
| **Total** | **1,042,465** | **-** | **5,224** | **1,316,221** | **-** | **3,531** |

“Available-for-sale financial assets” consisted of debt securities issued by governments and equity instruments not listed on an active market.

# Part B - Balance Sheet - Asset (Continued)

Investments in debt securities consisted of:
- Spanish government securities, with a book value of €725,220 thousand (€982,434 million as at December 31, 2016);
- French government securities, with a book value of €10,124 thousand (€10,296 million as at December 31, 2016);
- Spanish government securities, with a book value of €242,451 thousand (€249,940 million as at December 31, 2016);
- American government securities, with a book value of €64,671 thousand (€73,549 million as at December 31, 2016).

A portion of debt securities classified in the Available-for-sale financial assets portfolio are entirely used as collateral for bankers' drafts or guarantees with third parties for a book value of €131,101 thousand (€128,882 thousand as at December 31, 2016).

Equity instruments carried at cost refer to equity investments in companies in which the Bank does not exercise control or have a significant influence, for an amount equal to €5 thousand. These instruments are not listed, therefore the fair value may not be reliably determined.

Equity instruments recorded at fair value refer to Class "C" Visa INC preferred shares, for an amount of €4,501 thousand and to the exposure in equity instruments recognised as a result of the contribution paid to the Voluntary Scheme established by the Interbank Deposit Guarantee Fund with respect to the latter's intervention in favour of Cassa di Risparmio di Cesena, Carim and Carismi, for an amount, net of de-recognitions and value adjustments recorded through profit and loss, of €718 thousand. For further details, see Section A - Accounting policies, of the Notes to the Consolidated Accounts.

### 4.2 Available-for-sale financial assets: breakdown by issuer/borrower

(Amounts in € thousand)

| ITEM/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Debt securities** | **1,042,465** | **1,316,221** |
| a) Governments and central banks | 1,042,465 | 1,316,221 |
| b) Other public entities | - | - |
| c) Banks | - | - |
| d) Other issuers | - | - |
| **2. Equity Instruments** | **5,224** | **3,531** |
| a) Banks | - | - |
| b) Other issuers: | 5,224 | 3,531 |
| *- insurance companies* | - | - |
| *- financial companies* | *4,501* | *3,526* |
| *- non-financial companies* | *5* | *5* |
| *- other* | *718* | - |
| **3. Units in investment funds** | **-** | **-** |
| **4. Loans** | **-** | **-** |
| a) Governments and central banks | - | - |
| b) Other public entities | - | - |
| c) Banks | - | - |
| d) Other entities | - | - |
| **Total** | **1,047,689** | **1,319,752** |

### 4.3 Available-for-sale financial assets: subject to micro-hedging

(Amounts in € thousand)

| ITEM/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **Financial assets subject to micro-hedging of fair value** | **-** | **342,290** |
| a) Interest rate risk | - | 342,290 |
| b) Price risk | - | - |
| c) Exchange | - | - |
| d) Credit | - | - |
| e) Multiple risks | - | - |
| **Financial assets subject to micro-hedging of cash flows** | **-** | **-** |
| a) Interest rate risk | - | - |
| b) Exchange | - | - |
| c) Other | - | - |
| **Total** | **-** | **342,290** |

The debt security micro-hedged at December 31, 2016 was repaid in 2017, as it reached its maturity.

## Section 5 - Held-to-maturity investments - Item 50

### 5.1 Held-to-maturity investments: product breakdown

(Amounts in € thousand)

| | 12.31.2017 | | | | 12.31.2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | FV | | | BV | FV | | |
| | | LEVEL 1 | LEVEL 2 | LEVEL 3 | | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| 1. Debt securities | 4,826,390 | 4,855,200 | - | - | 2,437,777 | 2,454,979 | - | - |
| - Structured | - | - | - | - | - | - | - | - |
| - Other | 4,826,390 | 4,855,200 | - | - | 2,437,777 | 2,454,979 | - | - |
| 2. Loans | - | - | - | - | - | - | - | - |
| **Total** | **4,826,390** | **4,855,200** | **-** | **-** | **2,437,777** | **2,454,979** | **-** | **-** |

**key**
FV = fair value
BV = book value

“Held-to-maturity investments” consisted of debt securities issued:

- by the Italian Government, for a book value of €2,557,575 thousand (€1,499,270 thousand at December 31, 2016);
- by the Spanish Government, for a book value of €2,120,318 thousand (€938,508 thousand at December 31, 2016);
- by Instituto de Credito Oficial (ICO), with a book value of €99,924 thousand (not present as at December 31, 2016);
- by the Polish State, with a book value of €48,572 thousand (not present as at December 31, 2016).

### 5.2 Held-to-maturity investments: issuer/borrower

(Amounts in € thousand)

| TYPE OF TRANSACTION/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Debt securities** | **4,826,390** | **2,437,777** |
| a) Governments and central banks | 4,726,466 | 2,437,777 |
| b) Other public entities | 99,924 | - |
| c) Banks | - | - |
| d) Other issuers | - | - |
| **2. Loans** | **-** | **-** |
| a) Governments and central banks | - | - |
| b) Other public entities | - | - |
| c) Banks | - | - |
| d) Other entities | - | - |
| **Total** | **4,826,390** | **2,437,777** |
| **Total fair value** | **4,855,200** | **2,454,979** |

### 5.3 Held-to-maturity investments: assets subject to micro-hedging

As at December 31, 2017, there were no “Held to maturity investments” subject to micro hedging.

# Part B - Balance Sheet - Asset (Continued)

## Section 6 - Loans and receivables with banks - Item 60

### 6.1 Loans and receivables with banks: product breakdown

(Amounts in € thousand)

| TYPE OF TRANSACTION/AMOUNT | 12.31.2017 | | | | 12.31.2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | | FV | | | | FV | | |
| | BV | LEVEL 1 | LEVEL 2 | LEVEL 3 | BV | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| **A. Loans and receivables with Central Banks** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1. Time deposits | - | X | X | X | - | X | X | X |
| 2. Compulsory reserves | - | X | X | X | - | X | X | X |
| 3. Reverse repos | - | X | X | X | - | X | X | X |
| 4. Other | - | X | X | X | - | X | X | X |
| **B. Loans and receivables with banks** | **13,877,651** | **-** | **11,311,889** | **3,038,741** | **15,735,540** | **-** | **12,330,314** | **3,680,608** |
| **1. Loans** | **3,038,741** | **-** | **-** | **3,038,741** | **3,680,609** | **-** | **-** | **3,680,608** |
| 1.1 Current accounts and demand deposits | 1,992,673 | X | X | X | 2,336,579 | X | X | X |
| 1.2 Time deposits | 1,028,152 | X | X | X | 1,285,414 | X | X | X |
| 1.3 Other loans: | | X | X | X | | X | X | X |
| - Reverse repos | 54 | X | X | X | 53 | X | X | X |
| - Finance leases | - | X | X | X | - | X | X | X |
| - Other | 17,862 | X | X | X | 58,563 | X | X | X |
| **2. Debt securities** | **10,838,910** | **-** | **11,311,889** | **-** | **12,054,931** | **-** | **12,330,314** | **-** |
| 2.1 Structured securities | - | X | X | X | - | X | X | X |
| 2.2 Other debt securities | 10,838,910 | X | X | X | 12,054,931 | X | X | X |
| **Total** | **13,877,651** | **-** | **11,311,889** | **3,038,741** | **15,735,540** | **-** | **12,330,314** | **3,680,608** |

**Key**
FV = fair value
BV = book value

Loans and receivables with banks for current accounts and demand deposits mainly consist of accounts held with UniCredit, with a book value of €1,958,602 thousand (€2,302,659 thousand as at December 31, 2016), and to a lesser extent, of current accounts held with other banks not belonging to UniCredit group for transactions in securities.
Time deposits consist of the deposit held with UniCredit for compulsory reserves, totalling €199,104 thousand (€172,461 thousand as at December 31, 2016), in addition to time deposits held with UniCredit for a book value of €829,049 thousand (€1,112,953 thousand as at December 31, 2016), opened to invest the liquidity raised through repos with retail customers and credit institutions, with the same maturities.
The debt securities held in the portfolio and included in the category "Loans and receivables" solely consist of debt securities issued by UniCredit S.p.A. for an amount of €10,838,910 (€12,054,929 thousand as at December 31, 2016).
“Other loans: Other" relates to the amount of the initial and variance margins and collateral deposits placed with credit institutions for derivative transactions and repos, for a total amount of €14,647 thousand, of which €9,030 thousand with UniCredit (€55,660 thousand at December 31, 2016, of which €48,567 thousand with UniCredit and €3,060 thousand with UniCredit Bank AG Monaco), as well as current receivables associated with the provision of financial services for an amount of €3,215 thousand (2,903 at December 31, 2016).
At the reporting date there were no impaired assets with respect to banks.

### 6.2 Loans and receivables with banks: assets subject to micro-hedging

No data to report.

### 6.3 Finance leases

No data to report.

## Section 7 - Loans and receivables with customers - Item 70

### 7.1 Loans and receivables with customers: product breakdown

(Amounts in € thousand)

| TYPE OF TRANSACTION/ AMOUNT | 12.31.2017 | | | | | | 12.31.2016 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | BOOK VALUE | | | FAIR VALUE | | | | | | FAIR VALUE | | |
| | | IMPAIRED | | | | | | IMPAIRED | | | | |
| | UNIMPAIRED | PURCHASED | OTHER | L1 | L2 | L3 | UNIMPAIRED | PURCHASED | OTHER | L1 | L2 | L3 |
| **Loans** | **2,126,366** | **-** | **2,853** | **-** | **-** | **2,204,926** | **1,013,140** | **-** | **3,658** | **-** | **-** | **1,044,613** |
| 1. Current accounts | 639,726 | - | 1,828 | X | X | X | 296,927 | - | 2,445 | X | X | X |
| 2. Reverse repos | 202,620 | - | 81 | X | X | X | 87,348 | - | 1 | X | X | X |
| 3. Mortgages | 516,237 | - | 14 | X | X | X | 860 | - | 24 | X | X | X |
| 4. Credit cards, personal loans and wage assignment loans | 632,249 | - | 799 | X | X | X | 503,533 | - | 1,166 | X | X | X |
| 5. Finance leases | - | - | - | X | X | X | - | - | - | X | X | X |
| 6. Factoring | - | - | - | X | X | X | - | - | - | X | X | X |
| 7. Other loans | 135,534 | - | 131 | X | X | X | 124,472 | - | 22 | X | X | X |
| **Debt securities** | - | - | - | - | - | - | - | - | - | - | - | - |
| 8. Structured securities | - | - | - | X | X | X | - | - | - | X | X | X |
| 9. Other debt securities | - | - | - | X | X | X | - | - | - | X | X | X |
| **Total** | **2,126,366** | **-** | **2,853** | **-** | **-** | **2,204,926** | **1,013,140** | **-** | **3,658** | **-** | **-** | **1,044,613** |

### 7.2 Loans and receivables with customers: breakdown by issuer/borrower

(Amounts in € thousand)

| TIPOLOGIA OPERAZIONI/VALORI | 12.31.2017 | | | 12.31.2016 | | |
|---|---|---|---|---|---|---|
| | | IMPAIRED | | | IMPAIRED | |
| | UNIMPAIRED | PURCHASED | OTHER | UNIMPAIRED | PURCHASED | OTHER |
| **1. Debt securities** | **-** | **-** | **-** | **-** | **-** | **-** |
| a) Governments | - | - | - | - | - | - |
| b) Other public entities | - | - | - | - | - | - |
| c) Other issuers: | - | - | - | - | - | - |
| - *non-financial companies* | - | - | - | - | - | - |
| - *financial companies* | - | - | - | - | - | - |
| - *insurance companies* | - | - | - | - | - | - |
| - *other* | - | - | - | - | - | - |
| **2. Loans to:** | **2,126,366** | **-** | **2,853** | **1,013,140** | **-** | **3,658** |
| a) Governments | - | - | - | - | - | 2 |
| b) Other public entities | - | - | - | - | - | - |
| c) Other entities: | 2,126,366 | - | 2,853 | 1,013,140 | - | 3,656 |
| - *non-financial companies* | *20,492* | - | *99* | *14,666* | - | *24* |
| - *financial companies* | *107,681* | - | *5* | *98,744* | - | *8* |
| - *insurance companies* | *16,651* | - | - | *12,174* | - | - |
| - *other* | *1,981,542* | - | *2,749* | *887,556* | - | *3,624* |
| **Total** | **2,126,366** | **-** | **2,853** | **1,013,140** | **-** | **3,658** |

### 7.3 Loans and receivables with customers: assets subject to micro-hedging

No data to report.

### 7.4 Finance leases

No data to report.

# Part B - Balance Sheet - Asset (Continued)

## Section 8 - Hedging derivatives - Item 80

### 8.1 Hedging derivatives: breakdown by type of hedge and by level

(Amounts in € thousand)

| | FV 12.31.2017 | | | NA | FV 12.31.2016 | | | NA |
|---|---|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | 12.31.2017 | L1 | L2 | L3 | 12.31.2016 |
| **A. Financial derivatives** | **-** | **458** | **-** | **151,109** | **-** | **552** | **-** | **250,000** |
| 1) Fair value | - | 458 | - | 151,109 | - | 552 | - | 250,000 |
| 2) Cash flows | - | - | - | - | - | - | - | - |
| 3) Net investment in foreign subsidiaries | - | - | - | - | - | - | - | - |
| **B. Credit derivatives** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1) Fair value | - | - | - | - | - | - | - | - |
| 2) Cash flows | - | - | - | - | - | - | - | - |
| **Total** | **-** | **458** | **-** | **151,109** | **-** | **552** | **-** | **250,000** |

**Key:**
NA = notional amount
FV = fair value
L1 = Level 1
L2 = Level 2
L3 = Level 3

### 8.2 Hedging derivatives: breakdown by hedged assets and risk

(Amounts in € thousand)

| | FAIR VALUE | | | | | | CASH FLOWS | | NET INVESTMENT IN FOREIGN SUBSIDIARIES |
|---|---|---|---|---|---|---|---|---|---|
| | MICRO | | | | | | | | |
| TRANSACTION/TYPE OF HEDGE | INTEREST RATE RISK | EXCHANGE RATE RISK | CREDIT RISK | PRICE RISK | MULTIPLE RISK | MACRO | MICRO | MACRO | |
| 1. Available-for-sale assets | - | - | - | - | - | X | - | X | X |
| 2. Loans and receivables | - | - | - | X | - | X | - | X | X |
| 3. Held-to-maturity investments | X | - | - | X | - | X | - | X | X |
| 4. Portfolio | X | X | X | X | X | 400 | X | - | X |
| 5. Other transactions | - | - | - | - | - | X | - | X | - |
| **Total assets** | **-** | **-** | **-** | **-** | **-** | **400** | **-** | **-** | **-** |
| 1. Financial liabilities | - | - | - | X | - | X | - | X | X |
| 2. Portfolio | X | X | X | X | X | 58 | X | - | X |
| **Total liabilities** | **-** | **-** | **-** | **-** | **-** | **58** | **-** | **-** | **-** |
| 1. Expected transactions | X | X | X | X | X | X | - | X | X |
| 2. Financial assets and financial liabilities | X | X | X | X | X | - | X | - | - |

## Section 9 - Changes in fair value of portfolio hedged financial assets - Item 90

### 9.1 Adjustments to the value of hedged assets: breakdown by hedged portfolio

(Amounts in € thousand)

| ADJUSTMENTS TO THE VALUE OF HEDGED ASSETS/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Positive changes** | **10.130** | **8.659** |
| 1.1 of specific portfolios | 10.130 | 8.659 |
| *a) loans and receivables* | *10.130* | *8.659* |
| *b) available-for-sale financial assets* | - | - |
| 1.2 overall | - | - |
| **2. Negative changes** | **(540)** | **-** |
| 2.1 of specific portfolios | (540) | - |
| *a) loans and receivables* | *(540)* | - |
| *b) available-for-sale financial assets* | - | - |
| 2.2 overall | - | - |
| **Total** | **9.590** | **8.659** |

### 9.2 Assets macro-hedged against interest rate risk

(Amounts in € thousand)

| HEDGED ASSETS | 12.31.2017 | 12.31.2016 |
|---|---|---|
| 1. Loans and receivables | 666,447 | 777,368 |
| 2. Available-for-sale financial assets | - | - |
| 3. Portfolio | - | - |
| **Total** | **666,447** | **777,368** |

Receivables subject to macro-hedging of interest rate risk consist of mortgages to retail customers and debt securities issued by UniCredit S.p.A. and classified as “Loans and Receivables”.

## Section 10 - Equity investments - Item 100

### 10.1 Equity Investments information on shareholders’ equity

| NAME | REGISTERED OFFICE | HEADQUARTERS | EQUITY % | VOTING RIGHTS % |
|---|---|---|---|---|
| A. Subsidiaries | | | | |
| Fineco AM Limited | Dublin | Dublin | 100% | 100% |
| B. Joint ventures | | | | |
| C. Companies under significant influence | | | | |

### 10.2 Significant equity investments book value, fair value and dividends received

(Amounts in € thousand)

| NAME | BOOK VALUE | FAIR VALUE | DIVIDENDS RECEIVED |
|---|---|---|---|
| A. Subsidiaries | | | |
| Fineco AM Limited | 500 | 500 | - |
| B. Joint ventures | | | |
| C. Companies under significant influence | | | |

### 10.3 Significant equity investments: accounting data

(Amounts in € thousand)

| NAME | CASH AND CASH BALANCES | FINANCIAL ASSETS | OTHER NON-FINANCIAL ASSETS | FINANCIAL LIABILITIES | FINANCIAL LIABILITIES | TOTAL REVENUES | NET INTEREST MARGIN | IMPAIRMENT/WRITE-BACKS ON PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS | TOTAL PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS | TOTAL PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS | NET PROFIT (LOSS) FOR THE YEAR (1) | OTHER COMPREHENSIVE INCOME AFTER TAX (2) | COMPREHENSIVE INCOME (3) = (1) + (2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A. Subsidiaries | | | | | | | | | | | | | |
| Fineco AM Limited | 466 | - | 23 | - | 153 | - | - | - | (187) | (163) | (163) | - | (163) |
| B. Joint ventures | | | | | | | | | | | | | |
| C. Companies under significant influence | | | | | | | | | | | | | |

### 10.4 Non-significant investments accounting data

No data to report.

# Part B - Balance Sheet - Asset (Continued)

### 10.5 Equity Investments annual changes

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **A. Opening balance** | **-** | **-** |
| **B. Increases** | **500** | **-** |
| B.1 Purchases | 500 | - |
| B.2 Write-backs | - | |
| B.3 Revaluations | - | - |
| B. 4 Other changes | - | - |
| **C. Decreases** | **-** | **-** |
| C.1 Sales | - | - |
| C.2 Impairment losses | - | - |
| C.3 Other decreases | - | - |
| **D. Closing balance** | **500** | **-** |
| **E. Total revaluations** | **-** | **-** |
| **F. Total adjustments** | **-** | **-** |

Purchases refer to the establishment of Fineco AM Limited.

### 10.6 Commitments to equity interests in joint ventures
No data to report.

### 10.7 Commitments to equity interests in companies under significant influence
No data to report.

### 10.8 Significant restrictions
No data to report.

### 10.9 Other information
No data to report.

## Section 11 - Property, plant and equipment - Item 110

### 11.1 Property, plant and equipment used in the business: breakdown of assets carried at cost

(Amounts in € thousand)

| ASSET/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Owned assets** | **12,901** | **12,054** |
| a) land | - | - |
| b) buildings | - | - |
| c) office furniture and fittings | 1,480 | 1,131 |
| d) electronic systems | 9,798 | 9,560 |
| e) other | 1,623 | 1,363 |
| **2. Assets under financial lease** | **-** | **-** |
| a) land | - | - |
| b) buildings | - | - |
| c) office furniture and fittings | - | - |
| d) electronic systems | - | - |
| e) other | - | - |
| **Total** | **12,901** | **12,054** |

A description of the methods used to calculate depreciation is provided in Part A - Accounting Policies of the notes to the accounts.

### 11.2 Property, plant and equipment held for investment: breakdown of assets carried at cost

(Amounts in € thousand)

| ASSET/AMOUNT | 12.31.2017 | | | | 12.31.2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | BOOK VALUE | FAIR VALUE | | | BOOK VALUE | FAIR VALUE | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **1. Owned assets** | **2,304** | **-** | **-** | **3,491** | **2,397** | **-** | **-** | **4,535** |
| a) land | - | - | - | - | - | - | - | - |
| b) buildings | 2,304 | - | - | 3,491 | 2,397 | - | - | 4,535 |
| **2. Assets under finance lease** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| a) land | - | - | - | - | - | - | - | - |
| b) buildings | - | - | - | - | - | - | - | - |
| **Total** | **2,304** | **-** | **-** | **3,491** | **2,397** | **-** | **-** | **4,535** |

### 11.3 Property, plant and equipment used in the business: breakdown of revalued assets

No data to report.

### 11.4 Property, plant and equipment held for investment: breakdown of assets measured at fair value

No data to report.

### 11.5 Property, plant and equipment used in the business: annual changes

(Amounts in € thousand)

| | LAND | BUILDINGS | OFFICE FURNITURE AND FITTINGS | ELECTRONIC SYSTEMS | OTHER | TOTAL |
|---|---|---|---|---|---|---|
| **A. Gross opening balance** | **-** | **-** | **12,559** | **28,301** | **9,875** | **50,735** |
| A.1 Total net reduction in value | - | - | (11,428) | (18,741) | (8,512) | (38,681) |
| **A.2 Net opening balance** | **-** | **-** | **1,131** | **9,560** | **1,363** | **12,054** |
| **B. Increases:** | **-** | **-** | **1,589** | **4,750** | **738** | **7,077** |
| B.1 Purchases | - | - | 1,579 | 4,748 | 737 | 7,064 |
| B.2 Capitalised expenditure on improvements | - | - | - | - | - | - |
| B.3 Write-backs | - | - | - | - | - | - |
| B.4 Increase in fair value recognised | | | | | | |
| a) in equity | - | - | - | - | - | - |
| b) through profit or loss | - | - | - | - | - | - |
| B.5 Positive exchange differences | - | - | - | - | - | - |
| B.6 Transfers from properties held for investment | - | - | - | - | - | - |
| B.7 Other changes | - | - | 10 | 2 | 1 | 13 |
| **C. Decreases:** | **-** | **-** | **(1,240)** | **(4,512)** | **(478)** | **(6,230)** |
| C.1 Sales | - | - | (7) | (249) | - | (256) |
| C.2 Depreciation | - | - | (1,233) | (3,745) | (457) | (5,435) |
| C.3 Impairment losses recognised | | | | | | - |
| a) in equity | - | - | - | - | - | - |
| b) through profit or loss | - | - | - | (1) | (20) | (21) |
| C.4 Decreases in fair value recognised | | | | | | |
| a) in equity | - | - | - | - | - | - |
| b) through profit or loss | - | - | - | - | - | - |
| C.5 Negative exchange differences | - | - | - | - | - | - |
| C.6 Transfers to: | | | | | | |
| a) property, plant and equipment held for investment | - | - | - | - | - | - |
| b) assets held for sale | - | - | - | - | - | - |
| C.7 Other changes | - | - | - | (517) | (1) | (518) |
| **D. Net closing balance** | **-** | **-** | **1,480** | **9,798** | **1,623** | **12,901** |
| D.1 Total net reduction in value | - | - | (12,393) | (20,912) | (8,794) | (42,099) |
| **D.2 Gross closing balance** | **-** | **-** | **13,873** | **30,710** | **10,417** | **55,000** |
| E. Carried at cost | - | - | 1,480 | 9,798 | 1,623 | 12,901 |

The asset classes specified in the table above are carried at cost.

# Part B - Balance Sheet - Asset (Continued)

### 11.6 Property, plant and equipment held for investment: annual changes

(Amounts in € thousand)

| | LAND | BUILDINGS |
|---|---|---|
| **A. Gross opening balance** | **-** | **3,745** |
| A.1 Total net reduction in value | - | (1,348) |
| **A.2 Net opening balance** | **-** | **2,397** |
| **B. Increases:** | - | 20 |
| B.1 Purchases | - | - |
| B.2 Capitalised expenditure on improvements | - | 20 |
| B.3 Net increases in fair value | - | - |
| B.4 Write-backs | - | - |
| B.5 Positive exchange differences | - | - |
| B.6 Transfer from properties used in the business | - | - |
| B.7 Other changes | - | - |
| **C. Decreases:** | **-** | **(113)** |
| C.1 Sales | - | - |
| C.2 Depreciation | - | (113) |
| C.3 Decreases in fair value | - | - |
| C.4 Impairment losses | - | - |
| C.5 Negative exchange differences | - | - |
| C.6 Transfers to other asset portfolios | | |
| a) properties used in the business | - | - |
| b) non-current assets classified as held for sale | - | - |
| C.7 Other changes | - | - |
| **D. Net closing balance** | **-** | **2,304** |
| D.1 Total net reduction in value | - | (1,461) |
| **D.2 Gross closing balance** | **-** | **3,765** |
| E. Fair value measurement | - | 3,491 |

The buildings specified in the table above are carried at cost.

### 11.7 Commitments to purchase property, plant and equipment (IAS 16/74.c)

As at December 31, 2017 the Bank had contractual commitments to purchase property, plant and equipment amounting to €629 thousand.
We also report that there are no restrictions on the ownership of tangible assets and there are no tangible assets pledged as security for liabilities.

## Section 12 - Intangible assets - Item 120

### 12.1 Intangible assets: breakdown by type assets

(Amounts in € thousand)

| | 12.31.2017 | | 12.31.2016 | |
|---|---|---|---|---|
| ASSET/AMOUNT | FINITE LIFE | INDEFINITE LIFE | FINITE LIFE | INDEFINITE LIFE |
| **A.1 Goodwill** | **X** | **89,602** | **X** | **89,602** |
| **A.2 Other intangible assets** | **7,909** | | **7,731** | |
| A.2.1 Assets carried at cost: | 7,909 | - | 7,731 | - |
| a) Intangible assets generated internally | - | - | - | - |
| b) Other assets | 7,909 | - | 7,731 | - |
| A.2.2 Assets carried at fair value: | - | - | - | - |
| a) Intangible assets generated internally | - | - | - | - |
| b) Other assets | - | - | - | - |
| **Total** | **7,909** | **89,602** | **7,731** | **89,602** |

The useful life of software, considered for the calculation of amortisation, is 3 years, while the useful life of other intangible assets with definite life is 5 years. A description of the methods used to calculate depreciation is provided in Part A - Accounting Policies of the notes to the accounts.

### 12.2 Attività immateriali: variazioni annue

(Amounts in € thousand)

| | | OTHER INTANGIBLE ASSETS: GENERATED INTERNALLY | | OTHER INTANGIBLE ASSETS: OTHER | | |
|---|---|---|---|---|---|---|
| | GOODWILL | FIN | INDEF | FIN | INDEF | TOTAL |
| **A. Gross opening balance** | **124,729** | **-** | **-** | **74,833** | **-** | **199,562** |
| A.1 Total net reduction in value | (35,127) | - | - | (67,102) | - | (102,229) |
| **A.2 Net opening balance** | **89,602** | **-** | **-** | **7,731** | **-** | **97,333** |
| **B. Increases** | **-** | **-** | **-** | **4,978** | **-** | **4,978** |
| B.1 Purchases | - | - | - | 4,978 | - | 4,978 |
| B.2 Increases in internal intangible assets | X | - | - | - | - | - |
| B.3 Write-backs | X | - | - | - | - | - |
| B.4 Increases in fair value recognised: | | | | | | |
| - in equity | X | - | - | - | - | - |
| - through profit or loss | X | - | - | - | - | - |
| B.5 Positive exchange differences | - | - | - | - | - | - |
| B.6 Other changes | - | - | - | - | - | - |
| **C. Decreases** | **-** | **-** | **-** | **(4,800)** | **-** | **(4,800)** |
| C.1 Sales | - | - | - | - | - | - |
| C.2 Impairment losses | | | | | | |
| - Amortisation | X | - | - | (4,800) | - | (4,800) |
| - Write-downs | | | | | | |
| + in equity | X | - | - | - | - | - |
| + through profit or loss | - | - | - | - | - | - |
| C.3 Decreases in fair value | | | | | | |
| - in equity | X | - | - | - | - | - |
| - through profit or loss | X | - | - | - | - | - |
| C.4 Transfers to non-current assets and discontinued operations | - | - | - | - | - | - |
| C.5 Negative exchange differences | - | - | - | - | - | - |
| C.6 Other changes | - | - | - | - | - | - |
| **D. Net closing balance** | **89,602** | **-** | **-** | **7,909** | **-** | **97,511** |
| D.1 Total net impairments | (35,127) | - | - | (71,902) | - | (107,029) |
| **E. Gross closing balance** | **124,729** | **-** | **-** | **79,811** | **-** | **204,540** |
| F. Carried at cost | 89,602 | - | - | 7,909 | - | 97,511 |

**Key**
FIN: finite life
INDEF: indefinite life

The asset classes specified in the table above are carried at cost.

### 12.3 Other information

As at December 31, 2017 the Bank had contractual commitments to purchase intangible assets amounting to €13 thousand.
We also report that there were no intangible assets acquired through government concession; no intangible assets were used as collateral for own debts; no intangible assets were held under a finance lease; and there were no revalued intangible assets.

### *Other information - Impairment test*

Under IAS 36, impairment testing of intangible assets with indefinite useful lives must be performed at least annually and, in any case, whenever there is objective evidence of the occurrence of events that may have reduced their value.
Recoverable value is the greater of the value in use (present value of future cash flows generated by the asset being valued) and the associated fair value, net of sales costs.
The recoverable value of the assets subject to impairment testing must be determined for the individual assets, unless both of the following conditions exist:
- the value in use of the asset is not estimated to be close to the fair value net of selling costs;
- the asset does not generate incoming cash flows largely independent of those coming from other assets (or group of assets).

If these conditions exist, the impairment test is conducted at the level of the Cash Generating Unit (CGU) of the asset, as required by the accounting principle.
According to IAS 36, when determining the value in use of assets subject to impairment testing, reference must be made to the cash flows of assets in their current conditions at the testing date and representing the best estimate by the management of the overall economic conditions in place during the residual useful life of the asset.

# Part B - Balance Sheet - Asset (Continued)

For the purposes of impairment testing, the value in use of the cash generating unit (CGU) to which the intangible assets have been assigned must be calculated considering the cash flows for all the assets and liabilities included in the CGU and not just those for which goodwill and/or the intangible asset has been recognised upon application of IFRS 3.

### *Definition of CGU*

Estimating the value in use for the purposes of any impairment testing of intangible assets, including goodwill, which do not independently generate cash flows, but only in conjunction with other business assets, requires that these assets first be attributed to operating units that are relatively autonomous in the business context (from the points of view of independent cash flows generated and of internal planning and reporting). These operating units are defined as Cash Generating Units (CGU).

Goodwill relates to buy-outs of divisions or companies engaged in trading activities or the distribution of financial, banking and insurance products through personal financial advisors. These activities have been fully integrated with FinecoBank's ordinary operations, as a result it is not possible to isolate the contribution of each company/business division from the Bank's overall income; this means that to establish the recoverability of the value of goodwill recognised in the financial statements it is necessary to take account of the Bank’s comprehensive income.

The cash generating unit (CGU) to be considered for the impairment test is therefore the Bank as a whole. In view of the specific business model adopted by FinecoBank, which envisages a high level of integration between personal financial advisors and the trading and banking platform, so that the personal financial advisors network is an integral part of the overall offering of the Bank, which includes banking, brokerage and investing services, an allocation of costs/revenues per business units is not considered relevant or meaningful.

### *Estimating cash flows to determine the value in use of the CGU*

The applicable accounting principles require that the impairment test be carried out by comparing the book value of the CGU to its recoverable value. When the latter proves to be less than the book value, a write-down must be recorded in the financial statements. The recoverable value is the greater of its fair value (net of sales costs) and the related value in use.

The recoverable amount of the CGU in this case is the greater of its fair value (net of costs to sell) and the related value in use.

### *Impairment test model*

The calculation of the value in use for the purposes of impairment testing is made using the Discounted Cash Flow (DCF) model. The cash flows are determined by subtracting the annual capital requirement generated by the change in the risk-weighted assets from net profit. This capital requirement is determined by considering the long-term capitalisation to be achieved, also in light of the minimum regulatory capital requirements.

### *Cash flows*

The discounted cash flow model used is based on future cash flows estimated by management in four steps:

- year 2018, in which the budget figures were considered (subject to approval by the Board of Directors on December 5, 2017);
- period from 2019 to 2020, which considers the financial projections of the Strategic Plan (submitted for approval by the Board of Directors of December 5, 2017);
- intermediate period of five years from 2021 to 2025, for which the projections of the financial flows are extrapolated by applying beginning in the last explicit estimate period (2020) rates of growth decreasing (from 4% to 2%) to the terminal value;
- terminal value calculated using a nominal growth rate of 2%. The average Eurozone actual GDP rate from 1996 to 2016 was 1.5%. The choice of nominal 2% as "terminal value” growth rate, i.e. corresponding to ~ 0% real growth, was made for prudential reasons.

### *Discount rates of cash flows*

Future financial flows were discounted using a conservative estimate of the discount rate, incorporating the various risk factors linked to the business sector into the cost of equity (Ke). The discount rate is a nominal rate, net of taxes.

The main assumptions used by management in determining the discount rate to calculate the value in use are summarised below:

- Initial discount rate net of tax (Ke); 8.61%
- Final discount rate net of tax (Ke); 9.09%

In particular, the cost of capital for the Bank is the sum of the following:

- Risk-free rate: the average of the last 6 years of the 5-year Bund. The six-year horizon was adopted in line with the average economic cycle in the eurozone;
- Debt risk premium: the average over the last six years of the Credit Default Swap paid by UniCredit;
- Risk premium on own equity: calculated using the option-based model, based on the average volatility of over the last six years of the shares of banks operating predominantly in the same sector.

Moreover, for prudential reasons, the cost of capital for the Bank 2018 to the Terminal Value was raised to the level of the Germany Commercial Banking, which was considered to be the floor value at Group level.

The cost of capital used for the impairment testing has 4 target points (2018 budget, 2019 Multi Year Plan, 2020 Multi Year Plan and Terminal Value) within which a linear convergence is calculated.

### *Impairment test results*

The methodology for calculating the value in use described above (model, assumptions and parameters used) was approved by the Board of Directors on January 10, 2018. For the impairment testing the carrying amount of the goodwill and Shareholders' equity was compared with its value in use calculated using that methodology. The outcome of the tests (approved by the Board of Directors of February 6, 2018) confirmed the sustainability of the goodwill recognised in the financial statements as at December 31, 2017, with the value in use significantly higher than the carrying amount.

### *Sensitivity analysis*

Given the complexity of the measurement process and the uncertainty involved in making forecasts on future profitability, especially in the long term, some sensitivity analyses were carried out assuming changes to the main parameters used in the impairment test.

The table below shows the change in the value in use, net of book value and of shareholders' equity, in relation to changes in the main parameters used in the DCF model underlying the impairment test.

| | 1% INCREASE OF THE DISCOUNT RATE AFTER TAXES (KE) | 1% INCREASE OF CORE TIER 1 RATIO TARGET | 1% DECREASE OF THE NOMINAL GROWTH RATE FOR THE CALCULATION OF TERMINAL VALUE | 5% DECREASE OF ANNUAL EARNINGS |
|---|---|---|---|---|
| Change of value in use | -16.9% | -0.8% | -11.2% | -6.4% |

The results confirm the sustainability of the goodwill recognised in the financial statements, as none of the scenarios hypothesised revealed the need for a write-down, as the value in use, calculated applying those variations, was much higher than the book value.
It should also be noted, that the impairment test reaches the break-even assuming changes in the above parameters that are currently unreasonable. The impairment test reached a break-even with an absolute positive change in the discount rate after tax (Ke) of over 20 percentage points, i.e. with a reduction of over 75% of annual earnings (while maintaining all the other parameters and information used unchanged, in both scenarios).

It should be noted that the value of “FinecoBank” shares resulted in a market capitalisation of €5.2 billion at December 31, 2017, markedly higher than the Bank's assets and the results provided by the internal model, which confirms the implementation of prudent criteria for calculation of the value in use.

## Section 13 - Tax Assets and Tax Liabilities - Asset item 130 and liability item 80

The item "Tax assets" amounting to €9,226 thousand comprises:
- "Current tax assets" of €1,765 thousand;
- "Deferred tax assets" of €7,461 thousand. Deferred tax assets are shown in the balance sheet net of the related deferred tax liabilities; the detail is as follows:
  - "Deferred tax assets" of €30,506 thousand recognised as a balancing entry in the income statement;
  - "Deferred tax assets" of €6,225 thousand recognised as a balancing entry of shareholders' equity.
  - "Deferred tax liabilities" of €23,982 thousand recognised as a balancing entry in the income statement;
  - "Deferred tax liabilities" of €5,289 thousand recognised through other comprehensive income.

The item "Tax liabilities" amounting to €10,234 thousand, consists exclusively of "Current tax liabilities".

### Current Tax Assets and Liabilities

(Amounts in € thousand)

| ASSET/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **Current tax assets** | **1,765** | **1,571** |
| **Current tax liabilities** | **10,234** | **10,048** |

### Prepaid/deferred tax assets/liabilities

In accordance with the law and regulations currently in force:
- the recognition of deferred tax assets for IRES income tax purposes takes into account the expected income figures of the Bank for future years, according to the decisions made by the competent company bodies;
- the recognition of deferred tax assets for IRAP corporate tax purposes takes place on the basis of the Bank's expected income figures for future years, and takes into account changes in the legal context;
- deferred tax liabilities are recognised whenever the relevant requirements are satisfied.

When calculating prepaid/deferred tax assets/liabilities, a 27.5% IRES rate was used (24% standard rate and 3.5% additional rate for banking institutions), as well as IRAP rate of 5.57%.

There were no tax-loss carry-forwards.

# Part B - Balance Sheet - Asset (Continued)

## 13.1 Deferred tax assets: breakdown

(Amounts in € thousand)

| ASSET/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Allocations through profit or loss | 26,679 | 29,043 |
| Allocations through other comprehensive income | 6,225 | 7,617 |
| Impairment losses on receivables (of which pursuant to Law 214/2011) | 3,828 | 4,180 |
| **Total before IAS 12 offset** | **36,732** | **40,840** |
| Offset against deferred tax liabilities - IAS 12 | (29,271) | (29,246) |
| **Total** | **7,461** | **11,594** |

## 13.2 Deferred tax liabilities: breakdown

(Amounts in € thousand)

| ASSET/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Allocations through profit or loss | 23,982 | 23,278 |
| Allocations through other comprehensive income | 5,289 | 5,968 |
| **Total before IAS 12 offset** | **29,271** | **29,246** |
| Offset against deferred tax liabilities - IAS 12 | (29,271) | (29,246) |
| **Total** | **-** | **-** |

## 13.3 Changes in deferred tax assets (through profit or loss)

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Opening balance** | **33,223** | **39,024** |
| **2. Increases** | **3,912** | **4,281** |
| 2.1 Deferred tax assets recognised in the year | 3,508 | 4,281 |
| a) relating to prior years | - | - |
| b) due to changes in accounting policies | - | - |
| c) write-backs | - | - |
| d) other | 3,508 | 4,281 |
| 2.2 New taxes or increases in tax rates | - | - |
| 2.3 Other increases | 404 | - |
| **3. Decreases** | **(6,629)** | **(10,082)** |
| 3.1 Deferred tax assets cancelled in the year | (6,629) | (9,367) |
| a) reversals of temporary differences | (6,629) | (9,367) |
| b) write-downs of non-recoverable items | - | - |
| c) change in accounting policies | - | - |
| d) other | - | - |
| 3.2 Reduction in tax rates | - | - |
| 3.3 Other decreases | - | (715) |
| a) conversion of tax credits as per Law 214/2011 | - | - |
| b) other | - | (715) |
| **4. Closing balance** | **30,506** | **33,223** |

Increases/decreases in deferred tax assets recognised in the year through profit or loss mainly refer to the following items:
- allocations to and use of provisions for risks and charges;
- allocations to and use of provisions for future personnel costs.

### 13.3.1 Changes in deferred tax assets under Law 214/2011 (through profit or loss)

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Opening balance** | **4,180** | **4,401** |
| **2. Increases** | **-** | **-** |
| **3. Decreases** | **(352)** | **(221)** |
| 3.1 Reversals | (352) | (220) |
| 3.2 Conversion into tax credits | | |
| a) resulting from operating losses | - | - |
| b) resulting from tax losses | - | - |
| 3.3 Other decreases | - | (1) |
| **4. Closing balance** | **3,828** | **4,180** |

### 13.4 Changes in deferred tax liabilities (through profit or loss)

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Opening balance** | **23,278** | **22,877** |
| **2. Increases** | **712** | **467** |
| 2.1 Deferred tax liabilities arising during the year | 704 | 467 |
| a) relating to prior years | - | - |
| b) due to changes in accounting policies | - | - |
| c) other | 704 | 467 |
| 2.2 New taxes or increases in tax rates | - | - |
| 2.3 Other increases | 8 | - |
| **3. Decreases** | **(8)** | **(66)** |
| 3.1 Deferred tax liabilities de-recognised during the year | (8) | (66) |
| a) reversals of temporary differences | (8) | (66) |
| b) due to changes in accounting policies | - | - |
| c) other | - | - |
| 3.2 Reduction in tax rates | - | - |
| 3.3 Other decreases | - | - |
| **4. Closing balance** | **23,982** | **23,278** |

Increases in deferred tax liabilities recorded in the financial year as a balancing item of the income statement refer to the recognition of deferred tax liabilities resulting from the accounting and tax treatment of goodwill.

# Part B - Balance Sheet - Asset (Continued)

### 13.5 Changes in deferred tax assets (through equity)

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Opening balance** | **7,617** | **2,440** |
| **2. Increases** | **270** | **6,510** |
| 2.1 Deferred tax assets recognised in the year | 270 | 6,510 |
| a) relating to prior years | - | - |
| b) due to changes in accounting policies | - | - |
| c) other | 270 | 6,510 |
| 2.2 New taxes or increases in tax rates | - | - |
| 2.3 Other increases | - | - |
| **3. Decreases** | **(1,662)** | **(1,333)** |
| 3.1 Deferred tax assets cancelled in the year | (1,662) | (1,333) |
| a) reversals of temporary differences | (1,619) | (1,333) |
| b) write-downs of non-recoverable items | - | - |
| c) due to changes in accounting policies | - | - |
| d) other | (43) | - |
| 3.2 Reduction in tax rates | - | - |
| 3.3 Other decreases | - | - |
| **4. Closing balance** | **6,225** | **7,617** |

The increase in deferred tax assets recognised during the year through Shareholders' equity refers to the recognition of deferred tax assets on actuarial gains recognised in equity revaluation reserves as per IAS 19 Revised.
The decrease in deferred tax assets recognised during the year through equity mainly refer to the fair value valuation of debt securities classed as “Available-for-sale financial assets”.

### 13.6 Changes in deferred tax liabilities (through equity)

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Opening balance** | **5,968** | **4,895** |
| **2. Increases** | **1,104** | **5,101** |
| 2.1 Deferred tax liabilities arising during the year | 1,104 | 5,101 |
| a) relating to prior years | - | - |
| b) due to change in accounting policies | - | - |
| c) other | 1,104 | 5,101 |
| 2.2 New taxes or increases in tax rates | - | - |
| 2.3 Other increases | - | - |
| **3. Decreases** | **(1,783)** | **(4,028)** |
| 3.1 Deferred tax liabilities de-recognised during the year | (1,783) | (4,028) |
| a) reversals of temporary differences | (1,783) | (4,028) |
| b) due to change in accounting policies | - | - |
| c) other | - | - |
| 3.2 Reduction in tax rates | - | - |
| 3.3 Other decreases | - | - |
| **4. Closing balance** | **5,289** | **5,968** |

The increase and decreases in deferred tax assets recognised during the year in equity related to the recognition and reversal of deferred tax assets as a result of the fair value measurement of debt securities classified under the “ Available-for-sale financial assets” category.

### 13.7 Other information

No information to report.

## Section 14 - Non-current assets and disposal groups classified as held for sale and associated liabilities - Assets item 140 and liabilities item 90

### 14.1 Non-current assets and disposal groups classified as held for sale: breakdown by type assets

No data to report.

### 14.2 Other information

No information to report.

### 14.3 Information on equity investments in companies subject to significant influence not valued according to the equity method

No information to report.

## Section 15 - Other assets - Item 150

### 15.1 Other assets: breakdown

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Accrued income other than income to be capitalised on the related financial assets | 1,982 | - |
| Items in transit not allocated to relevant accounts | 18 | - |
| Items awaiting settlement: | | |
| - notes, cheques and other documents | 4,498 | 11,558 |
| Items in processing: | | |
| - other items in processing | 99 | 27 |
| Current receivables not associated with the provision of financial services | 4,767 | 2,290 |
| Definitive items not recognised under other items: | | |
| - securities and coupons to be settled | 4,617 | 321 |
| - fees to be charged to customers | 4,985 | 30,426 |
| - other transactions | 16,015 | 11,465 |
| Tax items other than those included in item 130: | | |
| - tax advances | 242,539 | 240,923 |
| - tax credit | 6,875 | 9,132 |
| - tax advances on employee severance indemnities | 28 | 22 |
| Receivables due to disputed items not deriving from lending | 119 | 119 |
| Prepayments | 22,143 | 22,754 |
| Improvement and incremental expenses incurred on leasehold assets | 6,774 | 7,262 |
| **Total** | **315,459** | **336,299** |

# Part B - Balance sheet

## Liabilities

### Section 1 - Deposits from banks - Item 10

#### 1.1 Deposits from banks: product breakdown

(Amounts in € thousand)

| TYPE OF TRANSACTION/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1. Deposits from central banks** | **-** | **-** |
| **2. Deposits from banks** | **926,001** | **1,111,106** |
| 2.1 Current accounts and demand deposits | 42,756 | 52,309 |
| 2.2 Time deposits | - | - |
| 2.3 Loans | 868,651 | 1,058,565 |
| 2.3.1 Repos | 868,651 | 1,058,565 |
| 2.3.2 Other | - | - |
| 2.4 Liabilities in respect of commitments to repurchase treasury shares | - | - |
| 2.5 Other liabilities | 14,594 | 232 |
| **Total** | **926,001** | **1,111,106** |
| ***Fair value - level 1*** | **-** | **-** |
| ***Fair value - level 2*** | **-** | **-** |
| ***Fair value - level 3*** | ***926,001*** | ***1,111,106*** |
| **Total fair value** | **926,001** | **1,111,106** |

#### 1.2 Breakdown of item 10 "Deposits from banks": subordinated debts

No data to report.

#### 1.3 Breakdown of item 10 "Deposits from banks": structured debts

No data to report.

#### 1.4 Deposits from banks subject to micro-hedging

No data to report.

#### 1.5 Amounts payable under finance leases

No data to report.

### Section 2 - Deposits from customers - Item 20

#### 2.1 Deposits from customers: product breakdown

(Amounts in € thousand)

| TYPE OF TRANSACTION/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| 1. Current accounts and demand deposits | 19,935,285 | 18,319,307 |
| 2. Time deposits | 9,631 | 159,124 |
| 3. Loans | 146,410 | 231,376 |
| 3.1 Repos | 146,410 | 231,376 |
| 3.2 Other | - | - |
| 4. Liabilities in respect of commitments to repurchase treasury shares | - | - |
| 5. Other liabilities | 113,710 | 91,266 |
| **Total** | **20,205,036** | **18,801,073** |
| ***Fair value - level 1*** | **-** | **-** |
| ***Fair value - level 2*** | ***9,622*** | ***21,894*** |
| ***Fair value - level 3*** | ***20,195,477*** | ***18,779,261*** |
| **Total fair value** | **20,205,099** | **18,801,155** |

#### 2.2 Breakdown of item 20 "Deposits from customers": subordinated debts

No data to report.

#### 2.3 Breakdown of item 20 "Deposits from customers": structured debts

No data to report.

#### 2.4 Deposits from customers subject to micro-hedging
No data to report.

#### 2.5 Amounts payable under finance leases
No data to report.

## Section 3 - Debt securities in issue - Item 30
No data to report.

## Section 4 - Financial liabilities held for trading - Item 40

#### 4.1 Financial liabilities held for trading: product breakdown

(Amounts in € thousand)

| TYPE OF TRANSACTION/AMOUNT | 12.31.2017 | | | | | 12.31.2016 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | FV | | | | | FV | | | |
| | NA | L1 | L2 | L3 | FV* | NA | L1 | L2 | L3 | FV* |
| **A. On-balance sheet liabilities** | | | | | | | | | | |
| 1. Deposits from banks | - | - | - | - | - | - | - | - | - | - |
| 2. Deposits from customers | 578 | 382 | - | - | 382 | 687 | 239 | - | - | 239 |
| 3. Debt securities | - | - | - | - | X | - | - | - | - | X |
| 3.1 Bonds | - | - | - | - | X | - | - | - | - | X |
| 3.1.1 Structured | - | - | - | - | X | - | - | - | - | X |
| 3.1.2 Other bonds | - | - | - | - | X | - | - | - | - | X |
| 3.2 Other securities | - | - | - | - | X | - | - | - | - | X |
| 3.2.1 Structured | - | - | - | - | X | - | - | - | - | X |
| 3.2.2 Others | - | - | - | - | X | - | - | - | - | X |
| **Total A** | **578** | **382** | **-** | **-** | **382** | **687** | **239** | **-** | **-** | **239** |
| **B. Derivatives** | | | | | | | | | | |
| 1. Financial derivatives | X | 1,650 | 579 | 6 | X | X | 1,765 | 622 | - | X |
| 1.1 Trading derivatives | X | 1,650 | 579 | 6 | X | X | 1,765 | 622 | - | X |
| 1.2 Related to the fair value option | X | - | - | - | X | X | - | - | - | X |
| 1.3 Other | X | - | - | - | X | X | - | - | - | X |
| 2. Credit derivatives | X | - | - | - | X | X | - | - | - | X |
| 2.1 Trading derivatives | X | - | - | - | X | X | - | - | - | X |
| 2.2 Related to the fair value option | X | - | - | - | X | X | - | - | - | X |
| 2.3 Other | X | - | - | - | X | X | - | - | - | X |
| **Total B** | **X** | **1,650** | **579** | **6** | **X** | **X** | **1,765** | **622** | **-** | **X** |
| **Total (A+B)** | **X** | **2,032** | **579** | **6** | **X** | **X** | **2,004** | **622** | **-** | **X** |

**Key**
FV = fair value
FV* = Fair value calculated excluding the changes in value due to the change in the issuer's credit rating since the issue date
NA = Nominal or Notional amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

Financial derivatives refer to the negative valuation of CFD contracts on Forex, indices, shares and interest rates and Futures used for the operational hedging of CFDs on indices and interest rates. They amounted to €565 thousand (€590 thousand as at December 31, 2016).
Sub-item B.1.1 Derivative instruments - Trading financial derivatives includes the negative valuations of spot contracts for securities classified in the HFT portfolio and currencies to be settled in times established by market practices ("regular way"). They amounted to €1,670 thousand (€1,797 thousand as at December 31, 2016).

#### 4.2 Breakdown of item 40 “Financial liabilities held for trading”: subordinated liabilities
No data to report.

#### 4.3 Breakdown of item 40 “Financial liabilities held for trading”: structured debts
No data to report.

# Part B - Balance Sheet - Liabilities (Continued)

## Section 5 - Financial liabilities at fair value through profit or loss - Item 50

The Bank has not recognised any financial liabilities under the balance-sheet item "Financial Liabilities at fair value through profit or loss".

## Section 6 - Hedging derivatives - Item 60

### 6.1 Hedging derivatives: breakdown by type of hedge and by level

(Amounts in € thousand)

| | FAIR VALUE 12.31.2017 | | | NA | FAIR VALUE 12.31.2016 | | | NA |
|---|---|---|---|---|---|---|---|---|
| ITEM/AMOUNT | L1 | L2 | L3 | 12.31.2017 | L1 | L2 | L3 | 12.31.2016 |
| **A. Financial derivatives** | **-** | **12,694** | **-** | **1,085,339** | **-** | **10,914** | **-** | **1,107,368** |
| 1) Fair value | - | 12,694 | - | 1,085,339 | - | 10,914 | - | 1,107,368 |
| 2) Cash flows | - | - | - | - | - | - | - | - |
| 3) Net investment in foreign subsidiaries | - | - | - | - | - | - | - | - |
| **B. Credit derivatives** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1) Fair value | - | - | - | - | - | - | - | - |
| 2) Cash flows | - | - | - | - | - | - | - | - |
| **Total** | **-** | **12,694** | **-** | **1,085,339** | **-** | **10,914** | **-** | **1,107,368** |

**Key:**
NA = notional amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

The hedging derivatives as at December 31, 2017 included the negative fair value of derivatives entered into with UniCredit for €9,320 thousand (€7,849 thousand with UniCredit and €3,065 with UniCredit Bank AG Milano as at December 31, 2016).

### 6.2 Hedging derivatives: breakdown by hedged assets and risk

(Amounts in € thousand)

| | FAIR VALUE | | | | | | CASH FLOWS | | |
|---|---|---|---|---|---|---|---|---|---|
| | MICRO | | | | | | | | |
| TRANSACTION/TYPE OF HEDGE | INTEREST RATE RISK | EXCHANGE RATE RISK | CREDIT RISK | PRICE RISK | MULTIPLE RISK | MACRO | MICRO | MACRO | NET INVESTMENT IN FOREIGN SUBSIDIARIES |
| 1. Available-for-sale assets | - | - | - | - | - | X | - | X | X |
| 2. Loans and receivables | - | - | - | X | - | X | - | X | X |
| 3. Held-to-maturity investments | X | - | - | X | - | X | - | X | X |
| 4. Portfolio | X | X | X | X | X | 9,568 | X | - | X |
| 5. Other transactions | - | - | - | - | - | X | - | X | - |
| **Total assets** | **-** | **-** | **-** | **-** | **-** | **9,568** | **-** | **-** | **-** |
| 1. Financial liabilities | - | - | - | X | - | X | - | X | X |
| 2. Portfolio | X | X | X | X | X | 3,126 | X | - | X |
| **Total liabilities** | **-** | **-** | **-** | **-** | **-** | **3,126** | **-** | **-** | **-** |
| 1. Expected transactions | X | X | X | X | X | X | - | X | X |
| 2. Financial assets and financial liabilities | X | X | X | X | X | - | X | - | - |

## Section 7 - Changes in fair value of portfolio hedged financial liabilities - Item 70

### 7.1 Adjustments to the value of hedged financial liabilities

(Amounts in € thousand)

| ADJUSTMENTS TO THE VALUE OF HEDGED ASSETS/AMOUNTS | 12.31.2017 | 12.31.2016 |
|---|---|---|
| 1. Positive changes to financial liabilities | - | 457 |
| 2. Negative changes to financial liabilities | (3,772) | - |
| **Total** | **(3,772)** | **457** |

### 7.2 Financial liabilities subject to macro-hedging of interest rate risk: breakdown

(Amounts in € thousand)

| HEDGED LIABILITIES | 12.31.2017 | 12.31.2016 |
|---|---|---|
| 1. Customer deposits | 570,000 | 250,000 |
| **Total** | **570,000** | **250,000** |

# Section 8 - Tax liabilities - Item 80

See section 13 of assets.

# Section 9 - Liabilities included in disposal groups classified as held for sale - Item 90

See section 14 of assets.

# Section 10 - Other liabilities - Item 100

### 10.1 Other liabilities: breakdown

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Accrued expenses other than those to be capitalised for the financial liabilities concerned | 148 | 141 |
| Other liabilities relative to employees | 11,378 | 7,259 |
| Other liabilities due to directors and statutory auditors | 148 | 140 |
| Sums available to be paid to customers | 4,650 | 242 |
| Items in processing: | | |
| - incoming bank transfers | 423 | 1,487 |
| - other items in processing | 57 | 34 |
| items awaiting settlement: | | |
| - outgoing bank transfers | 75,288 | 52,009 |
| - POS and ATM cards | 16,581 | 7,155 |
| Current payables not related to the provision of financial services | 23,583 | 18,941 |
| Definitive items not recognised under other items: | | |
| - securities and coupons to be settled | 30,351 | 4,069 |
| - payment authorisations | 19,068 | 20,480 |
| - other items | 12,373 | 10,435 |
| Payables for share-based payments or shares of the Parent Company UniCredit | 938 | 957 |
| Illiquid items for portfolio transactions | 18,097 | 18,486 |
| Tax items other than those included in item 80: | | |
| - sums withheld from third parties as withholding agent | 22,173 | 18,398 |
| - other | 94,342 | 85,066 |
| Prepayments | 1,737 | 600 |
| Social security contributions payable | 6,845 | 5,944 |
| **Total** | **338,180** | **251,843** |

# Part B - Balance Sheet - Liabilities (CONTINUED)

## Section 11 - Provisions for employee severance pay - Item 110

### 11.1 Provisions for employee severance pay: annual changes

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **A. Opening balance** | **5,253** | **4,846** |
| **B. Increases** | **125** | **502** |
| B.1 Provisions for the year | 65 | 83 |
| B.2 Other increases | 60 | 419 |
| *of which adjustments for actuarial losses on Employee Severance Fund (IAS19R)* | - | *365* |
| **C. Decreases** | **(379)** | **(95)** |
| C.1 Payments made | (155) | (43) |
| C.2 Other decreases | (224) | (52) |
| *of which adjustments for actuarial gains on Employee Severance Fund (IAS19R)* | *(211)* | - |
| **D. Closing balance** | **4,999** | **5,253** |

### 11.2 Other information

The "TFR" provision for Italy-based employee benefits is considered to be a "post-retirement defined benefit". It is therefore recognised on the basis of an actuarial estimate of the amount of benefit accrued by employees discounted to present value. This benefit is calculated by an external actuary using the unit credit projection method (see Part A.2 - The Main Items of the Accounts).

The Provision for employee severance pay covers the amount of the rights accrued in that respect up to December 31, 2017 by employees, under current legal regulations, as well as national collective bargaining agreements and supplementary company agreements.

The financial year under review was characterised by:

1) normal events relating to the employee severance pay provision in accordance with legal provisions and company agreements in force;
2) changes associated with employment contracts pursuant to Article 1406 and following of the Civil Code dealing with individual mobility within the Group.

In 2007, the new supplementary pension reform pursuant to Legislative Decree no. 252/2005 became effective and, as a result the amounts accrued up to December 31, 2006 were kept with the Company, whilst the amounts of employee severance pay provision accruing as of 1 January 2007 were transferred to the supplementary pension funds or the INPS Treasury fund according to the option adopted by the employees (within June 30, 2007). The result is that:

- the employee severance fund accrued up to December 31, 2006 (or until the date of the option - falling between January 1, 2007 and June 30, 2007 - adopted by the employees if the they decided to transfer their employee severance pay provision to a supplementary pension fund) continues to be a "defined-benefit" plan and therefore subject to actuarial valuation, although based on simplified actuarial assumptions which no longer take account of estimated future pay rises;
- the amounts accrued from January 1, 2007 (or from the date of the option - falling between 1 January 2007 and June 30, 2007 - by the employees if they decided to transfer their employee severance pay provision to a supplementary pension fund), were considered as a “defined-contribution" plan (as the Company's liability ceases at the time it pays the employee severance pay provision accrued to the pension fund chosen by the employee) and therefore the related cost for the period is equal to the amounts paid to the Supplementary Pension fund or the INPS Treasury fund.

The following table shows the main actuarial assumptions used to remeasure the liability.

| DESCRIPTION OF THE MAIN ACTUARIAL ASSUMPTIONS | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Discount rate | 1.45% | 1.25% |
| Expected inflation rate | 1.40% | 1.10% |

(Amounts in € thousand)

| EMPLOYEE SEVERANCE PAY PROVISION: OTHER INFORMATION | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **Provisions for the year** | **65** | **83** |
| - Current service cost | - | - |
| - Interest expense on defined benefit obligations | 65 | 83 |
| - Gains and losses on curtailments and settlements | - | - |
| - Past service cost | - | - |
| **Actuarial gains (losses) recognised in revaluation reserves (OCI)** | **(211)** | **365** |
| - Actuarial gains (losses) for the year | (202) | 383 |
| - Actuarial gains/losses on demographic assumptions | - | - |
| - Actuarial gains/losses on financial assumptions | (9) | (18) |

As required by IAS 19 Revised, a sensitivity analysis was conducted aimed at identifying how the present value of the liability changes when the actuarial assumptions considered most significant are changed, while keeping the other actuarial assumptions constant. A change of -25 basis points in the discount rate would result in an increase in the liability of €160 thousand (+3.20%), whereas an equivalent increase in the rate would result in a reduction of the liability of €155 thousand (-3.09%). A change of -25 basis points in the inflation rate would result in a decrease in the liability of €96 thousand (-1.93%), whereas an equivalent increase in the rate would result in an increase in the liability of €98 thousand (+1.96%).

## Section 12 - Provisions for risks and charges - Item 120

### 12.1 - Provisions for risks and charges: breakdown

(Amounts in € thousand)

| ITEM/COMPONENTS | 12.31.2017 | 12.31.2016 |
|---|---|---|
| 1. Pensions and other post-retirement benefit obligations | - | - |
| 2. Other provisions for risks and charges | 112,414 | 111,756 |
| 2.1 legal disputes | 31,056 | 33,699 |
| 2.2 staff expenses | 5,690 | 10,043 |
| 2.3 other | 75,668 | 68,014 |
| **Total** | **112,414** | **111,756** |

Item 2.1 “legal disputes” includes provisions made to cover complaints and disputes for damage to customers arising from the unlawful behaviour of the Bank's personal financial advisors, provisions relating to pending disputes with personal financial advisors (generally employment-related) and other ongoing court and out-of-court litigation with customers, in relation to normal banking activities, and other parties. This provision includes the costs of proceedings borne by the Bank in the event of an adverse conclusion of the dispute plus the estimated expenses to be paid to lawyers, technical advisors and/or experts who assist the Bank, to the extent that it is believed that they will not be reimbursed by the counterparties.
Item 2.2 "staff expenses" includes the provisions made for the variable remuneration to be paid to employees in subsequent years, which have an uncertain due date and/or amount. At December 31, 2016 the item also included integration costs provided for the Bank by the UniCredit Group Business Plan. During 2017, after entering into an agreement on February 4, 2017, these costs were reallocated to the item “Other liabilities” for the share pertaining to the subscriptions receive, whilst the share pertaining to outstanding subscriptions was recognised through profit and loss.
The item “Other” includes the Supplementary customer indemnity provision, of €64,983 thousand (€56,054 thousand as at December 31, 2016), the Provision for tax disputes (penalties and interest, of €3,931 thousand (€4,078 thousand as at December 31, 2016), the Provision for contractual payments, of €2,311 thousand (€2,184 thousand as at December 31, 2016) and other provisions made for risks related to the Bank's business and operations, of €4,443 thousand (€5,698 thousand as at December 31, 2016).

### 12.2 Provisions for risks and charges: annual changes

(Amounts in € thousand)

| | PENSION FUNDS | OTHER PROVISIONS | TOTAL |
|---|---|---|---|
| **A. Opening balance** | **-** | **111,756** | **111,756** |
| **B. Increases** | **-** | **19,929** | **19,929** |
| B.1 Provisions for the year | - | 19,251 | 19,251 |
| B.2 Changes due to the passage of time | - | 665 | 665 |
| B.3 Changes due to variations in the discount rate | - | 10 | 10 |
| B.4 Other increases | - | 3 | 3 |
| **C. Decreases** | **-** | **(19,271)** | **(19,271)** |
| C.1 Amounts used in the year | - | (14,641) | (14,641) |
| C.2 Changes due to variations in the discount rate | - | (1) | (1) |
| C.3 Other decreases | - | (4,629) | (4,629) |
| **D. Closing balance** | **-** | **112,414** | **112,414** |

“Other decreases” include the integration costs allocated to “Other liabilities” for the share pertaining to subscriptions received, as already mentioned.

### 12.3 Pensions and other post-retirement defined-benefit obligations

No data to report.

# Part B - Balance Sheet - Liabilities (Continued)

## 12.4 Provisions for risks and charges - other provisions

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **Legal disputes** | **31,056** | **33,699** |
| - Pending cases | 25,525 | 26,673 |
| - Complaints | 5,531 | 7,026 |
| **Staff expenses** | **5,690** | **10,043** |
| **Other** | **75,668** | **68,014** |
| - Supplementary customer indemnity provision | 64,983 | 56,054 |
| - Provision for contractual payments and payments under non-competition agreements | 2,311 | 2,184 |
| - Tax disputes | 3,931 | 4,078 |
| - Other provisions | 4,443 | 5,698 |
| **Total provisions for risks and charges** | **112,414** | **111,756** |

(Amounts in € thousand)

| PROVISIONS FOR RISKS AND CHARGES | TOTAL 12.31.2016 | USES | TRANSFERS AND OTHER CHANGES | ACTUARIAL GAINS (LOSSES) IAS 19R * | NET PROVISIONS ** | TOTAL 12.31.2017 |
|---|---|---|---|---|---|---|
| **Legal disputes** | **33,699** | **(6,467)** | **-** | **-** | **3,824** | **31,056** |
| - Pending cases | 26,673 | (3,326) | 234 | - | 1,944 | 25,525 |
| - Complaints | 7,026 | (3,141) | (234) | - | 1,880 | 5,531 |
| **Payroll costs** | **10,043** | **(3,779)** | **(4,626)** | **-** | **4,052** | **5,690** |
| **Other** | **68,014** | **(4,395)** | **-** | **5,373** | **6,676** | **75,668** |
| - Supplementary customer indemnity provision | 56,054 | (1,464) | - | 5,385 | 5,008 | 64,983 |
| - Contractual payments and payments under non-competition agreements | 2,184 | - | - | (12) | 139 | 2,311 |
| - Tax disputes | 4,078 | (147) | - | - | - | 3,931 |
| - Other provisions | 5,698 | (2,784) | - | - | 1,529 | 4,443 |
| **Total provisions for risks and charges** | **111,756** | **(14,641)** | **(4,626)** | **5,373** | **14,552** | **112,414** |

* The item "IAS 19R actuarial gains (losses)" includes the actuarial gains (losses) recognised in the item "Revaluation reserves" in application of IAS 19R.

** The item "Net provisions" includes the costs recognised in their own income statement item to better reflect their nature (e.g. "Staff expenses", "Administrative costs" and "Interest expenses and similar charges").

The following table shows the main actuarial assumptions used to measure the liability for the supplementary customer indemnity provision and the provision for contractual payments.

| DESCRIPTION OF THE MAIN ACTUARIAL ASSUMPTIONS | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Discount rate | 1.45% | 1.25% |
| Salary increase rate | 2.60% | 2.60% |

As required by IAS 19 Revised, a sensitivity analysis was conducted aimed at identifying how the present value of the liability changes when the actuarial assumptions considered most significant are changed, while keeping the other actuarial assumptions constant.
With reference to the supplementary customer indemnity provision, a change of -25 basis points in the discount rate would result in an increase in liabilities of €1,866 thousand (+2.87%); an equivalent increase in the rate, on the other hand, would reduce the liability by €1,787 thousand (-2.75%). A change of -25 basis points in the salary base would result in a reduction in the liability of €610 thousand (-0.94%); an equivalent increase in the rate, on the other hand, would result in an increase in liabilities of €626 thousand (+0.96%).
With reference to the provision for contractual payments, a change of -25 basis points in the discount rate would result in an increase in liabilities of €38 thousand (+1.89%); an equivalent increase in the rate, on the other hand, would reduce the liability by €37 thousand (-1.82%). A change of -25 basis points in the salary base would result in a reduction in the liability of €1 thousand (-0.07%); an equivalent increase in the rate, on the other hand, would result in an increase in liabilities of €1 thousand (+0.07%).

In addition, for the other provisions recognised in the financial statements on the basis of IAS 37, where the effect of the time value of money is significant (generally when payment is to be made more than 18 months from recognition), the amount of the provision should be the present value of the best estimate of the cost required to settle the obligation. The discount rate used reflects the current market assessments. As at December 31, 2017 an analysis was conducted to assess the impact on the provision is made of a variation of +/- 25 basis points in the discount rate and no significant impacts were found.

The **Provision for legal disputes** includes provisions made to cover complaints and disputes for damage to customers arising from the unlawful behaviour of the Bank's personal financial advisors, provisions relating to pending disputes with personal financial advisors (generally employment-related) and other ongoing court and out-of-court litigation with customers, in relation to normal banking activities, and other parties. This provision includes the costs of proceedings borne by the Bank in the event of an adverse conclusion of the dispute plus the estimated expenses to be paid to lawyers, technical advisors and/or experts who assist the Bank, to the extent that it is believed that they will not be reimbursed by the counterparties.

The **Supplementary customer indemnity provision** is accrued to cover the amount of severance indemnity to be paid to the PFA network pursuant to art. 1751 of the Italian Civil Code, in the event of termination of the contract for reasons not attributable to the advisor, such as, for example, when reaching retirement age.
The amount of the obligation at the end of the period was assessed with the aid of an independent actuary.

The **Provision for staff expenses** includes provisions made in relation to the variable remuneration to be paid to employees in subsequent years which have an uncertain due date and amount.

The **Provision for contractual payments and payments under non-competition agreements** is related to a limited number of personal financial advisors; these payments are contractually provided. More specifically, the non-competition agreement is an extension of the loyalty obligation at the end of the employment contract which protects the Bank from competition from former personal financial advisors; contractual payments are a special indemnity that the Bank agrees to pay to personal financial advisors, who opted to transfer the rights and obligations arising from their contract with the Bank to third parties, where these advisors continue to keep an ethical and professional conduct with the Bank after termination of employment, with specific regard to the customer portfolio. The amount of the obligation at the end of the period relating to contractual payments was assessed with the aid of an independent actuary.

The **Provision for tax disputes** is allocated to cover tax demands received from the Italian Revenue Agency following tax audits carried out on the Bank over the years, in relation to which the Bank considers it has calculated the tax correctly and legitimately and has therefore submitted an appeal at various levels of proceedings.
The above provisions for risks and charges include the allocations for fines and interest for the additional tax being contested and requested by the Tax Authorities through tax bills or payment notices paid and for the estimated amount of legal expenses to be incurred in the various proceedings.
For more details, see Part E - Information on risks and hedging policies - Section 4 - Operational risk - paragraph "Risks arising from tax disputes and audits" of these Notes to the Consolidated Accounts.

The **Other Provisions** are mainly allocated to cover the risks related to the business and operations of the Bank. The provision specifically includes provisions for marketing and customer loyalty campaigns and the provision for training events for the personal financial advisors.

# Section 13 - Redeemable shares - Item 140

### 13.1 Redeemable shares: breakdown

No data to report.

# Section 14 - Shareholders' Equity - Items 130, 150, 160, 170, 180, 190 and 200

### 14.1 "Share capital" and "Treasury shares": breakdown

As at December 31, 2017, the Bank's share capital came to €200,545 million, comprising 607,713,345 ordinary shares with a par value of €0.33 each. As at December 31, 2017 the Bank held 60,397 treasury shares, corresponding to 0.01% of the share capital, for an amount of €365 thousand. It should be noted that the shares were purchased in 2015, for a total number of 1,408,834, as part of the "2014 PFA Plan" stock granting plan in favour of Personal Financial Advisors and Network Managers of Fineco, and in the first quarter of 2017, for a total number of 31,519, with regard do the "2016 PFA Plan" incentive plan for Personal Financial Advisors identified as "key personnel", in compliance with the provisions authorised by Fineco's Ordinary Shareholders' Meeting of April 12, 2016. In implementation of the "2014 PFA Plan", during FY2016 and FY2017, Personal Financial Avisors and Network Managers were allocated, respectively, 694,509 shares and 685,447 shares.
The Bank does not hold shares of its Parent Company UniCredit S.p.A., even through other companies or third parties.

(Amounts in € thousand)

| ITEM/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| 1. Share capital | 200,545 | 200,246 |
| 2. Share premium reserve | 1,934 | 1,934 |
| 3. Reserves | 323,932 | 278,407 |
| *- Legal reserve* | *40,109* | *40,049* |
| *- Extraordinary reserve* | *251,367* | *205,860* |
| *- Treasury shares reserve* | *365* | *4,338* |
| *- Other reserves* | *32,091* | *28,160* |
| 4. (Treasury shares) | (365) | (4,338) |
| 5. Revaluation reserves | (8,340) | (6,794) |
| 6. Equity instruments | - | - |
| 7. Net Profit (Loss) for the year | 214,284 | 211,844 |
| **Total** | **731,990** | **681,299** |

# Part B - Balance Sheet - Liabilities (Continued)

On February 7, 2017, in view of the positive outcome of the verification of the minimum entry conditions (at Bank level and UniCredit Group level, where applicable) and the individual conditions (compliance of conduct and continued employment) and the favourable opinion provided by the Remuneration and Appointments Committee in its meeting of February 2, 2017, the Board of Directors approved:

- for the "Group Executive Incentive System 2014 (Bonus Pool)" plan: a free capital increase, for a total amount of €5,237.76 corresponding to a total of 15,872 FinecoBank ordinary shares with a nominal value of €0.33 each (with the same characteristics as those in circulation and with regular dividend entitlement), impartial exercise of the authority granted to the Board of Directors by the Extraordinary Shareholders' Meeting of June 5, 2014, in accordance with Article 2443 of the Italian Civil Code. The dilution effect resulting from the above free capital increase has been quantified as 0.003% of the fully diluted capital;
- for the "2014-2017 Top Management Multi-Year Plan": a free capital increase, for a total amount of €208,180.50 corresponding to a total of 630,850 FinecoBank ordinary shares with a nominal value of €0.33 each (with the same characteristics as those in circulation and with regular dividend entitlement), in partial exercise of the authority granted to the Board of Directors by the Extraordinary Shareholders' Meeting of June 5, 2014, in accordance with Article 2443 of the Italian Civil Code. The dilution effect resulting from the above free capital increase has been quantified as 0.10% of the fully diluted capital;
- for the "2014 Key People Plan": a free capital increase, for a total amount of €86,191.71 corresponding to a total of 261,187 FinecoBank ordinary shares with a nominal value of €0.33 each (with the same characteristics as those in circulation and with regular dividend entitlement), in partial exercise of the authority granted to the Board of Directors by the Extraordinary Shareholders' Meeting of June 5, 2014, in accordance with Article 2443 of the Italian Civil Code. The dilution effect resulting from the above free capital increase has been quantified as 0.04% of the fully diluted capital.

The Shareholders' Meeting of April 11, 2017 approved the allocation of profit for the year 2016, amounting to €211,844 thousand, as follows:
- €60 thousand to the Legal reserve, corresponding to 0.03% of the profit for the year, having reached the limit of a fifth of the share capital;
- €41,624 thousand to the extraordinary reserve;
- to the 607,713,345 ordinary shares with a par value of €0.33, a unit dividend of €0.28 for a total amount of €170,160 thousand.

The share of dividends not distributed to treasury shares held by the bank on the record date, equal to €209 thousand, was allocated to the Extraordinary Reserve.

### 14.2 Share capital - Number of shares: annual changes

| ITEMS/TYPE | ORDINARY | OTHER |
|---|---|---|
| **A. Shares outstanding at the beginning of the year** | | |
| - fully paid | 606,805,436 | - |
| - not fully paid | - | - |
| A.1 Treasury shares (-) | (714,325) | - |
| **A.2 Shares outstanding: opening balance** | **606,091,111** | **-** |
| **B. Increases** | | |
| B.1 New issues | | |
| - against payment: | | |
| - business combinations | - | - |
| - bonds converted | - | - |
| - warrants exercised | - | - |
| - other | - | - |
| - free: | | |
| - to employees | 907,909 | - |
| - to directors | - | - |
| - other | - | - |
| B.2 Sale of treasury shares | - | - |
| B.3 Other changes | 685,447 | - |
| **C. Decreases** | | |
| C.1 Cancellation | - | - |
| C.2 Purchase of treasury shares | (31,519) | - |
| C.3 Business transfers | - | - |
| C.4 Other changes | - | - |
| **D. Shares outstanding: closing balance** | **607,652,948** | **-** |
| D.1 Treasury shares (+) | 60,397 | - |
| D.2 Shares outstanding at the end of the year | - | - |
| - fully paid | 607,713,345 | - |
| - not fully paid | - | - |

The item B.3 Other changes reports the shares allocated to the personal financial advisors under the stock granting plan ("2014 PFA Plan") for the Bank's Personal Financial Advisors and Network Managers.

### 14.3 Share capital: other information

The shares are not subject to any right, privilege or constraint; there are no shares reserved for issue under option and sales contracts.

### 14.4 Reserves from allocation of profit from previous years: other information

The reserves from profits consist of the:
- Legal reserve, amounting to €40,109 thousand;
- Extraordinary reserve, amounting to €251,367 thousand;
- Reserve for treasury shares held, amounting to €365 thousand.

Following the allocation of FinecoBank ordinary shares held as treasury shares to the Bank's Personal Financial Advisors and Network Managers, under the third-tranche of the stock granting "2014 PFA Plan", the "Reserve for treasury shares held" was released and reclassified to the "Extraordinary reserve" by an amount of €4,144 thousand.

### *Information on the availability and distribution of shareholders' equity*

In accordance with art. 2427, paragraph 7-bis of the Italian Civil Code, and according to document no. 1 issued by the Italian Accounting Body on October 25, 2004, a detailed description of equity items is provided below, with a breakdown in terms of availability, eligibility for distribution and use in the last three years.

(Amounts in € thousand)

| | | | | | SUMMARY OF THE AMOUNTS USED IN THE PAST THREE YEARS | |
|---|---|---|---|---|---|---|
| TYPE/DESCRIPTION | AMOUNT | POSSIBLE USE | AMOUNT AVAILABLE | | TO COVER LOSSES | FOR OTHER REASONS |
| **Share capital** | **200,545** | **-** | **-** | | **-** | **-** |
| **Share premium reserve** | **1,934** | **A, B, C** | **1,934** | (1) | **-** | **-** |
| **Reserves:** | | | | | | |
| Legal reserve | 40,109 | B | 40,109 | | - | - |
| Extraordinary reserve | 251,367 | A, B, C | 251,367 | | - | 4,956 |
| Reserve related to equity-settled plans | 32,091 | - | - | | - | 4,217 |
| Reserve for treasury shares | 365 | - | - | | | |
| **Revaluation reserves:** | | | | | | |
| Revaluation reserves for available-for-sale financial assets | 1,472 | - | - | (2) | - | - |
| Revaluation reserves for actuarial gains (losses) from defined benefit plans | (9,812) | - | - | | - | - |
| **TOTAL** | **518,071** | | **293,410** | | | |
| Undistributable amount | | | 40,109 | | | |
| Distributable amount | | | 253,301 | | | |

**Key**
A: for capital increase.
B: to cover losses.
C: for distribution to shareholders.

**Note:**
(1) Pursuant to Article 2431 of the Civil Code, the sum total of this reserve may be distributed only on condition that the legal reserve has reached the limit set in Article 2430 of the Civil Code.
(2) The reserve, when positive, is not available pursuant to article 6 of Legislative Decree 38/2005.

In 2015, the €80 thousand of the "Extraordinary reserve" was used for the capital increase for the first tranche of the "2014 Key People Plan" and €4,781 thousand from the "Reserve for treasury shares to be purchased" for the payment in cash of the first tranche of the 2014 stock granting plan "2014 PFA Plan" for the Personal Financial Advisors and Network Managers of the Bank.
In 2016, the €96 thousand of the "Extraordinary reserve" was used for the capital increase for the second tranche of the "2014 Key People Plan" and €4,217 thousand was used from the "Reserve related to equity-settled plans" following the allocation of FinecoBank ordinary shares held as treasury shares to the Bank's Personal Financial Advisors and Network Managers, for the second tranche of the stock granting "2014 PFA Plan".
During 2017, €4,144 thousand was used from the "Reserve related to equity-settled plans" following the allocation of FinecoBank ordinary shares held as treasury shares to the Bank's Personal Financial Advisors and Network Managers, under the third-tranche of the stock granting "2014 PFA Plan".

The Bank closed the year 2017 with a net profit of €214,284 thousand and the Board of Directors Meeting of February 6, 2018 proposed its allocation as follows:
- €46 thousand to the Legal reserve, corresponding to 0.02% of the profit for the year, having reached the limit of a fifth of the share capital;
- €40,843 thousand to the Extraordinary reserve;
- €173,395 thousand to Shareholders, corresponding to a dividend of €0.285 for each of the 608,404,395 ordinary shares with a par value of €0.33 euro, constituting the share capital including the 691,050 shares relating to the capital increase approved by the Board of Directors on February 6, 2018.

The dividends not distributed in relation to any treasury shares held by the Bank at the record date will be transferred to the Extraordinary reserve.

# Part B - Balance Sheet - Liabilities (CONTINUED)

**14.5 Equity instruments: breakdown and annual changes**
No data to report.

**14.6 Other information**
No data to report.

## Section 15 - Other information

### 1. Guarantees issued and commitments

(Amounts in € thousand)

| TRANSACTIONS | AMOUNT 12.31.2017 | AMOUNT 12.31.2016 |
|---|---|---|
| 1) Financial guarantees given | 256,732 | 256,752 |
| a) Banks | 256,065 | 256,065 |
| b) Customers | 667 | 687 |
| 2) Commercial guarantees given | 4 | 4 |
| a) Banks | 4 | 4 |
| b) customers | - | - |
| 3) Irrevocable commitments to lend funds | 2,324,759 | 1,241,574 |
| a) Banks | 2,125,790 | 1,018,155 |
| i) certain to be called on | 790 | 155 |
| ii) not certain to be called on | 2,125,000 | 1,018,000 |
| b) Customers | 198,969 | 223,419 |
| i) certain to be called on | 198,862 | 223,419 |
| ii) not certain to be called on | 107 | - |
| 4) Commitments underlying credit derivatives: protection sales | - | - |
| 5) Assets given as collateral for third-party obligations | - | - |
| 6) Other commitments | - | - |
| **Total** | **2,581,495** | **1,498,330** |

Financial guarantees given to banks include 5 guarantees issued in 2012 on request of UniCredit, with indefinite duration, for a total amount of €256,065 thousand.
Irrevocable commitments to lend funds certain to be called on mainly consisted of spot contracts for the purchase and sale of securities to be settled in times established by market practices ("regular way"), for an amount of €165,987 thousand, and repurchase agreements to be disbursed, for an amount of €33,262 thousand.
The irrevocable commitments with Banks to lend funds not certain to be called on refer to the Liquidity Framework Agreement entered into during in 2016 and renewed during H1 2017, under which the Bank has made a commitment to provide UniCredit a certain amount of eligible securities for the period of one month; the securities may be requested by UniCredit through repos with a maximum duration of three months. The Bank is also committed to investing the liquidity, received through the repos, in term deposits with the Parent Company with the same expiry date.

### 2. Assets given as collateral for own liabilities and commitments

(Amounts in € thousand)

| PORTFOLIOS | AMOUNT 12.31.2017 | AMOUNT 12.31.2016 |
|---|---|---|
| 1. Financial assets held for trading | - | - |
| 2. Financial assets at fair value through profit or loss | - | - |
| 3. Available-for-sale financial assets | - | - |
| 4. Held-to-maturity investments | - | - |
| 5. Loans and receivables with banks | - | 54,909 |
| 6. Loans and receivables with customers | - | - |
| 7. Property, plant and equipment | - | - |
| **Total** | **-** | **54,909** |

As at December 31, 2017, the Bank has also committed securities owned by it as collateral for bankers' drafts, as a guarantee for transactions in foreign markets, as a guarantee for transactions in derivatives, and as a guarantee for securities lending transactions.
With regard to the securities used as collateral for banker’s drafts, as guarantee with third parties in relation to transactions on foreign markets: more specifically, the Bank used bonds issued by governments, classified as "Available-for-sale financial assets", for a book value of €131,101 thousand (€128,882 thousand as at December 31, 2016). Securities are used as collateral until the Bank decides to stop the transactions for which the collateral or guarantees are granted.

With regard to the securities lending transactions with customers, UniCredit securities have been committed, belonging to the "Loans and receivables" category", for a carrying amount of €890,325 thousand (€1,042,126 thousand as at December 31, 2016). For more details, see section 4. Securities lending transactions.

### 3. Information on operating leases

With regard to outstanding non-cancellable leases, the future payments amount to:
- €1,969 thousand up to twelve months;
- €50 thousand from one to five years.

There are no sub-leases in place.

### 4. Asset management and trading on behalf of others

(Amounts in € thousand)

| TYPE OF SERVICE | AMOUNT 12.31.2017 | AMOUNT 12.31.2016 |
|---|---|---|
| **1. Execution of orders for customers** | **326,780,204** | **330,212,411** |
| **Securities** | **85,472,068** | **85,036,522** |
| a) purchases | 42,872,997 | 42,701,792 |
| *1. Settled* | *42,495,048* | *42,346,469* |
| *2. Unsettled* | *377,949* | *355,323* |
| b) sales | 42,599,071 | 42,334,730 |
| *1. Settled* | *42,288,571* | *41,973,535* |
| *2. Unsettled* | *310,500* | *361,195* |
| **Derivative contracts** | **241,308,136** | **245,175,889** |
| a) purchases | 120,730,831 | 122,572,275 |
| *1. Settled* | *120,378,702* | *122,309,410* |
| *2. Unsettled* | *352,129* | *262,865* |
| b) sales | 120,577,305 | 122,603,614 |
| *1. Settled* | *120,242,383* | *122,335,440* |
| *2. Unsettled* | *334,922* | *268,174* |
| **2. Segregated accounts** | **-** | **-** |
| a) individual | - | - |
| b) collective | - | - |
| **3. Custody and administration of securities** | | |
| a) third party securities on deposits: relating to custodian bank activities (excluding segregated accounts) | - | - |
| *1. securities issued by the bank preparing the accounts* | - | - |
| *2. other securities* | - | - |
| b) third party securities held in deposits (excluding segregated accounts): other | 13,393,452 | 11,399,554 |
| *1. securities issued by the bank preparing the accounts* | *2,568* | *4,827* |
| *2. other securities* | *13,390,884* | *11,394,727* |
| c) third-party securities deposited with third parties | 13,393,452 | 11,399,550 |
| d) own securities deposited with third parties | 16,236,634 | 15,461,745 |
| **4. Other transactions** | **25,223,404** | **18,342,788** |
| Order receipt and transmission | 25,223,404 | 18,342,788 |
| *a) purchases* | *12,603,177* | *9,216,044* |
| *b) sales* | *12,620,227* | *9,126,744* |

### 5. Financial assets subject to accounting offsetting or under master netting agreements or similar agreements

(Amounts in € thousand)

| TYPE | GROSS AMOUNT OF FINANCIAL ASSETS (A) | AMOUNT OF FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL STATEMENTS (B) | NET AMOUNT OF FINANCIAL ASSETS SHOWN IN THE FINANCIAL STATEMENTS (C=A-B) | RELATED AMOUNTS NOT SUBJECT TO ACCOUNTING OFFSETTING | | NET AMOUNT 12.31.2017 (F=C-D-E) | NET AMOUNT 12.31.2016 |
|---|---|---|---|---|---|---|---|
| | | | | FINANCIAL INSTRUMENTS (D) | CASH DEPOSITS RECEIVED AS GUARANTEE (E) | | |
| 1. Derivatives | - | - | - | - | - | - | 552 |
| 2. Reverse repos | - | - | - | - | - | - | - |
| 3. Securities lending | 179 | - | 179 | - | - | 179 | - |
| 4. Other | - | - | - | - | - | - | - |
| **Total December 31, 2017** | **179** | **-** | **179** | **-** | **-** | **179** | **X** |
| **Total December 31, 2016** | **552** | **-** | **552** | **-** | **-** | **X** | **552** |

# Part B - Balance Sheet - Liabilities (CONTINUED)

### 6. Financial liabilities subject to accounting offsetting or under master netting agreements and similar agreements

(Amounts in € thousand)

| TYPE | GROSS AMOUNT OF FINANCIAL LIABILITIES (A) | AMOUNT OF FINANCIAL ASSETS OFFSET IN THE FINANCIAL STATEMENTS (B) | NET AMOUNT OF FINANCIAL LIABILITIES SHOWN IN THE FINANCIAL STATEMENTS (C=A-B) | RELATED AMOUNTS NOT SUBJECT TO ACCOUNTING OFFSETTING: FINANCIAL INSTRUMENTS (D) | RELATED AMOUNTS NOT SUBJECT TO ACCOUNTING OFFSETTING: CASH DEPOSITS RECEIVED AS GUARANTEE (E) | NET AMOUNT 12.31.2017 (F=C-D-E) | NET AMOUNT 12.31.2016 |
|---|---|---|---|---|---|---|---|
| 1. Derivatives | 10,523 | - | 10,523 | - | 9,350 | 1,173 | - |
| 2. Reverse repos | 764,353 | - | 764,353 | - | - | 764,353 | - |
| 3. Securities lending | 177,878 | - | 177,878 | - | - | 177,878 | - |
| 4. Other | - | - | - | - | - | - | - |
| **Total December 31, 2017** | **952,754** | **-** | **952,754** | **-** | **9,350** | **943,404** | **X** |
| **Total December 31, 2016** | **7,849** | **-** | **7,849** | **-** | **7,849** | **X** | **-** |

It should also be noted that, at December 31, 2017 there were swap derivative contracts with a positive fair value of €458 thousand and a negative fair value of €2,171 thousand, for which a positive variance margin of €1,711 thousand was paid, not shown in the table above as it is cleared at a Central Counterparty since it refers to client-trade exposures. Such exposures were subject to the prudential treatment set out in Article 305 of (EU) Regulation no. 575/2013.

### 7. Securities lending transactions

The Bank conducts securities lending transactions on a continuous and systematic basis, with the objective of optimising the returns of customer portfolios, satisfying the requests of institutional counterparties and obtaining a profit for the Bank. The Bank operates as the borrower, borrowing the securities of its customers and using them in repos and securities lending transactions guaranteed by cash amounts with retail and institutional customers interested in the temporary ownership of the securities. In the case of securities lending transactions guaranteed by other securities, which are not recognised as liabilities or commitments in the accounts, the Bank has used bond issues of UniCredit, classified as “Loans and Receivables”, as guarantees; these are deposited in a securities account held at the custodian bank for an amount higher than that of the securities borrowed from customers, in order to provide a collective guarantee.

The face value of the underlying securities not recognised as assets in the accounts totalled €772,854 thousand, while their fair value was €949,550 thousand, broken down as follows:

(Amounts in € thousand)

| SECURITIES RECEIVED ON LOAN FROM: | TYPE OF SECURITIES (NOMINAL VALUE DECEMBER 31, 2017): SOLD | SOLD IN REPOS | OTHER PURPOSES |
|---|---|---|---|
| Banks | - | - | - |
| Financial companies | - | 1,006 | - |
| Insurance companies | - | - | - |
| Non-financial companies | - | 3,036 | 45 |
| Other entities | 578 | 767,369 | 820 |
| **Total nominal value** | **578** | **771,411** | **865** |

(Amounts in € thousand)

| SECURITIES RECEIVED ON LOAN FROM: | TYPE OF SECURITIES (FAIR VALUE DECEMBER 31, 2017): SOLD | SOLD IN REPOS | OTHER PURPOSES |
|---|---|---|---|
| Banks | - | - | - |
| Financial companies | - | 1,323 | - |
| Insurance companies | - | - | - |
| Non-financial companies | - | 3,580 | 102 |
| Other entities | 382 | 943,073 | 1,090 |
| **Total fair value** | **382** | **947,976** | **1,192** |

### 8. Disclosure on joint control activities

No data to report.

# Part C - Income Statement

# Part C - Income Statement

## Section 1 - Interest income and expense - Items 10 and 20

### 1.1 Interest income and similar revenues: breakdown

(Amounts in € thousand)

| ITEMS/TYPE | DEBT SECURITIES | LOANS | OTHER TRANSACTIONS | TOTAL 12.31.2017 | TOTAL 12.31.2016 |
|---|---|---|---|---|---|
| 1. Financial assets held for trading | 1 | - | - | 1 | 1 |
| 2. Available-for-sale financial assets | 8,505 | - | - | 8,505 | 20,658 |
| 3. Held-to-maturity investments | 23,066 | - | - | 23,066 | 1,575 |
| 4. Loans and receivables with banks | 186,029 | 2,824 | - | 188,853 | 198,814 |
| 5. Loans and receivables with customers | - | 41,029 | - | 41,029 | 29,109 |
| 6. Financial assets designated at fair value through profit or loss | - | - | - | - | - |
| 7. Hedging derivatives | - | - | 8,215 | 8,215 | 3,080 |
| 8. Other assets | - | - | 77 | 77 | 69 |
| **Total interest income** | **217,601** | **43,853** | **8,292** | **269,746** | **253,306** |

Interest accrued on impaired assets, relating exclusively to the item Loans and receivables with customers, amounted to €325 thousand (€360 thousand as at December 31, 2016).

### 1.2 Interest income and similar revenues: hedging differentials

(Amounts in € thousand)

| ITEMS | 12.31.2017 | 12.31.2016 |
|---|---|---|
| A. Positive hedging differentials | 20,102 | 35,458 |
| B. Negative hedging differentials | (11,887) | (32,378) |
| **C. Balance (A-B)** | **8,215** | **3,080** |

### 1.3 Interest income and similar revenues: other information

No information to report.

#### 1.3.1 Interest income from financial assets denominated in currency

(Amounts in € thousand)

| ITEMS/TYPE | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Interest income on foreign currency financial assets | 15,100 | 12,459 |

#### 1.3.2 Interest income on finance lease transactions

No data to report.

### 1.4 Interest expenses and similar charges: breakdown

(Amounts in € thousand)

| ITEMS/TYPE | PAYABLES | SECURITIES | OTHER TRANSACTIONS | TOTAL 12.31.2017 | TOTAL 12.31.2016 |
|---|---|---|---|---|---|
| 1. Deposits from central banks | - | - | - | - | - |
| 2. Deposits from banks | 3,070 | - | - | 3,070 | 3,006 |
| 3. Deposits from customers | (8,235) | - | - | (8,235) | (6,924) |
| 4. Debt securities in issue | - | - | - | - | - |
| 5. Financial liabilities held for trading | - | - | - | - | - |
| 6. Financial Liabilities at fair value through profit or loss | - | - | - | - | - |
| 7. Other liabilities and provisions | - | - | - | - | - |
| 8. Hedging derivatives | - | - | - | - | - |
| **Total interest expense** | **(5,165)** | **-** | **-** | **(5,165)** | **(3,918)** |

### 1.5 Interest expenses and similar charges: hedging differentials

This table has been omitted as the balance of hedging differentials is positive (please refer to the above table 1.2).

### 1.6 Interest expenses and similar charges: other information

No information to report.

#### 1.6.1 Interest expense on liabilities denominated in currency

(Amounts in € thousand)

| ITEMS/TYPE | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Interest expense on liabilities denominated in currency | (4,882) | (2,479) |

#### 1.6.2 Interest expense on finance leases

No data to report.

## Section 2 - Fee and commission income and expense - Items 40 and 50

### 2.1 Fee and commission income: breakdown

(Amounts in € thousand)

| TYPE OF SERVICE/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| (a) guarantees given | 67 | 67 |
| (b) credit derivatives | - | - |
| (c) management, brokerage and consulting services: | 484,259 | 436,906 |
| 1. securities trading | 71,072 | 75,599 |
| 2. currency trading | - | - |
| 3. segregated accounts | - | - |
| 3.1. individual | - | - |
| 3.2. collective | - | - |
| 4. custody and administration of securities | 1,079 | 964 |
| 5. custodian bank | - | - |
| 6. placement of securities | 14,307 | 14,492 |
| 7. reception and transmission of orders | 11,862 | 10,732 |
| 8. advisory services | 43,233 | 33,078 |
| 8.1. related to investments | 43,233 | 33,078 |
| 8.2. related to financial structure | - | - |
| 9. distribution of third-party services: | 342,706 | 302,041 |
| 9.1. segregated accounts | 280,210 | 252,873 |
| 9.1.1 individual | 28 | 53 |
| 9.1.2 collective | 280,182 | 252,820 |
| *of which maintenance commissions for UCIT units* | *277,309* | *250,480* |
| 9.2. insurance products | 62,495 | 49,159 |
| 9.3. other products | 1 | 9 |
| (d) collection and payment services | 28,761 | 21,758 |
| (e) securitisation servicing | - | - |
| (f ) factoring | - | - |
| (g) tax collection services | - | - |
| (h) management of multilateral trading systems | - | - |
| (i) management of current accounts | 4,716 | 5,019 |
| (j) other services | 9,798 | 5,450 |
| (k) securities lending transactions | 5,713 | 3,640 |
| **Total** | **533,314** | **472,840** |

### 2.2 Fee and commission income: distribution channels for products and services

(Amounts in € thousand)

| CHANNEL/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **(a) at own branches:** | **-** | **-** |
| 1. portfolio management | - | - |
| 2. placement of securities | - | - |
| 3. third-party services and products | - | - |
| **(b) cold-calling:** | **331,552** | **290,634** |
| 1. portfolio management | - | - |
| 2. placement of securities | 11,680 | 12,108 |
| 3. third-party services and products | 319,872 | 278,526 |
| **(c) other distribution channels:** | **25,462** | **25,898** |
| 1. portfolio management | - | - |
| 2. placement of securities | 2,627 | 2,383 |
| 3. third-party services and products | 22,835 | 23,515 |
| **Total** | **357,014** | **316,532** |

# Part C - Income Statement (Continued)

The fee and commission income described in point (c) "other distribution channels" refer to commissions earned through the online channel and also include fees and commissions collected by product companies and placement and maintenance commissions from the online subscription of units of UCITS and insurance products.

### 2.3 Fee and commission expense: breakdown

(Amounts in € thousand)

| SERVICE/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| (a) guarantees received | - | - |
| (b) credit derivatives | - | - |
| (c) management and brokerage services: | (239,360) | (208,909) |
| 1. securities trading | (7,018) | (7,510) |
| 2. currency trading | - | - |
| 3. segregated accounts: | - | - |
| 3.1 own | - | - |
| 3.2 delegated to third parties | - | - |
| 4. custody and administration of securities | (4,692) | (4,126) |
| 5. placement of financial instruments | - | - |
| 6. cold-calling to offer securities, products and services | (227,650) | (197,273) |
| (d) collection and payment services | (21,674) | (19,022) |
| (e) other services | (399) | (304) |
| (f) securities lending transactions | (1,798) | (1,724) |
| **Total** | **(263,231)** | **(229,959)** |

## Section 3 - Dividend income and similar revenue - Item 70

### 3.1 Dividend income and similar revenue: breakdown

(Amounts in € thousand)

| ITEM/INCOME | 12.31.2017 | | 12.31.2016 | |
|---|---|---|---|---|
| | DIVIDENDS | INCOME FROM UCITS UNITS | DIVIDENDS | INCOME FROM UCITS UNITS |
| A. Financial assets held for trading | 26 | - | 14 | - |
| B. Available-for-sale financial assets | 29 | - | 6 | - |
| C. Financial assets designated at fair value through profit or loss | - | - | - | - |
| D. Equity investments | - | X | - | X |
| **Total** | **55** | **-** | **20** | **-** |

## Section 4 - Gains (losses) on financial assets and liabilities held for trading - Item 80

### 4.1 Gains (losses) on financial assets and liabilities held for trading: breakdown
### As at December 31, 2017

(Amounts in € thousand)

| TRANSACTION/INCOME ITEM | UNREALISED GAINS (A) | REALISED PROFITS (B) | UNREALISED LOSSES (C) | REALISED LOSSES (D) | NET PROFIT (LOSS) [(A+B)-(C+D)] |
|---|---|---|---|---|---|
| **1. Financial assets held for trading** | **28** | **84,293** | **(36)** | **(76,448)** | **7,837** |
| 1.1 Debt securities | 1 | 3,080 | (1) | (2,604) | 476 |
| 1.2 Equity instruments | 9 | 80,165 | (26) | (72,960) | 7,188 |
| 1.3 UCITS units | 18 | 1,048 | (9) | (884) | 173 |
| 1.4 Loans | - | - | - | - | - |
| 1.5 Other | - | - | - | - | - |
| **2. Financial liabilities held for trading** | **1** | **12** | **(1)** | **(8)** | **4** |
| 2.1 Debt securities | - | - | - | - | - |
| 2.2 Payables | - | - | - | - | - |
| 2.3 Other | 1 | 12 | (1) | (8) | 4 |
| **3. Other financial assets and liabilities: exchange differences** | **X** | **X** | **X** | **X** | **6,210** |
| **4. Derivatives** | **5,541** | **53,513** | **(5,280)** | **(35,134)** | **33,362** |
| 4.1 Financial derivatives: | 5,541 | 53,513 | (5,280) | (35,134) | 33,362 |
| - On debt securities and interest rates | 176 | 1,465 | (187) | (1,049) | 405 |
| - On equity securities and share indices | 5,365 | 47,244 | (5,093) | (31,822) | 15,694 |
| - On currencies and gold | X | X | X | X | 14,722 |
| - Other | - | 4,804 | - | (2,263) | 2,541 |
| 4.2 Credit derivatives | - | - | - | - | - |
| **Total** | **5,570** | **137,818** | **(5,317)** | **(111,590)** | **47,413** |

### As at December 31, 2016

(Amounts in € thousand)

| TRANSACTION/INCOME ITEM | UNREALISED GAINS (A) | REALISED PROFITS (B) | UNREALISED LOSSES (C) | REALISED LOSSES (D) | NET PROFIT (LOSS) [(A+B)-(C+D)] |
|---|---|---|---|---|---|
| **1. Financial assets held for trading** | **4** | **103,097** | **(22)** | **(93,411)** | **9,668** |
| 1.1 Debt securities | - | 6,825 | - | (6,065) | 760 |
| 1.2 Equity instruments | 4 | 93,309 | (22) | (84,683) | 8,608 |
| 1.3 UCITS units | - | 2,963 | - | (2,663) | 300 |
| 1.4 Loans | - | - | - | - | - |
| 1.5 Other | - | - | - | - | - |
| **2. Financial liabilities held for trading** | **7** | **129** | **-** | **(28)** | **108** |
| 2.1 Debt securities | - | - | - | - | - |
| 2.2 Payables | - | - | - | - | - |
| 2.3 Other | 7 | 129 | - | (28) | 108 |
| **3. Other financial assets and liabilities: exchange differences** | **X** | **X** | **X** | **X** | **4,211** |
| **4. Derivatives** | **4,510** | **62,942** | **(3,720)** | **(39,076)** | **34,603** |
| 4.1 Financial derivatives: | 4,510 | 62,942 | (3,720) | (39,076) | 34,603 |
| - On debt securities and interest rates | 96 | 1,364 | (80) | (904) | 476 |
| - On equity securities and share indices | 4,414 | 56,725 | (3,640) | (36,091) | 21,408 |
| - On currencies and gold | X | X | X | X | 9,947 |
| - Other | - | 4,853 | - | (2,081) | 2,772 |
| 4.2 Credit derivatives | - | - | - | - | - |
| **Total** | **4,521** | **166,168** | **(3,742)** | **(132,515)** | **48,590** |

# Section 5 - Fair value adjustments in hedge accounting - Item 90

### 5.1 Fair value adjustments in hedge accounting: breakdown

(Amounts in € thousand)

| INCOME ITEM/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **A. Gains on:** | | |
| A.1 Fair value hedging instruments | 10,865 | 17,018 |
| A.2 Hedged asset items (in fair value hedge relationship) | 10,036 | 3,621 |
| A.3 Hedged liability items (in fair value hedge relationship) | 4,230 | - |
| A.4 Cash-flow hedging derivatives | - | - |
| A.5 Assets and liabilities denominated in currency | - | - |
| **Total gains on hedging activities (A)** | **25,131** | **20,639** |
| **B. Losses on:** | | |
| B.1 Fair value hedging instruments | (20,727) | (9,693) |
| B.2 Hedged asset items (in fair value hedge relationship) | (4,385) | (10,419) |
| B.3 Hedged liability items (in fair value hedge relationship) | - | (458) |
| B.4 Cash-flow hedging derivatives | - | - |
| B.5 Assets and liabilities denominated in currency | - | - |
| **Total losses on hedging activities (B)** | **(25,112)** | **(20,570)** |
| **C. Fair value adjustments in hedge accounting (A-B)** | **19** | **69** |

# Part C - Income Statement (Continued)

## Section 6 - Gains (Losses) on disposals/repurchases - Item 100

### 6.1 Gains (Losses) on disposals/repurchases: breakdown

(Amounts in € thousand)

| ITEM/INCOME ITEM | 12.31.2017 PROFIT | 12.31.2017 LOSS | 12.31.2017 NET PROFIT (LOSS) | 12.31.2016 PROFIT | 12.31.2016 LOSS | 12.31.2016 NET PROFIT (LOSS) |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| 1. Loans and receivables with banks | 3,951 | - | 3,951 | - | - | - |
| 2. Loans and receivables with customers | - | - | - | - | - | - |
| 3. Available-for-sale financial assets | 761 | - | 761 | 20,382 | - | 20,382 |
| 3.1 Debt securities | 761 | - | 761 | 5,038 | - | 5,038 |
| 3.2 Equity instruments | - | - | - | 15,344 | - | 15,344 |
| 3.3 UCITS units | - | - | - | - | - | - |
| 3.4 Loans | - | - | - | - | - | - |
| 4. Held-to-maturity investments | - | - | - | - | - | - |
| **Total assets** | **4,712** | **-** | **4,712** | **20,382** | **-** | **20,382** |
| **Financial liabilities** | | | | | | |
| 1. Deposits from banks | - | - | - | - | - | - |
| 2. Deposits from customers | - | - | - | - | - | - |
| 3. Debt securities in issue | - | - | - | - | - | - |
| **Total liabilities** | **-** | **-** | **-** | **-** | **-** | **-** |

Income from the sale of receivables from banks, equal to €3,951 thousand, pertain to the sale of debt securities issued by UniCredit (for further details refer to the Consolidated Report on Operations), whereas income from the sale of Available-for-sale financial assets, equal to €761 thousand, pertain to the sale of government securities.

## Section 7 - Gains (losses) on financial assets and liabilities measured at fair value - Item 110

### 7.1 Gain (losses) on financial assets and liabilities measured at fair value through profit and loss: breakdown

No data to report.

## Section 8 - Impairment losses - Item 130

### 8.1 Impairment losses on loans and receivables: breakdown

(Amounts in € thousand)

| TRANSACTION/INCOME ITEM | IMPAIRMENTS (1) MICRO WRITE-OFFS | IMPAIRMENTS (1) MICRO OTHER | IMPAIRMENTS (1) MACRO | WRITE-BACKS (2) MICRO A | WRITE-BACKS (2) MICRO B | WRITE-BACKS (2) MACRO A | WRITE-BACKS (2) MACRO B | TOTAL 12.31.2017 | TOTAL 12.31.2016 |
|---|---|---|---|---|---|---|---|---|---|
| A. Loans and receivables with banks | - | - | - | - | - | - | - | - | - |
| - Loans | - | - | - | - | - | - | - | - | - |
| - Debt securities | - | - | - | - | - | - | - | - | - |
| B. Loans and receivables with customers | (200) | (4,857) | (2,053) | 200 | 1,275 | - | 477 | (5,158) | (4,206) |
| Impaired related to purchase agreements | - | - | | - | - | - | | - | - |
| - Loans | - | - | X | - | - | - | X | - | - |
| - Debt securities | - | - | X | - | - | - | X | - | - |
| Other loans | (200) | (4,857) | (2,053) | 200 | 1,275 | - | 477 | (5,158) | (4,206) |
| - Loans | (200) | (4,857) | (2,053) | 200 | 1,275 | - | 477 | (5,158) | (4,206) |
| - Debt securities | - | - | - | - | - | - | - | - | - |
| **C. Total** | **(200)** | **(4,857)** | **(2,053)** | **200** | **1,275** | **-** | **477** | **(5,158)** | **(4,206)** |

**Key:**
A = From interest
B = Other write-backs

#### 8.2 Impairment losses on available-for-sale financial assets: breakdown

(Amounts in € thousand)

| TRANSACTION/INCOME ITEM | IMPAIRMENTS (1) SPECIFIC WRITE-OFFS | IMPAIRMENTS (1) SPECIFIC OTHER | WRITE-BACKS (2) SPECIFIC A | WRITE-BACKS (2) SPECIFIC B | TOTAL 12.31.2017 | TOTAL 12.31.2016 |
|---|---|---|---|---|---|---|
| A. Debt securities | - | - | - | - | - | - |
| B. Equity Instruments | (8,896) | (3,995) | - | - | (12,891) | (6,724) |
| C. UCITS units | - | - | - | - | - | - |
| D. Loans to banks | - | - | - | - | - | - |
| E. Loans to customers | - | - | - | - | - | - |
| **F. Total** | **(8,896)** | **(3,995)** | **-** | **-** | **(12,891)** | **(6,724)** |

**Key:**
A = From interest
B = Other write-backs

The specific impairments consisted exclusively of the full impairment write-down recorded on the exposure in equity instruments recognised as result of the contribution paid to the Interbank Deposit Guarantee Fund Voluntary Scheme. For further details, see Section A - Accounting policies, of the Notes to the Accounts.

#### 8.3 Impairment losses on held-to-maturity investments: breakdown

No data to report.

#### 8.4 Net value adjustments for the impairment of other financial assets: breakdown

(Amounts in € thousand)

| TRANSACTION/INCOME ITEM | IMPAIRMENTS (1) MICRO WRITE-OFFS | IMPAIRMENTS (1) MICRO OTHER | IMPAIRMENTS (1) MACRO | WRITE-BACKS (2) MICRO A | WRITE-BACKS (2) MICRO B | WRITE-BACKS (2) MACRO A | WRITE-BACKS (2) MACRO B | TOTAL 12.31.2017 | TOTAL 12.31.2016 |
|---|---|---|---|---|---|---|---|---|---|
| A. Guarantees given | - | - | - | - | - | - | - | - | 1,416 |
| B. Credit derivatives | - | - | - | - | - | - | - | - | - |
| C. Commitments to disburse funds | - | - | - | - | - | - | - | - | - |
| D. Other transactions | - | - | - | - | 6 | - | - | 6 | 8 |
| **E. Total** | **-** | **-** | **-** | **-** | **6** | **-** | **-** | **6** | **1,424** |

**Key:**
A = From interest
B = Other write-backs

## Section 9 - Administrative costs - Item 150

#### 9.1 Payroll costs: breakdown

(Amounts in € thousand)

| TYPE OF EXPENSE/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| 1) Employees | (77,431) | (78,114) |
| a) wages and salaries | (52,701) | (49,621) |
| b) social security contributions | (13,927) | (13,061) |
| c) severance pay | (912) | (918) |
| d) pension costs | - | - |
| e) allocation to employee severance pay provision | (98) | (106) |
| f) provision for retirements and similar provisions: | | |
| - defined contribution | - | - |
| - defined benefit | - | - |
| g) payments to external pension funds: | | |
| - defined contribution | (3,082) | (2,861) |
| - defined benefit | - | - |
| h) costs related to share-based payments | (2,739) | (3,471) |
| i) other employee benefits | (3,972) | (8,076) |
| 2) Other staff | - | - |
| 3) Directors and statutory auditors | (1,291) | (1,136) |
| 4) Early retirement costs | - | - |
| 5) Recovery of expenses for employees seconded to other companies | 232 | 267 |
| 6) Recovery of expenses for employees seconded to the company | (363) | (218) |
| **Total** | **(78,853)** | **(79,201)** |

Item 1 h) Employees: costs related to share-based payments, includes costs incurred by the Bank in relation to payment agreements based on financial instruments issued by the Bank and on financial instruments issued by UniCredit to employees.

# Part C - Income Statement (Continued)

### 9.2 Average number of employees by category

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **Employees** | **1,100** | **1,066** |
| (a) executives | 27 | 26 |
| (b) managers | 330 | 317 |
| (c) remaining employees | 743 | 723 |
| **Other personnel** | **15** | **13** |

### 9.3 Pensions and other post-retirement defined-benefit obligations costs and revenues

No data to report.

### 9.4 Other employee benefits

(Amounts in € thousand)

| TYPE OF EXPENSE/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Leaving incentives | 385 | (5,517) |
| Medical plan | (1,477) | (939) |
| Luncheon vouchers | (936) | (926) |
| Seniority premiums | - | 1,116 |
| Other | (1,944) | (1,810) |
| **Total** | **(3,972)** | **(8,076)** |

### 9.5 Other administrative expenses: breakdown

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **1) INDIRECT TAXES AND DUTIES** | **(98,543)** | **(90,568)** |
| **2) MISCELLANEOUS COSTS AND EXPENSES** | | |
| **A) Advertising expenses - Marketing and communication** | **(16,041)** | **(16,840)** |
| Mass media communications | (11,420) | (12,340) |
| Marketing and promotions | (4,488) | (4,251) |
| Sponsorships | (95) | (182) |
| Conventions and internal communications | (38) | (67) |
| **B) Expenses related to credit risk** | **(1,586)** | **(1,403)** |
| Credit recovery expenses | (457) | (520) |
| Commercial information and company searches | (1,129) | (883) |
| **C) Expenses related to personnel** | **(26,167)** | **(28,851)** |
| Personnel training | (479) | (320) |
| Car rental and other staff expenses | (84) | (75) |
| Personal financial adviser expenses | (25,003) | (27,822) |
| Travel expenses | (534) | (564) |
| Premises rentals for personnel | (67) | (70) |
| **D) ICT expenses** | **(32,079)** | **(31,501)** |
| Lease of ICT equipment and software | (2,467) | (3,017) |
| Software expenses: lease and maintenance | (8,092) | (6,847) |
| ICT communication systems | (5,723) | (5,078) |
| ICT services: external personnel/outsourced services | (6,723) | (7,416) |
| Financial information providers | (9,074) | (9,143) |
| **E) Consultancies and professional services** | **(4,150)** | **(2,641)** |
| Consultancy on ordinary activities | (2,629) | (1,578) |
| Consultancy for one-off regulatory compliance projects | (86) | - |
| Consultancy for strategy, business development and organisational optimisation | (385) | (216) |
| Legal expenses | - | (25) |
| Legal disputes | (1,050) | (822) |
| **F) Real estate expenses** | **(19,373)** | **(19,793)** |
| Real estate services | (720) | (801) |
| Repair and maintenance of furniture, machinery, and equipment | (200) | (459) |
| Maintenance of premises | (1,379) | (1,491) |
| Premises rentals | (14,387) | (14,289) |
| Cleaning of premises | (509) | (495) |
| Utilities | (2,178) | (2,258) |
| **G) Other functioning costs** | **(36,026)** | **(32,796)** |
| Surveillance and security services | (347) | (412) |
| Postage and transport of documents | (3,396) | (3,428) |
| Administrative and logistic services | (18,761) | (16,160) |
| Insurance | (3,923) | (3,630) |
| Printing and stationery | (511) | (794) |
| Association dues and fees | (8,695) | (8,080) |
| Other administrative expenses | (393) | (292) |
| **H) Ex-ante contribution to the Single Resolution Fund and Interbank Deposit Guarantee Fund** | **(10,566)** | **(10,614)** |
| **Total** | **(244,531)** | **(235,007)** |

The costs posted in 2017 for contributions paid to Deposit Guarantee Schemes (DGS) during the year, shown in item “Other administrative expenses” (point H) of Table 9.5, amounted to €10,566 in total and pertain to the ordinary and additional contribution and to the contribution to the Solidarity Fund for 2017, net of adjustments for the 2015 and 2016 contributions recalculated by the IDGF as a result of the introduction of the new risk-based model for the calculation of DGS contributions. For further details, see Section A - Accounting policies, of the Notes to the Consolidated Accounts.
No cost was recorded for the Single Resolution Fund (no contribution due).

# Part C - Income Statement (Continued)

## Section 10 - Net provisions for risks and charges - Item 160

### 10.1 Net provisions for risks and charges: breakdown

(Amounts in € thousand)

| | 12.31.2017 | | | 12.31.2016 | | |
|---|---|---|---|---|---|---|
| | PROVISIONS | REALLOCATIONS | TOTAL | PROVISIONS | REALLOCATIONS | TOTAL |
| Legal disputes | (8,836) | 5,012 | (3,824) | (7,140) | 7,212 | 72 |
| Supplementary customer indemnity provision | (5,008) | - | (5,008) | (4,964) | - | (4,964) |
| Other provisions for risks and charges | (330) | 703 | 373 | (588) | 4,696 | 4,108 |
| **Total** | **(14,174)** | **5,715** | **(8,459)** | **(12,692)** | **11,908** | **(784)** |

## Section 11 - Net impairment/write-backs on property, plant and equipment - Item 170

### 11.1 Impairment/write-backs on property, plant and equipment: breakdown

(Amounts in € thousand)

| ASSET/INCOME ITEM | DEPRECIATION (A) | WRITE-DOWNS (B) | WRITE-BACKS (C) | NET PROFIT (LOSS) 12.31.2017 (A+B-C) | NET PROFIT (LOSS) 12.31.2016 |
|---|---|---|---|---|---|
| A. Property, plant and equipment | | | | | |
| A.1 Owned | (5,548) | (21) | - | (5,569) | (4,853) |
| - Used in the business | (5,435) | (21) | - | (5,456) | (4,741) |
| - Held for investment | (113) | - | - | (113) | (112) |
| A.2 Held under finance lease | - | - | - | - | - |
| - Used in the business | - | - | - | - | - |
| - Held for investment | - | - | - | - | - |
| **Total** | **(5,548)** | **(21)** | **-** | **(5,569)** | **(4,853)** |

Impairment losses were recognised in the year for insignificant amounts and mainly in relation to office furniture and fittings for which a zero value in use was determined.
A description of the methods used to calculate depreciation is provided in Part A - Accounting Policies of the notes to the accounts.

## Section 12 - Net impairment/write-backs on intangible assets - Item 180

### 12.1 Impairment on intangible assets: breakdown

(Amounts in € thousand)

| ASSET/INCOME ITEM | DEPRECIATION (A) | WRITE-DOWNS (B) | WRITE-BACKS (C) | NET PROFIT (LOSS) 12.31.2017 (A+B-C) | NET PROFIT (LOSS) 12.31.2016 |
|---|---|---|---|---|---|
| A. Intangible assets | | | | | |
| A.1 Owned | (4,800) | - | - | (4,800) | (5,099) |
| - Generated internally by the company | - | - | - | - | - |
| - Other | (4,800) | - | - | (4,800) | (5,099) |
| A.2 Held under finance lease | | | | | |
| **Total** | **(4,800)** | **-** | **-** | **(4,800)** | **(5,099)** |

Impairments on intangible assets relate to software, amortised over three years and the costs incurred to create the Fineco website, amortised over 5 years.

For the disclosures required by IAS 36 paragraph 134, d), e), f) and 135, c), d), e), see Part B paragraph 12.3 Other information.

## Section 13 - Other net operating income - Item 190

### 13.1 Other operating expenses: breakdown

(Amounts in € thousand)

| TYPE/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Refunds and allowances | (141) | (199) |
| Penalties, fines and unfavourable rulings | (2,427) | (2,798) |
| Improvements and incremental expenses incurred on leasehold properties | (2,844) | (3,706) |
| Improvements and incremental expenses incurred on group properties | (29) | (19) |
| Exceptional write-downs of assets | (317) | (571) |
| Other operating expense | (244) | (7,321) |
| **Total** | **(6,002)** | **(14,614)** |

Exceptional write-downs of assets include costs incurred for credit card fraud of €261 thousand (€518 thousand as at December 31, 2016).

### 13.2 Other operating income: breakdown

(Amounts in € thousand)

| TYPE/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Recovery of expenses: | 93,369 | 85,395 |
| - recovery of ancillary expenses - other | 335 | 442 |
| - recovery of taxes | 93,034 | 84,953 |
| Rental income from real estate investments | 155 | 232 |
| Other income for the current year | 2,828 | 8,445 |
| **Total** | **96,352** | **94,072** |

## Section 14 - Profit (loss) of associates - Item 210

### 14.1 Profit (Loss) of associates: breakdown

No data to report.

## Section 15 - Gains (losses) on tangible and intangible assets measured at fair value - Item 220

### 15.1 Net gains (losses) on property, plant and equipment and intangible assets measured at fair value: breakdown

No data to report.

## Section 16 - Impairment of goodwill - Item 230

### 16.1 Impairment of goodwill: breakdown

No data to report.

# Part C - Income Statement (CONTINUED)

## Section 17 - Gains (losses) on disposal of investments - Item 240

### 17.1 Gains (losses) on disposal of investments: breakdown

(Amounts in € thousand)

| INCOME ITEM/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| A. Properties | | |
| - Gains on disposal | - | - |
| - Losses on disposal | - | - |
| B. Other assets | | |
| - Gains on disposal | 9 | - |
| - Losses on disposal | (517) | - |
| **Net profit (loss)** | **(508)** | **-** |

## Section 18 - Tax expense (income) related to profit or loss from continuing operations - Item 260

### 18.1 Tax expense (income) related to profit or loss from continuing operations: breakdown

(Amounts in € thousand)

| INCOME ITEM/AMOUNT | 12.31.2017 | 12.31.2016 |
|---|---|---|
| 1. Current tax (-) | (102,274) | (95,525) |
| 2. Adjustment to current tax of prior years (+/-) | 3,924 | 6,518 |
| 3. Reduction of current tax for the year (+) | - | - |
| 3.bis Reduction of current tax for the year due to tax receivables pursuant to Law 214/2011 (+) | - | - |
| 4. Changes in deferred tax assets (+/-) | (3,122) | (5,086) |
| 5. Changes in deferred tax liabilities (+/-) | (696) | (400) |
| 6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5) | (102,168) | (94,493) |

### 18.2 Reconciliation of theoretical tax charge to actual tax charge

(Amounts in € thousand)

| | TOTAL 2017 | TOTAL 2016 |
|---|---|---|
| Profit before tax | 316,451 | 306,337 |

| | IRES INCOME TAX | IRAP CORPORATE TAX | TOTAL 2017 | TOTAL 2016 |
|---|---|---|---|---|
| **Amount corresponding to theoretical tax rate** | **(87,024)** | **(17,626)** | **(104,650)** | **(101,306)** |
| + Tax effects of charges not relevant to the calculation of taxable income | 4,085 | (1,263) | 2,822 | 6,227 |
| - Tax effects of income not relevant to the calculation of taxable income | - | - | - | - |
| - Tax effects deriving from the use of tax losses from previous years | - | - | - | - |
| - Tax effects deriving from the application of substitute taxes | (446) | - | (446) | (446) |
| **Amount corresponding to actual tax rate** | **(83,385)** | **(18,889)** | **(102,274)** | **(95,525)** |

## Section 19 - Profit (Loss) after tax from discontinued operations - Item 280

### 19.1 Profit (Loss) after tax from discontinued operations: breakdown

No data to report.

### 19.2 Breakdown of income tax on discontinued operations

No data to report.

## Section 20 - Other information

### 1.1 Designation of Parent Company
UniCredit S.p.A.
Rome Register of Companies
Registered in the Register of Banking Groups and Parent Company of the UniCredit Banking Group with code 2008.1

### 1.2 Registered Office of Parent Company
UniCredit S.p.A.
Registration in the Companies' Register of Milan-Monza-Brianza-Lodi
Registered in the Register of Banking Groups and Parent Company of the UniCredit Banking Group with code 2008.1

### 1.3 Key figures for the Parent Company (income statement, balance sheet, structure)
The Bank is subject to management and coordination of UniCredit S.p.A.; therefore, in accordance with Article 2497 bis, paragraph 4 of the Italian Civil Code the key figures of the last approved financial statements of the parent company are provided below:

**UniCredit S.p.A. - Reclassified balance sheet as at December 31, 2016**

(Amounts in € million)

| ASSETS | 12.31.2016 |
|---|---|
| Cash and cash balances | 1,852 |
| Financial assets held for trading | 14,026 |
| Loans and receivables with banks | 22,349 |
| Loans and receivables with customers | 213,237 |
| Financial investments | 108,374 |
| Hedging instruments | 8,160 |
| Property, plant and equipment | 2,341 |
| Goodwill | - |
| Other intangible assets | 5 |
| Tax assets | 12,005 |
| Non-current assets and disposal groups classified as held for sale | 7,439 |
| Other assets | 4,400 |
| **Total assets** | **394,188** |

(Amounts in € million)

| LIABILITIES AND SHAREHOLDERS' EQUITY | 12.31.2016 |
|---|---|
| Deposits from banks | 44,381 |
| Deposits from customers and debt securities in issue | 279,648 |
| Financial liabilities held for trading | 14,557 |
| Financial liabilities at fair value through profit or loss | 2,103 |
| Hedging instruments | 8,920 |
| Provisions for risks and charges | 3,407 |
| Tax liabilities | 162 |
| Liabilities included in disposal groups classified as held for sale | 3 |
| Other liabilities | 8,310 |
| Shareholders' equity | 32,697 |
| *- capital and reserves* | *43,718* |
| *- revaluation reserves (available-for-sale financial assets - cash flow hedges - on defined benefit plans)* | *439* |
| *- net profit (loss)* | *(11,460)* |
| **Total liabilities and shareholders' equity** | **394,188** |

# Part C - Income Statement (Continued)

### UniCredit S.p.A. - Condensed Income Statement 2016

(Amounts in € million)

| | 12.31.2016 |
|---|---|
| Net interest | 3,693 |
| Dividends and other income from equity investments | 1,173 |
| Net fee and commission income | 3,574 |
| Net trading, hedging and fair value income | 360 |
| Net other expenses/income | 110 |
| **OPERATING INCOME** | **8,910** |
| Payroll costs | (3,298) |
| Other administrative expenses | (2,839) |
| Recovery of expenses | 586 |
| Impairment/write-backs on intangible and tangible assets | (134) |
| **Operating costs** | **(5,685)** |
| **OPERATING PROFIT (LOSS)** | **3,225** |
| Net write-downs of loans and provisions for guarantees and commitments | (10,379) |
| **NET OPERATING PROFIT (LOSS)** | **(7,154)** |
| Provisions for risks and charges | (1,501) |
| Integration costs | (1,163) |
| Net income from investments | (1,444) |
| **GROSS PROFIT (LOSS) FROM CONTINUING OPERATIONS** | **(11,262)** |
| Income tax for the year | (198) |
| Goodwill impairment | - |
| **NET PROFIT** | **(11,460)** |

### 1.4 Disclosure of auditing fees pursuant to art. 149 paragraph bis of Issuers' Regulation

The table below provides details of the fees (net of VAT and expenses) paid to the independent auditing firm Deloitte & Touche S.p.A. and entities within the network that the external auditors belongs to.

(Amounts in €)

| TYPE OF SERVICE | SERVICE PROVIDER | FEES |
|---|---|---|
| Accounting Audit | Deloitte & Touche S.p.A. | 169,245 |
| Certification services | Deloitte & Touche S.p.A. | 95,000 |
| Other Services | Deloitte Consulting S.r.l | 30,000 |
| | | **294,245** |

## Section 21 - Earnings per share

### 21.1 Average number of diluted ordinary shares

Basic earnings per share are calculated by dividing the net profit by the average number of ordinary shares outstanding during the year.

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Net profit for the period (€ thousands) | 214,284 | 211,844 |
| Average number of outstanding shares | 607,158,443 | 605,659,378 |
| Average number of outstanding shares (including potential ordinary shares with dilution effect) | 608,829,187 | 608,860,642 |
| **Basic earnings per share** | **0.35** | **0.35** |
| **Diluted Earnings Per Share** | **0.35** | **0.35** |

### 21.2 Other information

No data to report.

# Part D - Comprehensive Income

## Statement of comprehensive income

(Amounts in € thousand)

| | ITEMS | GROSS AMOUNT | INCOME TAX | NET AMOUNT |
|---|---|---|---|---|
| **10.** | **Net Profit (Loss) for the year** | **X** | **X** | **214,284** |
| | **Other comprehensive income without reclassification through profit or loss** | | | |
| 20. | Property, plant and equipment | - | - | - |
| 30. | Intangible assets | - | - | - |
| 40. | Defined benefit plans | (5,162) | 1,689 | (3,473) |
| 50. | Non-current assets classified as held for sale | - | - | - |
| 60. | Revaluation reserve from investments accounted for using the equity method | - | - | - |
| | **Other comprehensive income with reclassification through profit or loss** | | | |
| **70.** | **Hedges of foreign investments:** | | | |
| | a) fair value changes | - | - | - |
| | b) reclassification through profit or loss | - | - | - |
| | c) other changes | - | - | - |
| **80.** | **Exchange differences:** | | | |
| | a) fair value changes | - | - | - |
| | b) reclassification through profit or loss | - | - | - |
| | c) other changes | - | - | - |
| **90.** | **Cash flow hedges:** | | | |
| | a) fair value changes | - | - | - |
| | b) reclassification through profit or loss | - | - | - |
| | c) other changes | - | - | - |
| **100.** | **Available-for-sale financial assets:** | | | |
| | a) fair value changes | 3,956 | (1,054) | 2,902 |
| | b) reclassification through profit or loss | | | |
| | - due to impairment | - | - | - |
| | - gains/losses on disposals | (2,352) | 778 | (1,574) |
| | c) other changes | 895 | (296) | 599 |
| **110.** | **Non-current assets classified as held for sale:** | | | |
| | a) fair value changes | - | - | - |
| | b) reclassification through profit or loss | - | - | - |
| | c) other changes | - | - | - |
| **120.** | **Revaluation reserve from investments accounted for using the equity method:** | | | |
| | a) fair value changes | - | - | - |
| | b) reclassification through profit or loss | | | |
| | - due to impairment | - | - | - |
| | - gains/losses on disposals | - | - | - |
| | c) other changes | - | - | - |
| **130.** | **Total other comprehensive income** | **(2,663)** | **1,117** | **(1,546)** |
| **140.** | **Comprehensive income (item 10+130)** | **(2,663)** | **1,117** | **212,738** |

# Part E - Information on Risks and Hedging Policies

# Part E - Information on Risks and Hedging Policies

## Introduction

In order to ensure lean and efficient management of risks, the risk management process is structured in accordance with the organisational choices made by the Group and the provisions of the Supervisory Instructions for Banks pertaining to the internal control system.
Risk management and control is performed by the Risk Management function of the Bank in collaboration with the same function of the Parent Company, which performs its role of guidance, coordination and control of risks at Group level. The organisational model provides for a specific contact person, the Chief Risk Officer (hereinafter, "CRO") of the Parent Company, who is responsible for credit risk, market risk, operating risk and reputational risk.
The Bank is responsible for first and second-level monitoring, especially for verifying that the risk level of individual companies is compatible with the guidelines set by the Parent Company, individual company equity, and prudential supervisory rules.

**Organisational structure**
The Board of Directors of FinecoBank 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 Bank's areas of activity. These powers are to be exercised in accordance with the applicable regulations and within the limits of the Parent Company directives 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.

The CRO Department, in line with the instructions and the guidelines of the Parent Company, is responsible for credit operations and risk management. The disclosure, at various levels, is provided by the Strategic Bodies and Officers (Chief Executive Officer and General Manager, Board of Directors, Risk and Related Parties Committee). In relation to the Basel II 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 and adapting the Group Risk Appetite Framework to FinecoBank 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 Bank's overall risk profile by monitoring the various types of risk exposure, in accordance with the methods established by the Parent Company.

The Risk Management Unit prevents and monitors different components of Bank risks. The function specifically controls credit, market and operational risks to which the Bank 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 Bodies and Officers.

Given the complexity of the Bank's activities and the significant risks involved, the Board of Directors of the Bank decided to establish an Risk and Related Parties Committee to carry out internal control tasks; the committee is made up of non-executive members of the same Board and its task is to carry out adequate investigations to support the Board of Directors in its assessments and decisions on the internal control system and risk management.

Lastly, the participation by the Chief Risk Officer and Head of Risk Management in the Products Committee ensures oversight of the operational risk associated with the Bank's new business activities, as well as creating and disseminating a risk culture in the various functional areas.

## Section 1 - Credit Risk

### QUALITATIVE INFORMATION

***1. General Matters***
The Bank's objective is to provide an adequate range of products able to satisfy and encourage loyalty among customers, through a competitive and complete offer. The development of the products and of the product line must also seek to maintain portfolio quality and, in any event, adequate processes to monitor profitability.

The factors that generate credit risk are determined by acceptance and creditworthiness polices, which are always adequately correlated to the risk/return ratio and in line with the Risk Appetite defined by the Board of Directors.

The quality of the loan portfolio, which is constantly monitored and supported by risk mitigation instruments, is protected by scoring models that contribute to evaluation during the approval process, ensuring that it is consistent and controlled. In addition to adequate coverage of the risk levels, monitoring of the portfolio and its segmentation by product and seniority allow a better understanding of the best loan issue strategies. The identification of any high-risk areas permits intervention on the automated measurement systems as well as on disbursement standards, with the possibility to take measures to limit credit risk in advance.

In 2017 lending activity was characterised by the expansion of loan product offering, particularly through the marketing of property loans, launched in 2016, and the granting of current account credit facilities guaranteed by rotational liens on securities (Credit Lombard).
The mortgage offering mainly involves mortgages for the purchase of first and second homes (including subrogation), in addition to home-secured loans and, to a limited extent, non-residential mortgages. As at December 31, 2017, the carrying amount of mortgage loans amounted to €516 million.
Credit Lombard is the solution of FinecoBank suitable for high net worth clients who wish to obtain additional liquidity from their investments.
The Bank, moreover, continued to develop products already included in its catalogue by issuing convenience credit cards to current account holders and granting personal loans.

Choices concerning the investment of the Bank's liquidity are governed by a prudential approach aimed at containing credit risk and mainly involve deposits with UniCredit S.p.A. and the subscription of Eurozone government bonds. In order to optimise its portfolio by diversifying counterparty risk, in 2017 the Bank also increased its exposure to Spanish government securities by €1,100 million and to Italian government securities by €757 million and purchased €44 million of Polish government securities.

The Bank also issued and approved the policy "Issuer risk in bonds - Contingency Plan" aimed at defining principles and rules to efficiently and comprehensively evaluate, control and limit the issuer's risk associated with bonds in the banking book. In accordance with the policy, the Risk Management function monitors a series of indicators to analyse the exposure of the Bank's portfolio to issuer risk; through this analysis it is possible to identify the emergence of abnormal situations and assess the need for corrective actions to avoid deterioration of the portfolio position.

## *2. Credit Risk Management Policy*

### *2.1 Organisational aspects*

The credit process can be broken down into the following stages:
- assessment of creditworthiness;
- granting/disbursement of credit;
- credit monitoring;
- management of impaired loans;
- risk measurement and control.

The assessment of creditworthiness entails ascertaining the ability of the borrower to repay. It is performed by specific centralised and specialist operating units in the various product lines disbursed to customers (personal loans, credit cards, credit lines, and mortgages). On receipt of the request, the offices in question assess the reliability of documentation, evaluate the equity and income situation, and gather information, also by consulting public records, private banks and system data such as the information contained in the Bank of Italy's risk centre and in the Group archives.

In addition to an assessment of creditworthiness by the dedicated functions, credit approval also requires that they assess the compatibility of the request with the customer's overall situation, considering the amount requested and agreeing on a different amount with the customer, where necessary, evaluate and finalise guarantees, if any, linking them to credit facilities and filing them according to specific processes. Lastly, the decision-making parties approve or reject the application on the basis of their powers or send the application to a higher decision-making body.

Credit monitoring is carried out on credit lines to check that the economic situation of the customer and the guarantor that resulted in the approval has not changed. This check may entail collecting updated system data and information, as well as information from private banks. Checks are carried out according to established processes at set intervals, and may vary according to the amount of the credit line granted.
With regard to products with payment plans and in particular for mortgages, specific measurements of outstanding amounts are made for movement between statuses. This method is also accompanied by the collection of information on the debtor customer already used when granting credit lines.
In line with the general principles laid down by the Regulatory Authority, receivables are classified on the basis of the level of impairment, which may be established on the basis of qualitative or quantitative criteria.

The management of impaired loans entails taking all action necessary to restore them to normality or to recover the credits in situations where the relationship cannot be continued. All of these measures are established by specific processes based on the type and amount of the past-due loan and the past-due period as well as taking into account any financial assets of the customer, which may be offered as collateral. Credit collection is performed through payment reminders directly carried out by the Bank as well as through reminders and debt recovery carried out by specialised, authorised external companies.

Lastly, management also entails forecasting losses on an individual basis, which is continuously updated based on the progress of recovery actions for the amounts due or based on information collected during the recovery actions.

# Part E - Information on Risks and Hedging Policies (CONTINUED)

The measurement and control of credit risk takes place at the assessment stage with the support of scoring tools that analyse the customers' socio-demographic profiles, making an assessment of individual counterparties on a statistical basis and supplementing the assessment, on one hand, with the support of credit bureaus for better knowledge of public and private data and on the other hand, with information contained in the Bank of Italy's risk centre.
Credit risk control is also performed through the systematic assessment of the performance of loan portfolios in order to estimate expected losses and intervene on disbursement policies where necessary.

**2.1.1 Factors that generate Credit Risk**
In the course of its credit business activities the Bank is exposed to the risk that its loans may, due to the deterioration of the debtor's financial condition, not be repaid at maturity, and thus result 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 reasons for default lie in the borrower's lack of autonomous ability to ensure the repayment of the debt.
In addition to the risk associated with the granting and disbursement of credit, the Bank is also exposed to counterparty risk for all clearing and pre-clearing operations with the institutional and banking counterparties necessary to conduct the Bank's business. Counterparty risk is defined as 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. The counterparties in these transactions could default as a result of insolvency, political and economic events, lack of liquidity, operating problems or other reasons.
Other transactions involving counterparty risk are:
- entering into derivative contracts;
- purchasing and selling securities, futures, or currencies;
- holding third-party securities.

In addition, "Non-Traditional Credit Risk" is generated by leverage/short transactions conducted through securities lending. 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 Bank monitors and manages the specific risk of each counterparty and the overall risk of loan portfolios through procedures, structures and rules that steer, govern and standardise the assessment and management of credit risk, in line with the Group principles and best practice, and which are capable of extending their effectiveness to all phases of the economic cycle.

The Bank reports all information to the Parent Company that can help it in its assessment of each FIBS counterparty ("Financial Institutions, Banks and Sovereigns") that the Bank intends to have dealings with and with respect to whom a risk limit (ceiling) is to be set within which the Group intends to operate.
The assessment is conducted within the risk limits assigned to the counterparty's Economic Group, i.e. considering the Group's exposure towards all the parties legally and economically linked to the counterparty. At the end of the assessment, the Parent Company assigns the Bank a risk limit that has to be monitored.

### *2.2 Management, measurement and control system*
The measurement of credit risk during the issue process is supported by automated assessment systems (so-called credit scoring systems). These systems also incorporate all available information and facts: public and private data provided by Credit rating bureaus, Risk Center data flows or information requests submitted to the Bank of Italy, Group archives with data relating to positions shared with other Group banks and other performance information on customers, stored by the Bank. During the loan application process, attention is always focused on the possibility of optimising all information concerning customers that has been provided by the Bank, the Group and the System.
The collection of any guarantees, their assessment and the margins between the fair value of the guarantee and the amount of the loan granted are a simple kind of support to credit risk mitigation, but there is no relevant positive correlation between the value of the financial guarantee and the applicant's creditworthiness.

The collective write-downs of the "performing" loan portfolio are determined using migration rates, through transition matrices, both from performing loans to non-performing loans and for each classification status (past-due, unlikely to pay, non-performing) by combining the default rates with the expected recovery rates individually calculated for non-performing loans and taking account of any supporting guarantees. The project activities aimed at the necessary implementations (IT architecture, processes and organisational procedures) for the implementation of the new IFRS9 accounting system are in their final stage, which will entail significant changes to the system for the calculation of collective write-downs and classifications starting from January 1, 2018.

The global assessment of portfolio risks, in order to identify the sustainability of the asset and the remuneration margins, is made both with the assistance of a tool shared with the Parent Company (Credit Tableau de Board), which contains all the main risk indicators and the largest receivables of those listed, and with the support of specific product reports which identify the trend of default rates, broken down by disbursement period and default level.

The monitoring of credit risk as part of the management of the trading book is conducted by breaking it down into rating class and issuer sector, which determine the implicit risk of contracts.

*2.3 Credit risk mitigation techniques*

In order to mitigate risk when granting the different types of credit facilities, various types of collateral are obtained. Mortgages on property loans, liens on shares, bonds or investment funds, insurance contracts and government bonds are used to guarantee current account overdraft facilities.

The presence of collateral does not, however, relieve the Bank from the requirement to carry out an overall assessment of the credit risk, primarily centred around the customer's income capacity regardless of the additional guarantee provided. The valuation of the lien collateral is based on its actual value, i.e. the market value for the financial instruments listed in a regulated market. The resulting value is subject to percentage haircuts, differentiated based on the financial instruments used as security and the concentration of the instrument in the customer's portfolio provided as security.

For real estate collateral, the principles and rules are described in the policy on the granting of residential mortgages with property collateral to current account holders of FinecoBank S.p.A.. The valuation of the assets is performed by external technical experts included in the Register of Engineers, Architects and Surveyors or industrial experts who are not therefore susceptible to conflict of interest.
Valuations, moreover, are subject to periodic reviews.

*2.4 Impaired financial assets*

Loans are classified as past due, unlikely to pay or non-performing in accordance with the criteria set forth by the Bank of Italy and the thresholds established by the Parent Company. The classification as non-performing, linked to the customer's insolvency, is always individual and defined on the basis of the progress of debt recovery actions. The loss estimate for positions classified as past due and unlikely to pay is also individual.
The classification criterion used for overdrawn accounts is related to the performance of debt recovery activity or the forced sale of securities to cover debts.
The reclassification of loans to a category of lower risk exposure is only authorised if the amount past due has been paid in full in observance of the original payment schedule, or if considerable payments have been made leading the Bank to believe the debt exposure is very likely to be repaid.
The procedure for the management of irregularly performing loans involves actions that may be taken to recover debts by ranking them by seniority of expiration.

## QUANTITATIVE INFORMATION

*A. Credit quality*

**A.1 Impaired and unimpaired loans: amounts, write-downs, changes, distribution by business activity/region**

**A.1.1 Breakdown of credit exposures by portfolio and credit quality (book value)**

| PORTFOLIO/QUALITY | NON-PERFORMING LOANS | UNLIKELY TO PAY | PAST DUE IMPAIRED EXPOSURES | PAST DUE UNIMPAIRED EXPOSURES | OTHER UNIMPAIRED EXPOSURES | TOTAL |
|---|---|---|---|---|---|---|
| 1. Available-for-sale financial assets | - | - | - | - | 1,042,465 | 1,042,465 |
| 2. Held to maturity investments | - | - | - | - | 4,826,390 | 4,826,390 |
| 3. Loans and receivables with banks | - | - | - | - | 13,877,651 | 13,877,651 |
| 4. Loans and receivables with customers | 1,730 | 495 | 627 | 7,511 | 2,118,856 | 2,129,219 |
| 5. Financial assets designated at fair value through profit or loss | - | - | - | - | - | - |
| 6. Financial instruments classified as held for sale | - | - | - | - | - | - |
| **Total December 31, 2017** | **1,730** | **495** | **627** | **7,511** | **21,865,362** | **21,875,725** |
| **Total December 31, 2016** | **2,662** | **399** | **598** | **9,732** | **20,492,946** | **20,506,337** |

As at December 31, 2017 there were no impaired purchased loans.

# Part E - Information on Risks and Hedging Policies (Continued)

### A.1.2 Breakdown of exposures by portfolio and credit quality (gross and net values)

(Amounts in € thousand)

| PORTFOLIO/QUALITY | IMPAIRED ASSETS | | | UNIMPAIRED ASSETS | | | TOTAL (NET EXPOSURE) |
|---|---|---|---|---|---|---|---|
| | GROSS EXPOSURE | SPECIFIC IMPAIRMENT | NET EXPOSURE | GROSS EXPOSURE | GROSS EXPOSURE | NET EXPOSURE | |
| 1. Available-for-sale financial assets | - | - | - | 1,042,465 | - | 1,042,465 | 1,042,465 |
| 2. Held-to-maturity investments | - | - | - | 4,826,390 | - | 4,826,390 | 4,826,390 |
| 3. Loans and receivables with banks | - | - | - | 13,877,651 | - | 13,877,651 | 13,877,651 |
| 4. Loans and receivables with customers | 24,313 | (21,460) | 2,853 | 2,137,439 | (11,073) | 2,126,366 | 2,129,219 |
| 5. Financial assets designated at fair value through profit or loss | - | - | - | X | X | - | - |
| 6. Financial instruments classified as held for sale | - | - | - | - | - | - | - |
| **Total December 31, 2017** | **24,313** | **(21,460)** | **2,853** | **21,883,945** | **(11,073)** | **21,872,872** | **21,875,725** |
| **Total December 31, 2016** | **22,370** | **(18,711)** | **3,659** | **20,512,175** | **(9,497)** | **20,502,678** | **20,506,337** |

(Amounts in € thousand)

| PORTFOLIO/QUALITY | ASSETS WITH OF CLEARLY POOR CREDIT QUALITY | | OTHER ASSETS |
|---|---|---|---|
| | ACCUMULATED UNREALISED LOSSES | NET EXPOSURE | NET EXPOSURE |
| 1. Financial assets held for trading | - | - | 6,563 |
| 2. Hedging derivatives | - | - | 458 |
| **Total December 31, 2017** | **-** | **-** | **7,021** |
| **Total December 31, 2016** | **-** | **-** | **5,460** |

### A.1.3 On-balance sheet and off-balance-sheet credit exposures to banks: gross values, net values and past due bands

(Amounts in € thousand)

| TYPE OF EXPOSURE/AMOUNT | GROSS EXPOSURE | | | | | SPECIFIC IMPAIRMENTS | PORTFOLIO IMPAIRMENTS | NET EXPOSURE |
|---|---|---|---|---|---|---|---|---|
| | IMPAIRED ASSETS | | | | UNIMPAIRED ASSETS | | | |
| | UP TO 3 MONTHS | BETWEEN 3 AND 6 MONTHS | BETWEEN 6 MONTHS AND 1 YEAR | OVER 1 YEAR | | | | |
| **A. On-balance sheet exposures** | | | | | | | | |
| a) Non-performing loans | - | - | - | - | X | - | X | - |
| - of which: forborne exposures | - | - | - | - | X | - | X | - |
| b) Unlikely to pay | - | - | - | - | X | - | X | - |
| - of which: forborne exposures | - | - | - | - | X | - | X | - |
| c) Past-due impaired loans | - | - | - | - | X | - | X | - |
| - of which: forborne exposures | - | - | - | - | X | - | X | - |
| d) Past due non-impaired exposures | X | X | X | X | - | X | - | - |
| - of which: forborne exposures | X | X | X | X | - | X | - | - |
| e) Other unimpaired exposures | X | X | X | X | 13,877,688 | X | - | 13,877,688 |
| - of which: forborne exposures | X | X | X | X | - | X | - | - |
| **Total A** | **-** | **-** | **-** | **-** | **13,877,688** | **-** | **-** | **13,877,688** |
| **B. Off-balance sheet exposures** | | | | | | | | |
| a) Impaired | - | - | - | - | X | - | X | - |
| b) Unimpaired | X | X | X | X | 2,444,832 | X | - | 2,444,832 |
| **Total B** | **-** | **-** | **-** | **-** | **2,444,832** | **-** | **-** | **2,444,832** |
| **Total A+B** | **-** | **-** | **-** | **-** | **16,322,520** | **-** | **-** | **16,322,520** |

In the above table, item B. “Off-balance sheet exposures” includes the counterparty risk related to repos that can be classified as “Securities Financing Transactions” (SFT) defined in prudential regulations, amounting to €62,796 thousand, and the commitment to pay funds not certain to be called on relating to the Liquidity Framework Agreement signed in 2016 and renewed in 2017 with the Parent Company, amounting to €2,125,000 thousand.
There were no securities lending transactions collateralised by other securities or without a cash guarantee with banks.

**A.1.4 Impaired on-balance sheet credit exposures to banks: gross change in impaired exposures**
No data to report.

**A.1.4bis On-balance sheet credit exposures to banks: breakdown of gross forborne exposures by credit quality**
No data to report.

**A.1.5 On-balance sheet exposures to banks: trend in total impairments**
No data to report.

**A.1.6 On-balance sheet and off-balance-sheet credit exposures to customers: gross values, net values and past due bands**

(Amounts in € thousand)

| TYPE OF EXPOSURE/AMOUNT | GROSS EXPOSURE - IMPAIRED ASSETS - UP TO 3 MONTHS | GROSS EXPOSURE - IMPAIRED ASSETS - BETWEEN 3 AND 6 MONTHS | GROSS EXPOSURE - IMPAIRED ASSETS - BETWEEN 6 MONTHS AND 1 YEAR | GROSS EXPOSURE - IMPAIRED ASSETS - OVER 1 YEAR | GROSS EXPOSURE - UNIMPAIRED ASSETS | SPECIFIC IMPAIRMENTS | PORTFOLIO IMPAIRMENTS | NET EXPOSURE |
|---|---|---|---|---|---|---|---|---|
| **A. On-balance sheet exposures** | | | | | | | | |
| a) Non-performing loans | 23 | 32 | 903 | 19,890 | X | (19,118) | X | 1,730 |
| - of which: forborne exposures | - | - | 12 | 105 | X | (99) | X | 19 |
| b) Unlikely to pay | 395 | 249 | 720 | 745 | X | (1,614) | X | 495 |
| - of which: forborne exposures | 83 | 20 | 31 | 20 | X | (107) | X | 46 |
| c) Past-due impaired loans | 194 | 814 | 235 | 112 | X | (728) | X | 627 |
| - of which: forborne exposures | - | 7 | 14 | 5 | X | (12) | X | 15 |
| d) Past due non-impaired exposures | X | X | X | X | 7,770 | X | (260) | 7,511 |
| - of which: forborne exposures | X | X | X | X | 46 | X | - | 45 |
| e) Other unimpaired exposures | X | X | X | X | 7,998,537 | X | (10,814) | 7,987,723 |
| - of which: forborne exposures | X | X | X | X | 137 | X | (1) | 137 |
| **Total A** | **612** | **1,095** | **1,858** | **20,747** | **8,006,307** | **(21,460)** | **(11,074)** | **7,998,086** |
| **B. Off-balance sheet exposures** | | | | | | | | |
| a) Impaired | 7 | - | - | - | X | - | X | 7 |
| b) Unimpaired | X | X | X | X | 277,873 | X | - | 277,873 |
| **Total B** | **7** | **-** | **-** | **-** | **277,873** | **-** | **-** | **277,880** |
| **Total A+B** | **619** | **1,095** | **1,858** | **20,747** | **8,284,180** | **(21,460)** | **(11,074)** | **8,275,966** |

As at December 31, 2017, there were no unimpaired loans to customers renegotiated under collective agreements and no impaired purchased loans.

Breakdown by maturity of unimpaired past-due loans, amounting to €7,770 thousand (€9,980 thousand as at December 31, 2016), is as follows:
- past due between 1 day and 90 days of €7,669 thousand (€9,919 thousand as at December 31, 2016);
- past due between 90 days and 180 days of €47 thousand (€58 thousand as at December 31, 2016);
- past due between 180 days and 1 year of €13 thousand (€3 thousand as at December 31, 2016);
- past due exposures over 1 year of €41 thousand (not present as at December 31, 2016).

In the above table, item B. "Off-balance sheet exposures" includes the counterparty risk related to securities lending transactions collateralised by other securities and to repos that can be classified as "Securities Financing Transactions" (SFT) defined in prudential regulations, amounting to €233,903 thousand.
There were no securities lending transactions without a cash guarantee or not collateralised by other securities with customers.

# Part E - Information on Risks and Hedging Policies (Continued)

### A.1.7 On-balance sheet credit exposures to customers: trend of gross impaired exposures

(Amounts in € thousand)

| SOURCE/CATEGORIES | NON-PERFORMING LOANS | UNLIKELY TO PAY | PAST-DUE IMPAIRED LOANS |
|---|---|---|---|
| **A. Opening balance - gross exposure** | **19,334** | **1,906** | **1,130** |
| of which: assets sold but not derecognised | - | - | - |
| **B. Increases** | **3,276** | **4,320** | **6,947** |
| B.1 transfers from performing exposures | 76 | 294 | 6,168 |
| B.2 transfers from other categories of impaired exposures | *2,901* | *3,566* | - |
| B.3 Other increases | 299 | 460 | 779 |
| **C. Decreases** | **(1,762)** | **(4,117)** | **(6,721)** |
| C.1 transfers to performing exposures | - | (213) | (1,114) |
| C.2 de-recognitions | (888) | (49) | (2) |
| C.3 collections | (874) | (881) | (1,838) |
| C.4 proceeds from disposals | - | - | - |
| C.5 losses on disposal | - | - | - |
| C.6 transfers to other categories of impaired exposures | - | (2,891) | (3,576) |
| C.7 other decreases | - | (83) | (191) |
| **D. Gross exposure closing balance** | **20,848** | **2,109** | **1,356** |
| of which: assets sold but not derecognised | - | - | - |

### A.1.7bis On-balance sheet credit exposures to customers: breakdown of gross forborne exposures by credit quality

(Amounts in € thousand)

| SOURCE/CATEGORIES | FORBORNE EXPOSURES: NON PERFORMING EXPOSURES | FORBORNE EXPOSURES: PERFORMING EXPOSURES |
|---|---|---|
| **A. Opening balance - gross exposure** | **258** | **164** |
| of which: assets sold but not derecognised | - | - |
| **B. Increases** | **604** | **228** |
| B.1 transfers from performing exposures not forborne | 111 | 158 |
| B.2 transfers from performing forborne exposures | 78 | X |
| B.3 transfers from impaired forborne exposures | X | 30 |
| B.4 other increases | 415 | 40 |
| **C. Decreases** | **(564)** | **(209)** |
| C.1 transfers to performing exposures not forborne | X | - |
| C.2 transfers to performing forborne exposures | (232) | X |
| C.3 transfers to impaired forborne exposures | X | (67) |
| C.4 de-recognitions | (10) | - |
| C.5 collections | (143) | (142) |
| C.6 proceeds from disposals | - | - |
| C.7 losses on disposal | - | - |
| C.8 other decreases | (179) | - |
| **D Gross exposure closing balance** | **298** | **183** |
| of which: assets sold but not derecognised | - | - |

A.1.8 Impaired on-balance sheet credit exposures to customers: trend in total write-downs

(Amounts in € thousand)

| SOURCE/CATEGORIES | NON-PERFORMING LOANS | | UNLIKELY TO PAY | | PAST-DUE IMPAIRED LOANS | |
|---|---|---|---|---|---|---|
| | TOTAL | OF WHICH: FORBORNE EXPOSURES | TOTAL | OF WHICH: FORBORNE EXPOSURES | TOTAL | OF WHICH: FORBORNE EXPOSURES |
| **A. Total opening impairment** | **(16,672)** | **(103)** | **(1,507)** | **(88)** | **(533)** | **(4)** |
| of which: assets sold but not derecognised | - | - | - | - | - | - |
| **B. Increases** | **(4,210)** | **(38)** | **(1,122)** | **(90)** | **(703)** | **(16)** |
| B.1 Value adjustments | (3,376) | (13) | (1,071) | (73) | (699) | (12) |
| B.2 Losses on disposal | - | - | - | - | - | - |
| B.3 Transfers from other categories impaired exposures | (812) | (25) | (38) | (4) | - | - |
| B.4 Other increases | (22) | - | (13) | (13) | (4) | (4) |
| **C. Decreases** | **1,764** | **42** | **1,015** | **71** | **508** | **8** |
| C.1 write-backs from assessments | 272 | 17 | 23 | 10 | 80 | - |
| C.2 Write-backs from recoveries | 604 | 15 | 366 | 36 | 136 | 4 |
| C.3 Gains on disposal | - | - | - | - | - | - |
| C.4 Write-offs | 888 | 10 | 49 | - | 2 | - |
| C.5 Transfers to other categories of impaired exposures | - | - | 564 | 25 | 286 | 4 |
| C.6 Other decreases | - | - | 13 | - | 4 | - |
| **D. Final overall impairment** | **(19,118)** | **(99)** | **(1,614)** | **(107)** | **(728)** | **(12)** |
| of which: assets sold but not derecognised | - | - | - | - | - | - |

## A.1.8 Impaired on-balance sheet credit exposures to customers: trend in total write-downs

### A.2.1 Breakdown of on-balance sheet and off-balance sheet exposures by external rating class

(Amounts in € thousand)

| EXPOSURES | EXTERNAL RATING CLASSES | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | CLASS 1 | CLASS 2 | CLASS 3 | CLASS 4 | CLASS 5 | CLASS 6 | NO RATING | TOTAL |
| **A. On-balance sheet exposures** | **78,702** | **62,917** | **19,581,606** | **2,557** | **-** | **-** | **2,152,010** | **21,877,792** |
| **B. Derivatives** | **265** | **545** | **-** | **-** | **-** | **-** | **6,163** | **6,973** |
| *B.1 Financial derivatives* | *265* | *545* | *-* | *-* | *-* | *-* | *6,163* | *6,973* |
| *B.2 Credit derivatives* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* |
| **C. Guarantees given** | **-** | **-** | **256,070** | **-** | **-** | **-** | **667** | **256,737** |
| **D. Other commitments to disburse funds** | **-** | **-** | **2,125,206** | **-** | **-** | **-** | **39,053** | **2,164,259** |
| **E. Other** | **-** | **22,153** | **54,173** | **-** | **-** | **-** | **220,374** | **296,700** |
| **Total** | **78,967** | **85,615** | **22,017,055** | **2,557** | **-** | **-** | **2,418,267** | **24,602,461** |

The table below shows the breakdown of on-balance sheet and off-balance-sheet exposures to counterparties with an external rating. Rating agencies provide a summary assessment on the creditworthiness of different type of counterparties: Countries, Banks, Public Bodies, Insurance Companies and Businesses, usually large-scale.
The table refers to the classification set forth in the Bank of Italy Circular no. 262/2005 regarding external ratings, which envisages 6 classes of creditworthiness.
The above presentation refers to the Standard and Poor's ratings, which are also associated to the ratings of the other two main Agencies, Moody's and Fitch. When there were two credit ratings for an individual exposure provided by two rating agencies the worst rating was recognised; if there were three different ratings the two best ratings were identified and, if they were different, the worst rating from these was recognised.

As part of the calculation of statutory requirements, by using the standard risk calculation method, FinecoBank relies on the rankings of rating agencies in order to determine the weighting coefficients for exposures to Sovereign state. "Central governments and central banks", "Entities" and "Public Sector Entities" portfolio). In general, a weighting factor of 100 percent is applied to the remaining credit exposures, subject to the main exceptions established by CRR 575/2013.

Credit exposures to retail customers (consisting in personal loans, mortgages credit cards spending - both full payment of balance or revolving - unsecured and secured loans and securities lending at December 31, 2017) were not externally ranked. Exposures with ratings to non-retail customers mainly derive from amounts due to the Parent Company for treasury activities and for hedging banking book positions through interest-rate derivatives. The remaining exposures with ratings regard receivables relating to customer trading, whose counterparties are leading banks with a high credit rating.

In the above table, item E "Other" includes the counterparty risk related to securities lending transactions guaranteed by other securities and to repos. In the above table, equity instruments have been excluded whereas UCITS units have been included, unlike the previous tables in this section in which both were excluded.

### A.2.2 Breakdown of on-balance sheet and off-balance-sheet exposures by internal rating class

This table has not been included because internal ratings are not used to managed credit risk.

# Part E - Information on Risks and Hedging Policies (Continued)

### A.3 Breakdown of secured exposures by type of collateral
#### A.3.1 Secured exposures to banks

| | | REAL GUARANTEES (1) | | | |
|---|---|---|---|---|---|
| | NET EXPOSURE VALUE | PROPERTIES - MORTGAGES | PROPERTIES - FINANCE LEASES | SECURITIES | OTHER REAL GUARANTEES |
| **1. Secured on-balance sheet exposures:** | | | | | |
| 1.1 totally secured | 54 | - | - | 53 | - |
| - of which impaired | - | - | - | - | - |
| 1.2 partially secured | - | - | - | - | - |
| - of which impaired | - | - | - | - | - |
| **2. Secured off-balance Sheet credit exposures:** | | | | | |
| 2.1 totally secured | - | - | - | - | - |
| - of which impaired | - | - | - | - | - |
| 2.2 partially secured | - | - | - | - | - |
| - of which impaired | - | - | - | - | - |

#### A.3.2 Secured exposures to customers

| | | REAL GUARANTEES (1) | | | |
|---|---|---|---|---|---|
| | NET EXPOSURE VALUE | PROPERTIES - MORTGAGES | PROPERTIES - FINANCE LEASES | SECURITIES | OTHER REAL GUARANTEES |
| **1. Secured on-balance sheet exposures:** | | | | | |
| 1.1 totally secured | 1,168,917 | 515,767 | - | 645,547 | 7,530 |
| - of which impaired | 81 | - | - | 81 | - |
| 1.2 partially secured | 3,299 | 415 | - | 2,174 | - |
| - of which impaired | - | - | - | - | - |
| **2. Secured off-balance Sheet credit exposures:** | | | | | |
| 2.1 totally secured | 38,174 | - | - | 33,774 | 4,399 |
| - of which impaired | 7 | - | - | 7 | - |
| 2.2 partially secured | 1 | - | - | - | 1 |
| - of which impaired | - | - | - | - | - |

## *B. Distribution and concentration of credit exposures*
### B.1 Breakdown of on-balance sheet and off-balance-sheet exposures to customers by sector (carrying value)

| | GOVERNMENTS | | | OTHER PUBLIC ENTITIES | | |
|---|---|---|---|---|---|---|
| EXPOSURE/COUNTERPARTY | NET EXPOSURE | SPECIFIC IMPAIRMENTS | PORTFOLIO IMPAIRMENTS | NET EXPOSURE | SPECIFIC IMPAIRMENTS | PORTFOLIO IMPAIRMENTS |
| **A. On-balance sheet exposures** | | | | | | |
| A.1 Non-performing loans | - | - | X | - | - | X |
| - of which: forborne exposures | - | - | X | - | - | X |
| A.2 Unlikely to pay | - | - | X | - | - | X |
| - of which: forborne exposures | - | - | X | - | - | X |
| A.3 Impaired past-due exposures | - | - | X | - | - | X |
| - of which: forborne exposures | - | - | X | - | - | X |
| A.4 Non-impaired exposures | 5,768,943 | X | - | 99,924 | X | - |
| - of which: forborne exposures | - | X | - | - | X | - |
| **TOTAL A** | **5,768,943** | **-** | **-** | **99,924** | **-** | **-** |
| **B. "Off-balance" sheet exposures** | | | | | | |
| B.1 Non-performing loans | - | - | X | - | - | X |
| B.2 Unlikely to pay | - | - | X | - | - | X |
| B.3 Other impaired assets | - | - | X | - | - | X |
| B.4 Non-impaired exposures | 371 | X | - | - | X | - |
| **Total B** | **371** | **-** | **-** | **-** | **-** | **-** |
| **TOTAL (A + B) December 31, 2017** | **5,769,314** | **-** | **-** | **99,924** | **-** | **-** |
| **TOTAL (A + B) December 31, 2016** | **3,754,173** | **(2)** | **-** | **1** | **-** | **-** |

(Amounts in € thousand)

| PERSONAL GUARANTEES (2) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| CREDIT DERIVATIVES | | | | | GUARANTEES, ETC. | | | | |
| | OTHER DERIVATIVES | | | | | | | | |
| CLN | GOVERNMENTS AND CENTRAL BANKS | OTHER PUBLIC ENTITIES | BANKS | OTHER ENTITIES | GOVERNMENTS AND CENTRAL BANKS | OTHER PUBLIC ENTITIES | BANKS | OTHER ENTITIES | TOTAL (1) + (2) |
| | | | | | | | | | |
| - | - | - | - | - | - | - | - | - | 53 |
| - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - |
| | | | | | | | | | |
| - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - |

(Amounts in € thousand)

| PERSONAL GUARANTEES (2) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| CREDIT DERIVATIVES | | | | | GUARANTEES, ETC. | | | | |
| | OTHER DERIVATIVES | | | | | | | | |
| CLN | GOVERNMENTS AND CENTRAL BANKS | OTHER PUBLIC ENTITIES | BANKS | OTHER ENTITIES | GOVERNMENTS AND CENTRAL BANKS | OTHER PUBLIC ENTITIES | BANKS | OTHER ENTITIES | TOTAL (1) + (2) |
| | | | | | | | | | |
| - | - | - | - | - | - | - | - | 44 | 1,168,888 |
| - | - | - | - | - | - | - | - | - | 81 |
| - | - | - | - | - | - | - | - | - | 2,589 |
| - | - | - | - | - | - | - | - | - | - |
| | | | | | | | | | |
| - | - | - | - | - | - | - | - | - | 38,173 |
| - | - | - | - | - | - | - | - | - | 7 |
| - | - | - | - | - | - | - | - | - | 1 |
| - | - | - | - | - | - | - | - | - | - |

(Amounts in € thousand)

| FINANCIAL COMPANIES | | | INSURANCE COMPANIES | | | NON-FINANCIAL COMPANIES | | | OTHER ENTITIES | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| NET EXPOSURE | SPECIFIC IMPAIRMENTS | PORTFOLIO IMPAIRMENTS | NET EXPOSURE | SPECIFIC IMPAIRMENTS | PORTFOLIO IMPAIRMENTS | NET EXPOSURE | SPECIFIC IMPAIRMENTS | PORTFOLIO IMPAIRMENTS | NET EXPOSURE | SPECIFIC IMPAIRMENTS | PORTFOLIO IMPAIRMENTS |
| | | | | | | | | | | | |
| 4 | (41) | X | - | - | X | 9 | (130) | X | 1,717 | (18,946) | X |
| - | (1) | X | - | - | X | - | - | X | 19 | (98) | X |
| 1 | (1) | X | - | - | X | 79 | (228) | X | 416 | (1,385) | X |
| - | - | X | - | - | X | - | - | X | 46 | (107) | X |
| - | - | X | - | - | X | 11 | (18) | X | 616 | (710) | X |
| - | - | X | - | - | X | - | - | X | 15 | (12) | X |
| 107,681 | X | (139) | 16,651 | X | - | 20,492 | X | (3,337) | 1,981,542 | X | (7,598) |
| - | X | - | - | X | - | 16 | X | - | 166 | X | (1) |
| **107,686** | **(42)** | **(139)** | **16,651** | **-** | **-** | **20,591** | **(376)** | **(3,337)** | **1,984,291** | **(21,041)** | **(7,598)** |
| | | | | | | | | | | | |
| - | - | X | - | - | X | - | - | X | - | - | X |
| - | - | X | - | - | X | - | - | X | - | - | X |
| - | - | X | - | - | X | - | - | X | 7 | - | X |
| 3,290 | X | - | - | X | - | 423 | X | - | 39,886 | X | - |
| **3,290** | **-** | **-** | **-** | **-** | **-** | **423** | **-** | **-** | **39,893** | **-** | **-** |
| **110,976** | **(42)** | **(139)** | **16,651** | **-** | **-** | **21,014** | **(376)** | **(3,337)** | **2,024,184** | **(21,041)** | **(7,598)** |
| **102,105** | **(43)** | **(144)** | **12,174** | **-** | **-** | **15,155** | **(116)** | **(3,489)** | **927,066** | **(18,552)** | **(5,863)** |

# Part E - Information on Risks and Hedging Policies (Continued)

### B.2 Breakdown of on-balance sheet and off-balance-sheet exposures to customers by geographical area (carrying value)

Exposures connected to the counterparty risk related to securities lending or borrowing transactions are not included.

(Amounts in € thousand)

| EXPOSURE/ GEOGRAPHICAL AREA | ITALY | | OTHER EUROPEAN COUNTRIES | | AMERICA | | ASIA | | REST OF THE WORLD | |
|---|---|---|---|---|---|---|---|---|---|---|
| | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT |
| **A. On-balance sheet exposures** | | | | | | | | | | |
| A.1 Non-performing loans | 1,728 | (19,103) | 2 | (15) | - | - | - | - | - | - |
| A.2 Unlikely to pay | 493 | (1,611) | 2 | (4) | - | - | - | - | - | - |
| A.3 Impaired past-due exposures | 626 | (726) | 1 | (2) | - | - | - | - | - | - |
| A.4 Non-impaired exposures | 5,345,131 | (11,068) | 2,582,854 | (3) | 66,196 | (1) | 586 | (1) | 467 | - |
| **TOTAL** | **5,347,978** | **(32,508)** | **2,582,859** | **(24)** | **66,196** | **(1)** | **586** | **(1)** | **467** | **-** |
| **B. "Off-balance" sheet exposures** | | | | | | | | | | |
| B.1 Non-performing loans | - | - | - | - | - | - | - | - | - | - |
| B.2 Unlikely to pay | - | - | - | - | - | - | - | - | - | - |
| B.3 Other impaired assets | 7 | - | - | - | - | - | - | - | - | - |
| B.4 Non-impaired exposures | 40,563 | - | 3,163 | - | 23 | - | 159 | - | 62 | - |
| **TOTAL** | **40,570** | **-** | **3,163** | **-** | **23** | **-** | **159** | **-** | **62** | **-** |
| **TOTAL December 31, 2017** | **5,388,548** | **(32,508)** | **2,586,022** | **(24)** | **66,219** | **(1)** | **745** | **(1)** | **529** | **-** |
| **TOTAL December 31, 2016** | **3,477,658** | **(28,200)** | **1,257,570** | **(7)** | **75,198** | **(2)** | **137** | **-** | **109** | **-** |

(Amounts in € thousand)

| EXPOSURE/ GEOGRAPHICAL AREA | NORTHWEST ITALY | | NORTH-EAST ITALY | | CENTRAL ITALY | | SOUTHERN ITALY AND ISLANDS | |
|---|---|---|---|---|---|---|---|---|
| | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT |
| **A. On-balance sheet exposures** | | | | | | | | |
| A.1 Non-performing loans | 451 | (5,189) | 238 | (2,808) | 366 | (3,757) | 672 | (7,348) |
| A.2 Unlikely to pay | 164 | (776) | 61 | (166) | 117 | (286) | 151 | (382) |
| A.3 Impaired past-due exposures | 133 | (171) | 76 | (89) | 134 | (180) | 283 | (287) |
| A.4 Non-impaired exposures | 674,297 | (3,518) | 279,050 | (1,161) | 3,889,251 | (3,503) | 502,534 | (2,886) |
| **TOTAL** | **675,045** | **(9,654)** | **279,425** | **(4,224)** | **3,889,868** | **(7,726)** | **503,640** | **(10,903)** |
| **B. "Off-balance" sheet exposures** | | | | | | | | |
| B.1 Non-performing loans | - | - | - | - | - | - | - | - |
| B.2 Unlikely to pay | - | - | - | - | - | - | - | - |
| B.3 Other impaired assets | - | - | - | - | - | - | 7 | - |
| B.4 Non-impaired exposures | 17,342 | - | 7,258 | - | 8,561 | - | 7,401 | - |
| **TOTAL** | **17,342** | **-** | **7,258** | **-** | **8,561** | **-** | **7,408** | **-** |
| **TOTAL December 31, 2017** | **692,387** | **(9,654)** | **286,683** | **(4,224)** | **3,898,429** | **(7,726)** | **511,048** | **(10,903)** |
| **TOTAL December 31, 2016** | **345,242** | **(9,207)** | **132,857** | **(4,041)** | **2,761,738** | **(6,316)** | **237,820** | **(8,638)** |

## B.3 Distribution of Balance Sheet and Off-Balance Sheet credit exposures to banks by geographic area (book value)

Exposures connected to the counterparty risk related to securities lending or borrowing transactions are not included.

(Amounts in € thousand)

| EXPOSURE/ GEOGRAPHICAL AREA | ITALY | | OTHER EUROPEAN COUNTRIES | | AMERICA | | ASIA | | REST OF THE WORLD | |
|---|---|---|---|---|---|---|---|---|---|---|
| | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT |
| **A. On-balance sheet exposures** | | | | | | | | | | |
| A.1 Non-performing loans | - | - | - | - | - | - | - | - | - | - |
| A.2 Unlikely to pay | - | - | - | - | - | - | - | - | - | - |
| A.3 Impaired past-due exposures | - | - | - | - | - | - | - | - | - | - |
| A.4 Non-impaired exposures | 13,868,843 | - | 8,844 | - | - | - | - | - | 1 | - |
| **TOTAL** | **13,868,843** | **-** | **8,844** | **-** | **-** | **-** | **-** | **-** | **1** | **-** |
| **B. "Off-balance" sheet exposures** | | | | | | | | | | |
| B.1 Non-performing loans | - | - | - | - | - | - | - | - | - | - |
| B.2 Unlikely to pay | - | - | - | - | - | - | - | - | - | - |
| B.3 Other impaired assets | - | - | - | - | - | - | - | - | - | - |
| B.4 Non-impaired exposures | 2,381,231 | - | 804 | - | - | - | - | - | - | - |
| **TOTAL** | **2,381,231** | **-** | **804** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **TOTAL December 31, 2017** | **16,250,074** | **-** | **9,648** | **-** | **-** | **-** | **-** | **-** | **1** | **-** |
| **TOTAL December 31, 2016** | **17,000,418** | **-** | **10,076** | **-** | **-** | **-** | **-** | **-** | **5** | **-** |

(Amounts in € thousand)

| EXPOSURE/ GEOGRAPHICAL AREA | NORTHWEST ITALY | | NORTH-EAST ITALY | | CENTRAL ITALY | | SOUTHERN ITALY AND ISLANDS | |
|---|---|---|---|---|---|---|---|---|
| | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT | NET EXPOSURE | TOTAL IMPAIRMENT |
| **A. On-balance sheet exposures** | | | | | | | | |
| A.1 Non-performing loans | - | - | - | - | - | - | - | - |
| A.2 Unlikely to pay | - | - | - | - | - | - | - | - |
| A.3 Impaired past-due exposures | - | - | - | - | - | - | - | - |
| A.4 Non-impaired exposures | 13,868,841 | - | - | - | 3 | - | - | - |
| **TOTAL** | **13,868,841** | **-** | **-** | **-** | **3** | **-** | **-** | **-** |
| **B. "Off-balance" sheet exposures** | | | | | | | | |
| B.1 Non-performing loans | - | - | - | - | - | - | - | - |
| B.2 Unlikely to pay | - | - | - | - | - | - | - | - |
| B.3 Other impaired assets | - | - | - | - | - | - | - | - |
| B.4 Non-impaired exposures | 2,381,231 | - | - | - | - | - | - | - |
| **TOTAL** | **2,381,231** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **TOTAL December 31, 2017** | **16,250,072** | **-** | **-** | **-** | **3** | **-** | **-** | **-** |
| **TOTAL December 31, 2016** | **29,863** | **-** | **10** | **-** | **16,970,545** | **-** | **-** | **-** |

## B.4 Significant exposures

At December 31, 2017 the following “risk positions” constituted “significant exposures” pursuant to Circular 286 of December 17, 2013, “Instructions for the prudential reporting of banks and securities firms” issued by the Bank of Italy:

a) non-weighted value: €23,262,597 thousand, of which €17,070,673 with the UniCredit Group;

b) weighted value: €111,177 thousand, none with the UniCredit Group;

c) number of “risk positions”: 7, including the UniCredit Group.

Please note that deferred tax assets within the exposure towards the Italian Central Government have been exempted and, therefore, their weighted value is null.

# Part E - Information on Risks and Hedging Policies (CONTINUED)

*C. Securitisation transactions*
No data to report.

*D. Disclosure of structured entities not consolidated in the accounts (other than special purpose vehicles for securitisation transactions)*

## QUALITATIVE INFORMATION

The Bank has exposures towards unconsolidated structured entities as a result of investments in units issued by investment funds (UCITS) that qualify as structured entities according to IFRS 12.

## QUANTITATIVE INFORMATION

The table below shows the assets, liabilities and off-balance sheet exposure to structured entities represented by unconsolidated UCITS units.

(Amounts in € thousand)

| BALANCE SHEET ITEMS/TYPE OF STRUCTURED ENTITY | ACCOUNTING PORTFOLIOS OF THE ASSETS | TOTAL ASSETS (A) | ACCOUNTING PORTFOLIOS OF THE LIABILITIES | TOTAL LIABILITIES (B) | NET CARRYING AMOUNT (C=A-B) | MAXIMUM EXPOSURE TO LOSS (D) | DIFFERENCE BETWEEN EXPOSURE TO THE RISK OF LOSS AND THE CARRYING AMOUNT (E=D-C) |
|---|---|---|---|---|---|---|---|
| 1, UCITS | HFT | 2,019 | | - | 2,019 | 2,019 | - |

Key
HFT = Financial assets held for trading

*E. Sales Transactions*
*A. Financial assets sold and partially derecognised*

## QUALITATIVE INFORMATION

The Bank carries out repos on securities not recognised in the assets, received through reverse repos and securities lending, or on securities held in the Bank's portfolio.
In 2017 the Bank also carried out transactions on securities held in the Bank's portfolio, comprising bonds issued by UniCredit S.p.A., classified in the "Loans and Receivables category", which have not been eliminated from the financial statements because the Bank conducts repos with the obligation for the buyer to resell the assets covered by the transaction upon expiration of the transaction and maintains all the risks connected to the ownership of the securities.

## QUANTITATIVE INFORMATION

### E.1 Financial assets sold but not derecognised: book value and full value

| TYPE/PORTFOLIO | FINANCIAL ASSETS HELD FOR TRADING | | | FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS | | | AVAILABLE-FOR-SALE FINANCIAL ASSETS | | |
|---|---|---|---|---|---|---|---|---|---|
| | A | B | C | A | B | C | A | B | C |
| **A. On-balance sheet assets** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1. Debt securities | - | - | - | - | - | - | - | - | - |
| 2. Equity instruments | - | - | - | - | - | - | - | **-** | **-** |
| 3. Units in investment funds | - | - | - | - | - | - | - | **-** | **-** |
| 4. Loans | - | - | - | - | - | - | - | - | - |
| **B. Derivative instruments** | **-** | **-** | **-** | **X** | **X** | **X** | **X** | **X** | **X** |
| **Total December 31, 2017** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| *of which impaired* | - | - | - | - | - | - | - | - | - |
| **Total December 31, 2016** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| *of which impaired* | - | - | - | - | - | - | - | - | - |

Key:
A = financial assets sold and fully recognised (book value)
B = financial assets sold and partially recognised (book value)
C = financial assets sold and partially recognised (entire value)

(Amounts in € thousand)

| HELD TO MATURITY INVESTMENTS | | | LOANS AND RECEIVABLES WITH BANKS | | | LOANS AND RECEIVABLES WITH CUSTOMERS | | | TOTAL | |
|---|---|---|---|---|---|---|---|---|---|---|
| A | B | C | A | B | C | A | B | C | 12.31.2017 | 12.31.2016 |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **54,909** |
| - | - | - | - | - | - | - | - | - | - | 54,909 |
| X | X | X | X | X | X | X | X | X | - | - |
| X | X | X | X | X | X | X | X | X | - | - |
| - | - | - | - | - | - | - | - | - | - | - |
| **X** | **X** | **X** | **X** | **X** | **X** | **X** | **X** | **X** | **-** | **-** |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **X** |
| - | - | - | - | - | - | - | - | - | **-** | X |
| **-** | **-** | **-** | **54,909** | **-** | **-** | **-** | **-** | **-** | **X** | **54,909** |
| - | - | - | - | - | - | - | - | - | X | **-** |

# Part E - Information on Risks and Hedging Policies (CONTINUED)

### E.2 Financial liabilities relating to financial assets sold and not derecognised: book value

(Amounts in € thousand)

| LIABILITY/ASSET PORTFOLIO | FINANCIAL ASSETS HELD FOR TRADING | FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS | AVAILABLE-FOR-SALE FINANCIAL ASSETS | HELD TO MATURITY INVESTMENTS | LOANS AND RECEIVABLES WITH BANKS | LOANS AND RECEIVABLES WITH CUSTOMERS | TOTAL |
|---|---|---|---|---|---|---|---|
| **1. Deposits from customers** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| a) from fully-recognised assets | - | - | - | - | - | - | - |
| b) from partially-recognised assets | - | - | - | - | - | - | - |
| **2. Deposits from banks** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| a) from fully-recognised assets | - | - | - | - | - | - | - |
| b) from partially-recognised assets | - | - | - | - | - | - | - |
| **Total December 31, 2017** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total December 31, 2016** | **-** | **-** | **-** | **-** | **55,013** | **-** | **55,013** |

### E.3 Sales transactions relating to financial liabilities with repayment exclusively based on assets sold and not derecognised: fair value

The table below only shows own securities not derecognised and used for repos.

| TYPE/PORTFOLIO | FINANCIAL ASSETS HELD FOR TRADING | | FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS | | AVAILABLE-FOR-SALE FINANCIAL ASSETS | |
|---|---|---|---|---|---|---|
| | A | B | A | B | A | B |
| **A. On-balance sheet assets** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1. Debt securities | - | - | - | - | - | - |
| 2. Equity instruments | - | - | - | - | - | - |
| 3. Units in investment funds | - | - | - | - | - | - |
| 4. Loans | - | - | - | - | - | - |
| **B. Derivative instruments** | **-** | **-** | **X** | **X** | **X** | **X** |
| **Total assets** | **-** | **-** | **-** | **-** | **-** | **-** |
| **C. Associated liabilities** | | **-** | **-** | **-** | **-** | **-** |
| 1. Deposits from customers | - | - | - | - | - | - |
| 2. Deposits from banks | - | - | - | - | - | - |
| **Total liabilities** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Net value as at December 31. 2017** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Net value as at December 31. 2016** | **-** | **-** | **-** | **-** | **-** | **-** |

**Key:**
A = financial assets sold and wholly recognised
B = financial assets sold and partially recognised)

## *B. Assets sold and fully derecognised with recognition of continuing involvement*

No data to report.

### E.4 Covered bond transactions

No data to report.

## *F. Credit Risk Measurement Models*

### F.1. Credit Risk Measurement - Trading Book

The monitoring of credit risk as part of the management of the trading book is conducted through the rating of all financial instruments held.

### F.2. Credit Risk Measurement - Banking Book

The banking book of the Bank consists of securities, current accounts and deposits with the Parent Company. Retail customer activities are limited to the granting of personal loans, mortgages, credit cards and credit lines.

(Amounts in € thousand)

| HELD-TO-MATURITY INVESTMENTS (FAIR VALUE) | | LOANS AND RECEIVABLES WITH BANKS (FAIR VALUE) | | LOANS AND RECEIVABLES WITH CUSTOMERS (FAIR VALUE) | | TOTAL | |
|---|---|---|---|---|---|---|---|
| A | B | A | B | A | B | 12.31.2017 | 12.31.2016 |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **55,291** |
| - | - | - | - | - | - | - | 55,291 |
| X | X | X | X | X | X | - | - |
| X | X | X | X | X | X | - | - |
| - | - | - | - | - | - | - | - |
| **X** | **X** | **X** | **X** | **X** | **X** | **-** | **-** |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **55,291** |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **55,013** |
| - | - | - | - | - | - | - | 55,013 |
| - | - | - | - | - | - | - | - |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **X** |
| **-** | **-** | **278** | **-** | **-** | **-** | **X** | **278** |

**INFORMATION ON SOVEREIGN EXPOSURES**

The Bank is exposed to the sovereign debt of some countries, having invested a portion of its assets in debt securities issued by governments and recognised in the "Available-for-sale financial assets" and "Held to maturity investments" portfolios. The following table shows the nominal value, the book value and the fair value of these exposures as at December 31, 2017.

We also underline that the Bank holds exposures to sovereign debt securities categorised as "Financial assets held for trading" for an amount of €11 thousand.

(Amounts in € thousand)

| | NOMINAL VALUE AS AT 12.31.2017 | BOOK VALUE AS AT 12.31.2017 | FAIR VALUE AS AT 12.31.2017 | % OF FINANCIAL STATEMENT ITEM |
|---|---|---|---|---|
| **Exposures to the Italian government** | **3,080,000** | **3,282,795** | **3,300,504** | |
| Available-for-sale financial assets | 699,000 | 725,220 | 725,220 | 69,22% |
| Held-to-maturity investments | 2,381,000 | 2,557,575 | 2,575,284 | 52,99% |
| **Exposures to the Spanish government** | **2,100,000** | **2,362,769** | **2,373,266** | |
| Available-for-sale financial assets | 225,000 | 242,451 | 242,451 | 23,14% |
| Held-to-maturity investments | 1,875,000 | 2,120,318 | 2,130,815 | 43,93% |
| **Exposures to the Polish government** | **44,000** | **48,572** | **49,163** | |
| Held-to-maturity investments | 44,000 | 48,572 | 49,163 | 1,01% |
| **Exposures to the French government** | **10,000** | **10,124** | **10,124** | |
| Available-for-sale financial assets | 10,000 | 10,124 | 10,124 | 0,97% |
| **Exposures to the US government** | **66,706** | **64,671** | **64,671** | |
| Available-for-sale financial assets | 66,706 | 64,671 | 64,671 | 6,17% |
| **Total Sovereign exposures** | **5,300,706** | **5,768,931** | **5,797,728** | **25,82%** |

As at December 31, 2017, investments in debt securities issued by sovereign states accounted for 25.82% of the Bank's total assets. There were no structured debt securities among the sovereign debt securities held by the Bank. The Bank is therefore exposed to fluctuations in the price of the public debt securities of the countries listed above. Tensions or volatility in the government bond market could negatively impact on the Bank's financial position and performance.

The following table shows the sovereign ratings as at December 31, 2017 for countries to which the Bank is exposed, provided by Fitch Ratings, Moody's and Standard & Poor's.

| | ITALY | SPAIN | POLAND | FRANCE | USA |
|---|---|---|---|---|---|
| MOODY'S | Baa2 | Baa2 | A2 | Aa2 | Aaa |
| FITCH RATINGS | BBB | BBB+ | A- | AA | AAA |
| STANDARD & POOR'S | BBB | BBB+ | BBB+ | AA | AA+ |

## Section 2 - Market 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 Bank'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.

### Risk Management Strategies and Processes

The Board of Directors of the Parent Company, as part of its powers of management and coordination powers, sets the strategic guidelines for the assumption of market risks by defining maximum risk appetite levels.

The Board of Directors of Bank, in line with the Group's approach, approves a general framework of reference for market risk and any significant changes, relating to the organisational structure, strategies, and methods.

The Bank's strategy is to keep the minimum level of market risk in line with business needs and the limits set by the Risk Appetite Framework approved by the Board of Directors.

Market risk in FinecoBank is defined through two sets of limits:

- Global measures of market risk (e.g. VaR): which are meant to establish a boundary to the economic capital absorption and to the economic loss accepted in trading activities; these limits must be 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 of, but act in concert with the global limits; in order to control more effectively and more specifically different risk types, desks and products, these limits are generally granular sensitivity or stress-related limits. The levels set for granular limits aim at limiting the concentration in individual risk factors and the excessive exposure in risk factors which are not sufficiently covered under VaR.

### Structure and Organisation

In order to ensure the effective implementation of operations and the consistency of policies, methods and practices related to market risk in the Group legal entities, the Group model for activities related to market risk is based on the definition of specific responsibilities.
In its relations with FinecoBank, the Parent Company is mainly responsible for:

- establishing, implementing and refining appropriate measures at global level for measuring exposure to market risk;
- setting risk limits, based on measurements identified, in line with the risk appetite approved by the Group.

The Market Risk function of the Bank, within the Risk Management Unit, in full compliance with local legal and regulatory obligations, works together with the Financial Risk Management Italy Function of the Parent Company and is tasked primarily - but not exclusively - with:

- calculating the risk measurements for the global and granular measures for the Bank's portfolios;
- checking that the measurements are compatible with the approved limits;
- initiating the escalation process when limits are exceeded, engaging the Financial Risk Italy function of the Parent Company;
- discussing and approving new products with innovative and complex market risk profiles, providing the Financial Risk Italy function of the Parent Company with adequate information in order for the said function to issue a non-binding opinion on the matter.

### Risk measurement and reporting systems

*Trading Book*

The main tool used by the Bank to measure the market risk of trading positions is Value at Risk (VaR), calculated using the historic simulation approach. The historic simulation method involves the daily revaluation of positions on the basis of 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 500 days.

*Banking Book*

The primary responsibility for monitoring and controlling Market Risk management in the Banking Book lies with the Bank's competent Bodies. The Parent Company is responsible for monitoring market risk in the banking book at consolidated level, while sharing this responsibility with the relevant functions of the Legal Entities at local level.
The Parent Company, defines structure, data and frequency of the necessary Group and local level 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 Bank. 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 Bank 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 analysis is the impact of changes of interest rates on accrual or reported 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. This measure provides an indication of the impact that such a shock would have on the net interest margin over the next 12 months.

The third type of risk is exchange rate 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.

### Procedures and methodologies for valuation of Trading Book positions

The Bank ensures that the value applied to each trading book position appropriately reflects the current fair (market) value, i.e. the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of each financial instrument is based on, or derived from, observable market prices or inputs. The availability of observable prices or inputs differs by product and market, and might change over time.
If observable prices or parameters are readily and regularly available (i.e. satisfying adequate liquidity requirements), they are directly employed in the determination of fair value (mark-to-market).

In non-active markets or for certain instruments, for which observable prices or inputs are not available, fair value is calculated using valuation techniques that are appropriate for the specific instrument (mark-to-model). This approach involves estimation and judgement and, therefore, might require valuation adjustments which take into account bid-ask spreads, liquidity and counterparty risk, besides the employed pricing model. In addition, each pricing model used for fair value calculation is validated by a dedicated function independent from business units.

# Part E - Information on Risks and Hedging Policies (CONTINUED)

According to the Group Market Risk Governance Guidelines, which define principles and rules for managing and controlling activities potentially involving a market risk, in order to ensure the adequate separation between functions in charge of development activities and functions in charge of validation, all valuation models developed by the front-office functions of UniCredit Group companies need to be centrally and independently tested and validated by the Market Risk functions of the Parent Company UniCredit. Model validation is also carried out centrally for any novel system or analysis framework whose utilisation has a potential impact on the Bank's economic results.
In addition to daily marking to market or marking to model, Independent Price Verification (IPV) shall be performed by the Risk Management function. This is the process by which market prices or model inputs are regularly verified for accuracy and independence. While daily marking to market or marking to model may be performed by front-office dealers, verification of market prices and model inputs is performed at least monthly.

**Risk measures**
***VaR***
The VaR calculated within the measurement of the market risk of the banking and trading book uses a historical simulation approach. The choice of model adopted by the Parent Company has a series of advantages:
- easy to understand and communicate;
- does not require any explicit assumptions about the particular functional form of the distribution of yields of the risk factors;
- does not require estimation of the variance-covariance matrix of the market factors that may affect the value of the portfolio;
- captures the correlation structure reflected in the simultaneous changes in market factors, implicitly assuming that it will remain constant in the future.

On the other hand VaR models based on historical simulations do not provide any information on the amount of the loss exceeding the VaR. This why the framework established by the Parent Company uses additional instruments such as stress tests.

### *2.1 Interest rate risk and price risk - regulatory trading book*

### QUALITATIVE INFORMATION

**A. General Matters**
The trading book is used to hold debt securities (ordinary and subordinated, structured and plain vanilla), equity instruments, and certificates - listed and non-listed - related to brokerage activities with retail customers.
The Bank does not perform proprietary trading and does not assume speculative positions in its books. Entries in the Bank's trading book are recorded against brokerage activities with retail customers particularly during the trading of OTC instruments. Other entries in the trading book are made for the internalisation of various financial instruments when the Bank is a counterparty to the customer. This activity is performed as a result of the options introduced by the MiFID which allow the execution of orders for financial instruments in a number of execution venues including internal execution.

**B. Processes for managing and methods for measuring interest rate risk and price risk**
For both a description of internal processes for monitoring and managing risk and an illustration of the approaches used to analyse exposure, please refer to the introduction.

## QUANTITATIVE INFORMATION

### 1. Regulatory trading book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives - Currency: Euro

(Amounts in € thousand)

| TYPE/UNEXPIRED TERM | ON DEMAND | UP TO 3 MONTHS | BETWEEN 3 AND 6 MONTHS | BETWEEN 6 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | BETWEEN 5 AND 10 YEARS | OVER 10 YEARS | INDEFINITE DURATION |
|---|---|---|---|---|---|---|---|---|
| **1. On-balance sheet assets** | **30** | **-** | **1** | **3** | **-** | **9** | **3** | **-** |
| 1.1 Debt securities | 30 | - | 1 | 3 | - | 9 | 3 | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | *30* | - | *1* | *3* | - | *9* | *3* | - |
| 1.2 Other assets | - | - | - | - | - | - | - | - |
| **2. On-balance sheet liabilities** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 2.1 Repos | - | - | - | - | - | - | - | - |
| 2.2 Other liabilities | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | 72 | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | 555 | 117,966 | 275 | - | - | 196 | 2,556 | - |
| + Short positions | 585 | 118,070 | 275 | - | - | 34 | 2,556 | - |
| 3.2 Without underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | 31,260 | 7,610 | 91,950 | 482 | - | - | - |
| + Short positions | - | 97,220 | 300 | 22,810 | 582 | - | - | - |

Item 3.1 Financial Derivatives with underlying securities - Other Derivatives includes spot contracts for the purchase and sale of securities, other than shares and UCITS units, to be settled in times established by market practices (“regular way”).
Item 3.2 Financial Derivatives without underlying securities - Other Derivatives includes spot contracts for the purchase and sale of foreign currencies, to be settled in times established by market practices (“regular way”).

# Part E - Information on Risks and Hedging Policies (CONTINUED)

**Currency: Other currencies**

(Amounts in € thousand)

| TYPE/UNEXPIRED TERM | ON DEMAND | UP TO 3 MONTHS | BETWEEN 3 AND 6 MONTHS | BETWEEN 6 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | BETWEEN 5 AND 10 YEARS | OVER 10 YEARS | INDEFINITE DURATION |
|---|---|---|---|---|---|---|---|---|
| **1. On-balance sheet assets** | | | | | | | | |
| 1.1 Debt securities | - | - | - | - | - | 1 | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | - | - | - | - | - | *1* | - | - |
| 1.2 Other assets | - | - | - | - | - | - | - | - |
| **2. On-balance sheet liabilities** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 2.1 Repos | - | - | - | - | - | - | - | - |
| 2.2 Other liabilities | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | 45,769 | - | - | - | - | 58 | - |
| + Short positions | - | 46,123 | - | - | - | - | 58 | - |
| 3.2 Without underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | 130,838 | 990 | 42,445 | - | - | - | - |
| + Short positions | - | 64,429 | 7,779 | 110,202 | - | - | - | - |

The effects of changes in the yield curve on net interest margin arising from instruments in the trading book are negligible. For similar considerations regarding the banking book, see paragraph 2. Banking book: internal models and other methods of sensitivity analysis.

### 2. Regulatory trading book: distribution of exposures in equity instruments and share indices for the main stock market countries

(Amounts in € thousand)

| TYPE OF TRANSACTION/LISTING INDEX | LISTED | | | | | | UNLISTED |
|---|---|---|---|---|---|---|---|
| | USA | SWITZERLAND | ITALY | GERMANY | FRANCE | OTHER | |
| **A. Equity instruments** | | | | | | | |
| - Long positions | 2,017 | - | 232 | - | - | 46 | 2 |
| - Short positions | 341 | - | - | 35 | - | 6 | - |
| **B. Unsettled transactions on equity instruments** | | | | | | | |
| - Long positions | 45,321 | - | 104,950 | 8,890 | - | 12 | - |
| - Short positions | 44,972 | - | 104,961 | 8,855 | - | - | - |
| **C. Other derivatives on equity instruments** | | | | | | | |
| - Long positions | 1,047 | - | 82 | - | - | - | 1,440 |
| - Short positions | 3,144 | - | 265 | - | - | 45 | - |
| **D. Derivatives on share indices** | | | | | | | |
| - Long positions | 13,686 | 1,855 | 3,869 | 8,031 | 906 | 684 | - |
| - Short positions | 14,358 | 1,900 | 5,388 | 8,649 | - | 182 | - |

In relation to the lack of speculative activity and as discussed in section 2.1, the positions in equity instruments and equity indices in the regulatory trading book as at December 31, 2017 are negligible and only arise from settlement activities with institutional counterparties on behalf of customers; equally negligible is their impact on operating income, profit (loss) for the year and shareholders' equity.

**3. Regulatory trading book: internal models and other methods of sensitivity analysis**
The Bank monitors the VaR of the Trading Book on a weekly basis.
As at December 31, 2017, the daily VaR of the trading book amounted to €253.3 thousand.

*2.2 Interest rate risk and price risk - banking book*

## QUALITATIVE INFORMATION

**A. General aspects, management processes and measurement methods for interest rate risk and price risk**
Interest rate risk consists of changes in interest rates that are reflected in:
- net interest margin sources, and thus, the Bank's earnings (cash flow risk);
- the net present value of assets and liabilities, due to their impact on the present value of future cash flows (fair value risk).

In line with the Group approach, the Bank measures and monitors interest rate risk daily, within the methodological framework and the corresponding limits or thresholds set by the Parent Company. 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:
- repricing risk: the risk resulting from timing mismatches in terms of the repricing of the bank's assets and liabilities. These mismatches result in a risk associated with the rate curve. This risk relates to the Bank's exposure to changes in the slope and shape of the interest rate curve. An associated risk is the basis risk. This risk derives from the imperfect correlation in lending and borrowing interest rate changes for different instruments that may also show similar repricing characteristics;
- optionality 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 risk previously agreed with the Parent Company UniCredit S.p.A.. These limits are set in terms of VaR (calculated using the methodology described above in relation to the trading book). The Bank 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. For more details see section *2. Banking book: Internal models and other methods of sensitivity analysis.*

**B. Fair value hedging activities**
Hedging strategies aimed at complying with interest rate risk limits for the banking portfolio are carried out with unlisted derivative contracts. These derivatives, which are usually interest rate swaps, are the type of contracts most used. Macro-hedging is generally used, meaning hedges related to the amounts of cash contained in asset or liability portfolios.

**C. Cash flow hedging activity**
There are currently no cash flow hedges generated by the Bank business operations.

**D. Hedges of foreign investments**
There are currently no hedges of foreign investments within the Bank's business operations.

# Part E - Information on Risks and Hedging Policies (Continued)

## QUANTITATIVE INFORMATION

### 1. Banking book: distribution by maturity (repricing date) of financial assets and liabilities: Currency: Euro

(Amounts in € thousand)

| TYPE/UNEXPIRED TERM | ON DEMAND | UP TO 3 MONTHS | BETWEEN 3 AND 6 MONTHS | BETWEEN 6 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | BETWEEN 5 AND 10 YEARS | OVER 10 YEARS | INDEFINITE DURATION |
|---|---|---|---|---|---|---|---|---|
| **1. On-balance sheet assets** | **2.344.766** | **11.426.923** | **464.365** | **71.695** | **4.268.211** | **2.349.442** | **154.876** | **-** |
| 1.1 Debt securities | 150,084 | 10,183,100 | 10,124 | - | 3,950,858 | 2,223,658 | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | *150,084* | *10,183,100* | *10,124* | - | *3,950,858* | *2,223,658* | - | - |
| 1.2 Loans to banks | 1,508,708 | 549,685 | 413,758 | 7 | - | - | - | - |
| 1.3 Loans to customers | 685,974 | 694,138 | 40,483 | 71,688 | 317,353 | 125,784 | 154,876 | - |
| - current accounts | 640,152 | 89 | 80 | 221 | 777 | - | - | - |
| - other loans | 45,822 | 694,049 | 40,403 | 71,467 | 316,576 | 125,784 | 154,876 | - |
| *- with early redemption option* | *4,428* | *199,714* | *39,495* | *70,306* | *313,380* | *125,748* | *154,876* | - |
| *- other* | *41,394* | *494,335* | *908* | *1,161* | *3,196* | *36* | - | - |
| **2. On-balance sheet liabilities** | **19,300,504** | **414,015** | **419,018** | **180,421** | **3,329** | **-** | **-** | **-** |
| 2.1 Deposits from customers | 19,246,587 | 66,958 | 1,722 | 76,123 | 3,329 | - | - | - |
| - current accounts | 19,149,241 | - | - | - | - | - | - | - |
| - other payables | 97,346 | 66,958 | 1,722 | 76,123 | 3,329 | - | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | *97,346* | *66,958* | *1,722* | *76,123* | *3,329* | - | - | - |
| 2.2 Deposits from banks | 53,917 | 347,057 | 417,296 | 104,298 | - | - | - | - |
| - current accounts | 39,323 | - | - | - | - | - | - | - |
| - other payables | 14,594 | 347,057 | 417,296 | 104,298 | - | - | - | - |
| 2.3 Debt securities | - | - | - | - | - | - | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | - | - | - | - | - | - | - | - |
| 2.4 Other liabilities | - | - | - | - | - | - | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| 3.2 Without underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | 382,500 | 283,947 | - | - | 250,000 | 320,000 | - | - |
| + Short positions | - | 574,863 | 4,951 | 9,984 | 461,899 | 93,169 | 91,581 | - |
| **4. Other off-balance sheet transactions** | | | | | | | | |
| + Long positions | 26,346 | 8,764 | - | - | 404 | - | - | - |
| + Short positions | 8,764 | 26,750 | - | - | - | - | - | - |

**Currency: Other currencies**

(Amounts in € thousand)

| TYPE/UNEXPIRED TERM | ON DEMAND | UP TO 3 MONTHS | BETWEEN 3 AND 6 MONTHS | BETWEEN 6 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | BETWEEN 5 AND 10 YEARS | OVER 10 YEARS | INDEFINITE DURATION |
|---|---|---|---|---|---|---|---|---|
| **1. On-balance sheet assets** | **500.756** | **229.844** | **-** | **132** | **64.716** | **-** | **-** | **-** |
| 1.1 Debt securities | - | 125,271 | - | - | 64,671 | - | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | - | *125,271* | - | - | *64,671* | - | - | - |
| 1.2 Loans to banks | 498,860 | 67,676 | - | 46 | - | - | - | - |
| 1.3 Loans to customers | 1,896 | 36,897 | - | 86 | 45 | - | - | - |
| - current accounts | 266 | - | - | - | - | - | - | - |
| - other loans | 1,630 | 36,897 | - | 86 | 45 | - | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | *1,630* | *36,897* | - | *86* | *45* | - | - | - |
| **2. On-balance sheet liabilities** | **794,881** | **10,690** | **-** | **-** | **-** | **-** | **-** | **-** |
| 2.1 Deposits from customers | 791,448 | 10,690 | - | - | - | - | - | - |
| - current accounts | 786,045 | - | - | - | - | - | - | - |
| - other payables | 5,403 | 10,690 | - | - | - | - | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | *5,403* | *10,690* | - | - | - | - | - | - |
| 2.2 Deposits from banks | 3,433 | - | - | - | - | - | - | - |
| - current accounts | 3,433 | - | - | - | - | - | - | - |
| - other payables | - | - | - | - | - | - | - | - |
| 2.3 Debt securities | - | - | - | - | - | - | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | - | - | - | - | - | - | - | - |
| 2.4 Other liabilities | - | - | - | - | - | - | - | - |
| *- with early redemption option* | - | - | - | - | - | - | - | - |
| *- other* | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| 3.2 Without underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | | | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| **4. Other off-balance sheet transactions** | | | | | | | | |
| + Long positions | 6,916 | 1,269 | - | - | - | - | - | - |
| + Short positions | 1,269 | 6,916 | - | - | - | - | - | - |

For a description of the effects of a change in interest rates on net interest margin, profit (loss) for the year, shareholders' equity and the results of scenario analysis, see paragraph *2. Banking book: Internal models and other methods of sensitivity analysis below.*

# Part E - Information on Risks and Hedging Policies (CONTINUED)

**2. Banking book: internal models and other methods of sensitivity analysis**

The following table provides the results of the analyses conducted.

To measure the interest rate risk contained in the Bank's financial statements it is necessary to measure the sensibility of the loans and deposits to changes in the interest rate curve. The UniCredit Group 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 availability of historic data made it possible to completely align the representation of the interest rate risk profile to the profile used by the Group and that representation provided the breakdowns below.

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) | INTEREST RATE ANALYSIS (-30) |
|---|---|---|---|---|---|---|
| **12.31.2017** | 108,819 | 62,462 | 487 | 5,918 | 118,719 | -34,726 |

* 1 day holding period, 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 positive impact of €108,819 thousand. A shift of -200 basis points showed a positive impact of €62,462 thousand.

The sensitivity analysis on the value of shareholders' equity, which was conducted assuming a shift of + 1 basis point, showed a positive impact of €487 thousand.

The interest rate VaR figure for the Bank came to approximately €5,918 thousand.

Total VaR, including the Credit Spread Risk component arising mainly from Italian and Spanish government securities held as investment of liquidity, amounted to €29,918 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 €118,719 thousand. A shift of -30 basis points would have a negative impact of €-34,726 thousand on the interest rate over the next 12 months.

## *2.3 Exchange rate risk*

### QUALITATIVE INFORMATION

**A. General aspects, management processes and measurement methods for exchange rate risk**

As part of its treasury activities, the Bank collects funds in foreign currencies, mainly US dollars, through customer current accounts and repos, subsequently investing these funds in bonds, current accounts and time deposits, in the same currency, with the Parent Company UniCredit S.p.A.. The impact on the value of balance sheet items is estimated using the Forex VaR indicator.

The VaR of the Bank's positions is not used for the calculation of the Pillar 1 capital requirement because the traditional standardised approach is used. The VaR is only used for management and risk monitoring purposes.

**B. Exchange rate risk hedging**

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

The component of exchange rate risk that contributes to the formation of the overall VaR is usually tied to the temporal mismatch between assets and liabilities in US dollars.

## QUANTITATIVE INFORMATION

### 1. Breakdown by currency of assets, liabilities and derivatives

(Amounts in € thousand)

| ITEMS | CURRENCIES<br>US DOLLAR | POUND STERLING | SWISS FRANC | YEN | SOUTH AFRICAN RAND | OTHER CURRENCIES |
|---|---|---|---|---|---|---|
| **A. Financial assets** | **632,939** | **78,772** | **86,700** | **72** | **2,014** | **1,621** |
| A.1 Debt securities | 189,943 | - | - | - | - | - |
| A.2 Equity instruments | 6,650 | 2 | - | 6 | - | 10 |
| A.3 Loans to banks | 398,397 | 77,898 | 86,673 | 66 | 1,995 | 1,554 |
| A.4 Loans to customers | 37,949 | 872 | 27 | - | 19 | 57 |
| A.5 Other financial assets | - | - | - | - | - | - |
| **B. Other assets** | **153** | **12** | **-** | **-** | **966** | **23** |
| **C. Financial liabilities** | **637,881** | **78,339** | **86,186** | **106** | **2,059** | **1,346** |
| C.1 Deposits from banks | - | - | - | 106 | 2,059 | 1,268 |
| C.2 Deposits from customers | 637,881 | 78,339 | 86,186 | - | - | 78 |
| C.3 Debt securities | - | - | - | - | - | - |
| C.4 Other financial liabilities | - | - | - | - | - | - |
| **D. Other liabilities** | **210** | **53** | **-** | **-** | **-** | **493** |
| **E. Financial derivatives** | | | | | | |
| - Options | | | | | | |
| + Long positions | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - |
| - Other derivatives | | | | | | |
| + Long positions | 104,802 | 25,355 | 4,488 | 5,980 | 4,360 | 29,288 |
| + Short positions | 104,250 | 24,546 | 4,924 | 15,278 | 5,762 | 27,650 |
| **Total assets** | **737,894** | **104,139** | **91,188** | **6,052** | **7,340** | **30,932** |
| **Total liabilities** | **742,341** | **102,938** | **91,110** | **15,384** | **7,821** | **29,489** |
| **Difference** | **(4,447)** | **1,201** | **78** | **(9,332)** | **(481)** | **1,443** |

The impact of changes in exchange rates are quantified by the daily Forex VaR of the overall portfolio, as described in the following paragraph.

### 2. Internal models and other methods of sensitivity analysis

As at December 31, 2017, the daily Forex VaR of the overall portfolio (banking and trading books) was approximately €178 thousand.

# Part E - Information on Risks and Hedging Policies (Continued)

*2.4 Derivative instruments*

A. Financial derivatives

## A.1 Regulatory trading book: end of period notional amounts

(Amounts in € thousand)

| UNDERLYING ASSET/TYPE OF DERIVATIVE | 12.31.2017 | | 12.31.2016 | |
|---|---|---|---|---|
| | OVER THE COUNTER | CENTRAL COUNTER-PARTIES | OVER THE COUNTER | CENTRAL COUNTER-PARTIES |
| **1. Debt securities and interest rate indexes** | **1,135** | **162** | **3,519** | **2,889** |
| a) Options | 71 | - | 4 | - |
| b) Swaps | - | - | - | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | 162 | - | 2,889 |
| e) Other | 1,064 | - | 3,515 | - |
| **2. Equity instruments and share indices** | **49,482** | **14,681** | **41,993** | **26,072** |
| a) Options | 72 | - | - | - |
| b) Swaps | - | - | - | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | 14,681 | - | 26,072 |
| e) Other | 49,410 | - | 41,993 | - |
| **3. Currencies and gold** | **262,317** | **-** | **172,199** | **-** |
| a) Options | - | - | - | - |
| b) Swaps | - | - | - | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | 262,317 | - | 172,199 | - |
| **4. Commodities** | **-** | **-** | **-** | **-** |
| **5. Other underlying assets** | **-** | **-** | **-** | **-** |
| **Total** | **312,934** | **14,843** | **217,711** | **28,961** |

Letter e) Other in the “Over the counter” column consists of CFD derivatives.

## A.2 Banking book: end of period notional amounts

### A.2.1 Hedging instruments

(Amounts in € thousand)

| UNDERLYING ASSET/TYPE OF DERIVATIVE | 12.31.2017 | | 12.31.2016 | |
|---|---|---|---|---|
| | OVER THE COUNTER | CENTRAL COUNTER-PARTIES | OVER THE COUNTER | CENTRAL COUNTER-PARTIES |
| **1. Debt securities and interest rate indexes** | **1,236,447** | **-** | **1,357,368** | **-** |
| a) Options | - | - | - | - |
| b) Swaps | 1,236,447 | - | 1,357,368 | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **2. Equity instruments and share indices** | **-** | **-** | **-** | **-** |
| a) Options | - | - | - | - |
| b) Swaps | - | - | - | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **3. Currencies and gold** | **-** | **-** | **-** | **-** |
| a) Options | - | - | - | - |
| b) Swaps | - | - | - | - |
| c) Forwards | - | - | - | - |
| d) Futures | - | - | - | - |
| e) Other | - | - | - | - |
| **4. Commodities** | **-** | **-** | **-** | **-** |
| **5. Other underlying assets** | **-** | **-** | **-** | **-** |
| **Total** | **1,236,447** | **-** | **1,357,368** | **-** |

### A.2.2 Other derivatives

No data to report.

### A.3 Financial derivatives: gross positive fair value - breakdown by product

(Amounts in € thousand)

| TRANSACTION TYPES/UNDERLYINGS | POSITIVE FAIR VALUE | | | |
|---|---|---|---|---|
| | 12.31.2017 | | 12.31.2016 | |
| | OVER THE COUNTER | CENTRAL COUNTER-PARTIES | OVER THE COUNTER | CENTRAL COUNTER-PARTIES |
| **A. Regulatory trading book** | **4,733** | **23** | **2,999** | **10** |
| a) Options | - | - | - | - |
| b) Interest rate swaps | - | - | - | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | 23 | - | 10 |
| g) Other | 4,733 | - | 2,999 | - |
| **B. Banking book - hedges** | **458** | **-** | **552** | **-** |
| a) Options | - | - | - | - |
| b) Interest rate swaps | 458 | - | 552 | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| **C. Banking book - other derivatives** | **-** | **-** | **-** | **-** |
| a) Options | - | - | - | - |
| b) Interest rate swaps | - | - | - | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| **Total** | **5,191** | **23** | **3,551** | **10** |

### A.4 Financial derivatives: negative fair value - breakdown by product

(Amounts in € thousand)

| TRANSACTION TYPES/UNDERLYINGS | NEGATIVE FAIR VALUE | | | |
|---|---|---|---|---|
| | 12.31.2017 | | 12.31.2016 | |
| | OVER THE COUNTER | CENTRAL COUNTER-PARTIES | OVER THE COUNTER | CENTRAL COUNTER-PARTIES |
| **A. Regulatory trading book** | **538** | **27** | **549** | **41** |
| a) Options | - | - | - | - |
| b) Interest rate swaps | - | - | - | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | 27 | - | 41 |
| g) Other | 538 | - | 549 | - |
| **B. Banking book - hedges** | **12,694** | **-** | **10,914** | **-** |
| a) Options | - | - | - | - |
| b) Interest rate swaps | 12,694 | - | 10,914 | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| **C. Banking book - other derivatives** | **-** | **-** | **-** | **-** |
| a) Options | - | - | - | - |
| b) Interest rate swaps | - | - | - | - |
| c) Cross currency swaps | - | - | - | - |
| d) Equity swaps | - | - | - | - |
| e) Forwards | - | - | - | - |
| f) Futures | - | - | - | - |
| g) Other | - | - | - | - |
| **Total** | **13,232** | **27** | **11,463** | **41** |

# Part E - Information on Risks and Hedging Policies (Continued)

### A.5 Over the counter financial derivatives - regulatory trading book: notional values, positive and negative gross fair values by counterparty - contracts not covered by clearing agreements

(Amounts in € thousand)

| CONTRACTS NOT INCLUDED IN NETTING AGREEMENT | GOVERNMENTS AND CENTRAL BANKS | OTHER PUBLIC ENTITIES | BANKS | FINANCIAL COMPANIES | INSURANCE COMPANIES | NON-FINANCIAL COMPANIES | OTHER ENTITIES |
|---|---|---|---|---|---|---|---|
| **1. Debt securities and interest rate indexes** | | | | | | | |
| - notional value | 71 | - | - | - | - | - | 1,064 |
| - positive fair value | - | - | - | - | - | - | 3 |
| - negative fair value | - | - | - | - | - | - | 5 |
| - add-on | 1 | - | - | - | - | - | - |
| **2. Equity instruments and share indices** | | | | | | | |
| - notional value | - | - | - | 72 | - | 640 | 48,769 |
| - positive fair value | - | - | - | - | - | 1 | 1,880 |
| - negative fair value | - | - | - | - | - | - | 224 |
| - add-on | - | - | - | 7 | - | 64 | 4,694 |
| **3. Currencies and gold** | | | | | | | |
| - notional value | - | - | 119,806 | 9 | - | 1,023 | 141,480 |
| - positive fair value | - | - | 333 | - | - | 40 | 2,475 |
| - negative fair value | - | - | 97 | - | - | 1 | 211 |
| - add-on | - | - | - | - | - | 10 | 1,415 |
| **4. Other instruments** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - add-on | - | - | - | - | - | - | - |

### A.6 Over the counter financial derivatives - regulatory trading book: notional values, positive and negative gross fair values by counterparty - contracts not covered by clearing agreements

No data to report.

## A.7 Over the counter financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - contracts not covered by clearing agreements

(Amounts in € thousand)

| CONTRACTS NOT INCLUDED IN NETTING AGREEMENT | GOVERNMENTS AND CENTRAL BANKS | OTHER PUBLIC ENTITIES | BANKS | FINANCIAL COMPANIES | INSURANCE COMPANIES | NON-FINANCIAL COMPANIES | OTHER ENTITIES |
|---|---|---|---|---|---|---|---|
| **1. Debt securities and interest rate indexes** | | | | | | | |
| - notional value | - | - | 603,947 | - | - | - | - |
| - positive fair value | - | - | 458 | - | - | - | - |
| - negative fair value | - | - | 2,171 | - | - | - | - |
| - add-on | - | - | 7,968 | - | - | - | - |
| **2. Equity instruments and share indices** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - add-on | - | - | - | - | - | - | - |
| **3. Currencies and gold** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - add-on | - | - | - | - | - | - | - |
| **4. Other instruments** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - add-on | - | - | - | - | - | - | - |

## A.8 Over the counter financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - contracts covered by clearing agreements

(Amounts in € thousand)

| CONTRACTS INCLUDED IN NETTING AGREEMENT | GOVERNMENTS AND CENTRAL BANKS | OTHER PUBLIC ENTITIES | BANKS | FINANCIAL COMPANIES | INSURANCE COMPANIES | NON-FINANCIAL COMPANIES | OTHER ENTITIES |
|---|---|---|---|---|---|---|---|
| **1. Debt securities and interest rate indexes** | | | | | | | |
| - notional value | - | - | 632,500 | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | 10,523 | - | - | - | - |
| **2. Equity instruments and share indices** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| **3. Currencies and gold** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| **4. Other instruments** | | | | | | | |
| - notional value | - | - | - | - | - | - | - |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |

# Part E - Information on Risks and Hedging Policies (CONTINUED)

### A.9 OTC financial derivatives - residual life: notional values

(Amounts in € thousand)

| UNDERLYING/UNEXPIRED TERM | UP TO 1 YEAR | BETWEEN 1 AND 5 YEARS | OVER 5 YEARS | TOTAL |
|---|---|---|---|---|
| **A. Regulatory trading book** | **267,964** | **-** | **44,970** | **312,934** |
| A.1 Financial derivatives on debt securities and interest rates | 1,064 | - | 71 | 1,135 |
| A.2 Financial derivatives on equity instruments and share indices | 4,583 | - | 44,899 | 49,482 |
| A.3 Financial derivatives on exchange rates and gold | 262,317 | - | - | 262,317 |
| A.4 Financial derivatives on other instruments | - | - | - | - |
| **B. Banking book** | **19,798** | **711,899** | **504,751** | **1,236,448** |
| B.1 Financial derivative contracts on debt securities and interest rates | 19,798 | 711,899 | 504,751 | 1,236,448 |
| B.2 Financial derivatives on equity instruments and share indices | - | - | - | - |
| B.3 Financial derivatives on exchange rates and gold | - | - | - | - |
| B.4 Financial derivatives on other instruments | - | - | - | - |
| **Total as at December 31, 2017** | **287,762** | **711,899** | **549,721** | **1,549,382** |
| **Total as at December 31, 2016** | **805,714** | **477,368** | **291,997** | **1,575,079** |

### A.10 Over the counter financial derivatives: Counterparty risk/financial risk - Internal models

No data to report.

### B. Credit derivatives

No data to report.

### C. Financial and credit derivatives

### C.1 OTC financial and credit derivatives: net fair values and future credit exposure by counterparty

(Amounts in € thousand)

| | GOVERNMENTS AND CENTRAL BANKS | OTHER PUBLIC ENTITIES | BANKS | FINANCIAL COMPANIES | INSURANCE COMPANIES | NON-FINANCIAL COMPANIES | OTHER ENTITIES |
|---|---|---|---|---|---|---|---|
| **1) Bilateral arrangements - financial derivatives** | | | | | | | |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | 10,523 | - | - | - | - |
| - add-on | - | - | 1,265 | - | - | - | - |
| - net counterparty risk | - | - | - | - | - | - | - |
| **2) Bilateral arrangements - credit derivatives** | | | | | | | |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - add-on | - | - | - | - | - | - | - |
| - net counterparty risk | - | - | - | - | - | - | - |
| **3) Cross-product arrangements** | | | | | | | |
| - positive fair value | - | - | - | - | - | - | - |
| - negative fair value | - | - | - | - | - | - | - |
| - add-on | - | - | - | - | - | - | - |
| - net counterparty risk | - | - | - | - | - | - | - |

## Section 3 - Liquidity Risk

### QUALITATIVE INFORMATION

**A. General aspects, management processes and measurement methods for liquidity risk**
Liquidity risk can be succinctly defined as the risk that the Bank, 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 Bank are as follows:
- funding risk, the Bank may not be able to effectively address any expected or unexpected cash outflows due to the unavailability of funding sources;
- market risk, in liquidating a considerable amount of assets, the Bank may be facing a considerable (and unfavourable) change in price generated by internal or external factors;
- risk of mismatch, the risk generated by a mismatch between the amounts and/or the maturities of cash inflows and outflows;
- contingency risk, future unexpected commitments (credit facilities being drawn down, deposit withdrawals, increase of collateral) may require a higher amount of liquidity compared to that used by the Bank in ordinary operations.

To address its exposure to liquidity risk, the Bank invests the portion of liquidity that according to its internal analyses is less stable ("non-core liquidity") 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.

At the reporting date, 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 bank.

***The key principles***
"Fineco Liquidity Policy" approved by the Board of Directors of the Bank establishes the managerial autonomy of the Bank's Treasury department and sets forth the principles and rules that the Bank applies to both normal and emergency liquidity management in line with the UniCredit Group liquidity risk management.

***Roles and responsibilities***
The "Fineco Liquidity Policy" establishes the principles adopted in terms of internal governance, which envisage the involvement of the Finance, Treasury and Risk Management departments, in line with the Group's approach.

The operational management of liquidity is carried out by the Treasury department, which ensures 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 selected methods.

To this end, "Fineco Liquidity Policy" explicitly refers to Group rules regarding the implementation of first and second level monitoring, both from a regulatory and management standpoint:
1. Short-term liquidity risk management (operational liquidity), which considers the events that may impact upon the Bank's liquidity position from one day up to one year. The primary objective is to maintain the Bank's capacity to fulfil its ordinary and extraordinary payment obligations while minimising the relevant costs.
2. Structural liquidity risk management (structural risk), which considers the events that may impact upon the Bank's liquidity position over one year. The primary objective is to maintain an adequate ratio between medium/long term liabilities and medium to long-term assets, with a view to avoiding pressures on short-term funding sources (both current and future).
3. Stress tests: Liquidity risk is a low probability, high impact event. Therefore stress testing is a tool to reveal potential vulnerabilities. The Bank uses several scenarios ranging from general market crisis to idiosyncratic crisis, and combinations hereof.

In this context, the Bank 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 Bank from risks related to the transformation of maturity.

***Short term liquidity management***
Short-term liquidity management aims at ensuring that the Bank remains in a position to fulfil its cash payment obligations always, whether expected or unexpected, focused on the exposure for the first twelve months.
On a daily basis, the Bank calculates the Operative Maturity Ladder, which measures the cash inflows and outflows affecting the monetary base, with details of the main temporal buckets.
The Bank's objective is to provide sufficient short-term liquidity to deal with the particularly adverse liquidity crises for at least three months.

# Part E - Information on Risks and Hedging Policies (Continued)

***Structural liquidity management***

The objective of the Bank's structural liquidity management is to maintain an adequate ratio between medium/long term assets and liabilities (generally over one year), with a view to avoiding pressures on short-term funding sources, both current and future. To this end, the Bank adopts a prudent approach to its investments of liquidity, taking into account funding maturities. The indicators used and monitored as part of the wider Risk Appetite Framework (NSFR- and NSFR-adjusted) ensure that assets and liabilities have a sustainable maturity structure.

***Liquidity Stress Test***

Stress testing is a risk management technique used to evaluate the potential effects of a specific event on an entity's financial position. As a forward looking tool, liquidity stress testing diagnostics the institution's liquidity risk.

Periodically, the Bank uses scenario analysis to evaluate the impact of simultaneous changes in various risk factors, defining a hypothetical and consistent stress event whose assumptions and size are shared and agreed with the Parent Company's functions.

***Behavioural modelling of Assets and Liabilities***

The Group 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.
More specifically, modelling of assets and 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 CFO function in collaboration with the Parent Company's Competence Line and are validated by FinecoBank's Risk Management.

***FinecoBank Contingency Liquidity Policy***

A liquidity crisis is a high impact, low probability event. Therefore, a crisis-mode operating model, that can be activated effectively in case of crisis according to an approved procedure, has been defined in FinecoBank "Contingency Plan for liquidity risk".

The ability to act in time is essential to minimise the potentially disruptive consequences of a liquidity crisis. The analytics of the Stress tests form a valuable tool to identify the expected consequences and to define up front the most suitable actions in a certain crisis scenario. In combination with Early Warning Indicators (EWI) the Bank may be able to reduce the liquidity effects in the initial stages of a crisis.

FinecoBank "Contingency Plan on liquidity risk" has the objective of ensuring effective interventions also 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 communication both internally and to the Group;
- a set of available mitigating liquidity actions;
- a set of early warning indicators that may point towards a developing crisis.

## QUANTITATIVE INFORMATION

### 1. Time breakdown by contractual residual maturity of financial assets and liabilities
### Currency: Euro

(Amounts in € thousand)

| ITEM/TIME BRACKETS | ON DEMAND | BETWEEN 1 AND 7 DAYS | BETWEEN 7 AND 15 DAYS | BETWEEN 15 DAYS AND 1 MONTH | BETWEEN 1 AND 3 MONTHS | BETWEEN 3 AND 6 MONTHS | BETWEEN 6 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | OVER 5 YEARS | INDEFINITE DURATION |
|---|---|---|---|---|---|---|---|---|---|---|
| **On-balance sheet assets** | **2,194,021** | **38,766** | **425,198** | **504,807** | **384,155** | **940,400** | **985,686** | **10,986,188** | **4,254,676** | **199,104** |
| A.1 Government securities | - | - | - | 19,886 | 16,872 | 55,330 | 58,789 | 3,183,000 | 2,039,007 | - |
| A.2 Debt securities | - | 2,863 | 4,626 | 387,350 | 28,517 | 422,039 | 839,083 | 7,450,030 | 1,822,502 | - |
| A.3 Units in investment funds | 2,018 | - | - | - | - | - | - | - | - | - |
| A.4 Loans | 2,192,003 | 35,903 | 420,572 | 97,571 | 338,766 | 463,031 | 87,814 | 353,158 | 393,167 | 199,104 |
| *- Banks* | *1,508,708* | *545* | *166,758* | *2,421* | *180,709* | *413,335* | *7* | - | - | *199,104* |
| *- Customers* | *683,295* | *35,358* | *253,814* | *95,150* | *158,057* | *49,696* | *87,807* | *353,158* | *393,167* | - |
| **On-balance sheet liabilities** | **19,309,803** | **19,971** | **166,525** | **6,852** | **220,638** | **418,460** | **180,431** | **3,284** | **-** | **-** |
| B.1 Deposits and current accounts | 19,189,715 | 112 | 216 | 361 | 1,318 | 1,725 | 2,553 | 3,284 | - | - |
| *- Banks* | *39,323* | - | - | - | - | - | - | - | - | - |
| *- Customers* | *19,150,392* | *112* | *216* | *361* | *1,318* | *1,725* | *2,553* | *3,284* | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | 120,088 | 19,859 | 166,309 | 6,491 | 219,320 | 416,735 | 177,878 | - | - | - |
| **Off-balance sheet transactions** | | | | | | | | | | |
| C.1 Financial derivatives with exchange of capital | | | | | | | | | | |
| - Long positions | - | 138,306 | 49 | - | - | 300 | - | - | 2,328 | 587 |
| - Short positions | - | 137,457 | 39 | - | 162 | 300 | - | 30 | 2,238 | 586 |
| C.2 Financial derivatives without exchange of capital | | | | | | | | | | |
| - Long positions | 985 | 666 | - | 202 | 1,501 | 3,281 | 5,397 | - | - | - |
| - Short positions | 97 | - | - | - | 771 | 793 | 1,526 | - | - | - |
| C.3 Deposits and loans to be collected | | | | | | | | | | |
| - Long positions | - | 8,764 | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | 8,660 | 104 | - | - | - |
| C.4 Irrevocable commitments to lend funds | | | | | | | | | | |
| - Long positions | - | - | - | - | - | 26,221 | 124 | 404 | - | - |
| - Short positions | - | 26,346 | - | 404 | - | - | - | - | - | - |
| C.5 Financial guarantees given | - | - | - | - | - | - | - | - | - | - |
| C.6 Financial guarantees received | - | - | - | - | - | - | - | - | - | - |
| C.7 Credit derivatives with exchange of capital | | | | | | | | | | |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |
| C.8 Credit derivatives without exchange of capital | | | | | | | | | | |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |

# Part E - Information on Risks and Hedging Policies (Continued)

**Currency: Other currencies**

(Amounts in € thousand)

| ITEM/TIME BRACKETS | ON DEMAND | BETWEEN 1 AND 7 DAYS | BETWEEN 7 AND 15 DAYS | BETWEEN 15 DAYS AND 1 MONTH | BETWEEN 1 AND 3 MONTHS | BETWEEN 3 AND 6 MONTHS | BETWEEN 6 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | OVER 5 YEARS | INDEFINITE DURATION |
|---|---|---|---|---|---|---|---|---|---|---|
| **On-balance sheet assets** | **500,959** | **5,855** | **21,172** | **4,239** | **74,750** | **42,637** | **2,242** | **150,133** | **1** | **-** |
| A.1 Government securities | - | - | - | - | 375 | - | 375 | 66,706 | 1 | - |
| A.2 Debt securities | - | 141 | - | 254 | 808 | 42,637 | 1,735 | 83,382 | - | - |
| A.3 Units in investment funds | 1 | - | - | - | - | - | - | - | - | - |
| A.4 Loans | 500,958 | 5,714 | 21,172 | 3,985 | 73,567 | - | 132 | 45 | - | - |
| *- Banks* | *498,860* | - | *20,311* | - | *47,410* | - | *46* | - | - | - |
| *- Customers* | *2,098* | *5,714* | *861* | *3,985* | *26,157* | - | *86* | *45* | - | - |
| **On-balance sheet liabilities** | **794,919** | **2,381** | **292** | **1,520** | **6,854** | **-** | **-** | **-** | **-** | **-** |
| B.1 Deposits and current accounts | 789,516 | - | - | - | - | - | - | - | - | - |
| *- Banks* | *3,433* | - | - | - | - | - | - | - | - | - |
| *- Customers* | *786,083* | - | - | - | - | - | - | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | 5,403 | 2,381 | 292 | 1,520 | 6,854 | - | - | - | - | - |
| **Off-balance sheet transactions** | | | | | | | | | | |
| C.1 Financial derivatives with exchange of capital | | | | | | | | | | |
| - Long positions | - | 65,637 | 39 | - | - | - | - | - | 63 | - |
| - Short positions | - | 66,753 | 48 | - | - | - | - | - | 63 | - |
| C.2 Financial derivatives without exchange of capital | | | | | | | | | | |
| - Long positions | 3,771 | - | - | - | - | - | - | - | - | - |
| - Short positions | 467 | - | - | - | - | - | - | - | - | - |
| C.3 Deposits and loans to be collected | | | | | | | | | | |
| - Long positions | - | 1,269 | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | 1,269 | - | - | - | - |
| C.4 Irrevocable commitments to lend funds | | | | | | | | | | |
| - Long positions | - | - | - | - | - | 6,916 | - | - | - | - |
| - Short positions | - | 6,916 | - | - | - | - | - | - | - | - |
| C.5 Financial guarantees given | - | - | - | - | - | - | - | - | - | - |
| C.6 Financial guarantees received | - | - | - | - | - | - | - | - | - | - |
| C.7 Credit derivatives with exchange of capital | | | | | | | | | | |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |
| C.8 Credit derivatives without exchange of capital | | | | | | | | | | |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |

**Assets received as collateral or loaned as part of repos and securities lending**

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Fair value of securities received as guarantee in repos and securities lending with cash guarantee | 258,844 | 122,584 |
| Fair value of securities received on loan | 949,550 | 1,094,173 |
| Of which fair value of the securities delivered through reverse repos and securities lending with cash guarantee | (996,775) | (1,213,038) |

# Section 4 - Operational risk

## QUALITATIVE INFORMATION

### A. General aspects, operational processes and methods for measuring operational risk

*Operational risk definition*

Operational risk is defined as 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, 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.

*Group operational risk framework*

The UniCredit Group has defined the policies and procedures for measuring and mitigating operational risk within the Group and its Subsidiaries. Operational risk policies, applicable to all Group entities, are common principles that define the roles of company bodies and of the risk management function as well as the interactions with other functions involved in the process. These principles and provisions have been set out in the Group Framework for the management of operational risk and adopted in FinecoBank's Operational Risk Manual.

The methods for classifying data and verifying its completeness, scenario analysis, risk indicators and risk capital reporting and measurement are set by the Group Operational & Reputational Risks department of the Parent Company and applied by FinecoBank in its capacity as a Group Legal Entity. A pivot element of the risk control framework is the operational risk management application, allowing the collection of the data required for operational risk control and capital measurement.

The compliance of the operational risk control and measurement system with external regulations and Group standards is assessed through an internal validation process, under the responsibility of the Group Internal Validation department of the Parent Company, which is independent from the Group Operational & Reputational Risks department.

The Bank has obtained the approval of the Bank of Italy for the use of advanced approaches (AMA) to calculate its capital requirement for operational risk with effect from June 30, 2010.

*Organisational structure*

the Board of Directors is responsible for approving all aspects relating to the Group operational risk framework and verifying the adequacy of the measurement and control system and is regularly updated on changes to the risk profile and operational risk exposure, with support from the appropriate risk committees if required.

The reports produced by Risk Management for the Board of Directors ensure that management and the control bodies are constantly updated on the trend in operational risk within the Bank and can actively intervene in the management and mitigation of the risks. The Chief Risk Officer's participation in the Products Committee also ensures oversight of the operational risk associated with the Bank's new business activities.

The Operational Risk Management (ORM) team is part of the broader Risk Management office which reports to the Chief Risk Officer of FinecoBank who in turn reports directly to the Chief Executive Officer and General Manager.

The main activities carried out by the Risk Management office in terms of operational risk are:

- recognition, classification, validation and reporting of operating losses with consequent identification of problem areas;
- assessment of potential risks through scenario analyses and risk indicators (Key Risk Indicator-KRI);
- monitoring and optimisation of the internal control system;
- policies to mitigate and transfer risk through insurance cover;
- development of an operational risk culture within the Bank;
- generating reports for the Board of Directors and Senior Management on risk trends.

*Internal validation process*

In compliance with external regulations, the operational risk control and measurement system is subject to an internal validation process established by the Parent Company, in order to verify its compliance with minimum requirements and Group standards. This process is owned by the Operational and Pillar II Risk Validation Unit, within the Group Internal Validation department.

The use of the Advanced Measurement Approach (AMA) to calculate regulatory capital requires the preparation of an annual report on the management and control system for operational risk by the Operational Risk team. This Annual Report contains a self-assessment of the system and a detailed examination of the governance structure, the process for collecting data on losses, the scenario analyses and internal control system, as well as the operational use of the measurement system.

The Report is submitted to the approval of the Board of Directors and is validated by the Internal Audit department and Group Internal Validation (GIV). For 2017, the Internal Audit department and Group GIV confirmed that adequate protection measures are in place for operating risk as well as the adequacy of the existing management and control system.

*Operational risk management*

Operational risk management consists of the review of processes to reduce the risks found and the management of the related insurance policies, with the identification of the suitable deductibles and limits.

# Part E - Information on Risks and Hedging Policies (Continued)

From September 2011, a Permanent Work Group (PWG) has been established, which includes the CRO, the Risk Manager as well as Information Security & Fraud Manager and Organisation, to allow them to share their respective expertise in relation to the projects planned or in under way, new processes and products, or changes to them, and anything else that may affect the Bank's risk profile; the PWG's ultimate objective is to identify and then develop new mitigation measures.
As part of the prevention of operational risk and to control sales channels remotely, the Risk Management office has focused on fraud prevention measures.
The development of remote monitoring to prevent fraud has led to the creation of a system called System of Fraud Identification and Analysis (SoFIA). This system enables a larger amount of data and information on individual indicators to be analysed at the same time and enables possible irregularities to be detected on a daily basis through an alert system.
In this way, all of the names put forward to be checked are assessed at the same time with regard to all remote indicators (31 indicators).
On the basis of qualitative and quantitative assessments of these indicators, the assigned staff select any cases that need to be reported to the Network Controls Department, Monitoring and Network Services Department - reporting directly to the Chief Executive Officer - for subsequent examination.
Moreover, the Operational Risk team is updated annually on the results of the tests conducted in accordance with the Business Continuity and Disaster Recovery plans.

***Risk capital measurement and allocation mechanism***
UniCredit developed an internal model for measuring the capital requirement. The capital requirement is calculated on the basis of internal loss data, external loss data, scenario loss data and risk indicators.

The collection and classification of operating losses is managed by a Group system called Application for Risk Gauging On line (ARGO). In addition to being used for internal prevention and improvement purposes, the information gathered is also used to calculate Pillar 1 and 2 capital requirements.

In terms of risk indicators, there are currently 42 key risk indicators split into eight control areas (Legal, Claims, Credit Cards, Back Office, PFA, IT systems, Payment Systems, Compliance) that contribute to the calculation of the regulatory capital, which the Bank uses to measure its exposure to operational risk. If an indicator shows an irregular value, this may be related to changes in the exposure to operational risk.

Scenario analyses enable the Bank's exposure to operational risk, characterised by low frequency but high potential impact, to be estimated. The scenarios are identified by analysing internal losses, external events, risk indicator trends, critical processes, products and risk classes.
The inclusion of the data generated through the analyses of the scenario and of the trend of risk indicators are a forward-looking element of the risk capital calculation model.
Data collection and control is managed by the Bank, while the management and maintenance of the model to calculate regulatory capital is centralised for all Legal Entities of the Group at the Parent Company.
Risk capital for operational risk used for regulatory purposes as at December 31, 2017, amounted to €55,762 thousand.

***Risks arising from significant legal disputes***
The Bank is involved in individually insignificant legal proceedings over which there is considerable uncertainty regarding the outcome and the amount of possible charges, which the Bank could be forced to incur. Where it is possible to reliably estimate the amount of possible charges and the charges are considered likely, provisions have been made in an appropriate amount based on the circumstances and consistent with international accounting standards, by making the best possible estimate of the amount that the Bank will reasonably be expected to incur in discharging its obligations. Specifically, as a precaution against these obligations and customer claims that have not yet resulted in legal proceedings, as at December 31, 2017, the Bank had a provision in place for risks and charges of €31,056 thousand. This provision includes the costs of proceedings borne by the Bank in the event of an adverse conclusion of the dispute plus the estimated expenses to be paid to lawyers, any technical advisors and/or experts who assist the Bank, to the extent that it is believed that they will not be reimbursed by the counterparties.
This estimate was determined by the Bank, in relation to the current dispute, based on the analysis of the historical trend of legal expenses incurred, by type of litigation and degree of judgment, consistent with the methodology defined by the Parent Company in this regard.

***Risks arising from tax disputes and audits***
Risks arising from tax disputes and audits as at December 31, 2017 mainly relate to a notice of assessment for the year 2003 containing an objection to the use of tax credits for €2.3 million, in relation to which the bank has appealed to the Supreme Court as it considers its position to be well-founded. The bank has already paid the additional taxes and interest due.
With regard to disputes, the higher taxes, interests and penalties have already been recognised in the income statement with a contra entry, respectively, in tax liabilities and the provision for risks and charges.
Moreover, tax receivables for the amounts paid have been recognised.
In light of the foregoing, as at December 31, 2017 the Bank had in place provisions that adequately reflect the specific circumstances and are in line with international accounting standards; specifically, to tax liabilities of for a total of €5.6 million, for higher tax, and to provisions for risks and charges of €3.9 million, for penalties and interest.

***The assessment of ICT operational risk***
The prudential regulations require Banks to conduct an analysis, at least annually, of the Bank's ICT risk and to submit the results of the assessment made to the Board of Directors.

In particular, the regulations have introduced standards and specific requirements for managing and assessing ICT risk that require Banks to assess the exposure to these risks, not only by gathering and analysing economic losses, but also by considering additional information, such as ICT incidents occurring and information related to the riskiness of the Bank's assets (hardware and software).
The Parent Company, in performing its role of direction, coordination and control, has established a common framework for the entire Group for the assessment of ICT risk and FinecoBank Risk Management function has adopted that framework.
The results of the analysis, conducted in collaboration with the Bank's Business, ICT and Organisation departments, were reported to the Bank's Board of Directors during 2017.

***QUANTITATIVE INFORMATION***

Internal operating loss data is the main component used to calculate capital requirements against operational risk. Loss analyses enable the ORM team to make assessments on the Bank's exposure to operational risk and to identify any critical areas. As at December 31, 2017, operating losses recorded in the accounts amounted to approximately €6 million.
The main sources of operating losses are shown below by "event type", i.e. by type of event that generated them according to the Basel II Accord:

- Internal fraud: losses due to unauthorised activities, fraud, embezzlement or infringement of laws, regulations or company directives that involve at least one internal staff member of the bank or a resource hired under an agency contract (PFA);
- External fraud: losses owing to fraud, embezzlement or violation of laws by subjects external to the bank;
- employment practices and workplace safety: losses due to actions not compliant with the law or to agreements regarding employment, health and safety, to the payment of compensation for bodily harm, or to cases of discrimination or non-application of equality conditions;
- customers, products and professional practices: losses arising from non-fulfillment of professional obligations towards customers or from the nature or characteristics of the products or services provided;
- damage from external events: losses arising from external events, including natural disasters, acts of terrorism and vandalism;
- business disruption and system failures: losses owing to business disruption and system failures or interruptions;
- process management, execution and delivery: losses due to deficiencies in the completion of transactions or management of processes, as well as losses due to relations with commercial counterparties, vendors and suppliers.

## Section 5 - Other Risks and information

Although the types of risk described above represent the main categories, there are, other types that the Bank considers important. In accordance with the provisions of Basel II Pillar 2, the Bank - with the support of the Parent Company - has identified other types of risk in addition to the credit, market, operational and liquidity risks described above:

- **Business risk** is defined as the distance between the Bank's expected net result and any unforeseen and adverse variances. First of all, it may be caused by a significant deterioration of market conditions, changes to competition or the Bank'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;
- **Reputational risk,** which represents the current or future risk of a fall in profits resulting from a negative perception of the Bank's image by Customers, counterparties, shareholders, investors or Supervisory Authorities.

The Bank has not included Real Estate Risk within the Bank's scope of risk, because it does not hold significant positions in real estate, nor insurance risk, as the insurance companies are not included in its scope of consolidation.

Following the identification of the significant risks, the Parent Company establishes the best way to analyse them in qualitative and quantitative terms. The quantitative measurement is carried out by the Parent Company using data sent by the Bank and is used to calculate the Internal Capital.
Credit, market, operational and business risks are measured quantitatively by the Parent Company, using:

- economic capital, calculation of the benefit of diversification and aggregation as a component of internal capital (including prudential cushion for model risk and variability of the economic cycle);
- Stress tests.

Internal Capital 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.
For control purposes, Internal Capital is calculated quarterly by the Parent Company based on the periodic figures sent by the Bank.
The multi-dimensional nature of risk makes it necessary to supplement the measurement of economic capital with stress testing, not only in order to estimate losses in certain scenarios, but also to ascertain the impact of their determinants.
The stress test is one of the instruments used control significant risks in order to assess the Bank's vulnerability to "exceptional but plausible" events, providing additional information to the monitoring activities.
Stress testing, in accordance with regulatory requirements, is conducted on the basis of a set of internally defined stress scenarios and is periodically performed by specific Parent Company functions.

# Part E - Information on Risks and Hedging Policies (CONTINUED)

### ICAAP - Internal Capital Adequacy Assessment Process

Measuring the risk profile is a fundamental element of the Internal Capital Adequacy Assessment Process under Pillar 2 (ICAAP).

The UniCredit Group's approach to ICAAP relies on the definition of the "Risk Governance", as a preliminary requirement, while the process consists of following phases:
- defining the scope and identifying the risks;
- assessing the risk profile;
- risk appetite setting and capital allocation;
- monitoring and reporting.

Capital adequacy is assessed by considering the balance between assumed risks, both Pillar I and Pillar II, and the available capital. With respect to Pillar II, the relevant metric is the Risk Taking Capacity, which is the ratio of available capital (Available Financial Resources - AFR) to Internal Capital.

### Risk Appetite

The main elements of the internal process for determining capital adequacy include the setting and monitoring of the risk appetite. The risk appetite is defined as the level of risk that the Bank is willing to accept for the pursuit of its strategic objectives and business plan, taking into account the interests of its customers and shareholders, capital requirements and other requirements.
The main objectives of the risk appetite are:
- explicitly assessing the risks, and their interconnections at local and Group level, that the Bank decides to assume (or avoid) in a long-term perspective;
- specifying the types of risk that the Bank intends to assume, setting targets, triggers and limits under both normal operating and stress conditions;
- ensuring a risk-return profile "ex-ante" consistent with sustainable long-term growth, as defined by the return forecasts of the strategic plan/budget;
- ensuring that the business developed within the limits of risk tolerance established by the Board of Directors, in accordance with the applicable national and international regulations;
- supporting discussions on future policy options with regard to the risk profile;
- guiding the vision of internal and external stakeholders towards a risk profile consistent with the strategic plan;
- providing 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 Bank's business model and local and Group ICAAP. For this reason, the Risk Appetite is incorporated in the budget process.
The risk appetite includes a statement and a set of KPIs. The Statement sets out the Bank's positioning in terms of strategic objectives and associated risk profiles, while the KPIs are designed to quantitatively measure the Bank's in the following categories:
- Pillar 1 KPI: regulatory requirements, to include the KPIs required by the Supervisory Authority (e.g., capital and liquidity requirements such as LCR and NSFR);
- Managerial KPI: to ensure alignment with the budget in terms of return on capital and credit quality;
- Specific Risk KPI: to ensure control of all major risks (such as Pillar 2 capital adequacy, market risk, interest rate risk and operating risk).

For each of the above mentioned factors, one or more KPIs are identified, in order to quantitatively measure the Bank's positioning under several respects: absolute values, ratio between comparable measures, sensitivity analysis on defined parameters.

The Targets represent the amount of risk that the Bank is willing to take in normal operating conditions in line with its Ambitions. The Targets should be considered as reference thresholds for business development. Triggers are the maximum acceptable deviation from the targets; they are defined to ensure operations under stress within the maximum acceptable level of risk.
Limits are the maximum level of risk that the Bank accepts to assume.

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 regulatory requirements and of the supervisory bodies and considering the consistency with the Group risk appetite.
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.

# Part F - Shareholders' equity

# Part F - Shareholders' equity

## Section 1 - Bank's shareholders' equity

### A. QUALITATIVE INFORMATION

The Bank has made a priority of capital management and allocation on the basis of the risk assumed in order to expand its operations and create value. These activities involve the various planning and control stages and, specifically, the planning, budgeting and monitoring processes (analysis of expected and actual performance, analysis and monitoring of limits, performance analysis and monitoring of capital ratios).
Capital and its allocation are therefore extremely important in defining strategies, since on the one hand it represents the shareholders' investment in the Bank which must be adequately remunerated, on the other hand it is a scarce resource on which there are external limitations imposed by regulatory provisions.
Capital is managed dynamically: the Bank prepares the financial plan, monitors capital requirements for regulatory purposes and anticipates the appropriate steps required to achieve goals.
Monitoring refers, on one hand, to both shareholders' equity and the composition of own funds and, on the other hand, to the planning and performance of risk-weighted assets (RWA).

### B. QUANTITATIVE INFORMATION

#### B.1 Bank's shareholders' equity: breakdown

(Amounts in € thousand)

| | AMOUNT 12.31.2017 | AMOUNT 12.31.2016 |
|---|---|---|
| 1. Share capital | 200,545 | 200,246 |
| 2. Share premium reserve | 1,934 | 1,934 |
| 3. Reserves | 323,932 | 278,407 |
| - from profits | 291,841 | 250,247 |
| a) legal | 40,109 | 40,049 |
| b) statutory | - | - |
| c) treasury shares | 365 | 4,338 |
| d) other | 251,367 | 205,860 |
| - other | 32,091 | 28,160 |
| 4. Equity instruments | - | - |
| 5. (Treasury shares) | (365) | (4,338) |
| 6. Revaluation reserves | (8,340) | (6,794) |
| - Available-for-sale financial assets | 1,472 | (455) |
| - Property, plant and equipment | - | - |
| - Intangible assets | - | - |
| - Hedging instruments of foreign investments | - | - |
| - Cash flow hedges | - | - |
| - Exchange differences | - | - |
| - Non-current assets classified as held for sale | - | - |
| - Actuarial gains (losses) on defined benefits plans | (9,812) | (6,339) |
| - Revaluation reserves for associates carried at equity | - | - |
| - Special revaluation laws | - | - |
| 7. Net Profit (Loss) for the year | 214,284 | 211,844 |
| **Total** | **731,990** | **681,299** |

#### B.2 Revaluation reserves for available-for-sale financial assets: breakdown

(Amounts in € thousand)

| | 12.31.2017 | | 12.31.2016 | |
|---|---|---|---|---|
| ASSET/AMOUNT | POSITIVE RESERVE | NEGATIVE RESERVE | POSITIVE RESERVE | NEGATIVE RESERVE |
| 1. Debt securities | 10,529 | (10,216) | 12,040 | (12,747) |
| 2. Equity instruments | 1,159 | - | 252 | - |
| 3. Units in investment funds. | - | - | - | - |
| 4. Loans | - | - | - | - |
| **Total** | **11,688** | **(10,216)** | **12,292** | **(12,747)** |

### B.3 Revaluation reserves for available-for-sale financial assets: annual changes

(Amounts in € thousand)

| | DEBT SECURITIES | EQUITY INSTRUMENTS | UNITS IN INVESTMENT FUNDS | LOANS |
|---|---|---|---|---|
| **1. Opening balance** | **(707)** | **252** | **-** | **-** |
| **2. Increases** | **4,628** | **907** | **-** | **-** |
| 2.1 Fair value increases | 2,327 | 907 | - | - |
| 2.2 Reclassification through profit or loss of negative reserves | - | - | - | - |
| *- from impairment* | - | - | - | - |
| *- from disposal* | - | - | - | - |
| 2.3 Other increases | 2,301 | - | - | - |
| **3. Decreases** | **(3,608)** | **-** | **-** | **-** |
| 3.1 Fair value reductions | (332) | - | - | - |
| 3.2 Impairment losses | - | - | - | - |
| 3.3 Reclassification through profit or loss of positive reserves: *from disposal* | *(1,574)* | - | - | - |
| 3.4 Other changes | (1,702) | - | - | - |
| **4. Closing balances** | **313** | **1,159** | **-** | **-** |

### B.4 Revaluation reserves on defined benefit obligations: annual changes

(Amounts in € thousand)

| | ACTUARIAL GAINS (LOSSES) ON DEFINED BENEFITS PLANS |
|---|---|
| **1. Opening balance** | **(6,339)** |
| **2. Increases** | **-** |
| 2.1 Fair value increases | - |
| 2.2 Other Changes | - |
| **3. Decreases** | **(3,473)** |
| 3.1 Fair value reductions | (3,473) |
| 3.2 Other Changes | - |
| **4. Closing balances** | **(9,812)** |

# Section 2 - Own funds and regulatory ratios

## 2.1 Own founds

### A. QUALITATIVE INFORMATION

Own funds are measured on a quarterly basis in accordance with regulatory provisions. The results are reported to the Parent Company's Board of Directors.
Own Funds at December 31, 2017 amounted to €484,960 thousand and were calculated by applying the supervisory regulations in force according to the Basel III regulatory framework including transitional adjustments.
The Common Equity Tier 1 includes the profit for the year (for the amount that will not be distributed) assuming the conditions established Article 26.2 of the EU Regulation 575/2013 (CRR) are satisfied.

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Common Equity Tier 1 - CET1 | 484,960 | 438,121 |
| Additional Tier 1 - AT1 | - | - |
| TIER 2 - T2 | - | - |
| **Total Own Funds** | **484,960** | **438,121** |

In addition, it is noted that the document "Disclosure by Institutions according to Regulation (EU) No. 575/2013 as at December 31, 2017", required by Regulation (EU) 575/2013, is published on FinecoBank's website HYPERLINK "http://www.finecobank.com" www.finecobank.com.

#### *1. Common Equity Tier 1 - CET1*

The financial instruments included in the Common Equity Tier 1 consist of 607,713,345 ordinary shares with a par value of €0.33 euro, amounting to €200,545 thousand, net of 60,397 treasury shares, amounting to €365 thousand.
For information on the other items that make up the Common Equity Tier 1 see the details provided at the foot of the table presented in the Quantitative information.

# Part F - Shareholders' equity (CONTINUED)

### *2. Additional Tier 1 - AT1*
As at December 31, 2017 there were no Additional Tier 1 items.

### *3. TIER 2 - T2*
As at December 31, 2017 there were no Tier 2 capital items.

## B. QUANTITATIVE INFORMATION

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| **A. Common Equity Tier 1 - CET1 first time application of prudential filters** | **556,545** | **509,325** |
| of which CET1 instruments subject to transitional provisions | - | - |
| B. Prudential filters for cet1 (+/-) | (1,256) | (577) |
| **C. CET1 before items to be deducted and the effects of the transitional arrangements (A +/- B)** | **555,289** | **508,748** |
| **D. Items to be deducted from CET1** | **73,766** | **74,056** |
| **E. Transitional arrangements - Impact on CET1 (+/-)** | **3,437** | **3,429** |
| **F. Total Common Equity Tier 1 Capital - CET1 (C - D +/- E)** | **484,960** | **438,121** |
| **G. Additional Tier 1 - AT1 before items to be deducted and the effects of the transitional arrangements** | **-** | **-** |
| of which AT1 instruments subject to transitional provisions | - | - |
| **H. Items to be deducted from AT1** | **-** | **-** |
| **I. Transitional arrangements - Impact on AT1 (+/-)** | **-** | **-** |
| **L. Total Additional Tier 1 - AT1 (G - H +/- I)** | **-** | **-** |
| **M. Tier 2 before items to be deducted and the effects of the transitional arrangements** | **-** | **-** |
| of which T2 instruments subject to transitional provisions | - | - |
| **N. Items to be deducted from T2** | **-** | **-** |
| **O. Transitional arrangements - Impact on T2 (+/-)** | **-** | **-** |
| **P. Total Tier 2 (Tier 2 - T2) (M - N +/- O)** | **-** | **-** |
| **Q. Total own funds (F + L + P)** | **484,960** | **438,121** |

### *A. Common Equity Tier 1 - CET1 first time application of prudential filters*
The item includes:
- share capital, comprising 607,713,345 ordinary shares with a nominal value of €0.33, equal to €200,545 thousand;
- the share premium reserve of €1,934 thousand;
- the legal reserve, extraordinary reserve and other reserves, equal to €323,932 thousand;
- accumulated other comprehensive income (OCI), which consists of €1,849 thousand from the net positive reserve of debt securities issued by central governments of EU member countries, held in the "available-for-sale financial assets" portfolio after December 31, 2009, €377 thousand from the net negative reserve for equity instruments and debt securities other than those mentioned above held in the "Available for sale financial assets" portfolio and €9,812 thousand from the negative IAS19 Reserve;
- the amount of the 2017 profits that will not be distributed, amounting to €40,888 thousand, assuming the conditions established in Article 26, paragraph 2, of EU Regulation 575/2013, have been met.

The following were deducted from this item:
- treasury shares, amounting to €365 thousand;
- CET1 equity instruments held indirectly, amounting to €2,019 thousand;
- synthetic exposures in own CET1 equity instruments held in the Bank's regulatory trading book, amounting to €30 thousand.

### *B. CET1 Prudential filters*
This item includes the filter for additional valuation adjustments (AVA) calculated on the assets and liabilities measured at fair value, amounting to €538 thousand, and the equity exposure to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund, amounting to €718 thousand.

### *D. Items to be deducted from CET1*
This item includes:
- goodwill, net of deferred taxes, amounting to €65,857 thousand;
- other intangible assets, amounting to €7,909 thousand.

### *B. Transitional arrangements - Impact on CET1*

The item includes the effects of applying the transitional provisions on own funds, specifically:

- a negative prudential filter of 20% has been applied to the net positive revaluation reserves related to debt securities issued by central governments of EU member countries, held in the "available-for-sale financial assets" portfolio after December 31, 2009, for an amount of €370 thousand;
- a positive prudential filter of 20% has been applied to the net negative revaluation reserves related to equities and debt securities other than those mentioned above, held in the "Available-for-sale financial assets", for an amount of €75 thousand. At the same time a negative national filter of 20% has been applied to the same reserves, for amount of €75 thousand, which eliminated the positive prudential filter;
- a 40% negative prudential filter, amounting to €3,807 thousand, has been applied on the amount of the IAS19 reserve.

Regulation (EU) 575/2013 (CRR) also requires banks, as a general rule, to respectively include within and deduct from their own funds the unrealised gains and losses on assets measure that fair value classified in the "Available-for-sale financial assets" portfolio. For a transitional period, the CRR allows the partial inclusion/deduction of those gains and losses from the Common Equity Tier 1, on a gradually increasing basis, to reach their full inclusion/deduction by January 1, 2018. As an exemption to these transitional arrangements, solely for gains and losses resulting from exposures towards central governments recognised in the "Available-for-sale financial assets" portfolio, the CRR has given the competent authorities the option to allow banks not to include or deduct the unrealised gains or losses for any item of own funds if this treatment was applied before the CRR entered into force (January 1, 2014). By specific provision in the regulations, the neutralisation of the gains and losses can be applied until the Commission has adopted a regulation based on Regulation (EC) 1606/2002 that approves IFRS 9 as a replacement to IAS 39. Upon first time adoption of the CRR in Italy, this option was exercised by the Bank of Italy and the banks had the possibility of opting for the total neutralisation of the gains and losses.
In this regard, in March 2016, the European Central Bank issued Regulation (EU) 2016/445 on the exercise of the options and discretions available in Union law ("ECB Regulation"), which entered into force on October 1, 2016, which allowed the application of the ordinary transitional regime also for exposures to central governments for the banks subject to direct supervision by the ECB ("significant banks"). In addition, on November 29, 2016, Regulation (EU) 2016/2067 was published in the Official Journal of the European Union, through which the European Commission endorsed IFRS 9.
As a result of the above, from October 2016, FinecoBank as a significant bank must respectively include within or deduct from CET 1 the unrealised gains and losses resulting from exposures to central governments classified in the "Available-for-sale financial assets" portfolio, according to the following percentages: 60% for 2016, and 80% for 2017. The amounts remaining from the application of these percentages (20% for 2017) do not need to be included for the calculation of own funds, as they continue to be neutralised, based on the national regime in force as at December 31, 2013.
As reported in point E. "Transitional arrangements - Impact on CET1", as at December 31, 2017 the unrealised gains from exposures to central governments classified in the "Available-for-sale financial assets" portfolio amounted to €1,849 thousand, to which a negative prudential filter of 20% has been applied, amounting to €370 thousand.
With reference to defined-benefit plans under IAS 19, the amendment that took effect on January 1, 2013 (IAS 19R) resulting in the elimination of the corridor method - requiring recognition of the present value of defined benefit obligations - resulted in an impact on the Bank shareholders equity related to the recognition in the revaluation reserves of actuarial gains/losses not previously recognised using this method. From a regulatory point of view, the supervisory authority ordered the implementation of a prudential filter designed to neutralise 40% of the impact of these amendments.

(Amounts in € thousand)

| | |
|---|---|
| a) Value of liabilities for defined benefits - old IAS 19 | (57,734) |
| b) Value of liabilities for defined benefits - new IAS 19 | (72,009) |
| c) Amount subject to "prudential filter" | (9,812) |

### *O. Transitional arrangements - Impact on T2*

No data to report.

# Part F - Shareholders' equity (CONTINUED)

### Reconciliation of Own funds with Carrying amounts

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Share capital, issue-premium reserves and other reserves | 526,411 | 480,587 |
| Accumulated other comprehensive income (OCI) | (8,340) | (6,794) |
| Profit allocated to reserves | 40,888 | 41,684 |
| Own CET 1 instruments | (2,414) | (4,403) |
| Commitments to purchase own CET1 instruments | - | (1,750) |
| Intangible assets - Goodwill | (65,857) | (66,324) |
| Intangible assets - Other intangible assets | (7,909) | (7,731) |
| Fair value adjustments (AVA) | (538) | (577) |
| Prudential filters - Exposure to the Voluntary Scheme | (718) | - |
| Other transitional adjustments to CET1 capital | 3,437 | 3,429 |
| **Common Equity Tier 1 Capital - CET1** | **484,960** | **438,121** |
| **Additional Tier 1 - AT1** | **-** | **-** |
| **Tier 1 Capital (T1 = CET1 + AT1)** | **-** | **-** |
| **TIER 2 - T2** | **-** | **-** |
| **Total Own Funds** | **484,960** | **438,121** |

### Changes in Own Funds

(Amounts in € thousand)

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

## 2.2 Capital adequacy

### A. QUALITATIVE INFORMATION

The Bank's supervisory prudential requirements at December 31, 2017 have been calculated by applying the current Basel III supervisory provisions, standardised approach, with the exception of operational risk capital requirements, calculated using the advanced approaches.

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", the Bank must satisfy the following own funds requirements established in Article 92 of the CRR, expressed as a percentage of the total risk exposure amount (RWA - Risk Weighted Assets):

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

Furthermore, in addition to the Common Equity Tier 1 necessary to meet own funds requirements under Article 92 of the CRR, banks are required to hold a capital buffer, for 2017, of 1.25% of the bank's overall risk exposure (1.875% for 2018 and 2.5% from 2019).

Article 136 of the directive EU/2013/36 (Capital Requirements Directive, CRD4) establishes the requirement for the designated national authorities to set up an operational framework for establishing the countercyclical capital buffer (CCyB) with effect from January 1, 2016. The buffer is reviewed on a quarterly basis. The European legislation was implemented in Italy through the Bank of Italy Circular 285/2013 (Supervisory regulations for banks), which contain specific rules on the CCyB. Legislative Decree 72 of May 12, 2015 identified the Bank of Italy as the authority designated to adopt the macro prudential measures in the banking sector, including the CCyB. The rules apply at individual and consolidated level to banks and investment firms. Accordingly, with effect from January 1, 2016, 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 buffer rates. The introduction of the countercyclical buffer includes a phase-in period between January 1, 2016 and the end of 2018, and will become fully effective from January 1, 2019 (in 2016 the countercyclical buffer cannot be higher than 0.625%). The Bank's specific countercyclical capital buffer as at December 31, 2017 was 0.00005%, corresponding to around €1 thousand.

Lastly, according to Basel III supervisory regulations, entities that use internal ratings-based approaches for calculating capital requirements for credit risk and Advanced Measurement Approaches for calculating own funds requirements for operational risk must hold, until December 31, 2017, own funds that are at all times equal to or greater than 80% of the Basel I requirements (CRR 575/2013 art. 500). As at December 31, 2017, the Bank's capital requirements according to Basel I amounted to €374,964 thousand; accordingly, 80% of such amount was €299,971 thousand.

Following the results of the Supervisory Review and Evaluation Process (SREP) conducted by the ECB in 2017, the competent authorities determined that no decision is due for the Bank under the national legislation implementing article 104(1)(a) of Directive 2013/36/EU or article 16 of Regulation (EU) No 1024/2013.
As for the qualitative information on the methods used by the Bank for assessing its own funds adequacy to support current and future operations, please refer to Section 1 - Shareholders' Equity of this Part F.

## B. QUANTITATIVE INFORMATION

(Amounts in € thousand)

| | NON WEIGHTED ASSETS | | WEIGHTED ASSETS | |
|---|---|---|---|---|
| CATEGORY/AMOUNT | 12.31.2017 | 12.31.2016 | 12.31.2017 | 12.31.2016 |
| **A. RISK ASSETS** | | | | |
| **A.1 Credit and counterparty risk** | **22,964,253** | **21,591,003** | **1,585,514** | **1,134,213** |
| 1. Traditional standardised approach | 22,964,253 | 21,591,003 | 1,585,514 | 1,134,213 |
| 2. Internal rating method | - | - | - | - |
| 2.1 Basic | - | - | - | - |
| 2.2 Advanced | - | - | - | - |
| 3. Securitisations | - | - | - | - |
| **B. REGULATORY CAPITAL REQUIREMENTS** | | | | |
| **B.1 Credit and counterparty risk** | | | **126,841** | **90,737** |
| **B.2 Risk of credit valuation adjustment** | | | **47** | **127** |
| **B.3 Regulatory risk** | | | **2** | **-** |
| **B.4 Market risk** | | | **4,149** | **2,433** |
| 1. Traditional standardised approach | | | 4,149 | 2,433 |
| 2. Internal models | | | - | - |
| 3. Concentration risk | | | - | - |
| **B.5 Operational risk** | | | **55,762** | **59,480** |
| 1. Basic Indicator Approach | | | - | - |
| 2. Traditional standardised approach | | | - | - |
| 3. Advanced measurement approach | | | 55,762 | 59,480 |
| **B.6 Other calculation elements** | | | **-** | **-** |
| **B.7 Total prudential requirements** | | | **186,801** | **152,777** |
| **C. RISK ASSETS AND CAPITAL RATIOS** | | | | |
| C.1 Risk-weighted assets | | | 2,335,013 | 1,909,713 |
| C.2 Common equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio) | | | 20.77% | 22.94% |
| C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio) | | | 20.77% | 22.94% |
| C.3 Own funds/risk-weighted assets (Total capital ratio) | | | 20.77% | 22.94% |

Risk-weighted assets have been calculated by multiplying the total of prudential requirements by 12.5 (the inverse of the minimum compulsory coefficient of 8%).

# Part F - Shareholders' equity (Continued)

**Exposure to credit and counterparty risk: breakdown by type of portfolio**

(Amounts in € thousand)

| PORTFOLIO | 12.31.2017 EXPOSURE TO CREDIT AND COUNTERPARTY RISK | 12.31.2017 RISK-WEIGHTED ASSETS | 12.31.2016 EXPOSURE TO CREDIT AND COUNTERPARTY RISK | 12.31.2016 RISK-WEIGHTED ASSETS |
|---|---|---|---|---|
| **Exposures subject to the IRB method** | | | | |
| **Total - IRB approach** | **-** | **-** | **-** | **-** |
| **Exposures subject to the standardised approach** | | | | |
| Exposures with or secured by central governments or central banks | 6,051,345 | 72,270 | 4,040,518 | 80,911 |
| Exposures with or secured by Institutions | 14,656,637 | 28,597 | 16,259,880 | 22,784 |
| Public sector organisations | 99,924 | - | - | - |
| Exposures to or guaranteed by multilateral development banks | - | - | 3 | - |
| Exposures with or secured by Companies or other entities | 194,078 | 194,064 | 138,486 | 137,209 |
| Retail exposures | 1,347,655 | 1,010,741 | 1,034,666 | 776,000 |
| Exposures secured by real estate property | 515,982 | 180,847 | 917 | 329 |
| Exposures in default | 2,779 | 2,798 | 3,664 | 3,736 |
| Exposures in equity instruments | 5,006 | 5,006 | 3,532 | 3,532 |
| Other exposures | 90,818 | 90,812 | 109,337 | 109,331 |
| **Total - traditional standardised approach** | **22,964,224** | **1,585,135** | **21,591,003** | **1,133,832** |
| **Risk assets - credit and counterparty risk** | **22,964,224** | **1,585,135** | **21,591,003** | **1,133,832** |
| **Exposures to central counterparties in the form of pre-financed contributions to the Guarantee Fund** | | **379** | | **381** |
| **Capital requirement - credit and counterparty risk** | | **126,841** | | **90,737** |

### Capital requirement per type of risk and approach used

(Amounts in € thousand)

| TYPE OF RISK | APPROACH USED | CAPITAL REQUIREMENTS 12.31.2017 | CAPITAL REQUIREMENTS 12.31.2016 |
|---|---|---|---|
| 1. On-balance-sheet risk assets | Traditional standardised approach | 111,647 | 70,514 |
| 2. Guarantees given and commitments to disburse funds | Traditional standardised approach | 100 | 882 |
| 3. Derivative contracts | Current value method | 123 | 130 |
| 4. SFT Transactions | CRM - Comprehensive method with regulatory adjustments for volatility | 14,941 | 19,181 |
| **Capital requirements - credit and counterparty risk** | | **126,811** | **90,707** |
| **Capital requirements exposures to central counterparties in the form of pre-financed contributions to the Guarantee Fund** | | **30** | **30** |
| **Market risk** | | | |
| 1. Exchange rate risk | Traditional standardised approach | 1,090 | 827 |
| 2. Debt securities position risk | Traditional standardised approach | 1,691 | 1,113 |
| 3. Equity securities position risk | Traditional standardised approach | 722 | 493 |
| 4. Position risk on commodities | Traditional standardised approach | - | - |
| 5. Position risk on OIC | Traditional standardised approach | 646 | - |
| **Capital requirements for market risk** | | **4,149** | **2,433** |
| 1. Concentration risk | Traditional standardised approach | - | - |
| **Capital requirements for concentration risk** | | **-** | **-** |
| 1. Risk of credit valuation adjustment | Traditional standardised approach | 47 | 127 |
| **Capital requirements for risk of credit valuation adjustment** | | **47** | **127** |
| 1. Regulatory risk | Traditional standardised approach | 2 | - |
| **Capital requirements regulatory risk** | | **2** | **-** |
| 1. Advanced measurement approach | Advanced approach | 55,762 | 59,480 |
| **Capital requirements for operational risk** | | **55,762** | **59,480** |
| **Total capital requirements** | | **186,801** | **152,777** |

### 2.3 Minimum ratios established by the Bank

| CAPITAL ADEQUACY INDICATORS | 12.31.2017 | TARGET 2017 | TRIGGER 2017 | LIMIT 2017 |
|---|---|---|---|---|
| Common Equity Tier 1 ratio | 20.77% | 12.00% | 8.25% | 7.00% |
| Total capital ratio | 20.77% | 15.50% | 11.80% | 10.50% |

The Common Equity Tier 1 and the Total Capital Ratio comply with the limits provided in the Risk Appetite Framework approved by the Board of Directors on January 9, 2017.

# Part G - Business Combinations

## Section 1 - Business combinations completed during the year

No information to report.

## Section 2 - Business combinations completed after year-end

No information to report.

## Section 3 - Retrospective adjustments

No information to report.

# Part H - Related-Party Transactions

# Part H - Related-Party Transactions

Information on the fees paid to key management personnel and on related-party transactions, pursuant to IAS 24 is shown below.

## 1. Details of compensation for key management personnel

Key management personnel are persons having authority and responsibility for planning, directing, and controlling the Bank's activities, directly or indirectly. This category includes Board members and members of the Board of Statutory Auditors, pursuant to requirements of the Bank of Italy Circular no. 262 of December 22, 2005 as amended and updated, as well as the Chief Executive Officer and General Manager, the Deputy General Manager/GBS Manager, the Chief Financial Officer, the PFA Network Commercial Manager, the Deputy General Manager/Direct Bank Manager and the Investment & Wealth Management Services Manager.

(Amounts in € thousand)

| | 12.31.2017 | 12.31.2016 |
|---|---|---|
| Fees paid to "Key Management Personnel", Directors and the Board of Statutory Auditors | | |
| a) short-term benefits | 5,470 | 5,231 |
| b) post-employment benefits | 213 | 218 |
| *of which under defined benefit plans* | - | - |
| *of which under defined contribution plans* | *213* | *218* |
| c) other long-term employee benefits | - | - |
| d) termination benefits | - | - |
| e) share-based payments | 2,479 | 3,082 |
| **TOTAL** | **8,162** | **8,531** |

## 2. Related-party transactions

In order to ensure continued compliance with applicable legal and regulatory provisions on corporate disclosure on transactions with related parties, during the Board of Directors' Meeting of June 6, 2017 and with the prior positive opinion of the Risk and Related Parties Committee and the Board of Statutory Auditors, the Bank approved the current *"Procedures for the management of transactions with persons in conflict of interest*".
The aforementioned procedures include the provisions to be complied with when managing:
- related-Party transactions pursuant to the Consob Regulation adopted by resolution 17221 of March 12, 2010 as amended by resolution 17389 of June 23, 2010;
- transactions with Associated Persons pursuant to the regulations on "Risk activities and conflicts of interest with Associated Persons", laid down by Bank of Italy Circular 263/2006, Title V, Chapter 5 (*"New regulations for the prudential supervision of banks"*, as amended);
- obligations of Bank Officers pursuant to Article 136 of Legislative Decree 385 of September 1, 1993, "Consolidated Law on Banking".

Given that the Bank belongs to the UniCredit Group, the aforementioned Procedures are also based on the *"UniCredit Global Policy for the management of transactions with persons in conflict of interest"* and the relevant "Global Operational Instructions" issued by UniCredit to subsidiaries as part of its management and co-ordination.

Considering the above, the following transactions approved during 2017 are recorded:

1. on February 7th, 2017 the Board of Directors, upon recommendation by the Audit and Related Parties Committee, approved the renewal of the *"Framework Resolution related to the entering into of hedging derivative contracts with the Parent Company or companies in the UniCredit Group"*, an ordinary Significant Transaction at market conditions with validity up until February 7th, 2018, which enables the Bank to enter into hedging derivatives with the Parent Company and with UniCredit Bank AG for commercial assets or liabilities that, for ALM purposes, require interest rate hedging for a ceiling of €1,000 million with the Parent Company and €1,300 million with UniCredit Bank AG. the aforementioned ceilings include the total of underwriting transactions and any early closure transactions;

2. the Board of Directors' meeting of May 9, 2017, upon recommendation by the Risk and Related Parties Committee, approved an ordinary Significant Transaction at market conditions, consisting of the renewal of the *"Framework Agreement - Repurchase Agreements and Term Deposits with the Parent Company"*, (expiring May 9, 2018), concerning (i) Repurchase Agreements with the Parent Company for a maximum amount of €6.2 billion, calculated as the sum of the individual transactions in absolute value (either repos or reverse repos) and (ii) Term deposits with the Parent Company for an amount of €8.5 billion, calculated as the sum of the individual transactions in absolute value; these amounts were set also to cover transactions with the Parent Company that may be carried out in execution of the "liquidity framework agreement" renewed by resolution of the Board of Directors;

3. on June 6, 2017, the Board of Directors - with the favourable opinion of the Risk and Related Parties Committee - resolved on the early renewal of the *"Framework Agreement for the transactions on current accounts held with UniCredit"*, an ordinary Significant Transaction at market conditions valid up to July 6, 2018, which will enable the Bank to manage its liquidity in euro and in foreign currencies through specific current accounts already held with UniCredit S.p.A. for an amount of less than €1,000 million understood as a single transaction (single payment and single withdrawal);

4. on July 4, 2017, the Board of Directors - with the favourable opinion of the Risk and Related Parties Committee - resolved on the renewal of the *"Framework Resolution - Trading of financial instruments with related-party institutional counterparties"*, an ordinary Significant Transaction at market conditions valid up to July 3, 2018, which enables the Bank to carry out trading in derivatives with related-party institutional counterparties, up to a maximum permitted limit of: (i) €1 billion with UniCredit Bank AG and (ii) €500 million with Mediobanca S.p.A.;

5. on September 19, 2017 the Board of Directors, subject to the positive opinion of the Risk and Related Parties Committee, approved the renewal of the *"Framework resolution - Stock lending activity with institutional clients"*, an ordinary Significant Transaction under market conditions (valid up to September 18, 2018) that enables the Bank to enter into stock lending transactions with institutional counterparties related parties, with a ceiling of: (i) €500 million with UniCredit Bank AG and (ii) €200 million with Mediobanca S.p.A.;

6. on November 7, 2017 the Board of Directors, subject to the positive opinion of the Risk and Related Parties Committee, approved the renewal of the *"Framework resolution - Liquidity investment with the Parent Company"* (formerly *"Short/medium-term liquidity investment with the Parent Company"*, passed on December 6, 2016 and expiring on December 6, 2017), an ordinary Significant Transaction under market conditions (valid up to November 7, 2018) that has as its object the subscription of UniCredit bonds with an estimated ceiling of €2.7 billion, estimated based on the amount of bonds maturing the following year and the possibility of buying and selling bonds of the Parent connected to the introduction of new accounting standard IFRS9;

7. finally, on December 5, 2017, the Board of Directors - with the favourable opinion of the Risk and Related Parties Committee - approved the signature of a new life insurance brokerage contract between FinecoBank S.p.A. and Aviva S.p.A. (related party), to replace the agreement originally signed in 2002 by UniCredit Xelion Banca S.p.A., which was replaced by FinecoBank S.p.A. as a result of the merger. The projected figures as at December 31, 2017 (€13.4 million net to be recognised to the Bank) meant that the transaction was categorised as a "Significant Transaction". The transaction is an "ordinary Significant Transaction at market conditions".

In relation to the above transactions, the Bank provided a simplified disclosure to CONSOB pursuant to Art. 13, paragraph 3, letter c) of CONSOB Regulation 17221/2010.

In the year ended December 31, 2017, no other transactions were undertaken with related parties that could significantly affect the Bank's asset situation and results, or atypical and/or unusual transactions, including intercompany and related party transactions.
Minor transactions were also carried out with the Parent Company, other Group Companies and/or with related parties in general, both Italian and foreign, within the ordinary course of business and related financial activities of the Bank, at market or standard conditions.

Lastly, with regard to transactions of significant financial and economic relevance, during 2012, the Bank issued 5 bank guarantees in favour of the Italian Revenue Agency upon (guaranteed) request by UniCredit, with indefinite duration (specifically, valid until the Italian Revenue Agency issues a declaration of receipt of the payment by UniCredit at the end of the collection process, in the event of an unfavourable outcome for UniCredit, or until a ruling is issued in favour of the Bank by means of final judgement), for a total amount of €256 million, plus interest accrued and accruing until request for payment from the Italian Revenue Agency. The bank guarantees were issued to secure the obligations assumed by UniCredit in relation to five VAT refund suspension orders issued by the Italian Revenue Agency, and entail the assumption by the Bank of an irrevocable payment commitment on demand, within 30 days and without any exceptions. In 2013, following the settlement of an overall assessment notice issued by the Regional Department of Liguria, for €4.5 million, replaced by another assessment notice issued by the same Department up to the amount settled, a guarantee already issued by the Bank was replaced, with amounts unchanged; this transaction did not change the commitments undertaken according to the forms, procedures and risks already assessed during 2012, which remained unchanged.

# Part H - Related-Party Transactions (CONTINUED)

The following statement shows the outstanding assets, liabilities, guarantees and commitments as at December 31, 2017, for each group of related parties pursuant to IAS 24:

(Amounts in € thousand)

| | AMOUNTS AS AT DECEMBER 31, 2017 | | | |
|---|---|---|---|---|
| | DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL | OTHER RELATED PARTIES | TOTAL | % OF CARRYING AMOUNT |
| Financial assets held for trading | - | 30 | 30 | 0.28% |
| Loans and receivables with banks | - | 2 | 2 | 0.00% |
| Loans and receivables with customers | 16 | 9,373 | 9,389 | 0.44% |
| **Total assets** | **16** | **9,405** | **9,421** | **0.04%** |
| Deposits from banks | - | 637 | 637 | 0.07% |
| Deposits from customers | 1,389 | 38,383 | 39,772 | 0.20% |
| Other liabilities | 148 | 36 | 184 | 0.05% |
| **Total liabilities** | **1,537** | **39,056** | **40,593** | **0.18%** |
| **Guarantees given and commitments** | **-** | **-** | **-** | **-** |

The following table sets out the impact of transactions with related parties on the main Income Statement items, for each group of related parties.

(Amounts in € thousand)

| | INCOME STATEMENT AS AT DECEMBER 31, 2017 | | | |
|---|---|---|---|---|
| | DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL | OTHER RELATED PARTIES | TOTAL | % OF CARRYING AMOUNT |
| Interest income and similar revenues | - | 14 | 14 | 0.01% |
| Fee and commission income | 4 | 35,037 | 35,041 | 6.57% |
| Fee and commission expense | - | (354) | (354) | 0.13% |
| Gains (losses) on financial assets and liabilities held for trading | - | (6) | (6) | -0.01% |
| Other administrative expenses | - | (148) | (148) | 0.06% |
| Other net operating income | 29 | 7 | 36 | 0.04% |
| **Total income statement** | **33** | **34,550** | **34,583** | |

With regard to the category "Directors, Board of Statutory Auditors and Key Management Personnel", in application of the special regulations laid down in Article 136 of Legislative Decree 385/93 (Consolidated Law on Banking), the obligations established for persons that perform administrative, management and control functions pursuant to those regulations were unanimously approved by a resolution of the Board of Directors with the favourable vote of all members of the Board of Statutory Auditors, in accordance with Article 136 of said Consolidated Law on Banking.
The category "Directors, Board of Statutory Auditors and Key Management Personnel" includes their dealings with the Bank (excluding their fees, which are discussed in point 1. *Details of compensation for key management personnel*) and the Parent Company UniCredit, mainly concerning assets for credit card use, liabilities for funds held by them with the Bank and costs and revenues generated from the aforesaid assets and liabilities.

The "other related parties" category includes:
- close family members of key management personnel (i.e., relatives who could be expected to influence, or be influenced by the party involved);
- companies controlled (or jointly controlled) by, or associated with, "key management personnel" or their close family members;
- associates, and their subsidiaries, of the Parent Company UniCredit;
- shareholders, and their subsidiaries, of the Parent Company UniCredit.

Transactions with "Other related parties", mainly refer to:
- assets for credit card use and liabilities for funds held with the Bank or securities lending transactions guaranteed by sums of money;
- assets for current receivables associated with the provision of financial services, mainly referring to fees for the placement of asset management and insurance products;
- costs and revenues generated from the above assets and liabilities, mainly referring to subscription and management fee and commission income related to the placement of asset management and insurance products and insurance premiums.

Amounts as at December 31, 2017 and the income components accrued in 2017 relating to the Parent Company UniCredit and the UniCredit group companies are not included, as they are presented further below.

### Transactions with the parent company and other unicredit group companies

(Amounts in € thousand)

| TOTAL TRANSACTIONS WITH UNICREDIT GROUP COMPANIES | 12.31.2017 | % OF CARRYING AMOUNT |
|---|---|---|
| **Assets** | **13,839,392** | **61,95%** |
| Loans and receivables with banks | 13,834,737 | 99,69% |
| Loans and receivables with customers | 15 | 0,00% |
| Other assets | 4,640 | 1,47% |
| **Liabilities** | **838,467** | **3,75%** |
| Deposits from banks | 824,135 | 89,00% |
| Hedging derivative liabilities | 9,320 | 73,42% |
| Other liabilities | 5,012 | 1,48% |
| **Guarantees and commitments** | **2,381,070** | **92,24%** |
| Guarantees issued and commitments | 2,381,070 | 92,24% |
| **Income Statement** | **240,166** | |
| Interest income and similar revenues | 196,380 | 72,80% |
| Interest expenses and similar charges | 2,771 | -53,65% |
| Fee and commission income | 62,658 | 11,75% |
| Fee and commission expense | (6,527) | 2,48% |
| Fair value adjustments in hedge accounting | (5,951) | n.c. |
| Gains (losses) from disposal or repurchase | 3,951 | 83,85% |
| Administrative costs | (13,336) | 4,12% |
| Other net operating income | 220 | 0,24% |

The following table summarises transactions with UniCredit group companies as at December 31, 2017. With reference to relations with Pioneer Investment Management SGR S.p.A. and Pioneer Asset Management SA Luxemburg, it should be noted that only the income statement figures accrued up to the companies' exit from the UniCredit Group have been indicated.

(Amounts in € thousand)

| COMPANY | ASSETS | LIABILITIES | GUARANTEES AND COMMITMENTS | INCOME STATEMENT |
|---|---|---|---|---|
| UniCredit S.p.A. | 13,838,693 | 797,362 | 2,381,070 | 187,589 |
| Fineco AM Limited | 46 | - | - | 46 |
| UniCredit Bank AG | 56 | 40,348 | - | 463 |
| UniCredit Bank AG, Milan | - | - | - | 237 |
| UniCredit Factoring S.p.A. | - | - | - | 10 |
| UniCredit Leasing S.p.A. | - | - | - | 3 |
| UniCredit Luxemburg Finance SA | 10 | - | - | 55 |
| UniCredit Business Integrated Solutions S.C.p.A. | 572 | 740 | - | (9,882) |
| Pioneer Investment Management SGR S.p.A. | - | - | - | 4,480 |
| Cordusio Società Fiduciaria per Azioni | 15 | 17 | - | (1) |
| Pioneer Asset Management SA Luxemburg | - | - | - | 57,166 |
| **Total** | **13,839,392** | **838,467** | **2,381,070** | **240,166** |

# Part H - Related-Party Transactions (Continued)

The following tables contain a breakdown of the items relating to Assets, Liabilities, Guarantees and Commitments, Costs and Revenue for each individual Group company.

### Transactions with parent companies

(Amounts in € thousand)

| TRANSACTIONS WITH UNICREDIT S.P.A. | 12.31.2017 |
|---|---|
| **Assets** | **13,838,693** |
| Loans and receivables with banks | 13,834,695 |
| Other assets | 3,998 |
| **Liabilities** | **797,362** |
| Deposits from banks | 783,786 |
| Hedging derivative liabilities | 9,320 |
| Other liabilities | 4,256 |
| **Guarantees** | **256,070** |
| Guarantees given | 256,070 |
| **Commitments** | **2,125,000** |
| Commitments to lend funds | 2,125,000 |
| **Income Statement** | **187,589** |
| Interest income and similar revenues | 198,880 |
| Interest expenses and similar charges | 2,754 |
| Fee and commission income | 236 |
| Fee and commission expense | (6,487) |
| Fair value adjustments in hedge accounting | (8,493) |
| Gains (losses) from disposal or repurchase | 3,951 |
| Administrative costs | (3,271) |
| Other net operating income | 19 |

### Transactions with subsidiaries controlled exclusively by FinecoBank S.p.A.

(Amounts in € thousand)

| TRANSACTIONS WITH FINECO AM LIMITED | 12.31.2017 |
|---|---|
| **Assets** | **46** |
| Other assets | 46 |
| **Income Statement** | **46** |
| Other net operating income | 46 |

### Transactions with companies controlled by UniCredit S.p.A.

(Amounts in € thousand)

| TRANSACTIONS WITH UNICREDIT BANK AG | 12.31.2017 |
|---|---|
| **Assets** | **56** |
| Loans and receivables with banks | 42 |
| Other assets | 14 |
| **Liabilities** | **40,348** |
| Deposits from banks | 40,348 |
| **Income Statement** | **463** |
| Interest income and similar revenues | 99 |
| Interest expenses and similar charges | 17 |
| Fee and commission income | 357 |
| Fee and commission expense | (10) |

(Amounts in € thousand)

| TRANSACTIONS WITH UNICREDIT BANK AG, MILAN | 12.31.2017 |
|---|---|
| **Income Statement** | **237** |
| Interest income and similar revenues | (2,599) |
| Fee and commission income | 333 |
| Fair value adjustments in hedge accounting | 2,542 |
| Administrative costs | (39) |

(Amounts in € thousand)

| TRANSACTIONS WITH UNICREDIT LEASING S.P.A. | 12.31.2017 |
|---|---|
| **Income Statement** | **3** |
| Administrative costs | 3 |

(Amounts in € thousand)

| TRANSACTIONS WITH UNICREDIT FACTORING S.P.A. | 12.31.2017 |
|---|---|
| **Income Statement** | **10** |
| Administrative costs | 10 |

(Amounts in € thousand)

| TRANSACTIONS WITH UNICREDIT LUXEMBOURG FINANCE SA | 12.31.2017 |
|---|---|
| **Assets** | **10** |
| Other assets | 10 |
| **Income Statement** | **55** |
| Fee and commission income | 55 |

(Amounts in € thousand)

| TRANSACTIONS WITH UNICREDIT BUSINESS INTEGRATED SOLUTIONS S.C.P.A. | 12.31.2017 |
|---|---|
| **Assets** | **572** |
| Other assets | 572 |
| **Liabilities** | **740** |
| Other liabilities | 740 |
| **Income Statement** | **(9,882)** |
| Fee and commission income | 2 |
| Administrative costs | (10,039) |
| Other net operating income | 155 |

(Amounts in € thousand)

| TRANSACTIONS WITH PIONEER INVESTMENT MANAGEMENT SGR S.P.A. | 12.31.2017 |
|---|---|
| **Income Statement** | **4,480** |
| Fee and commission income | 4,480 |

(Amounts in € thousand)

| TRANSACTIONS WITH CORDUSIO SOCIETÀ FIDUCIARIA PER AZIONI | 12.31.2017 |
|---|---|
| **Assets** | **15** |
| Loans and receivables with customers | 15 |
| **Liabilities** | **17** |
| Other liabilities | 17 |
| **Income Statement** | **(1)** |
| Fee and commission income | 29 |
| Fee and commission expense | (30) |

(Amounts in € thousand)

| TRANSACTIONS WITH PIONEER ASSET MANAGEMENT SA LUXEMBOURG | 12.31.2017 |
|---|---|
| **Income Statement** | **57,166** |
| Fee and commission income | 57,166 |

# Part I - Share-based payments

# Part I - Share-based payments

**A. QUALITATIVE INFORMATION**

## 1. Description of share-based payments

### 1.1 Outstanding instruments

The Medium & Long Term Incentive Plans for employees and financial advisors of the Bank include the following types of instruments:
- Equity-Settled Share Based Payments that involve payments settled with shares of the parent UniCredit S.p.A. and of the Bank;
- Cash Settled Share Based Payments that involve payments made in cash[23].

The above categories refer to the allocation of the following instruments:
- **Stock Options** allocated to selected Top & Senior Managers and Key Talents and consisting of rights to subscribe UniCredit shares;
- **Group Executive Incentive Systems** that offers eligible Group Executives a variable remuneration for which payment will be made within a maximum of five years. The beneficiaries receive a payment in cash and/or UniCredit shares, in relation to the achievement of performance conditions (other than marked conditions) stated in the Plan Rules;
- **Group Executive Incentive System (Bonus Pool)**, offering selected Executives and relevant personnel identified on the basis of regulatory requirements, a bonus structure consisting of immediate payments (following performance evaluation) and deferred payments in cash and ordinary UniCredit or FinecoBank shares, over a maximum period of 6 years. This payment structure ensures that bonuses are aligned to shareholders' interests and is subject to malus clauses (which apply in the event that specific profitability, liquidity and capital thresholds are not met at Group and/or at Country/Division level) and clawback clauses (to the extent they are legally applicable) in accordance with the plan rules (both represent vesting conditions other than market conditions);
- **Employee Share Ownership Plan (ESOP - Let's Share)**, which offers eligible Bank employees the possibility to buy UniCredit ordinary shares with the advantage of involving the granting of free ordinary shares ("Free Shares" or rights to receive them) measured on the basis of the shares purchased by each Participant ("Investment Share") during the "Enrolment Period". The granting of free ordinary shares is subordinated to vesting conditions stated in the Plan Rules;
- **Stock granting for employees** that grants the free allocation of FinecoBank shares to beneficiaries belonging to the category of Key management personnel (*"2014-2017 Multi-year Plan Top Management"*). Shares will be allocated to the beneficiaries in 4 yearly tranches starting from 2017. The plan is subject to access conditions (profitability and capital thresholds) and clawback clauses (as legally applicable) in accordance with its rules.
- **Stock granting for personal financial advisors** offering the allocation of free shares of FinecoBank to the network's personal financial advisors, subject to the achievement by the Bank's entire PFA network of a set net sales target for the year 2014 (*"2014 PFA Plan"*) and for the three-year period 2015-2017 (*"2015-2017 PFA Plan"*). The shares will be allocated to the respective beneficiaries in 3 annual instalments from 2015, under the *"2014 PFA Plan"* and from 2018 under the *"2015-2017 PFA Plan"*. The plans are subject to access conditions (profitability and capital thresholds) and clawback clauses (as legally applicable) in accordance with the plan rules.
- **Group Incentive System 2015 PFA**, offering selected financial advisors, identified as key personnel in accordance with regulatory requirements, an incentive system consisting of immediate cash payments (following performance evaluation) and deferred payments and the allocation of Phantom Shares, over a period of 5 years. This payment structure ensures that bonuses are aligned to shareholders' interests and is subject to malus clauses (which apply in the event that specific profitability, liquidity and capital thresholds are not met at Group and/or at Country/Division level) and clawback clauses (to the extent they are legally applicable) in accordance with the plan rules (both vesting conditions other than market conditions);
- **PFA Systems**, offering selected financial advisors, identified as key personnel in accordance with regulatory requirements, incentive systems consisting of immediate cash payments (following performance evaluation) and deferred payments, in cash and FinecoBank ordinary shares, over a period of 5 years. This payment structure ensures that bonuses are aligned to shareholders' interests and is subject to malus clauses (which apply in the event that specific profitability, liquidity and capital thresholds are not met at Group and/or FinecoBank level) and clawback clauses (to the extent they are legally applicable) in accordance with the plan rules (both vesting conditions other than market conditions).

Shares for employee incentive plans envisaging the allocation of FinecoBank shares will be issued through free capital increases in accordance with Article 2349 of the Italian Civil Code.
The financial instruments for incentive plans for the Bank's financial advisors involving the allocation of FinecoBank shares will be obtained through market purchases in implementation of the authorisation of the Bank Shareholders' Meeting pursuant to Article 2357 of the Italian Civil Code and of the Supervisory Authority.

23. Commensurate to the economic value of FinecoBank S.p.A.'s equity instruments.

It should also be noted that, in line with the provisions of amendment VII to the Circular 285 of the Bank of Italy of November 19, 2014 (Remuneration and bonus policies and practices), a specific policy ("Severance") was approved by the Shareholders' Meeting in 2017, updating the original document approved in 2015. When severance payments are made to Key Personnel, they may be subject to deferred payment mechanisms, in cash and shares, for the portion exceeding the indemnity in lieu of statutory notice and/or notice required under a collective agreement, similarly to the management of the variable compensation of this category of employees, in line with the regulations in force from time to time. As at December 31, 2017, no severance had been paid to Key Personnel.

## 1.2 Measurement model

### *1.2.1 Stock Options*

The Hull and White Evaluation Model has been adopted to measure the economic value of Stock Options.
This model is based on a trinomial tree price distribution using the Boyle's algorithm and estimates the early exercise probability on the basis of a deterministic model connected to:
- reaching a Market Share Value equal to an exercise price-multiple (M);
- probability of beneficiaries' early exit (E) after the end of the Vesting Period.

The income statement and balance sheet effects are recognised during the vesting period of the instruments.
No new Stock Option Plans were granted in 2017.

### *1.2.2 Group Executive Incentive System*

The amount of the incentive is determined on the basis of the achievement of quantitative and qualitative goals stated by the plan. In particular, the overall evaluation is expressed as a percentage, from a minimum of 0% to a maximum of 150% (non market vesting conditions). This percentage, adjusted by the application of a risk/opportunity factor - Group Gate - at first payment and multiplied by the incentive, determines the actual amount that will be paid to the beneficiary.
The balance-sheet and income statement effects are spread according to the term of the Plans.

#### *1.2.2.1 Group Executive Incentive System (Bonus Pool)*

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.
The plan is divided into clusters, each of which may include two to three deferred share-based payment instalments according to the period defined by the plan rules.
The profit and loss and net equity effects are recognised on the basis of the instruments' vesting period.

#### *1.2.2.2 Group Executive Incentive System 2016 (Bonus Pool)*

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.
The plan is divided into three deferred share-based payment instalments according to the period defined by the plan rules.

| | FINECOBANK SHARES GRANTED | | | |
|---|---|---|---|---|
| | GROUP EXECUTIVE INCENTIVE SYSTEM 2016 (BONUS POOL) | | | |
| | 2019 INSTALMENT | 2020 INSTALMENT | 2021 INSTALMENT | 2022 INSTALMENT |
| Bonus Opportunity Economic Value Grant Date | 12-Jan-16 | 12-Jan-16 | 12-Jan-16 | 12-Jan-16 |
| Number of Shares - Date of Board resolution | 07-Feb-17 | 07-Feb-17 | 07-Feb-17 | 07-Feb-17 |
| Vesting Period Start Date | 01-Jan-16 | 01-Jan-16 | 01-Jan-16 | 01-Jan-16 |
| Vesting Period End Date | 31-Dec-16 | 31-Dec-18 | 31-Dec-19 | 31-Dec-20 |
| FinecoBank Share Market Price [€] | 5.53 | 5.53 | 5.53 | 5.53 |
| Average Economic Value of Vesting conditions [€] | -0.539 | -0.819 | -1.116 | -1.692 |
| Performance Shares value per share at Grant Date [€] | 4.991 | 4.711 | 4.414 | 3.838 |

The plan was allocated in 2016 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

#### *1.2.2.3 Group Executive Incentive System 2017 (Bonus Pool)*

The new 2017 incentive system is based on a bonus pool approach, in line with regulatory requirements and market practices; this approach sets out:
- the system's sustainability, by linking it directly to business results and aligning it to relevant risk categories through specific indicators that reflect the risk appetite framework;
- the link between the bonus and the organisational structure, the bonus pool being defined at Bank level and further reviewed at Group level;
- the allocation of bonuses to beneficiaries identified as Executives and other key personnel on the basis of criteria laid down in the Regulation of the European Banking Authority (EBA), and to other specific roles, based on local regulatory requirements;

# Part I - Share-based payments (CONTINUED)

- a structure of payments spread over a period of up to 6 years and consisting of a mix of cash and shares, aligned with the latest regulatory requirements as set out in Directive 2013/36/EU (CRD IV).

The plan was assigned during the current year and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

### *1.2.3 Employee Share Ownership Plan (Let's Share Plan 2017)*

The following table shows the parameters used in relation to free shares (or rights to receive them) connected to the "Employee Share Ownership Plan" approved in 2016.

**Measurement of Free Shares ESOP 2017**

| | FREE SHARES |
|---|---|
| Grant Date for Free Shares to employees | 31-Jul-17 |
| Vesting Period Start Date | 31-Jul-17 |
| Vesting Period End Date | 31-Jul-18 |
| Free Shares Fair Value per unit [€] | 17.00 |

All income statement and balance sheet effects related to free shares are booked during the vesting period (except adjustments, according to Plan Rules, that will be booked during the next closing after vesting period).

Let's Share for 2017 is a involving the use of the shares to be procured on the market. To this end, Participants delegate a broker to purchase the shares to be deposited on an account opened in their name.

### *1.2.4 Stock granting for employees*

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.

### *1.2.4.1 2014 - 2017 Multi-year - Top management Plan*

The plan offers the allocation of free shares of FinecoBank to beneficiaries belonging to the Top Management with strategic responsibilities. The shares will be allocated to the respective beneficiaries, once the vesting period has elapsed and satisfaction of the conditions has been verified, in 4 annual tranches, starting in 2017.

| | SHARES GRANTED | | | |
|---|---|---|---|---|
| | TOP MANAGEMENT | | | |
| | FIRST INSTALMENT 2017 | SECOND INSTALMENT 2018 | THIRD INSTALMENT 2019 | FOURTH INSTALMENT 2020 |
| Bonus Opportunity Economic Value - (Grant Date) | 02-Jul-14 | 02-Jul-14 | 02-Jul-14 | 02-Jul-14 |
| Number of Shares - Date of Board resolution | 15-Jul-14 | 09-Feb-15 | 08-Feb-16 | 07-Feb-17 |
| Vesting Period Start Date | 02-Jul-14 | 02-Jul-14 | 02-Jul-14 | 02-Jul-14 |
| Vesting Period End Date | 31-Dec-16 | 31-Dec-17 | 31-Dec-18 | 31-Dec-19 |
| FinecoBank Share Market Price [€] | 3.700 | 4.725 | 6.966 | 5.53 |
| Average Economic Value of Vesting conditions [€] | -0.269 | -0.590 | -0.797 | -0.826 |
| Performance Shares value per share at Grant Date [€] | 3.431 | 4.135 | 6.169 | 4.704 |

The plan was allocated in 2014 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

### *1.2.5 Stock granting for PFAs*

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.

### *1.2.5.1 2014 PFA Plan*

The amount of the incentive was determined on the basis of the achievement of the goals stated by the plan, subject to the Bank's entire PFA network meeting their net sales targets in 2014.

The plan helps align the interests of beneficiaries, shareholders and other stakeholders and implement effective remuneration practices, in accordance with the applicable legislative and regulatory framework. The plan is subject to verification that the conditions established by the plan rules are satisfied. The plan was allocated in 2014 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

On July 9, 2015, the Board of Directors resolved to settle the PFAs rights to the first tranche of the bonus in cash, instead of the allocation of FinecoBank ordinary shares, with a payment in cash corresponding to a third of the bonus consideration, made on July, 2015.

*1.2.5.1 2015 - 2017 PFA Plan*

The amount of the incentive will be determined on the basis of the achievement of the goals stated by the plan, subject to the Bank's entire financial advisors network meeting their cumulative net sales targets for the three-year period 2015-2017.

The plan helps align the interests of beneficiaries, shareholders and other stakeholders and implement effective remuneration practices, in accordance with the applicable legislative and regulatory framework. The plan is subject to verification that the conditions established by the plan rules are satisfied.

The plan was allocated in 2014 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

### *1.2.6 Group Incentive System 2015 PFA*

The amount of the incentive is determined on the basis of the achievement of the goals stated by the plan.

The balance-sheet and income statement effects are spread across the term of the Plan.

The economic value of the phantom shares allocated corresponds to the market price of the FinecoBank shares.

The plan was allocated in 2015 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

### *1.2.7 2016 PFA Incentive System*

The 2016 incentive system is based on a bonus pool approach, in line with regulatory requirements and market practices; this approach sets out:

- the system's sustainability, by linking it directly to business results and aligning it to relevant risk categories through specific indicators that reflect the risk appetite framework;
- the link between the bonus and the organisational structure, the bonus pool being defined at Bank level and further reviewed at Group level;
- the allocation of bonuses to beneficiaries identified as key personnel based on criteria laid down in the Regulation of the European Banking Authority (EBA), and to other specific roles, based on local regulatory requirements;
- a structure of payments spread over a period of up to 5 years and consisting of a mix of cash and shares, aligned with the latest regulatory requirements as set out in Directive 2013/36/EU (CRD IV).

The plan was assigned during the previous financial year and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

| | SHARES GRANTED | | |
|---|---|---|---|
| | 2016 PFA INCENTIVE SYSTEM | | |
| | 2019 INSTALMENT | 2020 INSTALMENT | 2021 INSTALMENT |
| Bonus Opportunity Economic Value Grant Date | 12-Jan-16 | 12-Jan-16 | 12-Jan-16 |
| Number of Shares - Date of Board resolution | 07-Feb-17 | 07-Feb-17 | 07-Feb-17 |
| Vesting Period Start Date | 01-Jan-16 | 01-Jan-16 | 01-Jan-16 |
| Vesting Period End Date | 31-Dec-16 | 31-Dec-18 | 31-Dec-19 |
| FinecoBank Share Market Price [€] | 5.53 | 5.53 | 5.53 |
| Average Economic Value of Vesting conditions [€] | -0.539 | -0.819 | -1.116 |
| Performance Shares value per share at Grant Date [€] | 4.991 | 4.711 | 4.414 |

### *1.2.8 2017 PFA Incentive System*

The new 2017 incentive system is based on a bonus pool approach, in line with regulatory requirements and market practices; this approach sets out:

- the system's sustainability, by linking it directly to business results and aligning it to relevant risk categories through specific indicators that reflect the risk appetite framework;
- the link between the bonus and the organisational structure, the bonus pool being defined at Bank level and further reviewed at Group level;
- the allocation of bonuses to beneficiaries identified as key personnel based on criteria laid down in the Regulation of the European Banking Authority (EBA), and to other specific roles, based on local regulatory requirements;
- a structure of payments spread over a period of up to 5 years and consisting of a mix of cash and shares, aligned with the latest regulatory requirements as set out in Directive 2013/36/EU (CRD IV).

The plan was assigned during the current year and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

# Part I - Share-based payments (CONTINUED)

## B. QUANTITATIVE INFORMATION

*1. Annual changes*

| ITEMS/NUMBER OF OPTIONS AND EXERCISE PRICE | 12.31.2017 NUMBER OF OPTIONS | 12.31.2017 AVERAGE EXERCISE PRICE | 12.31.2017 AVERAGE MATURITY | 12.31.2016 NUMBER OF OPTIONS | 12.31.2016 AVERAGE EXERCISE PRICE | 12.31.2016 AVERAGE MATURITY |
|---|---|---|---|---|---|---|
| **A. Opening balance** | **2,937,685** | **-** | **nov-17** | **3,346,584** | **-** | **mar-17** |
| B. Increases | 632,553 | - | X | 591,083 | - | X |
| B.1 New issues | 632,553 | - | jan-20 | 591,083 | - | jan-19 |
| B.2 Other increases | - | - | X | - | - | X |
| **C. Decreases** | **(1,598,253)** | **-** | **X** | **(999,982)** | **-** | **X** |
| C.1 Cancelled | (4,897) | - | X | (15,770) | - | X |
| C.2 Exercised | (1,593,356) | - | X | (984,212) | - | X |
| C.3 Expired | - | - | X | - | - | X |
| C.4 Other changes | - | - | X | - | - | X |
| **D. Closing balance** | **1,971,985** | **-** | **jan-19** | **2,937,685** | **-** | **nov-17** |
| **E. Vesting options at the end of the period** | **718,153** | **-** | **X** | **907,909** | **-** | **X** |

The number of shares specified in the above table only refers to plans for which the number of shares allotted to individual beneficiaries has already been defined. The average prices for the year have not been stated because only freely allocated shares were involved.

## 2. Other information

### Effects on Profit and Loss

The income statement and balance-sheet effects of the incentive systems based on FinecoBank and UniCredit shares are shown below, except for the balance of the reserve related to equity-settled plans.
The income statement impact is determined each year based on the vesting period of the instruments.

**Financial statement presentation related to payments based on shares of FinecoBank and of the Parent Company UniCredit** (Amounts in € thousand)

| | 12.31.2017 TOTAL | 12.31.2017 VESTED PLANS | 12.31.2016 TOTAL | 12.31.2016 VESTED PLANS |
|---|---|---|---|---|
| Costs | 8,275 | | 10,573 | |
| *- connected to Equity Settled Plans* | *8,109* | | *10,623* | |
| *- connected to Cash Settled Plans* | *166* | | *(50)* | |
| Sums paid to UniCredit S.p.A. for vested plans | | 231 | | 1,653 |
| Payable due to UniCredit S.p.A. | 573 | | 757 | |
| Payable due to personal financial advisors for Cash Settled plans | 365 | | 199 | |

Please note that the charges relating to Equity Settled Plans were recognised as Administrative costs - Staff expenses with respect to the plans granted to employees and as Administrative costs or Fee and commission expense with regard to plans granted to personal financial advisors. Charges relating to Cash Settled Plans granted to financial advisors have been recognised as Fee and commission expense.

# Part L - Segment reporting

Segment reporting information is not provided as the Bank's particular business model provides for a high level of integration among its different activities. The Bank offers its services (banking and investment services) through a network of personal financial advisors and online and mobile channels, that operate in a coordinated and integrated manner. The fully-comprehensive nature of the services offered allows the Bank to act as a one-stop solution for customers' banking and investment requirements.
This strategy, which is strongly anchored to the customer, means that revenues and margins relative to various products/services (investing, banking and brokerage) are highly interdependent on each other.
This integration approach has also inspired top management in setting company targets and identifying the means to achieve them.
As regards information on revenues from customers by product/service, in view of the above, reference should be made to information in Part C - Information on the income statement of these notes to the accounts.
FinecoBank mainly targets retail customers in Italy, as the impact of operations in the UK is still immaterial; information concerning geographic segments and the degree of dependency on main customers is therefore considered by top management as not being of material importance for information purposes, and is not therefore disclosed.

# Annexes

# Attachment 1 - Reconciliation of condensed accounts to mandatory reporting schedule

(Amounts in € thousand)

| ASSETS | AMOUNTS AS AT 12.31.2017 | 12.31.2016 |
|---|---|---|
| Cash and cash balances = *item 10* | 613 | 5 |
| Financial assets held for trading = *item 20* | 10,879 | 6,044 |
| Loans and receivables with banks = *item 60* | 13,877,651 | 15,735,540 |
| Loans and receivables with customers = *item 70* | 2,129,219 | 1,016,798 |
| Financial investments flow | 5,874,579 | 3,757,529 |
| *40. Available-for-sale financial assets* | *1,047,689* | *1,319,752* |
| *50. Held to Maturity Investments* | *4,826,390* | *2,437,777* |
| *100. Equity investments* | *500* | - |
| Hedging instruments | 10,048 | 9,211 |
| *80. Hedging derivatives* | *458* | *552* |
| *90. Changes in fair value of portfolio hedged financial assets* | *9,590* | *8,659* |
| Property, plant and equipment = *item 110* | 15,205 | 14,451 |
| Goodwill = *item 120. Intangible assets of which: goodwill* | 89,602 | 89,602 |
| Other intangible assets = *item 120 net of goodwill* | 7,909 | 7,731 |
| Tax assets = *item 130* | 9,226 | 13,165 |
| Other assets = *item 150* | 315,460 | 336,300 |
| **Total assets** | **22,340,391** | **20,986,376** |

(Amounts in € thousand)

| LIABILITIES AND SHAREHOLDERS' EQUITY | AMOUNTS AS AT 12.31.2017 | 12.31.2016 |
|---|---|---|
| Deposits from banks = *item 10* | 926,001 | 1,111,106 |
| Deposits from customers | 20,205,036 | 18,801,073 |
| *20. Deposits from customers* | *20,205,036* | *18,801,073* |
| Financial liabilities held for trading = *item 40* | 2,617 | 2,626 |
| Hedging instruments | 8,922 | 11,371 |
| *60. Hedging derivatives* | *12,694* | *10,914* |
| *70. Changes in fair value of portfolio hedged financial assets* | *(3,772)* | *457* |
| Provisions for risks and charges = *item 120* | 112,414 | 111,756 |
| Tax liabilities = *item 80* | 10,234 | 10,048 |
| Other liabilities | 343,177 | 257,097 |
| *100. Other liabilities* | *338,178* | *251,844* |
| *110. Provisions for employee severance pay* | *4,999* | *5,253* |
| Shareholders' Equity | 731,990 | 681,299 |
| - capital and reserves | 526,046 | 476,249 |
| *160. Reserves* | *323,932* | *278,407* |
| *170. Share premium reserve* | *1,934* | *1,934* |
| *180. Share capital* | *200,545* | *200,246* |
| *190. Treasury Shares* | *(365)* | *(4,338)* |
| - revaluation reserves | (8,340) | (6,794) |
| *130. Revaluation reserves of which: Available-for-sale financial assets* | *1,472* | *(455)* |
| *130. Revaluation reserves for actuarial net gains (losses) for defined benefit plans* | *(9,812)* | *(6,339)* |
| - net profit = *item 200* | 214,284 | 211,844 |
| **Total liabilities and shareholders' equity** | **22,340,391** | **20,986,376** |

(Amounts in € thousand)

| INCOME STATEMENT | YEAR 2017 | YEAR 2016 |
|---|---|---|
| Net interest | 264,581 | 249,388 |
| *30. Net interest margin* | *264,581* | *249,388* |
| Dividends and other income from equity investments | 29 | 6 |
| *70. Dividend income and similar revenue* | *54* | *19* |
| *less: dividends from held-for-trading equity instruments included in item 70* | *(26)* | *(13)* |
| Net fee and commission income = *item 60* | 270,083 | 242,881 |
| *60. Net fee and commission income* | *270,083* | *242,881* |
| Net trading, hedging and fair value income | 48,219 | 69,054 |
| *80. Gains (losses) on financial assets and liabilities held for trading* | *47,413* | *48,590* |
| *+ dividends from held-for-trading equity instruments (from item 70)* | *26* | *13* |
| *90. Fair value adjustments in hedge accounting* | *19* | *69* |
| *100. Gains (losses) on disposal or repurchase of: b) available-for-sale financial assets* | *761* | *20,382* |
| Net other expenses/income | 3,806 | (2,211) |
| *190. Other operating expenses/income* | *90,351* | *79,458* |
| *less: other operating income - of which: recovery of expenses* | *(93,369)* | *(85,395)* |
| *less: adjustments of leasehold improvements* | *2,873* | *3,726* |
| *100. Gains (losses) on disposal or repurchase of: a) loans and receivables* | *3,951* | - |
| **OPERATING INCOME** | **586,718** | **559,118** |
| Payroll costs | (79,260) | (73,698) |
| *150. Administrative expenses - a) payroll costs* | *(78,852)* | *(79,201)* |
| *less: integration costs* | *(408)* | *5,503* |
| Other administrative expenses | (236,839) | (228,119) |
| *150. Administrative expenses- b) other administrative expenses* | *(244,532)* | *(235,007)* |
| *+ adjustments of leasehold improvements* | *(2,873)* | *(3,726)* |
| *- ex-ante contributions to the Single Resolution Fund (SRF) Deposit Guarantee Systems (DGS)* | *10,566* | *10,614* |
| Recovery of expenses | 93,369 | 85,395 |
| *190. Other operating expenses/income - of which: recovery of expenses* | *93,369* | *85,395* |
| Impairment/write-backs on intangible and tangible assets | (10,369) | (9,952) |
| *170. Impairment/write-backs on property, plant and equipment* | *(5,569)* | *(4,853)* |
| *180. Impairment/write-backs on intangible assets* | *(4,800)* | *(5,099)* |
| **Operating costs** | **(233,099)** | **(226,374)** |
| **OPERATING PROFIT (LOSS)** | **353,619** | **332,744** |
| Net impairment losses on loans and provisions for guaranteed and commitments | (5,151) | (4,199) |
| *130. Impairment losses/writebacks on: a) loans and receivables* | *(5,158)* | *(4,206)* |
| *130. Impairment losses/writebacks on: d) other financial assets* | *7* | *1,423* |
| *less: net value adjustments for the impairment of other financial assets - contribution to the Interbank Fund for the Protection of Deposits* | - | *(1,416)* |
| **NET OPERATING PROFIT (LOSS)** | **348,468** | **328,545** |
| Provisions for risks and charges | (19,025) | (9,981) |
| *160. Net provisions for risks and charges* | *(8,459)* | *(783)* |
| *+ ex-ante contributions to the Single Resolution Fund (SRF) Deposit Guarantee Systems (DGS)* | *(10,566)* | *(10,614)* |
| *+ net value adjustments for the impairment of other financial assets - contribution to the National Interbank Deposit Guarantee Fund* | - | *1,416* |
| Integration costs | 408 | (5,503) |
| Net income from investments | (13,399) | (6,724) |
| *130. Impairment losses/writebacks on: b) available-for-sale financial assets* | *(12,891)* | *(6,724)* |
| *240. Gains (losses) on disposal of investments* | *(508)* | - |
| **PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | **316,452** | **306,337** |
| Income tax for the period | (102,168) | (94,493) |
| *260. Income tax for the period* | *(102,168)* | *(94,493)* |
| **PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | **214,284** | **211,844** |
| **PROFIT (LOSS) FOR THE YEAR** | **214,284** | **211,844** |

# The Certification of the Annual Financial Statements pursuant to Article 81-ter of Consob Regulation no. 11971 of May 14, 1999 and subsequent amendments

# The Certification of the Annual Financial Statements pursuant to Article 81-ter of Consob Regulation no. 11971 of May 14, 1999 and subsequent amendments

1. The undersigned, Alessandro Foti, as Managing Director and General Manager of FinecoBank S.p.A., and Lorena Pelliciari, as Nominated Official in charge of drawing up company accounts of FinecoBank S.p.A, taking into account the provisions of Article 154-bis, par. 3 and 4 of Legislative Decree 58 of February 24, 1998, do hereby certify:

- the adequacy in relation to the Company's features and
- the actual application

of the administrative and accounting procedures used in the preparation of the financial statements for the year ended December 31, 2017.

2. The adequacy of the administrative and accounting procedures employed to draw up the financial statements for the year has been evaluated by applying a model defined by the UniCredit Group, in accordance with the "Internal Control - Integrated Framework (CoSO)" and the "Control Objective for IT and Related Technologies (Cobit)", which are international commonly accepted standards for the internal control system and for financial reporting.

3. The undersigned also certify that:

3.1 The Annual Report and Accounts:

a) were prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation 1606/2002 of July 19, 2002;

b) correspond to the results of the books and accounting records;

c) are suitable to provide an accurate representation of the financial position and performance of the issuer;

3.2. The Report on operations contains a reliable operating and financial review of the issuer, as well as the description of its exposure to the main risks and uncertainties.

Milan, February 6, 2018

FinecoBank S.p.A.
The Chief Executive Officer and
General Manager
Alessandro Foti

FinecoBank S.p.A.
The Manager Responsible for Preparing
the Company's Financial Reports
Lorena Pelliciari

# Report of the External Auditors

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# INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

**To the Shareholders of**
**FinecoBank Banca Fineco S.p.A.**

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the financial statements of FinecoBank Banca Fineco S.p.A. (the "Bank"), which comprise the balance sheet as at December 31, 2017, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and the related explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of FinecoBank Banca Fineco S.p.A. as at December 31, 2017 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and to art. 43 of Italian Legislative Decree no. 136/15.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matters – *Estimate of provisions for risks and charges related to legal disputes* | Audit procedures in response to the key audit matters |
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| Item 120 "Provisions for risks and charges" of the balance sheet - liabilities of the financial statements as at December 31, 2017 includes provisions for legal disputes amounting to Euro 31 million related to complaints and disputes for damage to customers arising from the unlawful behavior of the Bank's personal financial advisors, pending disputes with personal financial advisors and other ongoing court and out-of-court litigations with customers in relation to the normal banking activity. In addition to the court costs to be borne by the Bank in the event of an adverse conclusion of the dispute, these provisions include an estimate of the expenses to be paid to lawyers, technical advisors and/or experts who assist the Bank in the disputes, to the extent that it is believed that they will not be reimbursed by the counterparties.<br><br>In Part E – *Information on Risks and Hedging Policies* - Section 4 – *Operational Risks,* paragraph "Risks arising from significant legal disputes" of the explanatory notes, the Directors point out that, in relation to the pending legal proceedings against the Bank, which are individually irrelevant, there is considerable uncertainty about the possible outcome and the extent of the possible charge that the Bank could incur; where it is possible to reliably estimate the amount of charges and the charges themselves are considered probable, provisions have been made to the extent deemed appropriate given the specific circumstances and in accordance with the international accounting standards, making the best possible estimate of the amount that reasonably the Bank will have to pay to settle its obligations. With reference to the legal expenses, the estimate was determined by the Bank, in relation to the current disputes, based on the analysis of the historical trend of legal expenses incurred, by type of litigation and degree of judgment.<br><br>Paragraph "Risks and uncertainties related to the use of estimates" of Part A – *Accounting Policies*, A. 1 – *General*, Section 4 – *Other matters* of the explanatory notes, contains information on the subjectivity and complexity of the estimation process adopted to support the carrying amount of | Our audit procedures included, among others, the following:<br><br>• analysis and understanding of the relevant controls implemented by the Bank, at the various levels of its organization, in order to identify, manage and monitor complaints from customers and legal disputes with them arising from the banking operations and the activity of the Bank's personal financial advisors;<br><br>• analysis and understanding of the process adopted by the Management – criteria, methods and assumptions – in estimating provisions, including provisions for the expected future costs related to the activity of lawyers appointed by the Bank;<br><br>• periodic meetings with the heads of the Bank's legal department for analysis and discussion of the status of litigations and complaints;<br><br>• analysis of the relevant documentation, including the register of complaints and reports prepared by control functions of the Bank;<br><br>• obtaining and examining responses to requests for information to the lawyers appointed by the Bank;<br><br>• verification, for a selection of disputes and complaints and on the basis of the data and information available gathered as a result of the above procedures, of the appropriateness of the related provision;<br><br>• verification of the appropriateness of the provision for legal expenses through the analysis of the reasonableness and appropriateness of the criteria, assumptions and parameters adopted, as well as the verification of the accuracy and completeness of the data used for the estimates.<br><br>Lastly, we verified the adequacy and compliance of the disclosures provided in the explanatory notes with respect to the requirements of the relevant accounting standards. |

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| some items subject to evaluation. For some of them, including provisions for risks and charges, the complexity and the subjectivity of the estimates are affected by the articulation of the assumptions, the number and variability of the information available and the uncertainties regarding the final future outcomes of proceedings and disputes.<br><br>Given the number of complaints and disputes, albeit physiological with respect to the Bank's typical operations, the uncertainties related to their outcome and the complexity and articulation of the estimation process, we considered the estimate of provisions for risks and charges for legal disputes as a key audit matter of the financial statements of FinecoBank Banca Fineco S.p.A. as at December 31, 2017. | |
| **Key audit matters – *Disbursement, classification and evaluation of loans to customers*** | **Audit procedures in response to the key audit matters** |
| As represented in the explanatory notes, Part B – *Balance Sheet* and in the report on operations, as at December 31, 2017 loans to customers of FinecoBank Banca Fineco S.p.A. amount to Euro 2,129 million (net book value, including Euro 24.3 million of non-performing loans net of impairment losses of Euro 21.5 million).<br><br>As part of this item, the loans portfolio with ordinary customers, consisting mainly of personal loans, mortgages, current accounts and credit cards, shows an overall increase of 121.1% compared to the previous year, also in relation to the disbursement, in 2017, of Euro 521 million of mortgages.<br>During the year ended December 31, 2017, credit activity has been characterized by the expansion of the offer of credit products, especially through the offer of mortgage loans, a business launched by the Bank at the end of 2016. The disbursement mainly concerned loans for the purchase of first and second home (including subrogation), as well as *home-secured* loans and, on a residual basis, mortgages on non-residential properties.<br><br>Part A – *Accounting Policies* of the explanatory notes includes the description of the processes for the classification and evaluation of credit exposures for which the Bank refers to the sector regulations, supplemented by the internal | We have preliminarily acquired a knowledge of the credit process which included, in particular, the understanding of the organizational and procedural safeguards established by the Bank's internal regulations and implemented by the Bank itself with reference to:<br>• assessment of creditworthiness in order to grant the credit;<br>• measurement and monitoring of credit quality;<br>• classification and evaluation of credit exposures in compliance with the sector regulations and in accordance with applicable accounting standards.<br><br>This activity included the verification of the implementation of the corresponding Bank processes and related procedures, as well as the operational effectiveness of the relevant controls regarding the credit grant and disbursement process.<br><br>The audit procedures performed included, among others, the following:<br><br>• analysis and understanding of the IT systems and applications used, also with the support of IT experts belonging to our network;<br><br>• obtaining and examining responses to requests of confirmations to the customers; |

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| provisions governing the classification and transfer rules within the various risk categories and evaluation methods. Part E - *Information on Risks and Hedging Policies* also illustrates the credit risk management policies.<br><br>Considering the significance of the amount of loans to customers recorded in the financial statements, the complexity of systems of measurement, management and control of credit risk adopted by the Bank, both in the grant phase and subsequently, which involve an articulated classification activity of credit exposures and an evaluation process characterized by a relevant discretionary component, we have considered loans to customers, with particular reference to the mortgages due to their significant increase during the year, as a key audit matter of the financial statements of FinecoBank Banca Fineco S.p.A. as at December 31, 2017. | • obtaining and analysis of the monitoring reports prepared by competent Bank departments and organizational units involved;<br><br>• as regard performing loans, verification, on a sample basis, of the classification in accordance with the sector regulations and examination of the reasonableness of the evaluation criteria and of the assumptions adopted by the Bank in determining the impairment losses for each class of credit;<br><br>• as regard non-performing loans, verification on a sample basis of the classification and of the related evaluation in compliance with the sector regulations and the applicable accounting standards.<br><br>Lastly, we verified the adequacy and compliance of the disclosures provided in the explanatory notes with respect to the requirements of the applicable accounting standards and the relevant legislation. |

**Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements**

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and to art. 43 of Italian Legislative Decree no. 136/15 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Bank or the termination of the business or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Bank’s financial reporting process.

**Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report.

**Other information communicated pursuant to art. 10 of the EU Regulation 537/2014**

The Shareholders' Meeting of FinecoBank Banca Fineco S.p.A. has appointed us on April 16, 2013 as auditors of the Bank for the years from December 31, 2013 to December 31, 2021.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of FinecoBank Banca Fineco S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of the Bank as at December 31, 2017, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, paragraph 4 of Legislative Decree 58/98 with the financial statements of FinecoBank Banca Fineco S.p.A. as at December 31, 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and ownership structure are consistent with the financial statements of FinecoBank Banca Fineco S.p.A. as at December 31, 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the company and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

*Signed by*
**Paolo Gibello Ribatto**
Partner

Milan, Italy
March 15, 2018

*This report has been translated into the English language solely for the convenience of international readers.*

# Report of the Board of Statutory Auditors

# Report of the Board of Statutory Auditors

Dear Shareholders,
pursuant to Art. 2429, paragraph 2, of Italian Civil Code and Art. 153 of Italian Legislative Decree no. 58 of February 24, 1998 (TUF), the Board of Statutory Auditors (the "Board") of FinecoBank S.p.A. ("Finecobank" or the "Bank") reports on the supervisory activity carried out during the year ended December 31, 2017.
During 2017, the Board of Statutory Auditors performed its institutional duties in compliance with the Italian Civil Code, Italian Legislative Decree no. 385/1993 (TUB), no. 58/1998 (TUF) and no. 39/2010 (Consolidated Law on Auditing), with the company Bylaws and the rules issued by the Bodies that exercise supervisory and control activities, also taking into consideration the Rules of Conduct of the Board of Statutory Auditors issued by the National Board of Accountants and Accounting Experts.
Also in compliance with the indications expressed by CONSOB, provided with communication no. DEM/ 1025564 of April 6, 2001, we specify the following.

*Administrative Body - Appointment, term of office and operation*
The Board of Directors in office at the date of this Report was appointed by the Ordinary Shareholders' Meeting of FinecoBank on April 11, 2017 and shall remain in office until the next Shareholders' Meeting held to approve the Financial Statements at December 31, 2019.
On December 15, 2017 (regarding non-executive Directors) and January 3, 2018 (regarding the Chairman and the Chief Executive Officer), the Bank received the decision of the European Central Bank on the suitability of the members of the administrative body.
It should be noted that, pursuant to the applicable regulations and the Corporate Governance Code of listed companies, on February 6, 2018 the Board of Directors, with the favorable opinion of the Appointments and Sustainability Committee, carried out the annual assessment on the independence requirements applicable to the majority of Directors, with the findings listed in the Report on Corporate Governance and Ownership Structures, as well as on ongoing compliance with the requirements of integrity, professionalism and the ban on interlocking. The Board of Statutory Auditors verified the correct implementation of the criteria and procedures used by the Board of Directors to assess the independence of its members.

*Board of Statutory Auditors - Appointment, term of office and operation*
The Board of Statutory Auditors in office at the date of this Report was appointed by the FinecoBank Shareholders' Meeting of April 11, 2017 and will remain in office until the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2019.
On September 4, 2017, Mr Stefano Fiorini resigned from the position of Chairman of the Board of Statutory Auditors and, pursuant to the law and the company Bylaws, the Alternate Auditor Mrs Elena Spagnol took office on the same date as Statutory Auditor and Chairman of the Board of Statutory Auditors, up to the present Shareholders' Meeting called to approve the financial statements at December 31, 2017. The Shareholders' Meeting is therefore invited to proceed with completing the composition of the Board of Statutory Auditors by appointing a Statutory Auditor who will lapse together with the members of the Board in office and, where necessary, a new Alternate Auditor.

Lastly, at the meeting held on January 30, 2018, the Board of Statutory Auditors assessed the independence of its members, in addition to meeting legal and statutory requirements and the absence of impediments pursuant to article 36 of Italian Legislative Decree no. 201/2011.

In compliance with the requirements of the Supervisory Bodies, in particular of Circular 285/2013 of the Bank of Italy and the Regulation of the Corporate Bodies of the Bank, the Board of Statutory Auditors carried out a self-assessment on its composition and operation.

During the year, the Board met thirty times and took part in one Shareholder's Meeting, fourteen meetings of the Board of Directors and twelve meetings of the Risk and Related Party Committee. Furthermore, at least one Statutory Auditor participated in the eleven meetings of the Remuneration Committee and eight meetings of the Appointments and Sustainability Committee.

*The Company's compliance with the Corporate Governance Code and its actual implementation*
FinecoBank complies with the Corporate Governance Code for listed companies ("Code") and, as required by the Code, within the Board of Directors, the Appointments and Sustainability Committee, the Remuneration Committee and the Risk and Related Party Committee perform advisory, consultative and coordination functions. The Committees consist of independent non-executive Directors. The Appointments Committee was also assigned the supervisory functions on sustainability issues with the Board of Directors' resolution of March 1, 2018.
The Board of Statutory Auditors ascertained the correct implementation of corporate governance regulations laid down in the aforementioned Corporate Governance Code.

*Parent Company's direction and coordination activity.*
As part of the UniCredit Group, FinecoBank S.p.A. is subject to the discipline for banking groups enshrined in the TUB and in the supervisory provisions for Banks aimed at ensuring the stability and unitarity of companies belonging to the same banking Group. In this context, UniCredit S.p.A. performs a direction and coordination activity on FinecoBank S.p.A. pursuant to Articles 2497 et seq. of the Italian Civil Code.

*Compliance with the Law and company Bylaws - Sound governance principles*
The Board of Statutory Auditors monitored compliance with the Law, the company Bylaws and sound governance principles both when performing its activity, including participating in meetings of the Board of Directors, the Statutory Audit Committee, and during meetings with the Management and the Heads of the Bank's various Departments and Functions.

Participation in the meetings of the Board of Directors allowed the Statutory auditors to obtain periodically information on the performed activities and the most significant economic, equity and financial transactions resolved during the year. On the basis of the information available, the Board can reasonably state that the transactions themselves are compliant with the law and the company Bylaws and are not manifestly imprudent, risky or such as to compromise the integrity of the corporate assets.

Among the significant events of the year, as shown in the Management Report, the Board notes the resolution of the Board of Directors of July 4, 2017 concerning the establishment of a new investment company incorporated under Irish law (Asset Management Company), dedicated to savings management, wholly owned by the Bank. The company is expected to start up during the current financial year 2018.
Furthermore, on January 23, 2018, in order to strengthen the Bank's capital structure in response to the diversification of its investment portfolio (in particular, increased purchases of government securities and development of financing products and loans to customers), the Board of Directors approved the issuance of an Additional Tier 1 bond loan, perpetual and non-callable until June 2023, for an amount of € 200 million, fully subscribed, through private placement, by UniCredit S.p.A. The coupon for the first 5.5 years was set at 4.82%.

Participating in the Board of Directors' Meetings enabled the Board to ascertain, inter alia, that the delegated parties reported on transactions executed based on the powers granted to them, pursuant to Article 150, paragraph 1, of the TUF.
In our opinion, the frequency of the meetings of the Board of Directors, the information provided during them and the information flows in general comply with legal and statutory obligations and with the applicable regulations.
The Board of Statutory Auditors verified compliance with information obligations for regulated and privileged information, or information requested by the Supervisory Body.
During meetings of the Board of Directors, the Statutory Auditors examined the quarterly reports of the Bank's Control Functions and those drafted by the Financial Reporting Manager, ascertaining compliance with the reports and information set forth by supervisory regulations.
On March 1, 2017, the Board of Directors of FinecoBank approved the 2017 Report on Corporate Governance and Ownership Structures pursuant to Article 123-bis of the TUF.

### *Atypical and/or unusual transactions*
The Management Report, the information received during Board of Directors' Meetings and those provided by the Chairman and the Chief Executive Officer, the Management and the External Auditor did not reveal the existence of atypical and/or unusual transactions, including intragroup or related party transactions.

### *Intragroup or related party transactions - Transactions approved pursuant to Article 136 of the TUB*
The intragroup or related party transactions of greatest economic, equity and financial significance are highlighted in the Management Report and in the appropriate section of the Explanatory Notes with the indication of the assets, liabilities, guarantees and commitments outstanding as of December 31, 2017, divided by the various types of related parties pursuant to IAS 24.
During the year, the Board always participated in the meetings of the Risk and Related Party Committee, which met to provide preliminary and motivated opinions on the Bank's interest in carrying out transactions with related parties and with connected persons in compliance with the "Procedures for managing transactions with persons in conflict of interest". The current version of these procedures was approved by the Board of Directors at the meeting held on June 6, 2017, with the prior favorable opinions of the Risk and Related Party Committee and of the Board of Statutory Auditors. The aforementioned Procedures include the provisions to be complied with when managing: (i) transactions with related parties pursuant to the CONSOB Regulation adopted by resolution no. 17221 of March 12, 2010; (ii) transactions with related parties pursuant to the regulations on "Activities at risk and with conflicts of interest with connected persons", as dictated by the new regulations for the prudential supervision of banks; (iii) the obligations of bank representatives pursuant to Art. 136 of the TUB.

The Board of Statutory Auditors supervised the compliance with the procedural rules adopted by the Bank and compliance with the provisions on transparency and information to the public and verified that the Board of Directors provided adequate information on transactions with related parties on the basis of current regulations in the Management Report and in the Notes to the Financial Statements.
With respect to detailed information about individual intragroup and related party transactions - most significant, ordinary and market price transactions - see the relevant sections of the Management Report and the Notes to the Financial Statements.

### *Comments on the adequacy of the organizational structure*
The Board of Statutory Auditors monitored the adequacy of the organizational structure and its correct operation over the course of various meetings with the Management and the Heads of different Departments and functions; this activity did not reveal any significant organizational deficiencies.
Specifically, during 2017 the Board monitored corporate organization improvement measures and noted the changes - duly approved by the Board of Directors subject to prior opinion, where required, by the Appointments and Sustainability Committee and submitted, where required, to the assessment of the relevant Parent Company's function - made to the structures of the Headquarters and Network structures, to the Organizational Chart, with a clear identification of functions, duties and responsibilities, and to the Bank's Internal Regulations.
The Bank's Internal Regulations, whose most up-to-date version was approved by the Board of Directors on March 1, 2018, describe the organizational model and the structure it consists of (bodies, departments, teams). In addition to the Board committees, the following managerial committees are set up as corporate bodies aimed at ensuring unitary and participatory guidelines and guaranteeing management continuity:
- Strategic Committee
- Management Committee
- Advisory Committee
- Internal Control Business Committee
- Business Continuity & Crisis Management Committee
- Project Committee
- Risk Committee

# Report of the External Auditors (Continued)

- Network Committee
- Product Committee
- Disciplinary Committee
- Private Banking Committee
- Treasury Committee
- ICT Committee.

The Board noted the ongoing transposition and the degree of implementation of the Guidelines issued by the Parent Company - to whose direction and coordination activity the Bank is subject - and the subsequent organizational changes implemented by the Bank.

The Board acknowledges the continuous updating and implementation, in line with the current provisions of the Bank of Italy Circular no. 285 and with the Global Rules issued by the Parent Company, of the Bank's Business Continuity Plan and of the actual execution, with an overall positive result, of the Business Continuity and Disaster Recovery testing scheduled annually.

In compliance with applicable law and the Policies on "Outsourcing/Internalizations", the Statutory Auditors note that the Internal Audit function has prepared the report required by the supervisory provisions concerning the controls carried out on the outsourced important operating functions or control functions and any deficiencies detected. Said document "Outsourcing of corporate functions - Annual report of the Internal Audit function", assisted by the considerations of the Board of Statutory Auditors, was approved by the Board of Directors on March 1, 2018.

Based on the analyzed documentation and the information gathered when performing its monitoring activities, given the presence of an Organizational Chart and related Company Regulations that detail roles and responsibilities of the organizational structures, having verified the correct implementation of the system of delegated powers issued by the Board of Directors as well as the definition, implementation and monitoring of specific company regulations aimed at performing the activities typical of each function of FinecoBank S.p.A., the Board of Statutory Auditors deems the Bank's organizational structure as overall adequate.

*Comments on the adequacy of the Internal Control system*

In implementing the provisions of Circular no. 285, the Bank has adopted the "Document of the Bodies and Functions with Control duties", which defines the Bank's Internal Control System with the analytical identification of the duties and responsibilities of the corporate Bodies and of the control functions.

FinecoBank's Internal Control System is based on the principles of the Corporate Governance Code for Listed Companies, applicable sector regulations and best practices.

The Bank has established permanent and independent corporate control functions: i) Compliance; ii) Risk Management); iii) Internal Audit.

The Chief Executive Officer and General Manager was appointed as the Director in charge of the Internal Control and Risk Management System in compliance with the provisions of the Corporate Governance Code of Borsa Italiana. On February 6, 2018, the "2017 Statement on ICS Managerial Assessment" was submitted to the Board of Directors, in which the Bank's CEO stated that in light of the completed analyses, FinecoBank's Internal Control System were "Mostly Satisfactory", identifying some areas for improvement at the same time, for which suitable corrective actions have been defined and initiated.

With respect to the Personal Financial Advisers Network, the "Risk Management" organizational structure also coordinates the activity of the "Operational and reputational risks" team, which carries out systematic remote checks on the entire network of Personal Financial Advisers using Risk Indicators, submitting specific reports. Moreover, in order to manage and prevent its own Personal Financial Advisers (PFAs) from adopting conducts that are not compliant with the regulations, FinecoBank has adopted a number of first- and second-tier checks by several internal functions and an information flow that, for the purpose of the immediate implementation of any actions deemed necessary for PFAs, gathers all information on a centralized basis and forwards it to the Network Control, Monitoring and Network Service Department on behalf of Risk Management, Compliance, the Anti-Money Laundering and Anti-Terrorism Service, the Information Security and Fraud Management team, other Bank functions and Internal Audit. Every six months, in compliance with the requirements of the New Regulations for the Prudential Supervision of Banks, the Network Controls Unit - operating within the Network Control, Monitoring and Network Service Department - submits to the Audit and Related Party Committee and the Board of Directors a specific Report on the activity of Financial Advisers that details, on the basis of specific anomaly indicators, the audits performed, their findings, any critical issues and the actions aimed at eliminating them.

The Internal Audit activity for FinecoBank is outsourced to resources of the Internal Audit Department of UniCredit S.p.A. on the basis of a specific service agreement and in compliance with the terms and conditions of the relevant "Group Audit Mandate" adopted by FinecoBank's Board of Directors. The Bank's Internal Audit Manager, Mrs Patrizia Verdesca, was appointed by the Board of Directors on March 7, 2017, effective from March 13, 2017 (following the opinion of the then Remuneration and Appointments Committee and the then Audit and Related Party Committee and having heard the Board of Statutory Auditors).

We have found that the quarterly Internal Audit Activity and Results Reports prepared by Internal Audit to assess the Internal Control System - containing sections dedicated to the findings of the Audit activity on the Personal Financial Advisers Network and the Audit Findings, including their composition over time - were duly submitted to the Risk and Related Party Committee and the Board of Directors and discussed within those bodies.

In December 2017, the Board of Directors approved, with the favorable opinion of the Risk and Related Party Committee, the 2018 Annual Audit Plan and the 2018-2022 Strategic Audit Plan.

During its activity, the Board ascertained the compliance with the previously defined Audit plan concerning central structures and processes as well as the Network structures, checking the actual timelines of implementation and the causes of any variances.

The 2017 Audit Plan, which concerned 12 audits planned on the processes, has been duly completed. All the completed audits were rated as "satisfactory", with one "good". The verification plan for the network of financial advisers was also completed, with the issuance of 420 audit reports in 2017.
Overall, the internal control system was rated "mostly satisfactory" by the internal audit function.
The Board also took note of the "Report on the internal auditing of FinecoBank pursuant to Article 14 of the CONSOB - Bank of Italy Joint Regulation, pursuant to CONSOB Resolution no. 17297 of April 28, 2010", drawn up by Internal Audit on the basis of its activity carried out in 2017, presented first to the Risk and Related Party Committee and subsequently to the Board of Directors in the meeting of March 1, 2018. The analyses carried out have, among other things, highlighted the compliance with the MIFID regulations of the placement/consultancy processes of the financial products and instruments offered by the Bank. The aforementioned report highlights some areas for improvement and indicates, in this respect, any measure deemed appropriate. In response to this Report pursuant to Art. 14 of the Joint Regulation, the Board of Statutory Auditors will formulate its Considerations to CONSOB within the set deadlines.
The Board of Statutory Auditors examined the Audit Report issued by Internal Audit in 2017, using the information contained therein to carry out its activities and to monitor, with particular attention to the Managers of the organizational areas involved, the implementation of the recommendations and corrective actions contained therein, with particular attention to meeting deadlines for carrying out the planned remedial actions.

During the year, the Board of Statutory Auditors held periodic meetings with the Bank's Head of Compliance, to assess the planning of controls based on the highlighted risks and the findings of the second-level controls performed, verifying and recommending compliance with the timing set in the quarterly monitoring for the closure of the corrective actions identified from time to time and paying particular attention to the residual risks highlighted in said monitoring actions.
The Board also took note of the "Annual Report of the Compliance Function of FinecoBank - 2017", where the Compliance Function expresses a summary opinion of "mostly satisfactory" and highlights, in particular, that the assessment of primary risks of non-compliance subject to direct supervision of the Compliance Function has not identified any regulatory area with a "critical" and "significant" risk level and that the areas subject to indirect supervision present risk levels no higher than "medium". The Board of Directors shall prepare its "Observations" that will supplement the "Compliance Report" to be forwarded to CONSOB within thirty days from the approval of the Financial Statements.
In 2017, the results of the monitoring carried out were presented to the Risk and Related Party Committee and to the Board of Statutory Auditors through specific quarterly reports. The summary report of the monitoring carried out in the last quarter shows a "medium" risk level on most regulatory areas considered.
During 2017, the Compliance function was involved in projects to adapt processes and procedures to the legislation introduced by Directive 2014/65/EU (MiFID II), by Regulation (EU) no. 600/2014 (MiFIR), by Regulation (EU) no. 1286/2014 (PRIIPs) and the EU Regulation 2016/679 (GDPR).
In particular, all the new requirements applicable on the date of entry into force of the MiFID II regulations (from January 3, 2018) have been implemented in line with the directions provided by the Compliance function. For some requirements, especially those not immediately applicable, fine tuning activities are underway, subject of reporting to the corporate bodies.

With reference to the activity carried out by the Anti-Money Laundering function, the Board of Statutory Auditors notes that the Bank has activated - pursuant to the Bank of Italy provision entered into force in September 2011 - adequate and timely information flows to the corporate bodies and top management on the situation of the company controls in FinecoBank to prevent the risk of money laundering and terrorist financing, including the results of second-level controls.
It should be noted that during the first half of 2017, the Bank of Italy carried out a survey on the procedures adopted for identifying and adequately verifying Politically Exposed Persons (so-called PEPs). As a result of the activities carried out by the Bank of Italy, some weaknesses and areas for improvement were highlighted, and in response the Bank prepared a plan of measures that was already partly completed.

The self-assessment carried out by the Anti-Money Laundering function, in compliance with the Bank of Italy's communication of October 21, 2015, identified the Bank's residual risk as "Medium".

The Board of Statutory Auditors also took note of the "Report on the overall situation of complaints received by FinecoBank S.p.A. in 2017", prepared by the Compliance function, concerning both the complaints related to the provision of investment services and other claims. The "Report on complaints" detected a percentage increase in the number of complaints received in 2017 versus those received in 2016, highlighting that the number of complaints received is, in absolute terms, still low if assessed against the growth in the number of clients and the transactions executed by the Bank. The highest number of complaints pertains to "Loans and Mortgages" for complaints on assignment of the fifth of the salary, a type of accounts that were disposed of in 2008 and is no longer marketed by FinecoBank.

Lastly, it should be noted that the Bank has an internal system for employees to report any irregularities or violations of the applicable legislation and internal procedures, guaranteeing their anonymity (so-called whistleblowing).

With reference to the requests received during the year by the Supervisory Bodies, please note that the Bank of Italy sent a letter to banks on March 24, requesting a check of compliance with the EMIR requirements. The Compliance and Internal Audit Functions carried out the appropriate checks, without detecting any significant deficiencies. Furthermore, on October 25, 2017 CONSOB requested information on the reporting requirements for transactions suspected of constituting market abuses under Art. 187-nonies of the TUF. The Bank replied on November 10, 2017, with a subsequent supplement on January 26, 2018, providing the information requested on the processes, procedures, controls in place and staff training.

# Report of the External Auditors (Continued)

FinecoBank relies on a Body set up specifically to perform the functions of Supervisory Body pursuant to Italian Legislative Decree 231/2001.
The Supervisory Body was appointed by resolution of the Board of Directors on April 11, 2017, for a period of three years. Its composition was subsequently changed, by the Board of Directors resolution of October 16, 2017, providing for the reduction from three to two "internal members" with the exit of the Internal Audit Manager, who still continues to participate in the meetings as a permanent guest, and the appointment of a new external member, in place of the Chairman of the Board of Statutory Auditors who attended the meetings until that date.

The Board of Statutory Auditors examined the "Information report on the activity performed by the Supervisory Body (SB) pursuant to Italian Legislative Decree no. 231 of June 8, 2001, at December 31, 2017". The activities carried out by the SB did not reveal any significant violations of the relevant legislation, and the same Body proposed amendments to the Organization and Management Model of Fineco (approved by the Bank's Board of Directors on September 19, 2017 and October 16, 2017), examined and approved the new versions of four decision protocols, analyzed the flows received in relation to the periodic and occasional reports regarding conduct contrary to the principles of the Decree, and examined the results of the audits carried out by Internal Audit in 2017 on three Decision Protocols.

Based on the documentation reviewed, information received and inspections performed during its supervisory activities, the Board of Statutory Auditors, despite referring to the existence of some corrective measures currently under way, deems the Internal Control System to be adequate as a whole.

*Comments on the adequacy of risk management systems*

FinecoBank S.p.A. has a Risk Management function aimed at assessing and monitoring the adequacy of the measurement, control and management systems for typical risks linked to the performance of financial and banking activities, in particular, liquidity, credit, market, operational, business, as well as reputational and IT risks.
The CRO function, in compliance with the provisions of prudential supervision, presented the "Report of the activity carried out by Risk Management in the financial year 2017 and planning for the year 2018" which, among other things, notes the monitoring of the Risk Appetite Framework and the operational limits for the assumption of the various types of risk, monitoring of the risks of the activities performed by the Bank and the proposal of risk mitigation policies where deemed necessary, the quarterly monitoring of the adequacy of the Bank's internal capital (ICAAP), and the information flows to the corporate bodies and the parent company.
In this Report, the Risk Management function highlights that during the past financial year, no particular critical issues emerged.
During 2017, Risk Management was also involved in projects and extraordinary activities, including the incorporation of the new IFRS 9 accounting standard, which involved the Credit Risk Team and the CFO Directorate, as well as the accounting auditor and Corporate Bodies. The Market Risk Team oversaw the internalization of ALM systems and alignment of the Bank's IT systems with those of the Group. The Operational Risk Team initiated the multi-year update of the SoFia fraud prevention system, which will be finalized in 2018. Risk Management also conducted the validation of the Sight Deposits model.

The Board of Statutory Auditors verified the effectiveness and adequacy of the information flows, including the reports that provide evidence of structural liquidity and the Bank's ability to fulfill short-term obligations, and those aimed at verifying compliance of individual limits for the management of liquidity.

In January 2017, in compliance with the Bank of Italy instructions, FinecoBank S.p.A. approved the "2107 FinecoBank Risk Appetite" document, whose metrics, which include the exchange rate risk with respect to hedging policies, were subject to an assessment by the Audit and Related Party Committee, and which also aims at monitoring consistency between the business model, the aforementioned RAF and the budgeting process.
With reference to operational risks, the Internal Audit function of the Bank in the document "Basel 2 - Operational Risk - AMA - Local Internal Audit Report on the Operational Risk Management System", issued on November 24, 2017, ascertaining the existence of the requirements established by the Bank of Italy in Circular 285/2013, expresses an overall satisfactory rating, as the audits showed an essential adequacy of the corporate processes aimed at identifying, managing and measuring operational risks. The Board expressed its positive opinion to the Board of Directors.
In February 2018, the Internal Audit of the Bank issued and presented to the Risk and Related Party Committee (and subsequently to the Board of Directors) the Report on the Internal Capital Adequacy Assessment Process (ICAAP) and the Risk Appetite Framework (RAF) of Fineco Bank, in compliance with Bank of Italy Circular no. 285/2013. The Report confirms the essential adequacy of the controls adopted by the Bank in the procedures for defining the Risk Appetite Framework and the assessment of capital adequacy (ICAAP).
In particular, the Report highlights that the final figures relating to the RAF 2017 metrics comply with the set limits, are consistent with the budget and the 2018-2020 Multi-Year Plan, and are reconciled with accounting records and supervisory reports.
The report also shows that the 2018 RAF was approved by the Board of Directors on December 5, 2017, following the assessment of the Risk and Related Party Committee.
During its activity, the Board periodically met with the Chief Risk Officer in order to assess, among other things, his work and analyze in more detail the information reports submitted by him to the Corporate Bodies.
The Board deems the risk management system overall adequate for the company's size and characteristics.

*Supervisory activities pursuant to Art. 19 of Italian Legislative Decree 39/2010 Relations with the Auditing Company*

The Board of Statutory Auditors, identified by Art. 19 of Italian Legislative Decree 39/2010 in the version reformulated following the reform of external audits implemented through Italian Legislative Decree 135/2016 "Internal control and external audit committee", monitored the financial reporting process, the external audit and the independence of the external auditor, in particular as regards the provision of non-auditing services.

The Board of Statutory Auditors examined the auditing reports issued on March 15, 2018 by the auditing company Deloitte and Touche S.p.A. pursuant to Art. 14 of Italian Legislative Decree no. 39/2010 and Art. 10 of Regulation (EU) 537/2014 on the individual and consolidated financial statements of the

Bank (the latter referred to the Bank and the Irish subsidiary, newly incorporated and not yet operational) at December 31, 2017. In particular, the audit reports on the individual and consolidated financial statements:

- express an opinion without findings on the individual and consolidated financial statements of FinecoBank at December 31, 2017, asserting that the financial statements provide a truthful and correct representation of the equity and financial situation, the economic result and the cash flows in accordance with the IFRSs adopted by the European Union, as well as the provisions issued in implementation of Art. 9 of Italian Legislative Decree 38/2005 and of Art. 43 of Italian Legislative Decree 136/2015;
- express an opinion of consistency and compliance which shows that the Management Report accompanying the individual and consolidated financial statements at December 31, 2017, is consistent with the aforementioned financial statements and is prepared in compliance with the law, as well as the specific information contained in the Report on Corporate Governance and Ownership Structures indicated in Art. 123-bis, paragraph 4, of the TUF;
- with reference to any significant errors in the Management Report, they declare, on the basis of the knowledge and understanding of the company and the related context acquired during the audit, that they have nothing to report.

On March 15, 2018, the Auditing Company presented the supplemental report to the Board pursuant to Art. 11 of Regulation (EU) no. 537/2014, which does not reveal significant deficiencies in the internal control system in relation to the financial reporting process deserving to be brought to the attention of those in charge of governance. Together with the Supplemental Report, the Auditing Company provided the Board with the declaration on independence (Article 6 of the aforementioned EU Regulation) which does not reveal any situations that could compromise their independence.

The Board held several periodic meetings with the Auditing Company, in compliance with Art. 150, paragraph 3, of the TUF and of the provisions introduced by Italian Legislative Decree no. 39/2010, examining the 2017 audit plan, verifying its adequacy, following its execution and promptly exchanging data and information relevant to the performance of their respective tasks, without any particular findings that required notification or facts deemed to be censurable that required formulating specific reports pursuant to Art. 155, paragraph 2, of the TUF. The Explanatory Notes include the disclosure of the external audit fees, as well as the fees for permitted services other than the audit provided in the year ended December 31, 2017, to FinecoBank by the Auditing Company and by the entities of the network that the Auditing Company belongs to.
These fees (net of VAT and expenses) are shown below:

(amounts in euros)

| TYPE OF SERVICE | SERVICE PROVIDER | FEES |
|---|---|---|
| Accounting Audit | Deloitte & Touche S.p.A. | 169,245 |
| Certification services | Deloitte & Touche S.p.A. | 95,000 |
| Other Services | Deloitte Consulting S.r.l | 30,000 |

The Certification Services refer to the development of procedures aimed at issuing the comfort letter for the ECB for the purpose of including the profit for the year in the Bank's own funds, the limited audit of the reporting package prepared by the Bank for the parent company for the first and third quarters of 2017 and the activities related to the IFRS 9 project of the Bank. The other services refer to consultancy activities related to the aforementioned project.
Please note that on April 10, 2017, the Board authorized the assignment to the auditing company Deloitte & Touche of the non-audit tasks "Quality assurance and methodological support related to the impairment" on the IFRS 9 project and "Voluntary limited audit of the Reporting Package of Fineco of 1Q17 and 3Q17" for the purpose of including it in the interim consolidated financial statements of UniCredit S.p.A., subject to verification of the independence of the Auditing Company pursuant to the provisions of Italian Legislative Decree no. 39/2010 and the Art. 5 of Regulation (EU) no. 537/2014 of the European Parliament and of the Council of April 16, 2014.
On November 2, 2017, the Board authorized the addition of the remuneration set for the "external audit of the consolidated financial statements (half-yearly and annual) including the coordination of the auditing work on the consolidated financial statements and the verification of the consolidation process" and for "application of the new international auditing standards (for the years 2017-2021)".
On January 12, 2018, the Board of Statutory Auditors authorized the assignment to the Auditing Company of the agreed verification procedures "Asseveration of the data necessary for calculating the contributions to the SRF" for each of the years of the period 2018-2021.

### *Supervision of the financial reporting process - Comments on the adequacy of the administrative and accounting system*

The Board of Statutory Auditors verified the compliance with the internal regulations pertaining to the process that allows the Financial Reporting Officer and the Chief Executive Officer to issue the certifications provided for by Article 154-bis of the TUF. The administrative and accounting procedures for the preparation of the financial statements and any other financial communication were prepared under the responsibility of the Financial Reporting Officer who, together with the CEO, in the periodic reporting on the same and, lastly, in the "Report on the system of internal controls on the financial reporting in compliance with Italian Law no.262/2005", approved by the Board of Directors on February 6, 2018, certifies - on the basis of the test of actual implementation of the controls - the adequacy and actual application for the preparation of the financial statements at December 31, 2017 and of the reporting package towards UCI Holding.
The Financial Reporting Manager, during his meetings with the Board of Statutory Auditors, did not report any deficiencies in the operating and control processes that may impact the assessment of adequacy and actual implementation of administrative and accounting procedures for the correct economic, equity and financial reporting of the accounting events in compliance with the adopted accounting principles. The Financial Reporting Manager periodically updates the Board of Directors on the completed activities and reports on the progress of the measures for improving the Internal Control System regarding the Financial Reporting.
During the periodic meetings aimed at the exchange of information, the External Auditor did not report significant critical aspects of the internal control system regarding the financial reporting process.
The Board notes that the Financial Statements at December 31, 2017, have been drawn up in compliance with the accounting standards issued by the International Accounting Standards Board, including the related SIC and IFRIC interpretative documents, approved by the European Commission until December 31, 2017, as required by European Union Regulation no. 1606/2002 of July 19, 2002, and applicable to the financial statements starting from January 1, 2017.

# Report of the External Auditors (Continued)

The financial statements at December 31, 2017, consist of the Balance Sheet, the Income Statement, the Comprehensive Income Statement, the Statement of Changes in Net Assets, the Cash Flow Statement and the Explanatory Notes, and are accompanied by the "Directors' Management Report" and the Certificate relating to financial statements required by Art. 81-ter of CONSOB Regulation no. 11971 of May 14, 1999 and subsequent amendments and additions, issued on February 6, 2018. The financial statements use the statement structure and the explanatory notes required by the instructions established by the Bank of Italy with Circular no. 262 of December 22, 2005, subsequently updated and amended.
Pursuant to the Bank of Italy/CONSOB/ISVAP document no. 4 of March 3, 2010 and to the internal regulations that implemented Italian Law no. 262/2005, it is noted that the Board of Directors has approved, preliminarily and autonomously, at the time of approval of the financial statements, the impairment test procedure for the goodwill. The results confirmed the sustainability of the goodwill value recognized in the financial statements.
The Administration Department periodically forwarded information to the Parent Company for the purposes of calculating the Regulatory Capital and the Second Pillar Capital. At December 31, 2016, the CET1 Capital ratio (Tier one capital/Risk-weighted assets) was 20.77%, as detailed in the dedicated section of the Financial Statements "Part F - Information on assets".

Furthermore, considering the establishment on October 26, 2017, of the Irish company Fineco Asset Management, the consolidated financial statements have been prepared. However, it should be noted that at December 31, 2017, that company had not yet started doing business. As a result, the consolidated and individual results of Fineco Bank do not show significant differences.
The Board of Statutory Auditors, in light of the information received and the documentation examined and the activity performed, assesses the process of preparation of the financial reporting as substantially adequate.

*Comments on the remuneration policy*

During 2017, in line with the provisions of the Supervisory Body with respect to "Remuneration and bonus policies and practices", the Board of Statutory Auditors verified the adequacy and compliance with the external legal framework of the remuneration policies and practices adopted by FinecoBank and the related corporate processes.
The Bank has implemented the 2017 Remuneration Policy and, on March 1, 2018, taking into account the favorable opinion of the Remuneration Committee, it approved the "FinecoBank Remuneration Policy for the year 2018", formulated by the Human Resources function, with the involvement of the Risk Management and Compliance functions and including the identification of the "most significant persons", so-called identified staff, which will be submitted to the approval of the Shareholder's Meeting. This document also considers the Remuneration Policy applied to the members of FinecoBank's Independent Financial Advisers network, in line with their specific remuneration policies. The definition of the 2018 Policy was also supported and validated by the independent external consultant and the Remuneration Committee.
The Internal Audit function carried out the annual verification of the Bank's variable remuneration system, in line with the provisions of the Supervisory Regulations issued by the Bank of Italy, and verified the design, implementation and effects of the remuneration process, as well as its compliance with the regulatory requirements and the Bank's remuneration policy. The payment and deferral phase relating to the incentive system of the previous year, the process of defining and distributing the bonus pool and the compliance with the limits to the ratio between variable and fixed remuneration set forth by the Bank's remuneration policy were assessed. It also examined the process of identifying the resources belonging to the most significant staff category in order to ascertain their compliance with the requirements established by the Delegated Regulation (EU) no. 604/2014. The aforementioned annual audit, whose results were presented to the Remuneration Committee on February 28, 2018, ended with the formulation of a "good" rating, albeit recommending improvements to the process, which are expected to be finalized in time to show their effects on the next remuneration cycle.
The 2018 Remuneration Policy, including the "Annual Remuneration Report" which includes the "2017 remuneration plans based on financial instruments", has now been made available to the public pursuant to CONSOB Regulation no. 11971/1999. The report fulfills the disclosure requirements pursuant to Articles 114-bis and 123-ter of the TUF and the banking regulations' requirements at the same time.

*Processing of Privileged Information*

The Board of Directors, in the meeting held on April 15, 2014, approved the Procedure regarding the processing of Privileged Information aimed at preventing that such processing may take place in an untimely, incomplete or inadequate manner.
In compliance with the regulations in force, the Board of Directors, most recently on January 10, 2018, approved the current version of the Code of Conduct on internal dealing to regulate the management, processing and communication of information relating to transactions on FinecoBank listed shares and financial instruments, as well as on derivatives and related financial instruments carried out by significant persons and persons closely connected to them.

*Complaints under Art. 2408 Italian Civil Code - Reports - Opinions issued pursuant to the law*

During 2017, the Board did not receive any complaints under Art. 2408 of the Italian Civil Code. A report was received from a bank customer, via certified email, following a complaint which has been settled as of today's date.
The Board was asked to express its opinion in the following circumstances:
- opinion on changes to the "Procedures for managing transactions with parties in conflict of interest";
- opinion issued to the Board of Directors on the Bank's Operational Risk Management System in implementation of the AMA model.

Moreover, the Board expressed its comments about the Reports pursuant to Articles 13, 14 and 16 of the Bank of Italy and CONSOB Regulation (adopted with a provision dated October 29, 2007, in line with Article 6, paragraph 2-bis, of the TUF) and its "Remarks on the 'Outsourcing of corporate functions'. Annual Report of the Internal Audit function".

On the basis of the activity carried out and the information obtained, no omissions, reprehensible facts or significant irregularities were reported such as to require notification to the Supervisory Bodies or mention in this Report.

*Conclusions*

Based on its supervisory activity, the Board of Statutory Auditors did not find significant irregularities or omissions and/or censurable facts, nor did it become aware of transactions not based on compliance with the principles of proper administration, resolved and implemented not in compliance with the Law and the company Bylaws, not in the interest of FinecoBank, in contrast with the resolutions taken by the Shareholders' Meeting, or manifestly imprudent or risky, such as to compromise the integrity of the company's assets.

The Board of Statutory Auditors does not deem it necessary to exercise the right to submit proposals to the Shareholders' Meeting pursuant to Article 153, second paragraph, of the TUF.

Noting the results of the financial statements and the content of the "Directors' Management Report" that accompanies it, of the content of the attestation of the individual and consolidated financial statements, signed by the Chief Executive Officer and General Manager and by the Financial Reporting Manager, and considering the contents of the Reports drawn up by the Auditing Company, the Board of Statutory Auditors does not find, as regards its duties, any reasons impeding the approval of the financial statements at December 31, 2017, and the proposed allocation of profits for the year formulated by the Board of Directors.

Milan, March 15, 2018

The Statutory Auditors

Elena Spagnol - Chairman
Barbara Aloisi
Marziano Viozzi

# Glossary

# Glossary of technical terminology and acronyms used

**Accelerated bookbuilding offering**
Procedure through which particularly large shareholdings are sold to institutional investors. This type of transaction is used by majority shareholders to sell share packages or by the company to rapidly obtain capital (for acquisitions or to refinance debt).

**Adjusted ROE**
Ratio between net profit excluding non-recurring items and the average book shareholders' equity for the period (excluding dividends and any donations expected to be distributed and the revaluation reserves).

**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.

**Assets under management**
Investment funds, segregated accounts and insurance products.

**Assets Under Custody**
Government securities, bonds and shares.

**Audit**
Audit Process of controlling a company's activities and accounting, carried out either by an internal body (internal audit) or by an external firm of auditors (external audit).

**Available financial resources (AFR)**
AFR are the resources that can be used to safeguard the bank from insolvency. The AFR are an economic measure that consider the potential reserves, hybrid debt instruments, IFRS reserves, goodwill and other intangible assets, treasury shares held and the expected profits.

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

**Bail-in**
Resolution measures adopted by the competent authorities that can involve the conversion of debt instruments into shares or the reduction in the value of liabilities, imposing losses on certain categories of creditors in accordance with the BRRD.

**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 defined 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 authorisation by the Regulatory 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".

**Bank Recovery and Resolution Directive or BRRD**
Refers to the Directive approved by the European Parliament and the Council, respectively. On April 15 and May 6, 2014, regarding the establishment of a recovery and resolution framework for the crisis affecting credit institutions and investment firms.

**Basis point**
The bp or basis point represents 0.01% of a particular amount, or one hundredth of a percentage point. 100 basis points are equivalent to 1%.

**Best practice**
Behaviour commensurate with the most significant experience and/or the best level of knowledge achieved in relation to a given technical or professional field.

**Budget**
Statement forecasting the future costs and revenues of a business.

**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.

**CDS - Credit Default Swap**
A derivative in which a seller of protection engages, for a fee, to pay the buyer of protection a fixed amount if a certain event indicating a deterioration of the creditworthiness of a reference entity occurs.

**CFO**
Chief Financial Officer.

**CGU - Cash Generating Unit**
A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

**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).

**Clawback clause**
Action of repayment of the bonus received when, after its disbursement, intentional or negligent conduct of the employee emerges that, if it had been known at the time of disbursement, would have been sufficient not to satisfy the
assessment of compliance, or that disbursement has been made in breach of legal or regulatory provisions.

**Corporate**
Customer segment consisting of medium to large businesses.

**Cost/income ratio**
The ratio of operating expenses to operating income. It is one of the main key performance indicators of the bank's efficiency: the lower the ratio, the more efficient the bank.

**Cost of Risk**
The ratio between loan loss provisions and loans and receivables with customers. It is one of the indicators of the bank assets' level of risk: the lower the ratio, the less risky the bank assets.

**CoR (incentive system)**
The ratio of Net write-downs of loans and Loans and receivables with customers (average of the balance at period end and the balance at December 31 of the previous year). The scope of the exposures excludes positions deriving from bonds and advances to personal financial advisors.

**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%.

**Covenant**
A loan agreement clause whereby the lender is entitled to restructure or call in the loan upon occurrence of the events specified in the clause, which ties changes in the borrower's earnings and financial performance to default events/events modifying the contractual terms and conditions (maturity, interest rates, etc.).

**Covered bond**
A bond which, in addition to being guaranteed by the issuing bank, may also be covered by a portfolio of mortgages or other high-quality loans transferred, for that purpose, to a specific SPV - Special Purpose Vehicle (q.v.).

# Glossary of technical terminology and acronyms used (Continued)

**Credit Quality - EL**
EL%= EL/EAD
Represents the expected loss as a percentage of the exposure in the event of default (EAD) of the performing portfolio.
The perimeter is the customers of the performing portfolio.

**Credit quality step**
A Step, based on external ratings, which is used to assign risk weights under the standardised approach for credit risk.

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

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

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

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

**CRO**
Chief Risk Officer.

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

**Direct deposits**
Current accounts, repos and time deposits.

**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.

**ECA**
Export Credit Agency.

**ECAI**
External Credit Assessment Institution.

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

**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.

**EPS - Earnings Per Shares**
An indicator of a company's profitability calculated by dividing the net profit by the average total outstanding shares (excluding treasury shares).

### EVA (Economic Value Added)
EVA is an indicator of the value created by a company. It shows the firm's ability to create value; calculated as the difference between net operating profit and the figurative cost of the allocated capital. the latter was calculated using either the greater of the regulatory capital absorbed and the economic capital (in Fineco's case, the economic capital) or the book value of shareholders' equity.

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

### 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.

### 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").

### Funding
Provision, in various forms, of the funds necessary to finance business activities or particular financial transactions.

### Futures
Standardised contracts through which parties undertake to exchange money, transferable securities or goods at a set price at a future date. These contracts are traded on regulated markets, where their execution is guaranteed.

### Goodwill
The additional sum paid for the acquisition of an equity interest, equal to the difference between the cost and the corresponding share of net assets, for the portion not attributable to the identifiable assets of the acquired company.

### Guided Products & Services/AUM
The ratio of Guided Products & Services (q.v.) to Assets under Management (q.v.).

### Guided Products & Services/TFA
The ratio of Guided Products & Services to Total Financial Assets.

### Guided products & services
The Bank's products and/or services developed by investing in UCITs selected from among those distributed for each asset class taking into account customers' different risk profiles and offered to the Bank's customers under the guided open architecture model. At the date of this report, the guided products category included the "Core Series" umbrella fund of funds, "Core Funds", the Individual Savings Plans ("Piani Individuali di Risparmio" or "PIR") and the "Core Unit", "Advice Unit", "Core Multiramo" and "Advice Top Valor" and "Old Mutual" unit-linked policies, while the "Fineco Advice" and "Fineco Stars" advanced advisory services (for investment) fall under the guided service category.

### HNWI
High Net Worth Individual, i.e. Private customers with TFA of over one million euros.

### 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 harmonisation 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 harmonise the IAS/IFRS with the US GAAP - United States Generally Accepted Accounting Principles (q.v.).

### ICAAP - Internal Capital Adequacy Assessment Process
See "Basel 2 - Pillar 2".

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

# Glossary of technical terminology and acronyms used (Continued)

### 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.).

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

### (Internal) validation
Expert unit, internal but sufficiently independent, that verifies the adequacy of internal models for internal and regulatory purposes and issues a formal opinion about their usefulness and effectiveness. Usually a prerequisite for the validation process carried out by the authorities.

### Index linked
Policies whose performance at maturity depends on a benchmark parameter that may be a share index, a basket of securities or another indicator.

### 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 authorisation from the Bank of Italy.

### IRS - Interest Rate Swap
See "Swap".

### Joint venture
Agreement between two or more companies for the conduct of a given economic activity, usually through the constitution of a joint stock company.

### Ke
The cost of equity is the minimum return on investment required by the shareholder. It is the sum of a risk-free rate and an additional spread remunerating the shareholder for the credit risk and the volatility of the share price. The cost of capital is based on medium-long term averages of market parameters.

### KPI - "Key Performance Indicators"
Set of indicators used to evaluate the success of a particular activity or process.

### Key Risk Indicators
The risk indicators are quantitative metrics that reflect exposure to Operational Risks of specific processes or products: the value expressed by an indicator should be related to changes in risk levels.

### LCP
Loss Confirmation Period.

### Leasing
Contract whereby one party (the lessor) grants to another party (the lessee) for a given period of time the enjoyment of an asset purchased or built by the lessor at the discretion and according to the instructions of the lessee, with the latter having the option of acquiring ownership of the asset under predetermined conditions at the end of the leasing contract.

### 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.).

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

### Long and Short Margining
Margining is a trading method that allows investors to buy (long leverage) or sell (short selling) by investing only a part of the liquidity required.

### 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.

### Master servicing agreement
Type of contract under which two or more parties regulate the key terms of subsequent transactions and/or further agreements to be implemented between them in the future.

### 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.

### Model Risk Category
The MRCs have been introduced at the group level in order to characterise the types of operational loss in more detail. They are obtained from the combination of the seven event types established by Basel II with one or more of products offered to customers.

### Non-performing exposures
According to the EBA Implementing Technical Standards, non-performing exposures are all on-balance-sheet and off-balance-sheet exposures that satisfy either or both of the following criteria:
(i) material exposures which are more than 90 days past due/overdrawn;
(ii) exposures for which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

### Non-performing loans
Exposures to borrowers in a state of insolvency (even when not recognised 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).

### 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.

### Option
The right, but not the commitment, acquired by the payment of a premium, to buy (call option) or sell (put option) a financial instrument at a given price (strike price) by or at a determined future date (American option/European option).

### OTC - Over The Counter
Over-the-counter (OTC) trading consists of the exchange of financial instruments such as shares, bonds, derivatives or goods directly between two counterparties. The OTC markets do not have standardised contracts or buying/selling procedures and are not associated with a set of rules (admissions, controls, obligations of information, etc.) like those that govern the official markets.

### 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.

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

### Payout ratio
The percentage of net income that is distributed to shareholders. The percentage paid out is determined mainly on the basis of the company's self-financing needs and the return expected by shareholders.

# Glossary of technical terminology and acronyms used (CONTINUED)

**PD - Probability of Default**
Default Probability of a counterparty entering into a situation of “default” (q.v.) within a period of one year.

**Private banking**
Financial services aimed at “high-end” private customers for the global management of financial needs.

**RARORAC - Risk adjusted Return on Risk adjusted Capital**
An indicator calculated as the ratio between EVA (using either the greater of the regulatory capital absorbed and the economic capital or using the book value of shareholders’ equity) and Allocated/Absorbed Capital and expresses, in percentage, the capacity to create value for unit of risk taken.

**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.

**Retail**
Customer segment consisting principally of private individuals, self-employed professionals, traders and artisans.

**Risk Taking Capacity**
Ratio between Available Financial Resources and Internal Capital.

**Risk-weighted assets**
See the item “RWA - Risk-Weighted Assets”.

**ROAC - Return on Allocated Capital**
An indicator calculated as ratio of net operating profit to allocated capital. Allocated Capital means the greater of internally calculated capital based on shared UniCredit Group models (Economic Capital) and regulatory capital or using the book value of shareholders’ equity.

**ROE**
Ratio between net profit and the average book shareholders’ equity for the period (excluding dividends and any donations expected to be distributed and the revaluation reserves).

**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**
The greater or lesser degree of sensitivity with which certain assets or liabilities react to changes in rates or other reference parameters.

**Sensitivity Analysis**
Sensitivity analysis quantifies the change in value of a financial portfolio resulting from an unfavourable change in major risk factors (interest rate, exchange rate, equity).

**SME**
Small and medium enterprises.

**Significant exposures**
The sum of all the exposures towards a counterparty that are equal to or more than 10% of the eligible capital of the Issuer, when: (i) the exposures are the sum of the on-balance-sheet risk assets and the off-balance-sheet operations with a counterparty, as defined by the regulations on credit risk, without applying the weighting factors established therein (these exposures do not include the risk assets deducted in the determination of the Own Funds); (ii) a counterparty is a customer or a group of connected customers; (iii) the eligible capital is equal to the Own Funds of the Issuer.

**SPV -Special Purpose Vehicle**
An entity - partnership, limited company or trust - set up to pursue specific objectives, such as isolating financial risk or obtaining special regulatory or tax treatment for specific portfolios of financial assets. SPV’s operations are accordingly limited by a set of rules designed for this purpose. In general the SPVs’ sponsors (q.v.) do not hold equity in them. The equity is held by other entities in order to ensure that there is no shareholder relationship with the Sponsor (q.v.). SPVs are usually bankruptcy-remote, in that their assets cannot be claimed by the creditors of the sponsor, even if the latter becomes insolvent.

## Swap
A transaction that generally consists of the exchange of financial streams between operators according to different contractual arrangements. In the case of an interest rate swap (IRS), the counterparties exchange payment streams that may or may not be linked to interest rates, calculated on a notional principal amount (for example, counterparty pays a stream on the basis of a fixed rate, while the other does so on the basis of a variable rate). In the case of a currency swap, the counterparties exchange specific amounts in two different currencies, with these amounts being exchanged back in due course according to predefined arrangements that may concern both the capital (notional) and the streams of interest payments.

## Tier 1 Capital
The most reliable and liquid part of a bank's capital, as defined by the regulatory rules.

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

## Total Financial Assets - TFA
Assets Under Management (q.v.), Assets Under Custody (q.v.) and Direct Deposits (q.v.).

## 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.

## UCI - Undertakings for Collective Investment
This term includes "UCITS - Undertakings for Collective Investment in Transferable Securities" (q.v.) and collective investment funds (real estate collective investment funds, closed-end investment funds).

## UCITS - Undertakings for Collective Investment in Transferable Securities
This term covers open-end real estate investment funds, both Italian and foreign, and investment companies with variable capital. The latter are joint stock companies that have the sole purpose of collective investment of the assets gathered through a public offer of their own shares.

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

## VaR - Value at Risk
A method used for quantifying risk. It measures potential future losses which will not be exceeded within a specified period and with a specified probability.

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