



B A N K

2018

Compensation Policy Side presentation

March 2018

PURPOSE OF THE DOCUMENT

- This document aims at providing a brief **overview on FinecoBank 2018 Compensation Policy** key aspects, namely:
 - Policy **key principles and governance**;
 - **Policy main contents**, also compared to 2017
 - **2017 Incentive Systems payout**
 - **2018 short term Incentive Systems**
 - **Focus on 2018-2020 Long Term Incentives**

For further details please refer to our whole [2018 Compensation Policy](#)

AGENDA

- POLICY KEY PRINCIPLES & GOVERNANCE
- 2018 POLICY MAIN CONTENTS
- 2017 INCENTIVE SYSTEMS PAYOUT
- 2018 SHORT TERM INCENTIVE SYSTEMS
- FOCUS ON 2018-2020 LTIs

POLICY KEY PRINCIPLES



- **Clear and transparent governance**, through efficient corporate and organizational governance structures, as well as clear and rigorous governance rules



- **Compliance with regulatory requirements and principles of good professional conduct**, by protecting and enhancing our company reputation, as well as avoiding or managing conflicts of interest between roles within the Bank or towards customers



- **Continuous monitoring of national and international market trends and practices**, aimed at a sound definition of competitive compensation as well as at transparency and internal equity



- **Sustainable pay for sustainable performance**, by maintaining consistency between remuneration and performance, and between rewards and value creation, as well as enhancing both the actual results achieved and how they are achieved



- **Motivation and retention of all staff**, with particular focus on talents and key players, to attract, motivate and retain the best resources capable of achieving our company mission according to Bank values

GOVERNANCE



Systematic involvement of the Remuneration Committee in all the matters relating to compensation of the Bank's CEO and General Manager and other Identified Staff. The Committee met **11 times** in 2017, providing the Board of Directors with more than **25 opinions** → *for further details see chapter 2.1 of the 2018 [Annual Compensation Report](#)*



Continuous involvement of **Compliance, Risk and Finance** functions towards the various phases of Incentive Systems set up and implementation, guaranteeing consistency with regulatory framework, and sustainability of remuneration → *see, for instance chapters 2.4, 2.5 of the [2018 Compensation Policy](#) and 2.1 of the 2018 [Annual Compensation Report](#)*











Overall remuneration processes are subject to **annual Audit scrutiny**, thus guaranteeing the overall consistency of remuneration and incentive processes. The excerpt of the annual Audit (rated "good") is reported in the Policy section → *see chapter 2.2. of the 2018 [Annual Compensation Report](#)*

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2018 POLICY MAIN CONTENTS

An overview vs 2017

	CONFIRMED	NEW	HIGHLIGHTS
Maximum 2:1 variable/fixed pay ratio for all employees and Identified Staff in business roles; 1:1 is provided for other roles while for Identified Staff in Company Control Functions variable pay is capped at 1/3 of fixed pay . 2:1 is provided for Personal Financial Advisors (PFA) Identified Staff			
Detailed description of <ul style="list-style-type: none"> Compliance Drivers for the definition of compliant incentive systems, with specific focus on external networks Individual malus and claw-back in case of non compliant behaviors 			<i>Stricter claw –back clause (until 4 years from each payment related to incentive systems)</i>
Full disclosure of the market "Peer Group" for benchmarking purposes			<i>New Peer Group for 2018</i>
Transparent description of Non Executive Directors and Identified Staff remuneration , in coherence with Italian and European regulatory provisions			
Severance Policy and Share Ownership Guidelines for Executives with Strategic Responsibilities			
Full disclosure of 2018 short term Incentive Systems for Employees and Financial Advisors Identified Staff, and of execution in 2018 of 2017 and previous years short term Incentive Systems			
Full description of 2018-2020 Long Term Incentive System for selected Employees			
Full description of 2018-2020 Long Term Incentive System for Financial Advisors Identified Staff			

Focus at pp. 16-21

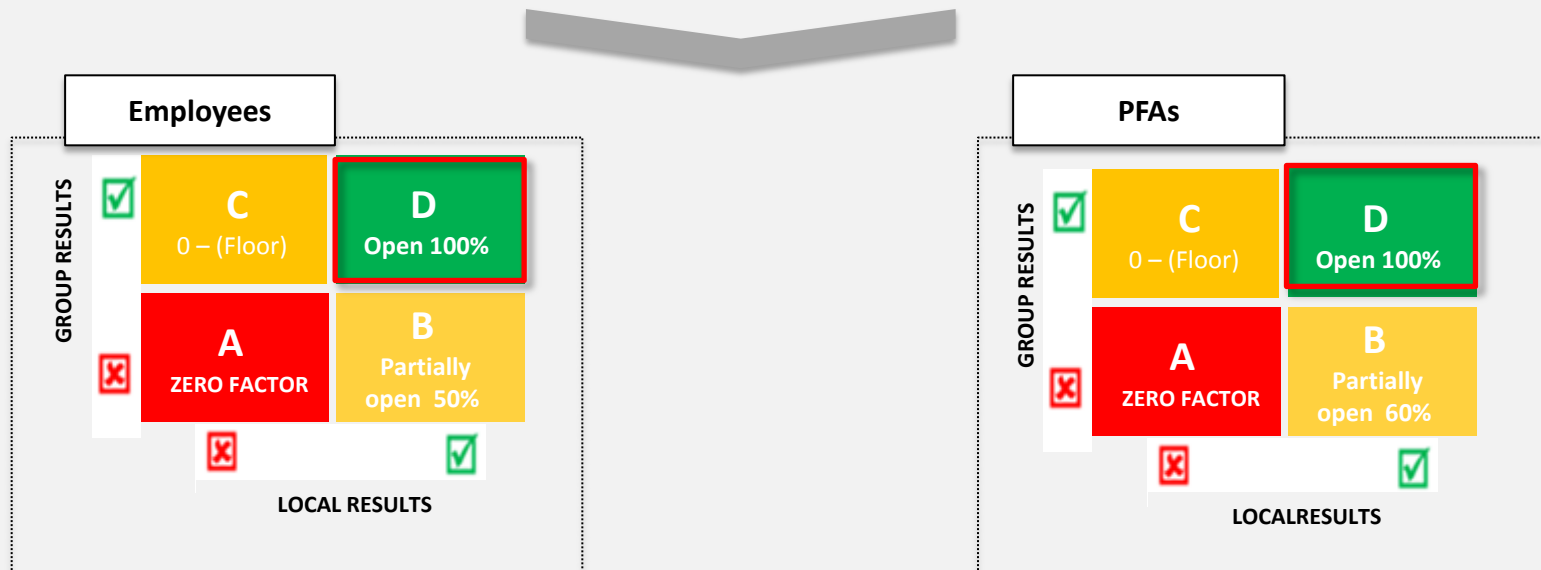
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2017 INCENTIVE SYSTEMS PAYOUT 1/3

- Following the schemes provided by the Group Incentive System (chapters 5.2.1 and 5.2.2 of the [Annual Compensation Report](#)), the combination between:
 - Group and Fineco results in the “entry conditions matrix” and
 - CRO evaluation (CRO dashboards) of Bank’s results

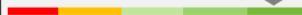
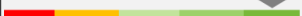




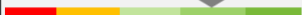

confirmed the FinecoBank bonus pools for Employees and PFA populations as follows



2017 INCENTIVE SYSTEMS PAYOUT 2/3

Focus on CEO's performance evaluation

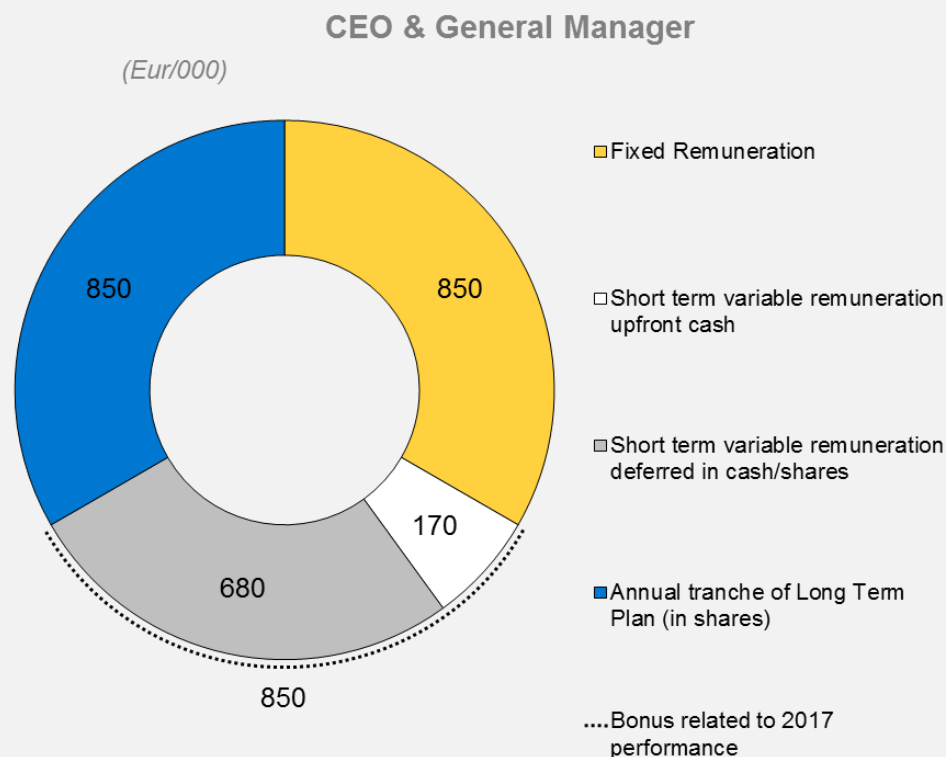
- Below is detailed the **overall assessment of FinecoBank CEO/GM 2017 performance**

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

2017 INCENTIVE SYSTEMS PAYOUT 3/3

Focus on CEO's compensation

- According to the overall performance assessment showed in the previous slide (resulting in *Exceeds Expectations*), the short term bonus proposal for the CEO & GM amounts to **€ 850.000**
- Below is reported the overall **CEO & GM compensation package for 2017 performance**, including also the annual portion of Top Management 2014-2017 Plan, given the maximum 2:1 ratio between variable and fixed compensation



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2018 SHORT TERM INCENTIVE SYSTEMS 1/2

- In continuity with 2017, also in 2018 specific Incentive Systems for Employees and Financial Advisors Identified Staff are provided
- The 2018 Incentive Systems follow the Bonus Pool logic, providing entry and malus conditions at Group and Local level, with profitability, capital and liquidity KPIs
- The Systems provide a specific risk adjustment mechanism
- Bonus is paid in cash and Fineco shares, in a multi-year period
→ Systems details are shown in paragraphs [5.3](#) and [5.5](#) of the [2018 Annual Compensation Report](#)

Bonus Pool/ Entry Conditions

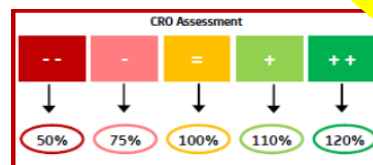
- *Bonus Pool* is defined as a percentage (*funding rate*) of the Bank's *Profit Before Taxes*
- Entry Conditions are defined at Group and Local level and can confirm, reduce or cancel the Bonus Pool



*In 2018 the thresholds provided for capital and liquidity KPIs are more restrictive and at local level a further liquidity indicator **Net Stable Funding Ratio** is introduced*

Risk Adjustment

- In 2018 is confirmed the Bonus Pool risk adjustment mechanism, through the assessment of the CRO Dashboard. The assessment outcomes have a 'multiplier' effect on the bonus pool



SAMPLE








Bonus Payout



- The individual bonus allocation is based on the individual performance evaluation
- Bonuses are paid out in cash and Fineco shares with a proportion of 50% - 50%, in a multi-year period.

	2018	2019	2020	2021	2022	2023	2024
CEO/GM AND OTHER ROLES PROVIDED BY LAW	PERFORMANCE YEAR	20% UPFRONT CASH	10% DEFERRED CASH	20% UPFRONT SHARES	50% DEFERRED SHARES	10% DEFERRED SHARES	20% DEFERRED CASH
OTHER IDENTIFIED STAFF	PERFORMANCE YEAR	30% UPFRONT CASH	10% DEFERRED CASH	30% UPFRONT SHARES	10% DEFERRED CASH	10% DEFERRED SHARES	

2018 SHORT TERM INCENTIVE SYSTEMS 2/2

- Below is reported the **AD/DG individual performance screen** with the **2018 performance goals**

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

	Sustainability KPI
	Risk adjusted KPI

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FOCUS ON 2018-2020 LTIs

The Plan for the Employees – *the performance goals*

- In order to reward, motivate and retain selected Employees considered 'key resources' towards Fineco's 2020 goals in terms of value creation, business sustainability and risks, a share based Long-Term Incentive Plan 2018-2020 has been defined → *the Plan details are shown in paragraph 5.4 of the 2018 Annual Compensation Report*
- The performance goals - EVA, Cost/Income and Cost of Risk on commercial loans - will be evaluated in relation to 2020 specific targets and will have a specific percentage weight on the total bonus. The goals evaluation (except for Cost of Risk for which an «on/off» target is provided) will be based on growing thresholds, with corresponding growing percentages of bonus from 0 to 100%, with a linear progression

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

*Calculated on commercial loans

FOCUS ON 2018-2020 LTIs

The Plan for the Employees – *the entry conditions and the risk adjustment*

- As shown below, specific entry conditions are set at Fineco and Group level which - in case they are not met - can lead to a cancelation or a reduction in bonuses. The KPIs of Capital (CET 1) and liquidity (Liquidity Coverage Ratio and Net Stable Funding Ratio) are assessed annually, while the profitability KPIs (Net Operating Profit Adjusted and Net Profit) are assessed over the years of performance with a “cumulated” approach

Performance		Deferral	
Entry Conditions		Malus	
Group	Fineco	Group	Fineco
Σ 2018-2020 NOP Adj > 0	Σ 2018-2020 NOP Adj > 0	Σ NOP Adj > 0	Σ NOP Adj > 0
Σ 2018-2020 NP > 0	Σ 2018-2020 NP > 0	Σ NP > 0	Σ NP > 0
CET 1 Ratio Fully loaded > 10,4%	CET 1 Ratio Fully loaded > 10,4%	CET 1 Ratio Fully loaded > 10,4%	CET 1 Ratio Fully loaded > 10,4%
LCR > 101%	LCR > 101%	LCR > 101%	LCR > 101%
NSFR > 101%	NSFR > 101%	NSFR > 101%	NSFR > 101%

- Malus conditions, applying to deferrals, have the mechanisms
- A risk adjustment based on the evaluation of the 'CRO Dashboard' trend during the years of the Plan's performance is foreseen. The presence of more 'neutral' or 'negative' results will lead to a proportional reduction of individual bonuses, as follows

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

- As in any incentive plan, there is a compliance clause for individual behavior and a claw-back clause

FOCUS ON 2018-2020 LTIs

The Plan for the Employees – *the beneficiaries and the bonus payment*

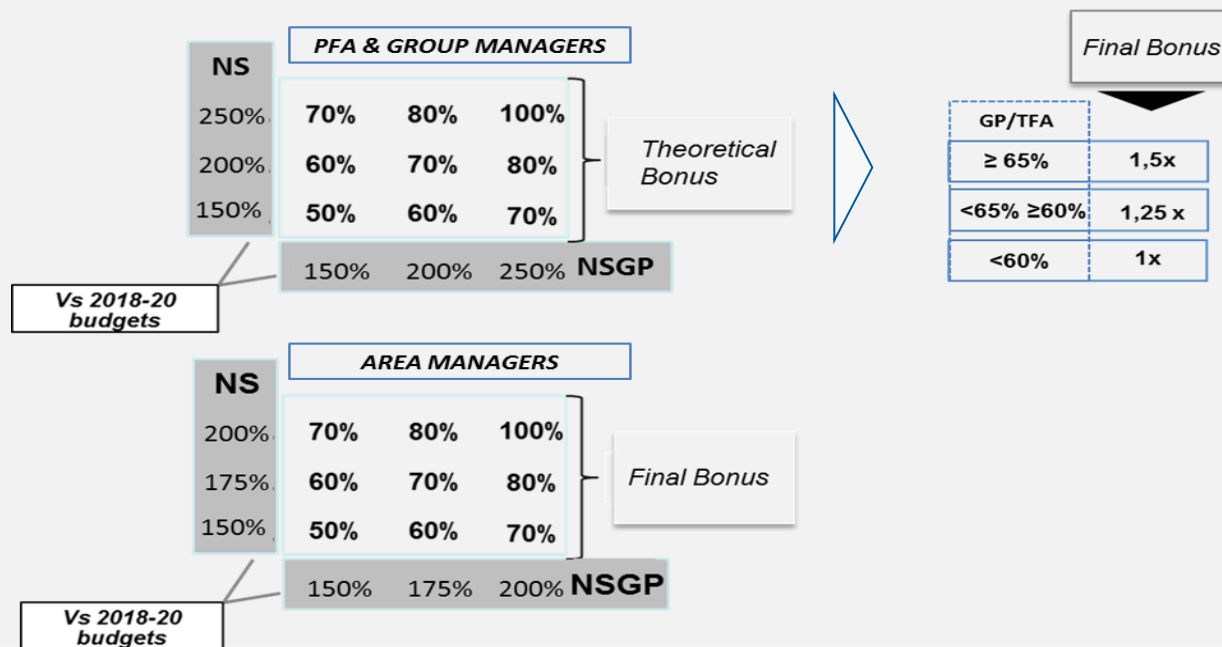
- The Plan beneficiaries are ca. 65 Bank key resources, including the Executives with Strategic Responsibilities. Maximum bonuses are defined according to the beneficiaries categories
- For the Chief Executive Officer and General Manager the maximum incidence of the bonus on the maximum variable remuneration attributable in each year of performance is 50%
- For the other Executives with Strategic Responsibilities the maximum bonus incidence is 30%
- For the other Plan beneficiaries specific maximum bonuses are provided according to the roles, always within the limits provided by the Compensation Policy and by the law
- The Plan provides different payout mechanisms according to the categories of beneficiaries (see below). For the Identified Staff are provided share retention periods equal to 2 years on upfront shares and 1 year for the deferred ones

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

FOCUS ON 2018-2020 LTIs

The Plan for Financial Advisors Identified Staff– *the performance goals*

- In order to reward, motivate and retain the Financial Advisors identified Staff in 2020 (ca. 15 people estimated) towards the 2018-2020 commercial goals, a Long Term Incentive Plan in cash and shares has been defined → the Plan details are shown in paragraph 5.6 of the 2018 [Annual Compensation Report](#)
- The Plan KPIs are linked to the Total Net Sales (NS) and to the Net Sales of Guided Products (NSGP) considered vs 2018-2020 cumulated budgets. The KPIs are put in a matrix
- The targets are expressed in different percentages, in relation to the population in scope (PFA/Group Manager or Area Manager)
 - for PFA and Group Manager the targets in the matrix lead to a theoretical bonus that can be multiplied until a maximum bonus through the ratio between Guided Products and Total Financial Assets
 - The Area Manager performance is assessed considering the budgets of Total Net Sales and the Net Sales of Guided Products



FOCUS ON 2018-2020 LTIs

The Plan for Financial Advisors Identified Staff– *the entry conditions and risk adjustment*

- The Plan provides specific entry conditions at local and Group level, linked to the same KPIs used for the 2018-2020 Plan dedicated to employees. Profitability conditions are provided only at local level.
- The same mechanisms applies to malus, with impact on deferrals

Performance		Deferral	
Entry Conditions		Malus	
Group	Fineco	Group	Fineco
	Σ 2018-2020 NOP Adj >0		Σ NOP Adj >0
	Σ 2018-2020 NP >0		Σ NP >0
CET 1 Ratio Fully loaded > 10,4%	CET 1 Ratio Fully loaded > 10,4%	CET 1 Ratio Fully loaded > 10,4%	CET 1 Ratio Fully loaded > 10,4%
LCR >101%	LCR >101%	LCR >101%	LCR >101%
NSFR >101%	NSFR >101%	NSFR >101%	NSFR >101%

- In addition to the Entry Conditions shown above, further conditions are provided to access the bonus
 - at Bank level → EVA > 180 € mio at 2020
 - at individual level → AuM Net Sales > 150% of 2018-2020 individual budgets for PFA and Group Manager with individual portfolios and > 100% of 2018-2020 coordinated PFA budget for Area Manager and Group Manager only with coordinated portfolios
- The same risk adjusted mechanism of the one used for 2018-2020 LTI for Employees is provided
- Individual compliance and claw- back clauses are provided

FOCUS ON 2018-2020 LTIs

The Plan for Financial Advisors Identified Staff– *the payout mechanism*

- The same amount of maximum bonus is provided for all the Plan beneficiaries
- The bonuses will be paid as follows, in cash and Fineco shares (purchased on the market) in proportion 40%- 60% in a multi-year period
- Holding periods are provided on the shares equal to 2 years for the upfront shares and 1 year for the deferred ones

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