

# **FINECOBANK GROUP PUBLIC DISCLOSURE – PILLAR III**

**AS AT 31 MARCH 2022**



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"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."  
Bank enrolled in the Register of Banks and Parent Company of the FinecoBank Banking Group – enrolled in the Register of Banking Groups at No. 3015, Member of the National Guarantee Fund and National Interbank Deposit Guarantee Fund.  
Tax Code and Milan-Monza-Brianza-Lodi Companies Register no. 01392970404 – R.E.A. (Economic and Administrative Index) no. 1598155, VAT No. 12962340159



# Introduction

The Group FinecoBank public disclosure Pillar III – (hereafter “Disclosure”) has been prepared in accordance with the prudential rules for banks and investment firms, which came into force on January 1, 2014 and is contained in Directive 2013/36/EU (Capital Requirements Directive, CRD IV) and in Regulation 575/2013/EU (Capital Requirements Regulation, CRR), and subsequent Directives and Regulations amending its content, including, in particular, the Directive (EU) 2019/878 (so called CRD V), the Regulation (EU) 2019/876 of the European Parliament and of the Council (so-called CRR II) and the Regulation (EU) 2020/873 of the European Parliament and of the Council (so called CRR Quick-fix). In the rest of this document, the term “CRR” or “Regulation” refers to Regulation no. 575/2013/EU as subsequently amended, while the term “Directive” refers to the Capital Requirements Directive as subsequently amended.

The Directive and the Regulation transpose into European Union legislation the framework known as Basel III, defined by the Basel Committee on Banking Supervision in order to strengthen banks' ability to absorb shocks arising from financial and economic tensions, regardless of their origin, to improve risk management and governance of banks, as well as to strengthen their transparency and disclosure. The new EU rules were collated and implemented by the Bank of Italy through the “Supervisory Regulations for Banks” (Circular 285 of December 17, 2013 and subsequent update).

Moreover, in order to rationalize and homogenize the disclosures to be provided periodically to the market, the EBA, responding to the mandate given to it by Article 434a “Disclosure templates” of CRR II, published the implementing technical standards (EBA/ITS/2020/04), intended for all institutions subject to the disclosure requirements of Part eight of CRR. These implementing technical standards were transposed by Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to Titles II and III of Part Eight of Regulation (EU) No 575/2013.

The CRR requires Institutions to publish the information set out in Title II and III of Part Eight along with the financial statements. The purpose of this disclosure requirement is to integrate the minimum capital requirements (Pillar 1) and the prudential control process (Pillar 2), by identifying a set of disclosure transparency requirements that allow market participants to have relevant, complete and reliable information about capital adequacy, risk exposure and the general characteristics of the systems in place to identify, measure and manage those risks.

FinecoBank qualifies as a “Large Institution” under Part Eight of the CRR and, therefore, all information required to them on a quarterly basis has been published in this Public Disclosure as of 31 March 2022. In addition, it should be noted that following the exceeding of the size threshold of significance of the total value of assets of 30 euro billion, identified by Regulation 468/2014 (MVU) establishing the framework for cooperation under the Single Supervisory Mechanism between the European Central Bank and the competent national authorities and with the designated national authorities, the European Central Bank has taken the decision to classify FinecoBank as a significant institution, as of 1 January 2022. Therefore, from that date Fineco falls under the direct supervision of the European Central Bank.

In line with the CRR, FinecoBank S.p.A., as the Parent Company of the FinecoBank Banking Group (hereinafter the “Group”), publishes its Public Disclosure at a consolidated level.

In addition to the European Union regulations, there are also the provisions issued by the Bank of Italy, in particular with Circular no. 285 “Supervisory provisions for banks” of December 17, 2013 (and subsequent updates), which in Chapter 13 of Part Two (public disclosure) governs the matter. The aforementioned circular does not lay down specific rules for the preparation and publication of Pillar III but refers to the provisions for this purpose provided for by EU Regulation no. 575/2013 (Capital Requirements Regulation, so-called CRR), by the Regulations of the European Commission whose preparation may be delegated to the EBA (European Banking Authority) and by the EBA Guidelines.

The subject is therefore regulated:

- by the Part Eight of CRR, “Disclosure by institutions” (art. 431–455);
- by the Regulations of the European Commission, the preparation of which may be delegated to the EBA, containing the regulatory or implementing technical standards to govern the uniform models for publishing the various types of information. In particular, reference is made to the following guidelines and regulations:
  - Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council and repealing Commission Implementing Regulation (EU) No 1423/2013, Commission Delegated Regulation (EU) 2015/1555, Commission Implementing Regulation (EU) 2016/200 and Commission Delegated Regulation (EU) 2017/2295 (EBA/RTS/2020/20 implemented by the Implementing Regulation 2021/637);
  - guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013 (EBA/GL/2014/14);
  - guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds (EBA/GL/2018/01);
  - guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07);
  - guidelines amending Guidelines EBA/GL/2018/01 on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 (CRR) on the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds to ensure compliance with the CRR ‘quick fix’ in response to the COVID-19 pandemic (EBA/GL/2020/12).

Finally, this Disclosure takes into account the indications contained in the document “Enhancing the risk disclosures of banks” prepared by the international Enhanced Disclosure Task Force - EDTF established under the auspices of the Financial Stability Board (FSB) and published in 2012.

# Introduction

This document contains a number of recommendations aimed at enhancing banks' disclosure transparency on risk profiles for which investors have highlighted the need for clearer and more complete information.

With regard to the initiatives put in place in 2020, which are still in force, please also note Regulation (EU) 873/2020 ("CRR Quick-fix") of the EU Parliament and Council published on 26 June 2020, amending Regulation (EU) 575/2013 ("CRR") and Regulation (EU) 876/2019 ("CRR II"), which made a number of adjustments to the prudential framework in light of the Covid-19 health emergency, allowing credit institutions to apply specific transitional provisions, with the aim of providing capital support to enable credit institutions to continue to support the real economy in the context of the Covid-19 pandemic. The main measures still in force include the following:

- the introduction of a transitional period, from 1 January 2020 to 31 December 31 2022, during which institutions may exclude from the calculation of their CET1 capital the amount of unrealized gains and losses accumulated starting from 31 December 2019 on debt instruments measured at fair value recognized in other comprehensive income corresponding to exposures to central government regional governments or local authorities as defined in Article 115(2) of the CRR, and to public sector entities as defined in Article 116(4) of the CRR, excluding impaired financial assets ("Temporary treatment of unrealized gains and losses measured at fair value through other comprehensive income in light of the COVID-19 pandemic"). As of 31 December 2021, the Group did not make use of the option to apply the temporary treatment;
- the extension until 31 December 2024 of the transitional regime that allows to reduce the potential impact on CET1 deriving from the increase in provisions for expected losses on receivables calculated according to the IFRS 9 impairment model, through the gradual inclusion in CET1 ("Temporary treatment to mitigate the impact of the introduction of IFRS 9 on own funds"). It is envisaged that banks that had previously decided to make use or not to make use of the transitional provisions can revoke their decision at any time during the new transitional period. As of 31 December 2021, the Group did not make use of the option to apply the temporary treatment.

With regard to the public disclosure requirements related to the provisions contained in Regulation 873/2020, the Bank of Italy, with a communication dated 8 September 2020, implemented the EBA Guidelines providing clarifications and guidance on the compilation of the supervisory reporting formats and public disclosures (EBA Guidelines 2020/11 and 2020/12). The EBA Guidelines 2020/12 amend EBA/GL/2018/01 to take account of the impact on capital of the changes regarding the temporary treatment of unrealised gains and losses measured at fair value recognised in other comprehensive income and the extension of the IFRS9 transitional provisions. The main changes concern:

- the extension of the disclosure period due to the extension of the transitional arrangements for IFRS 9 and the introduction of additional qualitative disclosure requirements aimed at covering decisions taken as part of the discretions provided for in article 473a CRR, as amended by the CRR Quick-fix;
- the introduction of new disclosure requirements relating to the transitional prudential treatment provided for unrealized gains and losses on exposures to central governments, regional governments or local authorities referred to in article 115, paragraph 2 of the CRR, and to public sector entities referred to in article 116, paragraph 4 of the CRR, excluding impaired financial assets measured at fair value with an impact on comprehensive income.

With reference to the abovementioned transitional provisions introduced by the CRR Quick-fix, since the Group, as at 31 March 2022, did not make use of the option to apply the "Temporary treatment to mitigate the impact of the introduction of IFRS 9 on own funds" and the "Temporary treatment of unrealized gains and losses measured at fair value through other comprehensive income in light of the COVID-19 pandemic", own funds and capital already reflect the full impact of the above components and, consequently, the disclosure requirements specified in EBA Guidelines 2020/12 do not apply.

In view of the provisions contained in the Bank of Italy Communication of June 30, 2021, declaring the existence of exceptional circumstances that began on December 31, 2019, starting from the reference date of June 30, 2021, the FinecoBank Group has applied the provisions of Article 429a of the CRR, which allows certain exposures to central banks to be excluded from the overall exposure measure of Leverage ratio in view of the COVID-19 pandemic. As of March 31, 2022, the value of the exemption amounts to 1,770 million euros, with an impact on the indicator of +0.19%. The leverage ratio stands at 3.99%, a level well above the applicable minimum regulatory requirement (adjusted leverage ratio) of 3.19%. Please note that this transitional treatment is no longer applicable as of April 1, 2022.

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

The key elements of this policy are:

- identification of roles and responsibilities of the corporate bodies, departments and Legal Entities involved in the process of producing the disclosure;
- identification of the information to be published (in accordance with EBA GL/2014/14 and CRR Article 432 and 433 and with the subsequent Regulation (EU) 2019/876 in relation with the requirements applicable as of 31 March 2022);
- approval by the Board of Directors;
- publication on the FinecoBank website.

This document has been prepared in accordance with the indications of the EBA guidelines in compliance with the proportionality principle and publishing only information that is material and not exclusive or confidential in accordance with Article 432 of the CRR. Finally, for the publication of qualitative and quantitative information, FinecoBank has adopted, firstly, the models provided by the EU Regulations or by the applicable EBA

# Introduction

Guidelines mentioned above, secondly, free models. In this regard, the tables below report references to the location, in this document, of the required information.

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

## Reference to regulatory reporting requirements on a quarterly basis: Implementing Regulation (EU) 637/2021

The table below shows the templates required on quarterly basis, applicable to FinecoBank Group:

TABLE	TOPIC	CHAPTER
<b>Commission Implementing Regulation (EU) 2021/637</b>		
EU OV1	Overview of total risk exposure amounts	Own funds requirements and risk-weighted exposure amounts
EU KM1	Key metrics	Key metrics
EU LIQ1	Quantitative information of LCR	Liquidity requirements
EU LIQB	Qualitative information on LCR, which complements template EU LIQ1	Liquidity requirements

## Reference to the EBA/GL/2020/12

Please note that the "Template IFRS9/Article 468/FL: Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs, and with and without the application of the temporary treatment in accordance with Article 468 of the CRR" is not subject to publication because, as previously mentioned, the Group did not make use of the option to apply the "Temporary treatment to mitigate the impact of the introduction of IFRS 9 on own funds" and the "Temporary treatment of unrealized gains and losses measured at fair value through other comprehensive income in light of the COVID-19 pandemic". Therefore, FinecoBank Group's capital and own funds as of March 31, 2022 already reflect the full impact of these items.

## Reference to the information required by the Part Eight of CRR

The table shows the information required, on a quarterly basis, by Regulation (EU) n.575/2013 and subsequent amendments.

ARTICLE	TOPIC	CHAPTER
438 letters d) and h)	Disclosure of own funds requirements and risk-weighted exposure amounts	Own funds requirements and risk-weighted exposure amounts
447	Disclosure of key metrics	Key metrics
451a par. 2	Disclosure of liquidity requirements	Liquidity requirements

It should be noted that the information referred to in the sections of the articles listed above for which a quarterly frequency is required, as detailed in 433a of the CRR, is subject to publication in this document.





# Key metrics

Below is reported the EU KM1 table on key metrics, the details and qualitative information of which are reported within the document in the specific dedicated sections.

The following table EU KM1 reports information required by article 447 of CRR, in particular:

- the composition of own funds and own funds requirements;
- the total amount of risk exposure;
- the amount and composition of additional own funds that institutions are required to hold;
- the combined buffer requirement that institutions are required to hold;
- the leverage ratio and exposure measure;
- information in relation to liquidity coverage ratio;
- information in relation to net stable funding requirement.

All minimum requirements applicable to the FinecoBank Group as of March 31, 2022 are largely met.

The calculation of Own Funds, and in particular of CET1 capital, on 31 March 2022 took into account dividends and foreseeable charges for a total amount of 92,830 thousand.

With reference to Own Funds, and in particular to CET1 Capital, shown in the table below, it should be noted that the figures as at 31 March 2021 included the 2019 and 2020 profits, entirely allocated to reserves in accordance with the recommendations of the European Central Bank and the Bank of Italy on dividend policy in force at the time.

## EU KM1 - Key metrics

		(Amounts in € thousand)				
		a	b	c	d	e
		3/31/2022	12/31/2021	9/30/2021	6/30/2021	3/31/2021
<b>Available own funds (amounts)</b>						
1	Common Equity Tier 1 (CET1) capital	903,165	868,214	841,297	823,545	1,115,841
2	Tier 1 capital	1,403,165	1,368,214	1,341,297	1,323,545	1,615,841
3	Total capital	1,403,165	1,368,214	1,341,297	1,323,545	1,615,841
<b>Risk-weighted exposure amounts</b>						
4	Total risk exposure amount	4,678,037	4,617,708	4,580,050	4,430,634	4,208,358
<b>Capital ratios (as a percentage of risk-weighted exposure amount)</b>						
5	Common Equity Tier 1 ratio (%)	19.31%	18.80%	18.37%	18.59%	26.51%
6	Tier 1 ratio (%)	29.99%	29.63%	29.29%	29.87%	38.40%
7	Total capital ratio (%)	29.99%	29.63%	29.29%	29.87%	38.40%
<b>Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)</b>						
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	2.00%	1.86%	1.86%	1.86%	1.86%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.12%	1.04%	1.04%	1.04%	1.04%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	1.50%	1.40%	1.40%	1.40%	1.40%
EU 7d	Total SREP own funds requirements (%)	10.00%	9.86%	9.86%	9.86%	9.86%

# Key metrics

## Continued EU KM1 – Key metrics

(Amounts in € thousand)

		a	b	c	d	e
		3/31/2022	12/31/2021	9/30/2021	6/30/2021	3/31/2021
<b>Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)</b>						
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%	0.00%	0.00%	0.00%
9	Institution specific countercyclical capital buffer (%)	0.004%	0.005%	0.005%	0.005%	0.003%
EU 9a	Systemic risk buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 10a	Other Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
11	Combined buffer requirement (%)	2.504%	2.505%	2.505%	2.505%	2.503%
EU 11a	Overall capital requirements (%)	12.504%	12.365%	12.365%	12.365%	12.363%
12	CET1 available after meeting the total SREP own funds requirements (%)	13.69%	13.26%	12.83%	13.05%	20.97%
<b>Leverage ratio</b>						
13	Total exposure measure	35,198,242	34,045,310	33,223,505	32,851,896	33,844,724
14	Leverage ratio (%)	3.99%	4.02%	4.04%	4.03%	4.77%
<b>Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)</b>						
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14b	of which: to be made up of CET1 capital (percentage points)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14c	Total SREP leverage ratio requirements (%)	3.19%	3.19%	3.19%	3.19%	0.00%
<b>Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)</b>						
EU 14d	Leverage ratio buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14e	Overall leverage ratio requirement (%)	3.19%	3.19%	3.19%	3.19%	0.00%
<b>Liquidity Coverage Ratio</b>						
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	18,846,454	18,385,292	17,827,332	17,140,336	16,588,447
EU 16a	Cash outflows - Total weighted value	3,808,478	3,703,558	3,596,183	3,502,658	3,423,112
EU 16b	Cash inflows - Total weighted value	1,489,102	1,463,918	1,412,908	1,418,702	1,425,800
16	Total net cash outflows (adjusted value)	2,319,376	2,239,640	2,183,275	2,083,956	1,997,312
17	Liquidity coverage ratio (%)	819.55%	828.09%	824.61%	834.44%	841.27%
<b>Net Stable Funding Ratio</b>						
18	Total available stable funding	31,341,594	29,534,899	29,006,232	29,260,008	
19	Total required stable funding	9,625,554	9,080,548	8,730,136	9,104,320	
20	NSFR ratio (%)	325.61%	325.25%	332.25%	321.39%	

Please note that the EU KM1 template shows the Net Stable Funding Ratio starting from 06/30/2021, as this metric came in force stating from that date. In addition, the information on the Liquidity Coverage Ratio refers to the weighted average values, consistent with the representation provided in the EU LIQ1 template.

# Own funds requirements and risk-weighted exposure amounts

The Group deems as a priority the activities of capital management and allocation based on 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).

In the dynamic management of capital, the Group draws up the financial plan and monitors the regulatory capital requirements, anticipating the appropriate actions to achieve the targets.

On the basis of the EU regulations set out in Directive 2013/36/EU and Regulation No 575/2013/EU and subsequent updates, collated and implemented by the Bank of Italy through Circular No. 285 of December 17, 2013 "Supervisory Regulations for Banks" as amended, the Bank must satisfy the following own funds requirements established in Article 92 of the CRR, expressed as a percentage of the total risk exposure amount (RWA – Risk Weighted Assets):

- a Common Equity Tier 1 capital ratio of at least 4.5%;
- a Tier 1 capital ratio of at least 6%;
- a Total capital ratio of at least 8%.

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

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

- Capital Conservation Buffer (CCB) according to the article 129 of CRDIV, which is equal to 2.5% of the total Group risk weighted assets;
- Institution specific countercyclical capital buffer (CCyB) to be applied in periods of excessive credit growth, coherently with the article 160 of CRDIV (paragraphs 1 to 4) which for the Bank is equal to 0.004% as at 31 March 2022. This buffer is calculated depending on the geographical distribution of the relevant Group's credit exposures and on the national authorities' decisions, which define country-specific buffers.

With reference to the capital requirements applicable to the FinecoBank Group, it should be noted that, at the end of the Supervisory Review and Evaluation Process (SREP), on March 21, 2022 the Competent Authority communicated the capital requirements applicable to the Group:

- 8.12% in terms of Common Equity Tier 1 ratio, which includes the Pillar 2 Requirement (P2R), set at 1.12%;
- 10.00% in terms of Tier 1 Ratio, which includes a P2R, set at 1.50%;
- 12.50% in terms of Total Capital Ratio, which includes a P2R, set at 2.00%.

Please, find below a scheme of FinecoBank capital requirements and buffers.

## Capital requirements and buffers for FinecoBank Group

Requirements	CET1	T1	TOTAL CAPITAL
A) Pillar 1 requirements	4.500%	6.000%	8.000%
B) Pillar 2 requirements	1.120%	1.500%	2.000%
<b>C) TSCR (A+B)</b>	<b>5.620%</b>	<b>7.500%</b>	<b>10.000%</b>
D) Combined Buffer requirement, of which:	2.504%	2.504%	2.504%
1. Capital Conservation Buffer (CCB)	2.500%	2.500%	2.500%
2. Institution-specific Countercyclical Capital Buffer (CCyB)	0.004%	0.004%	0.004%
<b>E) Overall Capital Requirement (C+D)</b>	<b>8.124%</b>	<b>10.004%</b>	<b>12.504%</b>

As at 31 March 2022, FinecoBank ratios are compliant with the above requirements.

Finally, it should be noted that, at the end of the administrative process related to the determination of the Minimum Requirements of Own Funds and Eligible Liabilities (MREL), in August 2021 FinecoBank has received from Bank of Italy, in agreement with the SRB, the Resolution decision.

The Bank shall comply with MREL on a consolidated basis, starting from 1<sup>st</sup> of January 2024, with an intermediate binding target from 1<sup>st</sup> of January 2022. In particular, FinecoBank must comply with a MREL requirement at a level of 18.33% of TREA (Total Risk Exposure Amount) – 20.83% including the Combined Buffer Requirement – and of 5.18% of LRE (Leverage Ratio Exposure), with an intermediate target at 4.11% from 1<sup>st</sup> of January 2022. In order to comply with the requirements and the calculation of other eligible liabilities issued by Fineco, currently there is no subordination requirement in the issuance of eligible MREL instruments (e.g., Senior unsecured). As of 31 March 2022, the Group complied with the above-mentioned requirements, also thanks to the placement on 14 October 2021 of the first issue on the market of Senior Preferred instruments, addressed to qualified investors, for a total amount of approximately 500 euro million.

# Own funds requirements and risk-weighted exposure amounts

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

The Group assesses capital adequacy by managing and allocating (regulatory and economic) capital according to the risks assumed and with the aim of directing its operations towards the creation of value. The Group has the goal of generating income in excess of that necessary to remunerate risk (cost of equity). This goal is pursued by allocating capital according to specific risk profiles and ability to generate sustainable earnings, measured as EVA (Economic Value Added) and ROAC (Return on Allocated Capital), which are the main risk-related performance indicators.

Capital and its allocation are therefore extremely important in defining strategies, since on the one hand it represents the shareholders' investment in the Group, which must be adequately remunerated, while on the other hand it is a scarce resource on which there are external limitations imposed by supervisory regulations.

The definitions of capital used in the allocation process are as follows:

- Risk or employed capital: this is the equity component provided by shareholders (employed capital) for which a return that is greater than or equal to expectations (cost of equity) must be provided;
- Capital at risk: this is the portion of capital and reserves that is used (the budgeted amount or allocated capital) or was used to cover (at period-end - absorbed capital) risks assumed to pursue the objective of creating value.

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

Internal capital and regulatory capital differ in terms of their definition and the categories of risk covered. The former is based on the actual measurement of exposure assumed, while the latter is based on templates specified in regulatory provisions. Economic capital is set at a level that will cover adverse events with a certain probability (confidence interval), while regulatory capital is quantified based on a CET1 target ratio higher than that required by the supervisory regulations in force.

The process of capital allocation is based on a "dual track" logic, considering both economic capital, measured through the full evaluation of risks via risk management models, and regulatory capital, quantified applying internal capitalisation targets to regulatory capital requirements.

The Group dynamically manages its capital base by monitoring regulatory capital ratios, anticipating the appropriate changes necessary to achieve its defined targets, and optimising the composition of its assets and equity. The capital monitoring and planning is performed by the Group in relation to regulatory capital (Common Equity Tier 1, Additional Tier 1 and Tier 2 Capital and Own funds), and in relation to risk-weighted assets (RWAs).

The assessment of the Bank's total internal capital is a dynamic process that requires constant monitoring designed to control the level of available resources compared to the capital used, and also to provide indications to the decision-making bodies. The monitoring is accompanied by an efficient and appropriate communications system, both for management purposes and communications with the supervisory authorities.

With reference to the risk-weighted exposures (RWA) as at 31 March 2022, it should be noted that following the deconsolidation of FinecoBank from the UniCredit Group, FinecoBank and UniCredit S.p.A. entered into a contract ("Pledge Agreement") that provides for the granting by UniCredit S.p.A. of financial guarantees in favour of FinecoBank aimed at guaranteeing the credit risk exposures represented by the UniCredit bonds, until the natural maturity of the same, and by the financial guarantees issued by FinecoBank in favour of the Italian Tax Agency ("Agenzia delle Entrate") at the request of UniCredit S.p.A., until they are completely extinguished. This guarantee as of 31 March 2022 is represented by the bond "Impresa2 FRN 20/12/2061 Asset Backed", issued by Impresa Two S.r.l. as part of a securitization transaction pursuant to Law 130/99 relating to receivables from businesses sold by UniCredit S.p.A., and repurchased by UniCredit S.p.A. itself, and, to a lesser extent, by Italian government bonds. Both guarantees meet the requirements of the applicable regulations to be eligible for credit risk mitigation techniques (CRM).

The following EU OV1 table shows the information required on a half-yearly basis under Article 438 letter d) of the CRR. In particular, it shows the total amount of risk-weighted exposure and the corresponding total own funds requirement, broken down by the different risk categories.

# Own funds requirements and risk-weighted exposure amounts

## EU OV1 – Overview of total risk exposure amounts

(Amounts in € thousand)

	Total risk exposure amounts (TREA)		Total own funds requirements	
	a	b	c	
	3/31/2022	12/31/2021	3/31/2022	
1	Credit risk (excluding CCR)	2,864,666	2,808,269	229,173
2	Of which the standardised approach	2,864,666	2,808,269	229,173
3	Of which the Foundation IRB (F-IRB) approach	-	-	-
4	Of which slotting approach	-	-	-
EU 4a	Of which equities under the simple risk weighted approach	-	-	-
5	Of which the Advanced IRB (A-IRB) approach	-	-	-
6	Counterparty credit risk - CCR	516,992	506,531	41,359
7	Of which the standardised approach	16,294	21,563	1,304
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	26,396	13,426	2,112
EU 8b	Of which credit valuation adjustment - CVA	886	1,391	71
9	Of which other CCR	473,416	470,152	37,872
15	Settlement risk	40	81	3
16	Securitisation exposures in the non-trading book (after the cap)	-	-	-
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	-	-	-
EU 19a	Of which 1250% / deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	40,106	46,594	3,209
21	Of which the standardised approach	40,106	46,594	3,209
22	Of which IMA	-	-	-
EU 22a	Large exposures	-	-	-
23	Operational risk	1,256,233	1,256,233	100,499
EU 23a	Of which basic indicator approach	-	-	-
EU 23b	Of which standardised approach	1,256,233	1,256,233	100,499
EU 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	112,513	108,587	9,001
<b>29</b>	<b>Total</b>	<b>4,678,037</b>	<b>4,617,708</b>	<b>374,243</b>

The increase in RWA compared to December 31, 2021 is mainly attributable to credit risk due to business growth.

FinecoBank Group does not exceed the thresholds for deduction from Common Equity Tier 1 Capital; therefore, the above numbers include RWA related to DTA and significant investments weighted at 250%.



# Liquidity requirements

## Liquidity Coverage Ratio – LCR

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

- with reference to the requirements to be met:
  - CRR article 412 "Liquidity coverage requirement ;
  - Delegated Regulation (EU) 2015/61 of October 10, 2014 and subsequent amendments, which establishes the rules specifying in detail the liquidity coverage requirement set forth in Article 412(1) of the CRR. Specifically, for each year of the transitional period, the requirement that all banks authorized in Italy must comply with is 100%;
  - Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the reporting by institutions for supervisory purposes and repealing Implementing Regulation (EU) No 680/2014.
- with reference to the disclosure information to be published:
  - CRR article 435 defining disclosure requirements for each risk category, including key ratios (letter f) and CRR article 451a defining disclosure of liquidity requirements;
  - Article 7 of Implementing Regulation (EU) 637/2021 laying down implementing technical standards with regard to liquidity reporting;
  - EDTF recommendation ("Enhancing the risk disclosures of banks") no. 4, which requires the publication of key ratios (including LCR).

The following EU LIQ1 template and EU LIQB section report the information required under Article 451a paragraph 2 of the CRR. In particular:

- the average of the liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period;
- the average of total liquid assets, after applying the relevant haircuts, included in the liquidity buffer, based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period, and a description of the composition of that liquidity buffer;
- the averages of their liquidity outflows, inflows and net liquidity outflows, based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period and the description of their composition.

# Liquidity requirements

## EU LIQ1 - Quantitative information of LCR

(Amounts in € thousand)

Scope of consolidation: consolidated		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on	03.31.2022	12.31.2021	09.30.2021	06.30.2021	03.31.2022	12.31.2021	09.30.2021	06.30.2021
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
<b>HIGH-QUALITY LIQUID ASSETS</b>									
1	Total high-quality liquid assets (HQLA)					18,846,454	18,385,292	17,827,332	17,140,336
<b>CASH-OUTFLOWS</b>									
2	Retail deposits and deposits from small business customers, of which:	28,253,753	27,948,603	27,577,416	26,957,215	1,987,104	1,966,190	1,941,753	1,895,008
3	Stable deposits	20,733,817	20,450,462	20,109,440	19,647,504	1,036,691	1,022,523	1,005,472	982,375
4	Less stable deposits	7,519,936	7,498,141	7,460,533	7,293,233	950,413	943,667	936,281	912,633
5	Unsecured wholesale funding	921,937	870,901	802,207	805,415	557,685	527,665	484,838	475,777
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	921,937	870,901	802,207	805,415	557,685	527,665	484,838	475,777
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					151,848	146,666	145,535	133,311
10	Additional requirements	200,653	170,712	170,014	167,111	198,769	168,714	167,540	164,128
11	Outflows related to derivative exposures and other collateral requirements	198,664	168,599	167,398	163,956	198,664	168,599	167,398	163,956
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	1,989	2,113	2,616	3,155	105	115	142	172
14	Other contractual funding obligations	711,222	692,808	670,982	695,532	697,406	679,671	643,914	624,196
15	Other contingent funding obligations	2,841,735	2,754,227	2,659,256	2,566,952	215,667	214,652	212,603	210,239
16	TOTAL CASH OUTFLOWS					3,808,478	3,703,558	3,596,183	3,502,658
<b>CASH-INFLOWS</b>									
17	Secured lending (eg reverse repos)	1,307,350	1,100,666	1,171,195	1,060,988	54,259	56,397	50,384	65,926
18	Inflows from fully performing exposures	557,969	542,104	551,438	551,175	424,290	413,980	427,926	428,937
19	Other cash inflows	2,572,480	2,455,351	2,299,916	2,207,712	1,010,553	993,541	934,599	923,839
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	4,437,799	4,098,121	4,022,549	3,819,874	1,489,102	1,463,918	1,412,908	1,418,702
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows subject to 90% cap	-	-	-	-	-	-	-	-
EU-20c	Inflows subject to 75% cap	4,437,799	4,098,121	4,022,549	3,819,874	1,489,102	1,463,918	1,412,908	1,418,702
<b>TOTAL ADJUSTED VALUE</b>									
EU-21	LIQUIDITY BUFFER					18,846,454	18,385,292	17,827,332	17,140,336
22	TOTAL NET CASH OUTFLOWS					2,319,376	2,239,640	2,183,275	2,083,956
23	LIQUIDITY COVERAGE RATIO					819.55%	828.09%	824.61%	834.44%



# Liquidity requirements

## EU LIQB: qualitative information on LCR, which complements template EU LIQ1

### Explanations of the main factors and changes that determine LCR results over time

With reference to the average ratios shown in the template and calculated on end-of-the-month observations over the preceding 12 months, the trend shows a slight decrease, driven by an increase in outflows in line with the increase in liabilities recognised in the Group's balance sheet, mainly retail deposits and non-operating deposits, as well as outflows related to derivative exposures and other collateral obligations.

The economic and financial instability generated by the pandemic-related health crisis and geo-political tensions did not affect the Bank's overall liquidity position, which remained solid and stable.

During the first quarter of 2022, the improvement in the pandemic situation and the outbreak of geo-political tensions linked in particular to the Russian-Ukrainian conflict led to significant inflationary pressures and a sudden change of scenario in terms of monetary policy. Nevertheless, all liquidity adequacy indicators and analyses showed wide safety margins with respect to regulatory and internal limits.

Finally, FinecoBank did not face any impediments or worsening in the conditions of access to the markets and in the completion (volumes, prices) of the related transactions (repurchase agreements, purchase and sale of securities).

### Concentration of liquidity and funding sources

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

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

Moreover, while confirming sight deposits as its predominant funding source, during 2021 the Bank further diversified its liquidity sources through:

- the participation in the seventh tranche of the Targeted Longer Term Refinancing Operations III (TLTRO III) program for value date 16 December 2020 and 24 March 2021, for a total of 1,045 million euro;
- the issuance, on 21 October 2021, for a nominal of 500 million euro of a senior preferred bond<sup>1</sup>, fixed to floating rate, callable on 21 October 2026 and maturing on 21 October 2027, with the aim of complying immediately with the fully loaded MREL requirement on the Leverage Ratio Exposure (5.18%), which will come into effect from 1 January 2024.

The aforementioned transactions while allowing for a diversification of the sources of funding, particularly in the medium and long term, reflect the Group strategies (support of the lending activity and reduction of the cost of funding) and the regulatory MREL requirement rather than the funding restructuring needs.

In addition, FinecoBank has developed the Sight Deposit Model and the related controls, as well as specific stress tests and controls on current account stability.

The Sight Deposit Model is a statistical model whose objective is to estimate the portion of available funds on accounts that customers decide to keep stably liquid. That share is calculated as the ratio among liquidity kept on current accounts and the overall financial position of the client with the bank. At the same time, the Model estimates the "Core insensible" liquidity which is the amount of fixed-rate sight deposits considered to be consistently held despite of rate changes/hikes that can be used to finance fixed-rate loans.

Risk Management checks monthly that the liquidity held within the year complies with the results of the Sight Deposit Model.

Basing funding almost only on deposits, even if collected in a widespread and granular manner from customers, can nevertheless expose the Group to a concentration in terms of maturity. In order to control this risk, FinecoBank periodically monitors specific indicators, both regulatory (such as the Net Stable Funding Ratio) and managerial.

As for the regulatory indicators, the effectiveness of the funding measures provided by FinecoBank is demonstrated by the levels well above the regulatory limits of the calculated and monitored liquidity ratios (LCR and NSFR).

With reference to the managerial indicators, the Risk Management calculates the so-called Structural Ratio.

The calculation of the Structural Ratio replaces the NSFR adjusted for maturity, and shares with it numerous assumptions. In detail, the indicator considers the contractual maturities of the bank's assets and liabilities with the exclusion of sight deposits, represented according to the Sight Deposit Model.

### High-level description of the composition of the institution's liquidity buffer

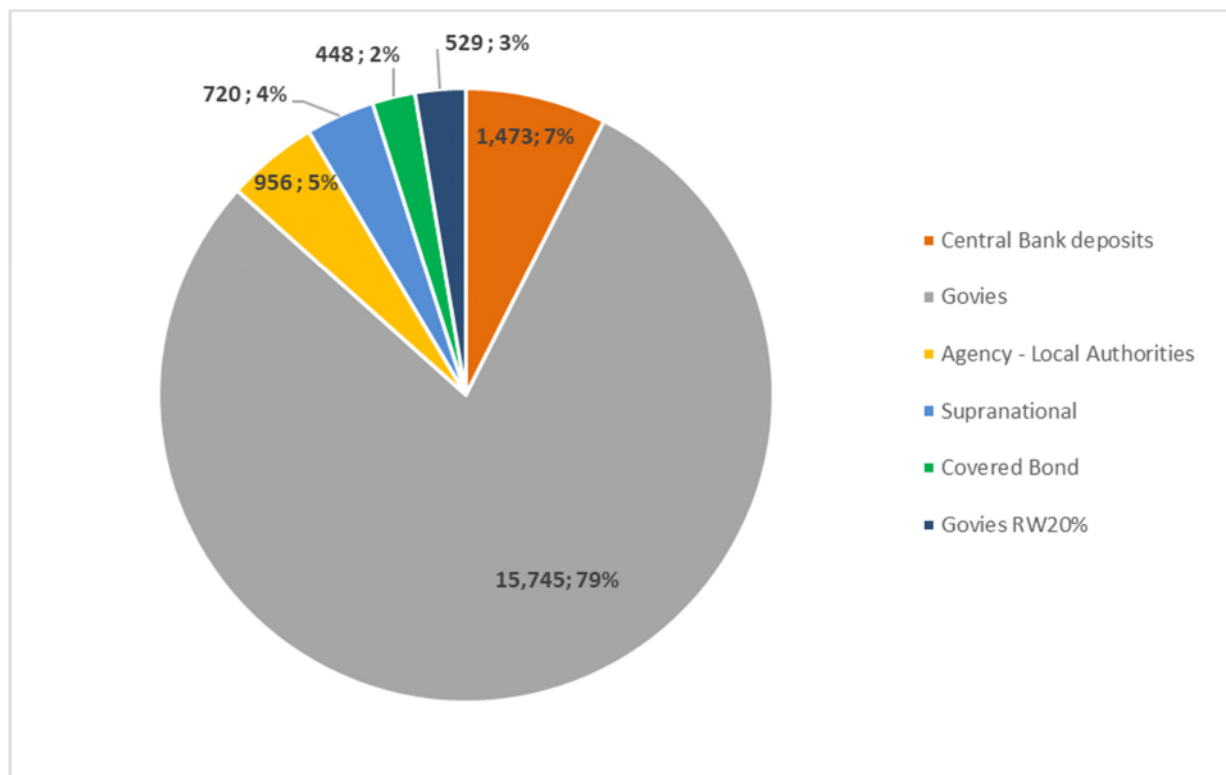
The liquidity buffer consists mainly of securities classified as level 1 HQLA by art. 8 of Regulation 2015/61 and in particular of government bonds.

More specifically, the level of HQLA is equal to approximately 19.87 billion euros as of 31 March 2022 and is mainly composed of government bonds part of the Parent Company's proprietary portfolio, of the liquidity deposited with the Bank of Italy (cumulative balance of the HAM account - Home

<sup>1</sup> Unique identifier: ISIN XS2398807383.

# Liquidity requirements

Accounting Module and the DCA TIPS - Target Instant Payment Settlement Dedicated Cash Account) and of the securities received through reverse repurchase agreements carried out by the Parent Company's Treasury as part of the active management of the Bank's securities portfolio.



## Exposures in derivatives and potential requests for collateral

FinecoBank enters into derivative contracts both with central counterparties and third-party counterparties (OTC), with various underlying and hedging the following risk factors: interest rates, exchange rates and securities prices.

At the time of entering into new contracts and upon changes in market conditions the Group's liquidity position gets impacted by the obligation to provide margins proportional to the positions held and to the delta registered in market prices. The Group is in fact required to pay initial margins and daily variations margins in the form of cash or other liquid collateral.

FinecoBank is able to estimate and check the required margins on a daily basis using specific tools provided by clearing brokers. The correct execution of margin payments is also monitored on a daily basis, both in case of cash payment or in case of provision through the allocation of securities as collateral. In this second case, the Parent Company's Treasury identifies the securities to be used which will then be included in the specific reports relating to the encumbered assets.

The sensitivity, calculated daily using Group's ALM tool, allows the estimation of the potential absorption of liquidity generated by specific market curve shocks.

## Currency mismatch

The Group operates mainly in euro. EU regulations prescribe the monitoring and the communications of a foreign currencies LCR if the aggregated liabilities denominated in foreign currencies can be considered significant i.e. equal or higher than the 5% of the overall balance sheet liabilities of the Group. As of 31 March 2022, the only significant currency for the Group is euro.

# Liquidity requirements

## **Other elements in the calculation of the LCR that are not relevant in the LCR disclosure model, but that the institution considers relevant to its liquidity profile**

FinecoBank has so far adopted an indirect participation to the European payment system and to its relevant ancillary system with the only exception of the instant payment infrastructure. Fineco in fact adhered directly to such sector by opening on the 22/11/2021 its own TIPS DCA which is adding up to previous available instant payment account on RT1. FinecoBank decided not to replace RT1 with TIPS but to keep both in order to achieve a wider reachability.

Participation in the payment systems, albeit mainly indirect as described above, in any case requires the availability of adequate procedures to manage intraday liquidity risk.

Leveraging on available IT systems (both internal and systemic) the Parent Company's Treasury actively manages all its intraday liquidity needs and guarantees the fulfilment of all payment and settlement obligations both in business as usual or contingency situations.

FinecoBank mainly faces intraday liquidity obligations towards:

- Central Bank, in relation to the activities processed on HAM and DCA TIPS accounts and consisting:
  - in the fulfilment of the request to keep on both accounts, individually and on a consolidated level, during the opening hours and especially at close of business, a positive balance sufficient to allow the respect of minimum reserve requirements on average balances held during the maintenance period;
  - in the execution of adequate and punctual daily funding and defunding transactions respecting specific system cut off times for each account;
  - in granting proper and sufficient funding on HAM and TIPS account, respectively to meet up with periodical debit postings by Central Bank and to manage the flows being processed 24/7;
- EBA, in relation to the 24/7 activity on RT1 and consisting:
  - in the execution of adequate and punctual daily funding transactions to be estimated based on the expected daily flows and considering a top up suitable to create a prudential balance to manage overnight and weekend flows;
  - in the setup of upper limits representing operational balances cap thresholds that trigger automatic defunding transactions to bring back overall available liquidity to a prudential level able at the same to reduce cost opportunity and fragmentation of the payment capacity in euro;
- correspondent banks, in relation to the operational account and payment operation and consisting:
  - in the execution of adequate and punctual daily funding transactions to be estimated based on the expected daily flows and to be processed respecting daily cut off times specific of the counterparty or of the market, product, currency involved;
  - in the execution of close of business defunding transactions to keep balances within the credit lines granted to every single counterparty.

FinecoBank's Group in fact adopts a simplified cash management model in major currencies which implies the distribution of its payment capacity on main operational accounts held with Bank of Italy (HAM and TIPS DCA accounts) as far as euro is concerned and on specific operational accounts held with the correspondent banks offering payments and cash management services in relation to foreign currencies and to a residual part of Euro available liquidity.

The Parent Company's Treasury monitors daily and in real time the balance of all the above-mentioned account (with specific focus on opening and close of business available liquidity) in order to guarantee:

- punctuality of ordinary and extraordinary cash flows with greater focus on time recurring and predictable payments;
- respect of assigned limits;
- respect of regulatory and operational obligations with greater focus on those related to the relationships with the Central Bank as Minimum Reserve requirements.

In order to guarantee operational continuity in contingency situations, the process relating to the management of intra-day liquidity is included in the company's Business Continuity Plan where appropriate back-up and operational contingency measures are identified.



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

The undersigned Lorena Pellicieri, as nominated official in charge of drawing up company accounts of FinecoBank S.p.A.

DECLARES

that, pursuant to article 154-bis of the "Consolidated Law on Financial Intermediation", the information disclosed in this document corresponds to the accounting documents, books and records.

Milan, May 10, 2022

FinecoBank S.p.A.  
The Manager Responsible for Preparing  
the Company's Financial Reports  
Lorena Pellicieri





# Statement of compliance with formal policy and internal processes, systems and controls

The undersigned, Alessandro Foti, as Chief Executive Officer and General Manager, and Lorena Pelliciarì, as Manager Responsible for preparing Financial Reports of FinecoBank S.p.A.

CERTIFY

in accordance with the disclosure requirements pursuant to Part Eight of Regulation (EU) No. 575/2013 (as amended), that the information provided pursuant to the aforementioned Part Eight has been prepared in accordance with the internal control processes agreed upon at the level of the management body.

Milan, May 10, 2021

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 Pelliciarì



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