



B A N K

Compensation Policy Side presentation

March 2019

PURPOSE OF THE DOCUMENT

This document aims at providing a brief **overview on FinecoBank 2019 Compensation Policy** key aspects, namely

- Policy **key principles and governance**
- **Policy main contents**, also compared to 2018
- **2018** Incentive Systems **payout**
- **2019** short term **Incentive Systems**
- Focus on the **main features**

*For further details please refer to our whole **2019 Compensation Policy***



- **POLICY KEY PRINCIPLES AND GOVERNANCE**

- POLICY 2019 MAIN CONTENTS

- 2018 INCENTIVE SYSTEMS PAYOUT

- 2019 SHORT TERM INCENTIVE SYSTEMS

- FOCUS ON THE MAIN FEATURES

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



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 2018, providing the Board of Directors about 30 **opinions** → *for further details see chapter 2.1 of the [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 [2019 Compensation Policy](#) and 2.2 of the [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 [Annual Compensation Report](#)*

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POLICY 2019 MAIN CONTENTS

An overview vs 2018

CONFIRMED

NEW

UPDATES



HR and Manager of Financial Statements remuneration is predominantly fixed



More restrictive claw-back clause (applicable up to 5 years from each payment related to the incentive systems)



Updated Peer Group for 2019



Introduced new formula for severance

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 Company **Control Functions** variable pay is capped at **1/3 of fixed pay**. **Predominance of fixed pay for HR and Manager in charge of preparing financial statements**. 2:1 is provided for Personal Financial Advisors (PFA) Identified Staff.

Detailed description of

- Compliance requirements (so-called **Compliance Drivers**) for the definition of incentive systems compliant with the law, with particular attention to sales networks
- **Individual malus and claw-back clauses** in case of non-compliant violations and behavior

Full disclosure of **Market Peer Group** for benchmarking purposes

Share Ownership Guidelines for Executives with Strategic Responsibilities

Transparent disclosure of remunerations of Non-Executives Directors and Identified Staff according to the provisions set at EU and Italian level.

Full description of the **2019 short-term Incentive Systems** for Employees and Financial Consultants Identified Staff, and of **the implementation in 2019 of the 2018 short-term Incentive Systems and of the previous years**

Full description of the **2018-2020 Long-Term Incentive System** for selected Employees for **Personal Financial Advisors Identified Staff**

Termination Payments Policy (Severance Policy)

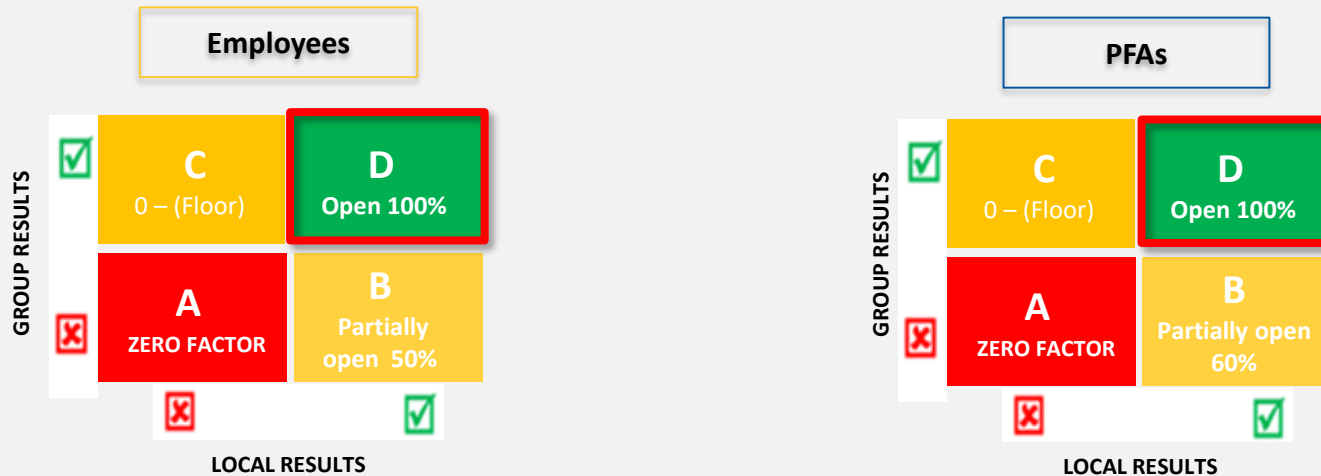
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2018 INCENTIVE SYSTEMS PAYOUT (1/3)

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



2018 INCENTIVE SYSTEMS PAYOUT (2/3)

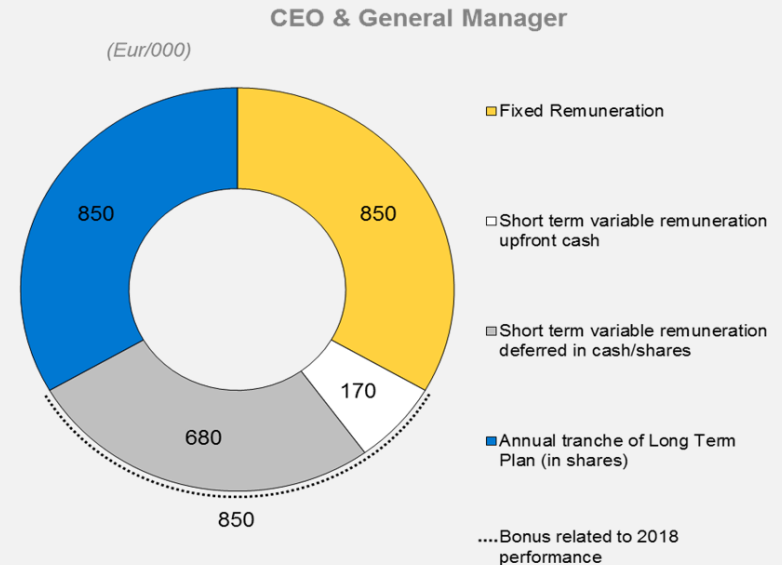
Focus on CEO/GM's performance evaluation 2018

GOAL	RESULT	ASSESSMENT
ROAC vs. budget	Bdg 40% - Result 41.59%	
EVA vs. budget	Bdg 189,078 k€ - Result 194,309 k€	
Operating Costs vs. budget	Bdg -247,190 k€ - Result -245,763 k€	
Net New Clients vs target	Target: NET 73,397 - Result: NET 77,959	
Net Sales of Guided Products vs. budget	Bdg 5,069,004 k€ - Result 2,755,242 k€	
New business EL vs. budget	Target 0.35% - Result 0.30%	
Sustain value through people Qualitative assessment based on: - Y/Y delta on Pay for Performance metrics on variable and fix pay - Y/Y delta on Gender Pay Gap / Gender Balance dashboard / Gender Diversity Initiatives/ Succession Planning / Building up a sustainable Talent Management Support - Retention rate or voluntary turnover	Outstanding results in terms of: - pay for performance: fully consistent in 2018 (2017 payout) vs actual business results and individual performance; - gender pay gap: no significant gap in 2018. Furthermore, Succession Plan presented to FinecoBank Board on 11/12/2018, shows full coverage of managerial positions. In addition several initiatives have been put in place in order to foster gender diversity, inclusion and work-life balance within the organization. As regards work-life balance, the "Maggiortempo" project launch has to be highlighted, supporting all the colleagues in the everyday tasks, giving back time to people. Voluntary turnover shows a very low rate of 3% ca, proving that Fineco confirms to be considered a "great place to work"	
Tone from the top on Compliance Culture vs. qualitative assessment based on: Scope, kind and numbers of documented initiatives - pre-committed with EMC, aimed at promoting staff integrity / customer protection / trustworthiness. The overall status of findings or proceedings in place (internal or external) considering the trend, type, severity and the timely completion of the related remediation actions	-Tone from the top activities have been all well carried out and ad hoc communication on compliance culture within the Bank as well as on staff integrity and behavioral expectations - Overall findings as at 4Q 2018 show no critical aspects.	

2018 INCENTIVE SYSTEMS PAYOUT (3/3)

Focus on CEO/GM'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**
- **The overall CEO & GM compensation package for 2018 performance**, includes the annual portion of the 2018-2020 LTI Plan which represents 50% of the maximum variable remuneration, taking into account **cap 2:1**



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2019 SHORT TERM INCENTIVE SYSTEMS (1/2)

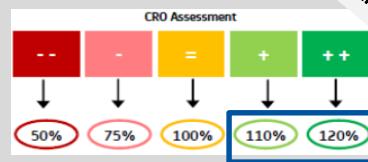
- In continuity with 2018, also in 2019 specific Incentive Systems for Employees and Financial Advisors Identified Staff are provided
- The 2019 Incentive Systems follow the Bonus Pool logic, providing entry and malus conditions at Group and Local level, with profitability, capital and liquidity KPIs
- 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 **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

Risk Adjustment

- In 2019 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



Only in the case of positive EVA at the end of the financial year (or EVA > 0 if the budget is equal to 0)

Pagamento del bonus















- The individual bonus allocation is based on the individual performance evaluation
- Bonuses are paid out in cash and Fineco shares with a proportion in a multi-year period
- More restrictive* deferral schemes for Top Managers or employees with variable remuneration > € 430k** in the performance year

* In line with regulation (25th update to the Circular n. 285 of 23th October 2018)

** Pari al 25% della remunerazione totale degli High Earner Italiani secondo l'ultimo report di EBA (Benchmarking and High Eaners Report). La soglia è adottata a livello di Gruppo UniCredit e include sia la remunerazione variabile di breve termine sia il pro-quota annuale della remunerazione variabile di lungo termine.


2019 SHORT TERM INCENTIVE SYSTEMS (2/2)


Focus on CEO/GM individual performance screen 2019

GOAL NAME	REFERENCE TARGET	LINK TO 5 FUNDAMENTALS	RISK CORRELATION SUSTAINABILITY GOAL
ROAC / EVA	vs. budget	Execution & Discipline 	 
New Business EL %	vs. target	Risk Management 	 
OPEX	vs. budget Operating costs as reported in reclassified P&L, i.e.: Staff expenses + Other Administrative Expenses (direct + indirect) – Expenses Recovery + Depreciations.	Execution & Discipline 	
Net new clients	vs. target	Customers First 	
Net sales of Guided Products	vs. budget	Execution & Discipline 	
New Strategic Plan preparation	vs. qualitative assessment based on: <ul style="list-style-type: none"> contribution to the preparation of the new MYP development of Proof of Concepts on the effective implementation of new technologies (e.g. Artificial Intelligence, big data, etc.) in own domain 	Execution & Discipline 	
Gender balance and pay gap	vs. qualitative assessment based on: <ul style="list-style-type: none"> Group-wide % of women in EVP* roles vs. 2019 target Y/Y delta on % of women in VP*, FVP*, SVP* roles Y/Y delta on gender pay-gap 	People Development 	
Tone from the top on conduct and compliance culture	vs. qualitative assessment based on: <ul style="list-style-type: none"> 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 	

* Group Global Job Model: EVP= Executive Vice President, SVP= Senior Vice President, FVP= First Vice President, VP= Vice President

Legenda

 Sustainability KPI

 Risk adjusted KPI

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- **FOCUS ON THE MAIN FEATURES**

FOCUS ON THE MAIN FEATURES (1/3)

Focus on payout schemes for Identified Staff

- According to the regulation, the short-term payment schemes for employees and financial advisors identified as Identified Staff have been modified.
- In particular, a threshold of «significant amount» of remuneration (€ 430k*) was introduced to define the new schemes described below (also in comparison to the previous year).

FOR CEO/GM AND OTHER ROLES PROVIDED BY LAW** with "significant amount" of total variable pay in the performance year (> € 430k)	2018		UPFRONT	N+1	N+2	N+3	N+4	N+5	Total	
		Cash	20% upfront	10% Deferred					20% deferred	50%
		Shares			20% upfront	10% deferred	10% deferred	10% deferred		50%
NEW 2019			UPFRONT	N+1	N+2	N+3	N+4	N+5	Total	
		Cash	20% upfront		12% deferred				12% deferred	44%
		Shares		20% upfront		12% deferred	12% deferred	12% deferred		56%
FOR THE OTHER ROLES PROVIDED BY LAW** with not significant amount of total variable remuneration (≤ € 430k)	2018		UPFRONT	N+1	N+2	N+3	N+4	N+5	Total	
		Cash	20% upfront	10% Deferred					20% deferred	50%
		Shares			20% upfront	10% deferred	10% deferred	10% deferred		50%
NEW 2019			UPFRONT	N+1	N+2	N+3	N+4	N+5	Total	
		Cash	25% upfront		10% deferred				10% deferred	45%
		Shares		25% upfront		10% deferred	10% deferred	10% deferred		55%

* Threshold of € 430,000 defined at Group level according to the provisions of the law, equal to 25% of the total remuneration of the Italian High Earners according to the latest EBA report available (Benchmarking and High Eaners Report)

** For instance the first reporting line of Management Body (CEO) and responsible of main business areas

FOCUS ON THE MAIN FEATURES (2/3)

Focus on payout schemes for Identified Staff

			UPFRONT	N+1	N+2	N+3	N+4	N+5	Total
FOR OTHER IDENTIFIED STAFF with significant amount of total variable remuneration (> € 430k)	2018	Cash	20% upfront	10% Deferred				20% deferred	50%
		Shares			20% upfront	10% deferred	10% deferred	10% deferred	50%
	NEW 2019		UPFRONT	N+1	N+2	N+3			Total
		Cash	20% upfront	5% deferred	5% deferred	20% deferred			50%
		Shares		20% upfront	15% deferred	15% deferred			50%
FOR OTHER IDENTIFIED STAFF with not significant amount of total variable remuneration (≤ € 430k)	2018	Cash	30% Upfront	10% Deferred		10% deferred			50%
		Shares			30% upfront	10% deferred	10% deferred		50%
	NEW 2019		UPFRONT	N+1	N+2	N+3			Total
		Cash	30% upfront			20% deferred			50%
		Shares		30% upfront	10% deferred	10% deferred			50%

Focus on Termination Payments Policy

- In accordance to the regulation, the amounts agreed between the Bank and its personnel in view of or upon the early termination of the employment or office - with the exception of the deferred statutory pay (Italian Trattamento Fine Rapporto – TFR) and indemnity in lieu of notice - are included in the calculation of the limit of the variable to fixed ratio for Identified Staff, with the exception of the amounts agreed and paid:
 - on the basis of a non-competition agreement, for the portion that, for each year of duration of the agreement, does not exceed the last year of fixed remuneration
 - as part of an agreement between the Bank and the personnel, wherever reached, for the settlement of a current or potential dispute related to employment termination, if calculated on the basis of a **predefined formula**

NEW: predefined formula to calculate termination payments (Severance) additional to notice

FORMULA FOR SEVERANCE

(One Month of **Total Comp**) x (Years of **Service**) x (Overall **Corrective Factor**)

MAXIMUM LIMITS

- **Severance 18 months** of total compensation
- **Indemnity in lieu of notice + Severance 24 months** of total compensation



ANNEX

LTI PLANS 2018-2020 (1/4)

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 **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

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 Net Profit >0	Σ 2018-2020 Net Profit >0	Σ Net Profit >0	Σ Net Profit >0
CET 1 Fully loaded > 11,1%*	CET 1 Fully loaded > 11,1%**	CET 1 Fully loaded > 11,1%*	CET 1 Fully loaded > 11,1%**
LCR > RAF Limit (101%)*	LCR > RAF Limit (101%)**	LCR > RAF Limit (101%)*	LCR > RAF Limit (101%)**
NSFR > RAF Limit (101%)*	NSFR > RAF Limit (101%)**	NSFR > RAF Limit (101%)*	NSFR > RAF Limit (101%)**

- 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

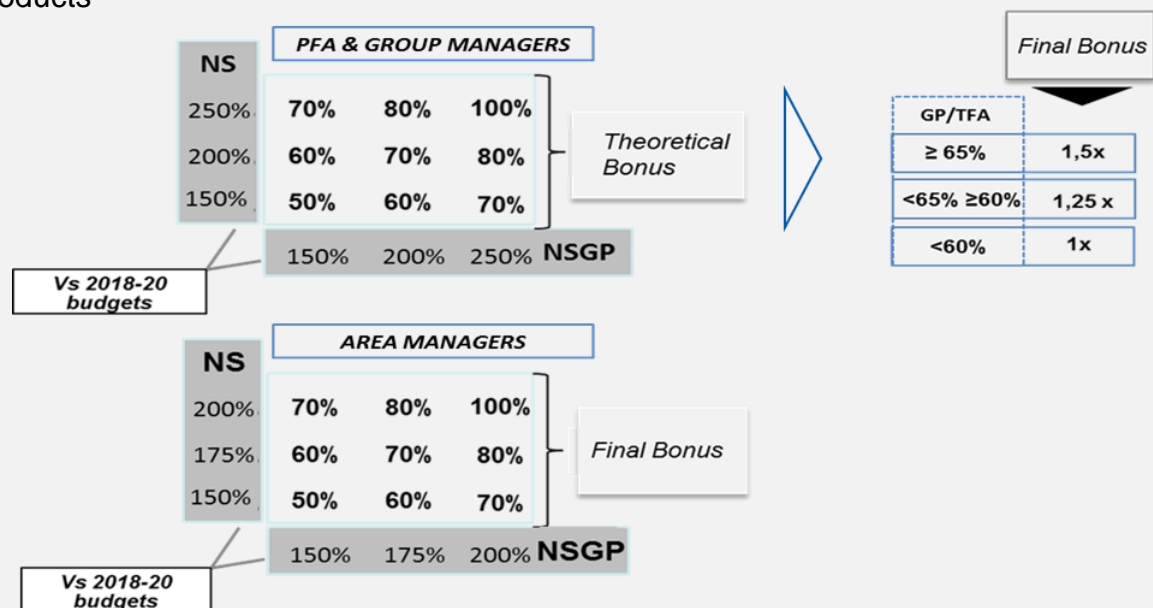
- As in any incentive plan, there is a compliance clause for individual behavior and a claw-back clause

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

** Values aligned to those of the Group. In the event of more restrictive regulatory changes in the performance years of the Plan, the defined thresholds will be updated accordingly

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 foals, a Long Term Incentive Plan in cash and shares has been defined → the Plan details are shown in paragraph 5.6 of the **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



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

- 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

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

** Values aligned to those of the Group. In the event of more restrictive regulatory changes in the performance years of the Plan, the defined thresholds will be updated accordingly