FINECO
BANK

CONSOLIDATED FIRST HALF FINANCIAL REPORT AS AT JUNE 30

2018

FINECO. SIMPLIFYING BANKING.

FinecoBank S.p.A - Member of UniCredit

FinecoBank S.p.A.

Consolidated First Half Financial Report as at June 30, 2018

Contents

Registered office

Piazza Durante 11, 20131 Milan, Italy

Board of Directors, Board of Statutory Auditors and External Auditors

BOARD OF DIRECTORS, BOARD OF STATUTORY AUDITORS AND EXTERNAL AUDITORS

Board of Directors

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

Board of Statutory Auditors

Chairman	Elena Spagnol
Standing Auditors	Barbara Aloisi
	Marziano Viozzi
Alternate Auditors	Federica Bonato
	Gianfranco Consorti

External Auditors

Deloitte & Touche S.p.A.

Nominated Official in charge of drawing up Company Accounts

Lorena Pelliciari

On April 11, 2018, the Shareholders' Meeting, together with the approval of the Annual Report and Accounts 2017, has integrated the Board of Statutory Auditors by the confirmation of Elena Spagnol as Standing Auditor and Chairman of the Board of Statutory Auditors, replacing Stefano Fiorini, and appointing Gianfranco Consorti as Alternate Auditor.

INTRODUCTION TO THE CONSOLIDATED FIRST HALF FINANCIAL REPORT

This Consolidated First Half Financial Report of FinecoBank Banca Fineco S.p.A. (hereinafter, FinecoBank) has been prepared in accordance with Article 154-ter, paragraph 2 of Legislative Decree No.58 of February 24, 1998; it includes:

- the **Consolidated Accounts of the Condensed Interim Consolidated Financial Statements**, prepared in accordance with the recognition and measurement criteria set out in the international accounting standards IAS/IFRS issued by the International Accounting Standards Board (IASB) and approved by the European Commission and, in particular, in compliance with the international accounting standard applicable to interim reporting - IAS 34; these consolidated accounts are presented with a comparison with those of 2017: as envisaged by IAS 34, the balance sheet figures have been compared with those as at December 31, 2017, while the income statement, statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement have been compared with the corresponding figures for the first half of the previous year reported in the individual first half financial report, as the first consolidated financial statements have been prepared as at December 31, 2017;
- the **notes to the accounts**, which include, in addition to the detailed information required by IAS 34, reported using the same tables as in the annual financial statements, the additional information required by Consob and those that are deemed useful to provide a true representation of the company situation.

It is accompanied by:

- the **Consolidated Interim Report on Operations**, which includes the condensed accounts, comments on the results for the period and on significant events, as well as the additional disclosures required by Consob;
- the **Certification of the Condensed Interim Consolidated Financial Statements** pursuant to Article 81-ter of Consob Regulation no. 11971 of May 14, 1999 as amended.

Any lack of correspondence between the figures shown in the Consolidated Interim Report on Operations and Consolidated condensed half-year financial statements is solely due to roundings.

It should be noted that the condensed consolidated half-year financial statements 2018 have been prepared based on the instructions on Banks' financial statements set out in the 5th update of Bank of Italy's Circular no. 262 and related amendments, dated 22 December 2017, which implemented IFRS 9" Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" and the resulting changes introduced in other international accounting standards, including IFRS 7 "Financial Instruments: Disclosures", applicable starting from January 1, 2018.
The Bank exercised the option provided for in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", according to which - without prejudice to the retrospective application of the new measurement rules and representation required by the standard - there is no obligation to restate the comparative values in the FTA financial statements. Without prejudice to the disclosure regarding the reconciliation between data in the last approved financial statements and in the first financial statements drawn up according to the new provisions of the Circular and the related methodology set forth in section 5. "Other matters - transition to IFRS 9 Financial Instruments" of these explanatory notes, the above statements were therefore supplemented, where different, with the accounting items of the 2017 financial statements in order to show the corresponding values determined according to IAS 39. The tables included in the illustrative notes have also been integrated with the tables provided for in the 4th update of Circular 262, presenting

the relative values determined according to IAS 39, where it was not possible to report comparative data with respect to the previous year due to the updates above mentioned.

In the Interim Report on consolidated operations, the balance-sheet data as at December 31, 2017 and the income statement data for the first half of 2017 have been restated, with unchanged totals, according to the reclassified financial statement format that incorporates the changes introduced by the mentioned 5th update of Circular 262. For more details, see Part A - Accounting Policies - Section 5 - Other matters of the explanatory notes and the "Reconciliation schedules for the preparation of the reclassified consolidated financial statements" included in the Annexes.

Consolidated Interim Report on Operations

SUMMARY DATA

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

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

FinecoBank is on the Standard Ethics Italian Banks Index© and the Standard Ethics Italian Index (comprising the largest 40 companies listed on the Borsa Italiana FTSE-MIB), one of the leading performance indexes and a benchmark for environmental, social and governance concerns. In June 2018, Standard Ethics confirmed the Bank's rating, EE, considered a full "investment grade" by who are increasingly attracted to sustainable businesses and companies with a lower reputational risk profile and strong prospects for long-term growth.

In order to further increase the Bank's competitive capacity by expanding the range of services offered, an Irish Asset Management Company, Fineco Asset Management DAC (hereinafter, Fineco AM), fully owned by the Bank was incorporated on October 26th, 2017, after the approval of the project by the Board of Directors of UniCredit S.p.A. on August 2th, 2017 and after the Board of Directors' meeting of FinecoBank held on September 19th, 2017, which approved the amount of share capital to be allocated to the new company. On May 17th, 2018 Fineco Asset Management obtained the authorization to perform asset management activities by the Central Bank of Ireland. On June 1st, 2018 Fineco Asset Management has obtained the authorization by Luxembourg authority Commission de Surveillance du Secteur Financier to replace Amundi Luxembourg S.A. in the management of the mutual funds labelled "Core Series". Starting from July 2nd, 2018, Fineco Asset Management is fully operational.

In first half 2018, total financial assets (direct and indirect) from customers amounted to €69,830 million, up 3.9% on €67,185 million at the end of 2017.

Net sales came to €3,596 million (+24% y/y), confirming the asset mix already highlighted in the previous year: assets under management came to €1,574 million, assets under custody came to €995 million and direct deposits came to €1,027 million. Sales of "Guided Products & Services" came to €1,417 million, confirming their percentage of total AUM already as at 31 December 2017, equal to 64%[1].

Net sales through the network of Personal Financial Advisors totalled €3,237 million, up 22% compared to the same period of year 2017. Total financial assets amounted to €60,339 million (+4% y/y).

The TFA related to Private Banking clients, i.e. with assets above €500,000, totalled €26,992 million, equals to 39% of total TFA of the Bank.

In first half 2018, €131 million in personal loans and €231 million in mortgages were granted, and €550 million in current account overdrafts was arranged, with an increase in exposures in current account of €213 million; this has resulted an overall 25.2% aggregate increase in loans to customers compared to December 31, 2017. Credit quality remains high, at 32 bp, driven by the principle of offering credit exclusively to existing customers, making use of

[1] Starting from the financial year 2018, data on assets under administration and direct sales included in the Advice and Plus advisory services were reclassified as part of assets under management to better represent the advisory nature of the Advice and Plus services. For comparative purposes the data for 2017 have been restated on a pro forma basis.

specialist tools to analyse the bank's vast information base. The cost of risk is structurally contained and fell further thanks also to the effect of new loans, which are mainly secured and low-risk.

The net profit for the year amounted to €125.2 million, an increase of 20.1% on the same period of the previous year.
The cost/income ratio moved from 42.85% as at June 30, 2017 to 39.97% as at June 30, 2018, confirming the operating efficiency of the Bank and the spread of the company culture on controlling costs.
The first half 2018 results reflect the Bank's solidity and the strength of its business model: Customers continue to reward Fineco's transparent approach, high quality and comprehensive range of financial services as represented through the "one-stop solution" concept.

The Bank's offering is split into three integrated areas of activity: (i) banking, including current account and deposit services, payment services, and issuing debit, credit and prepaid cards, mortgages and personal loans; (ii) brokerage, providing order execution services on behalf of customers, with direct access to major global equity markets and the ability to trade CFDs (on currencies, indices, shares, bonds and commodities), futures, options, bonds, ETFs and certificates; (iii) investing, including placement and distribution services of more than 6,000 products, including mutual funds and SICAV sub-funds managed by 77 leading Italian and international investment firms, insurance and pension products, as well as investment advisory services through a network of 2,621 personal financial advisors.

Condensed Accounts

Consolidated balance sheet

ASSETS	Amounts as at		Changes	
	06.30.2018	12.31.2017	Amount	%
Cash and cash balances	1,733	613	1,120	182.7%
Financial assets held for trading	10,871	8,827	2,044	23.2%
Loans and receivables with banks	3,224,477	3,039,207	185,270	6.1%
Loans and receivables with customers	2,632,749	2,129,219	503,530	23.6%
Financial investments	17,188,339	16,715,041	473,298	2.8%
Hedging instruments	2,667	10,048	(7,381)	-73.5%
Property, plant and equipment	15,036	15,205	(169)	-1.1%
Goodwill	89,602	89,602	-	-
Other intangible assets	7,827	7,909	(82)	-1.0%
Tax assets	10,914	9,249	1,665	18.0%
Non-current assets and disposal groups classified as held for sale	91	-	91	-
Other assets	241,054	315,415	(74,361)	-23.6%
Total assets	**23,425,360**	**22,340,335**	**1,085,025**	**4.9%**

(Amounts in € thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	Amounts as at		Changes	
	06.30.2018	12.31.2017	Amount	%
Deposits from banks	907,794	926,001	(18,207)	-2.0%
Deposits from customers	21,196,653	20,205,036	991,617	4.9%
Financial liabilities held for trading	4,568	11,936	(7,368)	-61.7%
Hedging instruments	2,374	(397)	2,771	n.c.
Tax liabilities	22,038	10,234	11,804	115.3%
Other liabilities	417,933	455,699	(37,766)	-8.3%
Shareholders' equity	874,000	731,826	142,174	19.4%
- capital and reserves	*763,818*	*526,046*	*237,772*	*45.2%*
- revaluation reserves	*(14,997)*	*(8,340)*	*(6,657)*	*79.8%*
- net profit	*125,179*	*214,120*	*(88,941)*	*-41.5%*
Total liabilities and Shareholders' equity	**23,425,360**	**22,340,335**	**1,085,025**	**4.9%**

(Amounts in € thousand)

Consolidated balance sheet - Quarterly data

ASSETS	Amounts as at					
	06.30.2018	03.31.2018	01.01.2018	12.31.2017	09.30.2017	06.30.2017
Cash and cash balances	1,733	745	613	613	1,671	2,902
Financial assets held for trading	10,871	10,368	8,827	8,827	8,572	7,834
Loans and receivables with banks	3,224,477	3,487,848	3,036,333	3,039,207	2,834,849	2,979,553
Loans and receivables with customers	2,632,749	2,318,096	2,128,528	2,129,219	1,715,683	1,503,866
Financial investments	17,188,339	17,095,494	16,724,188	16,715,041	16,878,524	16,609,762
Hedging instruments	2,667	356	119	10,048	16,172	15,417
Property, plant and equipment	15,036	14,839	15,205	15,205	15,197	15,396
Goodwill	89,602	89,602	89,602	89,602	89,602	89,602
Other intangible assets	7,827	7,584	7,909	7,909	7,712	8,025
Tax assets	10,914	6,428	8,639	9,249	14,279	9,277
Non-current assets and disposal groups classified as held for sale	91	-	-	-	-	-
Other assets	241,054	203,695	315,415	315,415	233,188	271,613
Total assets	**23,425,360**	**23,235,055**	**22,335,378**	**22,340,335**	**21,815,449**	**21,513,247**

(Amounts in € thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	Amounts as at					
	06.30.2018	03.31.2018	01.01.2018	12.31.2017	09.30.2017	06.30.2017
Deposits from banks	907,794	960,046	926,001	926,001	696,554	929,859
Deposits from customers	21,196,653	20,916,380	20,205,036	20,205,036	20,007,773	19,440,617
Financial liabilities held for trading	4,568	4,892	11,936	11,936	18,656	18,716
Hedging instruments	2,374	(460)	(397)	(397)	3,349	1,481
Tax liabilities	22,038	36,307	7,718	10,234	49,310	19,525
Other liabilities	417,933	325,843	456,150	455,699	368,307	482,182
Shareholders' equity	874,000	992,047	728,934	731,826	671,500	620,867
- capital and reserves	*763,818*	*937,076*	*521,178*	*526,046*	*524,273*	*522,475*
- revaluation reserves	*(14,997)*	*(3,994)*	*(6,364)*	*(8,340)*	*(3,811)*	*(5,875)*
- net profit	*125,179*	*58,965*	*214,120*	*214,120*	*151,038*	*104,267*
Total liabilities and Shareholders' equity	**23,425,360**	**23,235,055**	**22,335,378**	**22,340,335**	**21,815,449**	**21,513,247**

(Amounts in € thousand)

Consolidated Income Statement

	1st Half		Changes	
	2018	2017	Amount	%
Net interest	137,646	127,297	10,349	8.1%
Dividends and other income from equity investments	20	12	8	66.7%
Net fee and commission income	145,978	129,707	16,271	12.5%
Net trading, hedging and fair value income	27,618	25,992	1,626	6.3%
Net other expenses/income	583	(233)	816	n.c.
OPERATING INCOME	**311,845**	**282,775**	**29,070**	**10.3%**
Staff expenses	(41,499)	(38,924)	(2,575)	6.6%
Other administrative expenses	(126,931)	(123,893)	(3,038)	2.5%
Recovery of expenses	48,623	46,492	2,131	4.6%
Impairment/write-backs on intangible and tangible assets	(4,836)	(4,833)	(3)	0.1%
Operating costs	**(124,643)**	**(121,158)**	**(3,485)**	**2.9%**
OPERATING PROFIT (LOSS)	**187,202**	**161,617**	**25,585**	**15.8%**
Net impairment losses on loans and provisions for guarantees and commitments	(1,156)	(1,650)	494	-29.9%
NET OPERATING PROFIT (LOSS)	**186,046**	**159,967**	**26,079**	**16.3%**
Provisions for risks and charges	(3,699)	(3,150)	(549)	17.4%
Integration costs	(4)	(13)	9	-69.2%
Net income from investments	5,158	(353)	5,511	n.c.
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**187,501**	**156,451**	**31,050**	**19.8%**
Income tax for the period	(62,322)	(52,184)	(10,138)	19.4%
NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**125,179**	**104,267**	**20,912**	**20.1%**
PROFIT (LOSS) FOR THE PERIOD	**125,179**	**104,267**	**20,912**	**20.1%**
NET PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP	**125,179**	**104,267**	**20,912**	**20.1%**

(Amounts in € thousand)

Consolidated Income Statement - Quarterly data

	2018	
	2nd Quarter	1st Quarter
Net interest	68,742	68,904
Dividends and other income from equity investments	13	7
Net fee and commission income	74,516	71,462
Net trading, hedging and fair value income	13,080	14,538
Net other expenses/income	96	487
OPERATING INCOME	**156,447**	**155,398**
Staff expenses	(20,966)	(20,533)
Other administrative expenses	(61,464)	(65,467)
Recovery of expenses	23,922	24,701
Impairment/write-backs on intangible and tangible assets	(2,497)	(2,339)
Operating costs	**(61,005)**	**(63,638)**
OPERATING PROFIT (LOSS)	**95,442**	**91,760**
Net impairment losses on loans and provisions for guarantees and commitments	155	(1,311)
NET OPERATING PROFIT (LOSS)	**95,597**	**90,449**
Provisions for risks and charges	(1,925)	(1,774)
Integration costs	(2)	(2)
Net income from investments	5,157	1
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**98,827**	**88,674**
Income tax for the period	(32,613)	(29,709)
NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**66,214**	**58,965**
PROFIT (LOSS) FOR THE PERIOD	**66,214**	**58,965**
NET PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP	**66,214**	**58,965**

(Amounts in € thousand)

	2017			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Net interest	70,069	67,415	64,334	62,963
Dividends and other income from equity investments	11	6	6	6
Net fee and commission income	70,696	69,680	65,026	64,681
Net trading, hedging and fair value income	11,100	11,127	12,282	13,710
Net other expenses/income	3,930	63	(764)	531
OPERATING INCOME	**155,806**	**148,291**	**140,884**	**141,891**
Staff expenses	(20,601)	(19,769)	(19,708)	(19,216)
Other administrative expenses	(60,031)	(53,021)	(61,451)	(62,442)
Recovery of expenses	24,987	21,888	23,215	23,277
Impairment/write-backs on intangible and tangible assets	(2,908)	(2,628)	(2,503)	(2,330)
Operating costs	**(58,553)**	**(53,530)**	**(60,447)**	**(60,711)**
OPERATING PROFIT (LOSS)	**97,253**	**94,761**	**80,437**	**81,180**
Net impairment losses on loans and provisions for guarantees and commitments	(2,124)	(1,577)	(1,053)	(597)
NET OPERATING PROFIT (LOSS)	**95,129**	**93,184**	**79,384**	**80,583**
Provisions for risks and charges	5,154	(21,029)	(773)	(2,377)
Integration costs	428	(7)	1	(14)
Net income from investments	(11,598)	(1,448)	(361)	8
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**89,113**	**70,700**	**78,251**	**78,200**
Income tax for the period	(26,031)	(23,929)	(25,678)	(26,506)
NET PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**63,082**	**46,771**	**52,573**	**51,694**
NET PROFIT (LOSS) FOR THE PERIOD	**63,082**	**46,771**	**52,573**	**51,694**
PROFIT (LOSS) BEFORE TAX ATTRIBUTABLE TO THE GROUP	**63,082**	**46,771**	**52,573**	**51,694**

(Amounts in € thousand)

Key figures of the consolidated financial statements

Main balance sheet figures

	Amounts as at		Changes	
	06.30.2018	12.31.2017	Amount	%
Loans receivable with ordinary customers (1)	2,251,520	1,798,520	453,000	25.2%
Total assets	23,425,360	22,340,335	1,085,025	4.9%
Direct deposits (2)	20,967,565	19,940,715	1,026,850	5.1%
Assets under administration (3)	48,862,648	47,243,837	1,618,811	3.4%
Total customer sales (direct and indirect)	69,830,213	67,184,552	2,645,661	3.9%
Shareholders' equity	874,000	731,826	142,174	19.4%

(Amounts in € thousand)

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

Operating Structure

	Data as at		
	06.30.2018	12.31.2017	06.30.2017
No. Employees	1,136	1,119	1,103
No. personal financial advisors	2,621	2,607	2,642
No. Financial shops (1)	384	375	370

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

Profitability, productivity and efficiency ratios

	Data as at		
	06.30.2018	12.31.2017	06.30.2017
Net interest/Operating income	44.14%	45.12%	45.02%
Income from brokerage and other income/Operating income	55.85%	54.88%	54.98%
Income from brokerage and other income/Operating costs	139.74%	138.08%	128.32%
Cost/income ratio	39.97%	39.74%	42.85%
Operating costs/TFA	0.36%	0.37%	0.39%
Cost of risk	32 bp	45 bp	40 bp
CoR (incentive system)	31 bp	40 bp	40 bp
ROE	36.96%	39.47%	39.33%
Return on assets	1.07%	0.96%	0.97%
EVA (calculated on economic capital)	101,923	193,269	91,409
EVA (calculated on accounting capital)	85,264	165,295	75,441
RARORAC (calculated on economic capital)	41.84%	54.58%	58.66%
RARORAC (calculated on accounting capital)	19.00%	24.21%	21.82%
ROAC (calculated on economic capital)	51.39%	60.52%	66.91%
ROAC (calculated on accounting capital)	27.90%	31.39%	30.16%
Total sales to customers/Average employees	61,934	60,938	58,133
Total customer sales/(Average employees average PFAs)	18,664	18,060	17,060

(Amounts in € thousand)

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

Cost/income ratio: Operating Costs divided by Operating Income.

Operating costs/TFA: ratio of operating costs to Total Financial Assets. The TFA used for the ratio is the average for the period, calculated as the average between the period-end balance and the balance as at the previous December 31. Operating costs as at June 30, 2018 and June 30, 2017 have been annualised.

Cost of risk: is the ratio of Net write-downs of loans and provisions for guarantees and commitments with customers to loans to customers (average of single quarters' averages). The scope only includes loans to ordinary customers. Net write-downs of loans and provisions for guarantees and commitments as at June 30, 2018 and June 30, 2017 were annualised. The methods of calculation for this indicator have been changed as of FY2018 and the relevant indicators at December 31, 2017 and June 30, 2017 have been restated for comparative purposes.

CoR (incentive system): is the ratio of Net write-downs of Loans and receivables with customers to Loans and receivables with customers (average of the balance at period end and the balance at December 31 of the previous year). The scope of the exposures excludes positions deriving from bonds and advances to personal financial advisors. Net write-downs of loans and receivables as at June 30, 2018 and June 30, 2017 were annualised.

ROE: ratio between net profit and the average book shareholders' equity for the period (excluding dividends and any donations expected to be distributed and the revaluation reserves). The net profit (loss) for the period as at June 30, 2018 and June 30, 2017 has been annualised.

Return on assets: ratio of net profit after tax to total assets. The net profit (loss) for the period as at June 30, 2018 and June 30, 2017 has been annualised.

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

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

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

For the calculation of EVA, RARORAC and ROAC indicators as at June 30, 2018, internal capital is that as at March 31, 2018, the latest available provided by the Parent Company, and the indicators have been calculated based on the individual situation, as FinecoBank is not required to prepare the disclosure relating to own funds and regulatory ratios on consolidated basis as it is part of the UniCredit banking group.

Balance Sheet indicators

	Data as at	
	06.30.2018	**12.31.2017**
Loans receivable with ordinary customers/Total assets	9.61%	8.05%
Loans and receivables with banks/Total assets	13.76%	13.60%
Financial assets/Total assets	73.37%	74.82%
Direct sales/Total liabilities and Shareholders' equity	89.51%	89.26%
Shareholders' equity (including profit)/Total liabilities and Shareholders' equity	3.73%	3.28%
Ordinary customer loans/Direct deposits	10.74%	9.02%

	Figures as at	
	06.30.2018	**12.31.2017**
Non-performing loans/Loans receivable with ordinary customers	0.12%	0.16%
Bad loans/Loans receivable with ordinary customers	0.08%	0.10%
Coverage (1) - Bad loans	91.43%	91.70%
Coverage (1) - Unlikely to pay	78.07%	76.53%
Coverage (1) - Impaired past-due exposures	68.55%	53.69%
Coverage (1) - Total Non-performing loans	88.65%	88.27%

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

Own funds and capital ratios

FinecoBank is not required to prepare the disclosure relating to own funds and regulatory ratios on consolidated basis as it is part of the UniCredit banking group, so please refer to the section on the results of the parent FinecoBank.

BUSINESS PERFORMANCE

Performance of total financial assets

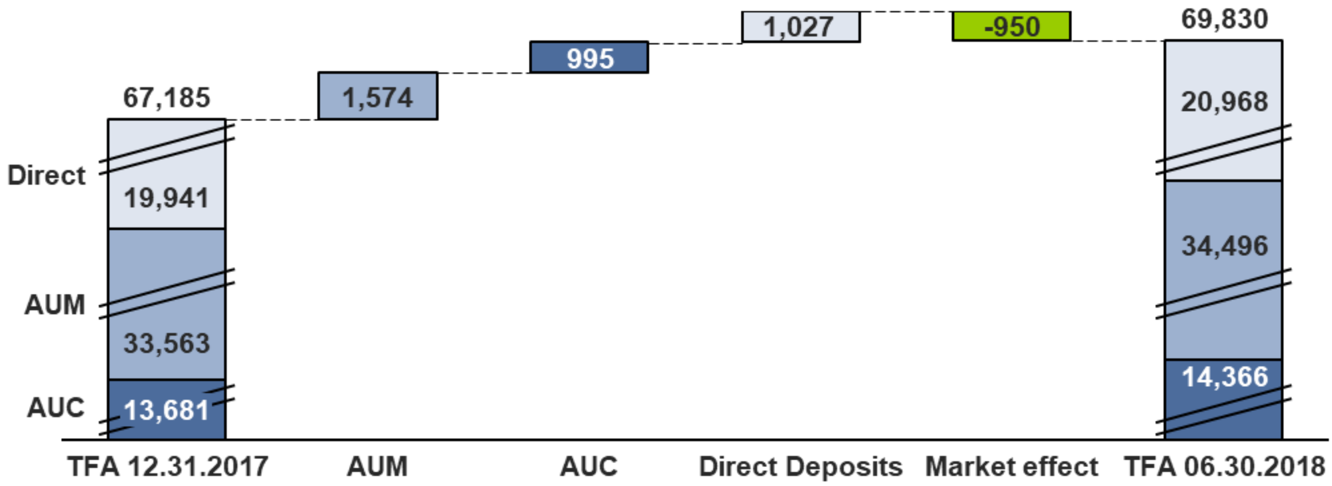
Direct deposits showed growth of 5.1% compared to the end of the previous year, to reach €20,968 million and confirming the high level of appreciation among customers of the quality of the services offered by the Bank.

Indeed, the majority of direct deposits were "transactional", supporting customers' overall operations. The increase in this component of sales confirms the high and increasing degree of customer loyalty, which in turn contributes to improving the stability of direct sales.

Assets under administration (Assets under Management-AUM plus Assets under Custody-AUC) came to €48,863 million, representing an increase of 3.4% on December 31, 2017, despite the negative market effect that reduced the balance of €950 million.

Total financial assets (direct and indirect) thus reached €69,830 million, up 3.9% compared to the end of December 2017, thanks to net sales of €3,596 million in the first half of the year. The quality of sales was also confirmed, which shows a percentage impact of "Guided products & services[2] on TFA of 32% and on Assets under Management of 64%, in line with the end of 2017.

Starting from May 2018, data on assets under administration and direct sales included in the Advice and Plus advisory services were reclassified as part of assets under management to better represent the advisory nature of the Advice and Plus services. For comparative purposes the data for 2017 have been restated on a pro forma basis.



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

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

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

Total financial assets

	Amounts as at 06.30.2018	Comp %	Amounts as at 12.31.2017	Comp %	Changes absolute	%
Current accounts and demand deposits	20,961,898	30.0%	19,931,182	29.7%	1,030,716	5.2%
Time deposits and reverse repos	5,667	0.0%	9,533	0.0%	(3,866)	-40.6%
DIRECT DEPOSITS	**20,967,565**	**30.0%**	**19,940,715**	**29.7%**	**1,026,850**	**5.1%**
Segregated accounts	1,117	0.0%	6,729	0.0%	(5,612)	-83.4%
UCITS and other investment funds	26,808,755	38.4%	26,998,628	40.2%	(189,873)	-0.7%
Insurance products	7,043,377	10.1%	6,074,833	9.0%	968,544	15.9%
Asset under custody and Direct deposits under advisory	642,914	0.9%	482,573	0.7%	160,341	33.2%
ASSETS UNDER MANAGEMENT BALANCE	**34,496,163**	**49.4%**	**33,562,763**	**50.0%**	**933,400**	**2.8%**
Government securities, bonds and stocks	14,366,485	20.6%	13,681,074	20.4%	685,411	5.0%
ASSETS UNDER CUSTODY	**14,366,485**	**20.6%**	**13,681,074**	**20.4%**	**685,411**	**5.0%**
TOTAL FINANCIAL ASSETS	**69,830,213**	**100.0%**	**67,184,552**	**100.0%**	**2,645,661**	**3.9%**
of which Guided products & services	22,198,836	31.8%	21,227,005	31.6%	971,831	4.6%

(Amounts in € thousand)

The table below shows the figures for direct deposits, assets under management and assets under custody solely for the personal financial advisors network. Total financial assets, amounting to €60,339 million, increased by 4% compared to December 31, 2017.

Total financial assets - Personal Financial Advisors Network

	Amounts as at 06.30.2018	Comp %	Amounts as at 12.31.2017	Comp %	Changes absolute	%
Current accounts and demand deposits	15,630,724	25.9%	14,674,039	25.3%	956,685	6.5%
Time deposits and reverse repos	5,112	0.0%	8,424	0.0%	(3,312)	-39.3%
DIRECT DEPOSITS	**15,635,836**	**25.9%**	**14,682,463**	**25.4%**	**953,373**	**6.5%**
Segregated accounts	1,117	0.0%	6,729	0.0%	(5,612)	-83.4%
UCITS and other investment funds	26,393,184	43.7%	26,565,970	45.9%	(172,786)	-0.7%
Insurance products	6,963,554	11.5%	5,992,040	10.4%	971,514	16.2%
Asset under custody and Direct deposits under advisory	642,912	1.1%	482,571	0.8%	160,341	33.2%
ASSETS UNDER MANAGEMENT BALANCE	**34,000,767**	**56.3%**	**33,047,310**	**57.1%**	**953,457**	**2.9%**
Government securities, bonds and stocks	10,702,171	17.7%	10,157,116	17.5%	545,055	5.4%
ASSETS UNDER CUSTODY	**10,702,171**	**17.7%**	**10,157,116**	**17.5%**	**545,055**	**5.4%**
TOTAL FINANCIAL ASSETS - PERSONAL FINANCIAL ADVISORS NETWORK - ASSORETI FIGURES	**60,338,774**	**100.0%**	**57,886,889**	**100.0%**	**2,451,885**	**4.2%**
of which Guided products & services	22,170,702	36.7%	21,197,073	36.6%	973,629	4.6%

(Amounts in € thousand)

The table below shows the figures for direct deposits, Assets under Management and Assets under Custody for the first half 2018 compared with the same period of the previous year, for both customers linked to a personal financial advisor and online-only customers. Net sales came to €3,596 million, increased by 24.3% compared to December 31, 2017.

Net sales

	1st Half 2018	Comp %	1st Half 2017	Comp %	Changes	
					absolute	%
Current accounts and demand deposits	1,030,717	28.7%	836,685	28.9%	194,032	23.2%
Time deposits and reverse repos	(3,891)	-0.1%	(176,268)	-6.1%	172,377	-97.8%
DIRECT SALES	**1,026,826**	**28.6%**	**660,417**	**22.8%**	**366,409**	**55.5%**
Segregated accounts	(5,598)	-0.2%	(1,905)	-0.1%	(3,693)	193.9%
Investment funds and other funds	368,788	10.3%	992,467	34.3%	(623,679)	-62.8%
Insurance products	1,040,668	28.9%	767,663	26.5%	273,005	35.6%
Asset under custody and Direct deposits under advisory	170,284	4.7%	51,508	1.8%	118,776	230.6%
ASSETS UNDER MANAGEMENT	**1,574,142**	**43.8%**	**1,809,733**	**62.6%**	**(235,591)**	**-13.0%**
Government securities, bonds and stocks	995,139	27.7%	422,334	14.6%	572,805	135.6%
ASSETS UNDER ADMINISTRATION	**995,139**	**27.7%**	**422,334**	**14.6%**	**572,805**	**135.6%**
NET SALES	**3,596,107**	**100.0%**	**2,892,484**	**100.0%**	**703,623**	**24.3%**
of which Guided products & services	1,417,083	39.4%	1,951,951	67.5%	(534,868)	-27.4%

(Amounts in € thousand)

The table below shows the figures for direct deposits, assets under management and assets under custody of the PFA network for first half of 2018 compared to the same period of the previous year.

Net sales - Personal Financial Advisors Network

	1st Half 2018	Comp %	1st Half 2017	Comp %	Changes	
					absolute	%
Current accounts and demand deposits	956,685	29.6%	701,817	26.5%	254,868	36.3%
Time deposits and reverse repos	(3,373)	-0.1%	(124,494)	-4.7%	121,121	-97.3%
DIRECT SALES	**953,312**	**29.5%**	**577,323**	**21.8%**	**375,989**	**65.1%**
Segregated accounts	(5,598)	-0.2%	(1,905)	-0.1%	(3,693)	193.9%
Investment funds and other funds	368,410	11.4%	977,000	37.0%	(608,590)	-62.3%
Insurance products	1,041,548	32.2%	770,558	29.2%	270,990	35.2%
Asset under custody and Direct deposits under advisory	170,284	5.3%	51,535	1.9%	118,749	230.4%
ASSETS UNDER MANAGEMENT	**1,574,644**	**48.6%**	**1,797,188**	**68.0%**	**(222,544)**	**-12.4%**
Government securities, bonds and stocks	708,850	21.9%	268,909	10.2%	439,941	163.6%
ASSETS UNDER ADMINISTRATION	**708,850**	**21.9%**	**268,909**	**10.2%**	**439,941**	**163.6%**
NET SALES	**3,236,806**	**100.0%**	**2,643,420**	**100.0%**	**593,386**	**22.4%**
of which Guided products & services	1,418,183	43.8%	1,954,585	73.9%	(536,402)	-27.4%

(Amounts in € thousand)

Performance of income statement aggregates

Operating income came to €311.8 million, up 10.3% compared to €282.8 million for the first half of 2017.

Net interest, Net fee and commission income and Net trading, hedging and fair value income contributed to the increase in the operating income as they rose, respectively, by 8.1%, 12.5% and 6.3%.

The increase in Net interest of €10.3 million compared to the same period of the previous year was due to the increase in sales volume and the higher penetration of lending, which offset the fall in interest income linked to the decline in interest rates. In this regard it should be noted that the structure of the investments carried out by the Bank contributed to maintaining a significant level of interest income, with the average gross rate on assets standing at 1.32%, just below the 1.34% as at June 30, 2017.

Net fee and commission income increased €16.3 million compared to the same period of the previous year, thanks to higher net fee and commission income for management, brokerage and consulting services (+€12.5 million), collection and payment services (+€2 million), other services mainly relating to the introduction of the annual fee on credit cards (+€3 million), partially offset by higher fee and commission expense paid to personal financial advisors (-€1.5 million).

Net trading, hedging and fair value income was mainly generated by gains realised from the internalisation of securities and CFDs, financial instruments used for operational hedging of CFDs and the exchange differences on assets and liabilities denominated in currency, which show a result substantially in line with that one recorded in the first half of 2017. Trading profit also incorporates gains and losses from the financial instruments recognised in "Other assets required to be measured at fair value", including, as described above, the class "C" preferred shares of Visa INC, whose fair-value measurement resulted in a gain of €1.5 million in the first half of 2018.

Operating costs increased by €3.5 million compared to the same period of the previous year due to the continuous growth of the operating structure (+€2.6 million for staff expenses, of which €0.7 million from Fineco AM, and €+0.9 million for Other administrative expenses net of Recovery of expenses, of which €0.4 million from Fineco AM). Despite the 2.9% increase in operating costs, the cost/income ratio moved from 42.85% as at June 30, 2017 to 39.97% as at June 30, 2018, confirming the high operating efficiency of the Bank and the widespread corporate culture on controlling costs.

Net write-downs of loans and provisions for guarantees and commitments and Net income from investments amounted to €-1.2 million and €+5.2 million respectively. It should be noted that accounting standard IFRS 9, with mandatory application as of January 1st, 2018, introduced a new impairment accounting model for credit exposures and resulted in an extension of the Bank's scope of recognition (for additional information see Section 5 - Other aspects of the Notes to the Accounts), so comparison with the first half of 2017 is not significant.
Net write-downs of loans and provisions for guarantees and commitments for the first half of 2018 included in particular additional adjustments compared to the first half of 2017, in relation to retail commercial loans, driven by the significant increase in performing exposures (non-performing loans remained essentially unchanged compared to the previous year), and on the other hand, benefitted from write backs of €2 million on transaction with the Parent Company, of which €1.6 million related to deposits, in relation to the improvement in the risk profile of the segment, and €0.4 million related to the "Liquidity Framework Agreement" with the Parent Company, which expired in the first half of 2018.
The Net income from investments mainly includes write backs on exposures to debt securities issued by the Parent Company and recognised in "Financial assets at amortised cost" for €5.7 million.

Profit before tax from continuing operations amounted to €187.5 million, up 19.8% compared to the same period of the previous year.

The Net profit for the period amounted to €125.2 million, showing an increase of 20.1% compared to the same period of the previous year.

Performance of balance sheet aggregates

Loans and receivables with banks came to €3,224.5 million, up 6.1% compared to December 31, 2017, mainly as a result of the greater cash on deposit in reciprocal current accounts with UniCredit.

Loans and receivables with customers came to €2,632.7 million, up 23.6% compared to December 31, 2017, thanks to the increase in lending. During the first half 2018, €131 million in personal loans and €231 million in mortgages were granted and €550 million in current account overdrafts was arranged, with an increase in exposures in current account of €213 million; this has resulted an overall 25.2% aggregate increase in loans to customers[3] compared to December 31, 2017. Impaired loans net of impairment losses totalled €2.7 million (€2.9 million as at December 31, 2017), with a coverage ratio of 89%; the ratio between impaired loans and loans to customers was 0.12% (0.16% as at December 31, 2017).

Financial investments came to €17,188.3 million, up 2.8% compared to December 31, 2017. In the first half of 2018, debt securities issued by the Parent Company UniCredit, maturing for about €1 billion, were repaid and government bonds were purchased for approximately €1.4 billion.

Deposits from banks totaled €907.8 million, substantially in line with debts recorded at 31 December 2017.

Deposits from customers came to €21,196.7 million, up 4.9% compared to December 31, 2017, due to the growth in direct deposits.

Shareholders' equity amounted to €874 million, up 19.4% compared to December 31, 2017. The increase is mainly due to the issue on January 31, 2018 of an Additional Tier 1 Perp bond (5.5 years) for an amount of €200 million and the recognition of profit for the first half of 2018, of €125.2 million, partially offset by the payment of dividends approved by the Shareholders' Meeting of 11 April 2018 for an amount of €173.4 million.

Communications and external relations

In the first half of 2018 the “Human Capital” communications campaign was confirmed and supported through the communications network; since 2017, the campaign has put people at the heart of the Bank’s strategic communications project and their ability to manage the technology and innovation that FinecoBank offers to its customers and to the network of personal financial advisors. Within the Bank’s offering, the increasingly central role of the advisor and financial advisory services are an integral part of communications, summed up in the claim: “Always Investing In The Most Advanced Technology We Know: People.”

“The bank that simplifies banking” remains at the heart of the unique positioning that Fineco intends to continue to communicate and develop also in 2018.

In the first half of the year, an important advertising flight was planned using all means of communication (TV, radio, financial press, digital media and posters), plus two additional flights using TV only designed to support brand awareness over time. Two TV flights dedicated to the trading segment were also planned, which also involved the digital medium with acquisition objectives.

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

The national press coverage to support the Private Banking segment with the campaign "You write private banking, you read Fineco" continued this year too, alongside another press initiative at the local level. This extension to the local press reflects the need to increase visibility and protect our local positioning thereby giving greater support to our local structures.
Numerous activities and events were organised in the first half of the year for private and other customers across Italy, thanks also to partnerships with prestigious brands, as well as experience exclusive events.
The Fineco Golf Club, started in May, is becoming an increasingly strategic activity and a tool for the retention and acquisition of new high-end customers and is an important event that has gained wide recognition in the golf arena.

Activities regarding Fineco UK have been strengthened since the beginning of the year. A multichannel communication campaign was launched and courses and education webinars were planned to introduce the Bank's offers and trading platforms to prospects and customers. In February 2018 FinecoBank took part in the London Forex Show where, among others, it was awarded the Best Forex Provider of the Year award.

Incentive plans

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

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

On February 6, 2018, in view of the positive outcome of the verification of the minimum entry conditions (at Bank level and Group level, where applicable) and the individual conditions (compliance of conduct and continued employment) and the favourable opinion provided by the Remuneration Committee in its meeting of February 5, 2018, the Board of Directors approved:

- for the 2014 and 2015 Incentive Systems (Bonus Pool)":
  - the execution of the plans;
  - the allocation of the second share tranche of the 2014 plan, awarded in 2015, corresponding to 112,440 free ordinary shares, in line with the maximum amount approved by the Board of Directors on May 15, 2014;
  - the allocation of the first share tranche of the 2015 plan, awarded in 2016, corresponding to 84.117 free ordinary shares, in line with the maximum amount approved by the Board of Directors on January 22, 2015.
  - a free capital increase, for a total amount of €64,863.81 corresponding to a total of 196,557 FinecoBank ordinary shares with a nominal value of €0.33 each (with the same characteristics as those in circulation and with regular dividend entitlement), impartial exercise of the authority granted to the Board of Directors by the Extraordinary Shareholders' Meeting of June 5, 2014 and of April 23 2015, in accordance with Article 2443 of the Italian Civil Code. The dilution effect resulting from the above free capital increase has been quantified as 0.03% of the fully diluted capital.
- for the "2014-2017 Top Management Multi-Year Plan":
  - the allocation of n. 494,493 free ordinary shares to the beneficiaries of the second share tranche of the plan, awarded in 2015, in line with the maximum amount approved by the Board of Directors on February 9 , 2015;

  - a free capital increase, for a total amount of €163,182.69 corresponding to a total of 494,493 FinecoBank ordinary shares with a nominal value of €0.33 each (with the same characteristics as those in circulation and with regular dividend entitlement), in partial exercise of the authority granted to the Board of Directors by the Extraordinary Shareholders' Meeting of June 5, 2014, in accordance with Article 2443 of the Italian Civil Code. The dilution effect resulting from the above free capital increase has been quantified as 0.08% of the fully diluted capital;
  - changes to the rules as regards entry conditions.
- for the "2017 PFA Incentive System" plan:
  - the proposal for determination of the 2017 Bonus Pool for the Personal Financial Advisors;
  - the proposals for the determination of the 2017 and previous years' bonus for personal financial advisors categorised as "Identified Staff";
  - the allocation of n. 27,644 FinecoBank shares, to be granted free of charge to the above-mentioned personal financial advisors in accordance with the provisions of the Rules;
  - the purchase of Treasury shares, in view of having obtained the authorisation from the Supervisory Authority, pursuant to Articles 77-78 EU 575/2013 of June 26, 2013 (CRR), in accordance with the shareholder meeting resolutions.
- for the "2017 Incentive System (Bonus Pool)" plan:
  - the FinecoBank "2017 Bonus Pool";
  - the proposals for the determination of the 2017 bonus for the Chief Executive Officer and General Manager and other Managers with Strategic Responsibilities and other Identified Staff;
  - the allocation of n. 142,290 FinecoBank ordinary shares, to be given free of charge to the above-mentioned Personnel in accordance with the provisions of the Rules.
- with reference to the "2016 Incentive System":
  - the execution of the plan;
  - the allocation of the second tranche in cash of the plan awarded in 2017.
- for the "2016 PFA Incentive System" plan:
  - the execution of the plan;
  - the allocation of the second tranche in cash of the plan awarded in 2017.
- with reference to the "2015 PFA Incentive System":
  - the execution of the plan;
  - the allocation of the first tranche of the plan, equal to n. 27,103 phantom shares, awarded in 2016.

The Board of Directors' meeting of FinecoBank held on May 8, 2018 - in consideration of the favourable opinion of the Remuneration Committee which met on May 4, 2018 – approved the promise of assigning maximum n. 905.066 FinecoBank ordinary shares to the beneficiaries of the "Long-Term Incentive Plan 2018-2020 for employees" identified by the Bank.

FINECOBANK SHARES

Share information

FinecoBank shares recorded a strong increase in the first half 2018, despite the financial markets turmoil following the increasing geopolitical tensions and the political uncertainties in Italy.

The stock highlighted an excellent relative performance in the first half 2018 compared to FTSE MIB index, +13% compared to -1% by FTSE MIB index.

As at June 30th, 2018, the share price was €9.67, up from the closing price at year-end 2017 of €8.54, and with an average value in the first half 2018 of €9.60. In addition, during the first half the share price reached its all-time high at €10.37.

The company's market capitalisation amounted to €5,884 million as at June 30th, 2018.

	Year 2014	Year 2015	Year 2016	First half 2017	Year 2017	First half 2018
Official price of ordinary shares (€)						
- maximum	4.750	7.805	7.400	7.170	8.735	10.370
- minimum	3.808	4.438	4.622	5.345	5.345	7.956
- average	4.173	6.479	5.980	6.190	6.914	9.599
- period-end	4.668	7.625	5.330	6.890	8.535	9.672
Number of shares (millions)						
- outstanding at period end	606.3	606.5	606.8	607.7	607.7	608.4

RESULTS ACHIEVED IN THE MAIN AREAS OF ACTIVITY

The following pages contain the main indicators and results of the main business segments: Brokerage, Banking and Investing.

Given the Bank’s specific business model that provides for a high level of integration among its different activities, these segments are interdependent. Indeed, the Bank offers its services (banking and investment services) through a network of personal financial advisors and online and mobile channels that operate in a coordinated and integrated manner.

All the activities were carried out with the aim of obtaining economic results from the "industrial" management of the businesses, to minimise their financial risk. The Bank’s financial management approach is to manage risks with a view to protecting the industrial returns on the various businesses while not assuming risk positions on its own account.

BROKERAGE

During the first half of 2018 the Bank, with its own business model, consolidated its leadership in the Italian brokerage market, with a market share of 24% in March 2018.

After unusually low levels, the return of volatility in the stock markets, with a strengthening of investor propensity towards this asset class, allowed the Bank to obtain excellent performance especially in the months of January, February and May.

The Assosim report to the year 2017, have placed FinecoBank at the top of the ranking for counter value traded and by number of transactions, with market shares that have been attested to 19.65% and 17.56% respectively. These data have been consolidated during the first half of the year because to the excellence of the Fineco integrated platform and to an ever-updated and among the most comprehensive offer of stocks, futures, CFDs and Forex, in addition to tools and apps to operate also from mobile, designed to always ensure maximum simplicity and speed of use.

Specifically, the offer continued with the introduction of new services and functionalities:

- implementation of CFD operations with underlying commodities, also allowing overnight negotiation;
- new graphics design of the ETF Center, with intraday chart for the most quoted titles, list of titles most present in the ETF's portfolios replays of customers and chart of the most traded titles and more viewed by customers for a complete view and the updated ways on tools;
- expansion of the CFD offer range with new Super CFD, which is characterized by a higher size and a reduced spread compared to the respective CFDs already offered and for the introduction of an absolute innovation in Italy, the CFD on the volatility of European shares;
- the inclusion of new tools on the PowerDesk platform, to improve its usability, such as, for example, best & worst dynamic, basket order multi panel, duplication of the watch list of the instruments, possibility to select one of its current accounts on which to operate and, for the technical analysis, the introduction of the Heiken Ashi candles and the Ichimoku indicator.

The Bank continues the gradual move from traditional assets to OTC, among which the index CFDs that are top performers in relation to earned profits.

The following table shows the number of orders on financial instruments recorded during the first half 2018 of the same period of the previous year.

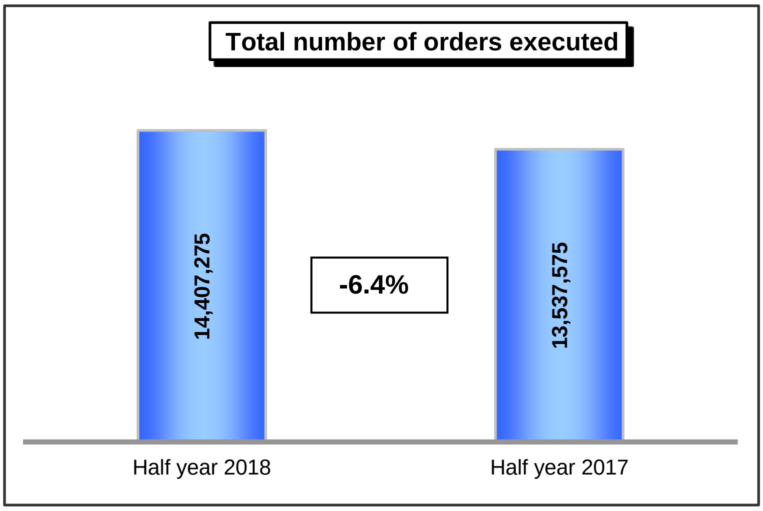
	1st Half 2018	1st Half 2017	Changes	
			Amount	%
Orders - Equity Italia (including internalised orders)	3,963,212	3,993,100	(29,888)	-0.7%
Orders - Equity USA (including internalised orders)	628,240	450,306	177,934	39.5%
Orders - Equity other markets (including internalised orders)	289,028	265,160	23,868	9.0%
Total Equity orders	*4,880,480*	*4,708,566*	*171,914*	*3.7%*
Orders - Bonds	252,893	265,154	(12,261)	-4.6%
Orders - Derivatives	1,637,962	1,522,231	115,731	7.6%
Orders - Forex	430,227	473,759	(43,532)	-9.2%
Orders - CFDs	2,038,862	1,802,569	236,293	13.1%
Orders - Funds	1,293,503	1,240,470	53,033	4.3%
Orders- Repo	-	1,720	(1,720)	-100.0%
TOTAL ORDERS	**10,533,927**	**10,014,469**	**519,458**	**5.2%**

It is worth nothing the increase of in orders on US equities, which increased by 39.5%, and the good performance reported by the orders on CFDs, which increased by 13.1%.

The table below shows the volume of trades carried out as direct counterparty in orders placed by customers, resulting from the internalization of orders received on shares, CFDs and Logos, recorded in the first half of 2018 compared to the same period of the previous year.

	1st Half 2018	1st Half 2017	Changes	
			Amount	%
Equity (internationalization)	38,125,073	25,533,046	12,592,027	49.3%
Forex	27,816,824	29,292,874	(1,476,050)	-5.0%
CFDs and Logos	46,227,216	25,181,180	21,046,036	83.6%
Total "internalized" volumes	**112,169,113**	**80,007,100**	**32,162,013**	**40.20%**

(Amounts in € thousand)



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

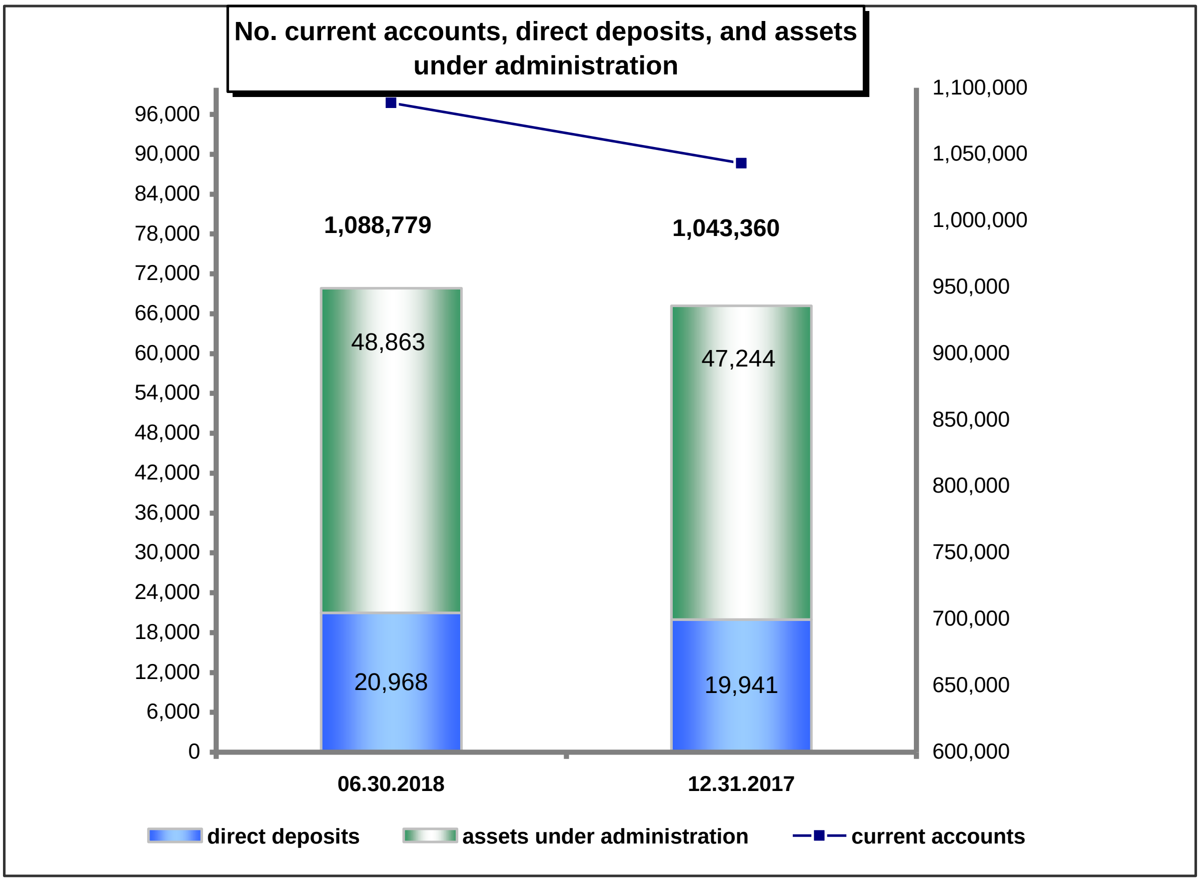
BANKING

Banking and Payment cards

In the Banking and Payment cards area, the following main updates have been registered within the first half of 2018:

- the European Directive 2015/2366 (also known as PSD2) has come into force, with purposes to create a common payment system within the European Union that will promote and push integration, competitiveness and increasing in the meantime the security level;
- the Vocal Recognition Service has been activated over the whole customer base; this service allows clients to access customer care services by pronouncing a simple sentence (Vocal Password). This new identification method is based on vocal biometric technologies allowing to identify the peculiarity of a specific voice and use them to create unique voice print that the client can use as a password when calling customer care so to have a frictionless and secure customer experience;
- the General Data Protection Regulation (GDPR) has come into force on the 25th of May 2018, with aims at guaranteeing equal standards for individual's personal data treatment within the European Union. The adoption of this new regulation confirms the Fineco's constant commitment in providing its client the maximum level of protection and transparency when threating their personal data;

- launch of Apple Pay, the new digital payment service that is free of charge and allows to pay in store, in-app and online, both on MasterCard and VISA schemes, without having the physical credit card in the wallet but just using an eligible Apple device. Together with the launch of Apple Pay service, Fineco also started a promotion targeted to the clients that are currently not holding a credit card; the initiative is aimed at promoting the subscription of Fineco credit cards and offers the chance to reset the first year annual fee by spending on Apple Pay;
- a set of measures have been introduced, within the Digital Website Innovation stream, to increase the usability of the most important online services within the private area so to furtherly improve customer experience;
- strengthen the services targeted to the UK market aimed at offering to UK residents the access to Fineco banking and credit services though multichannel platforms dedicated to the UK market and the usage of web advertising and member-gets-member initiatives targeted to UK residents.



(Amounts in € thousand)

Credit products	1st Half 2018 Spending	1st Half 2018 Carrying amount	12.31.2017 Carrying amount	1st Half 2017 Spending	1st Half 2017 Carrying amount	Changes Spending Amount	Changes Spending %	Changes Carrying amount Amount	Changes Carrying amount %
Revolving credit cards	24,445	41,513	41,890	24,352	39,953	93	0.4%	1,560	3.9%
Credit cards full payment of balance	1,331,369	229,999	246,535	1,222,032	218,554	109,337	8.9%	11,445	5.2%
Total	**1,355,814**	**271,512**	**288,425**	**1,246,384**	**258,507**	**109,430**	**8.8%**	**13,005**	**5.0%**

(Amounts in € thousand)

Mortgages, credit facilities and personal loans

Also in the first half of 2018, Fineco continued to improve its personal loans and digital lending offer, with the following launched initiatives:

- improvement of the consolidation loan offer allowing clients to consolidate its loans and get up to 30.000 euros to be repaid in 72 instalments; this product can be requested online with a completely paper-less procedure and the digital signature;
- introduction of the possibility to request, also through the app, a personal loan with instant evaluation, the service that allowing to receive a feedback and disbursement in real time, operating 24/7, thanks to an internal rating system that evaluates in advance reliability and income capacity of the requestor.

Furthermore, the mortgage offer has been improved through the introduction, back in March, of a new product “Mutuo Rifinanziamento” allowing to obtain up to 500.000 euros, at a fixed or variable rate, to be repaid in up to 20 years; this product allows the requestor to transfer its own mortgage in Fineco and obtain, at the same time, further money to be used to finance new project or investments with no purpose obligation.

The table below highlights, in the first half of 2018, a 47.4% increase in personal loans, mortgages and credit lines concession compared to the same period of the previous year.

Furthermore note that the amount of loans with a security collateral amounts to €539 million (€522 million related to “Credit Lombard”, €12 million related to “Fido con Pegno” and €5 million related to “Fido con mandato a vendere”), equals to 98% of total amount of credit lines concession.

Credito products	1st Half 2018 Disbursements	1st Half 2018 Carrying amount	12.31.2017 Carrying amount	1st Half 2017 Disbursements	1st Half 2017 Carrying amount	Changes Disbursements Amount	Changes Disbursements %	Changes Carrying amount Amount	Changes Carrying amount %
Personal loans and unsecured	130,625	402,060	350,320	121,209	306,498	9,416	7.8%	95,562	31.2%
Current account credit facilities*	549,590	854,373	641,554	242,406	360,386	307,184	126.7%	493,987	137.1%
Mortgages	231,060	721,117	516,251	254,607	256,771	(23,547)	-9.2%	464,346	180.8%
Total	**911,275**	**1,977,550**	**1,508,125**	**618,222**	**923,655**	**293,053**	**47.4%**	**1,053,895**	**114.1%**

(Amounts in € thousand)

* With regard to Current account credit facilities the column Disbursements shows the amounts granted

The increase in the asset volumes in the first half of 2018 was the result of credit product’s portfolio evolution together with the customization of the product offer and a prudent pricing strategy, keeping also a constant focus on profitability.

INVESTING

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

In the first half of 2018, the range of asset management products was further enhanced with the addition to the platform of over 150 new ISINs and 1 new Investment Firm available to customers.

At the end of March, the range of pension products was expanded with the launch of Core Pension, an open-end pension fund for long-term investments exclusively accessible to the FinecoBank network. It is a container where clients’ savings needs for retirement can be combined according to their work cycle and sustainable risk profile and which offers the opportunity to benefit from the tax advantages typical of supplementary pension instruments. The product is characterized by high flexibility in the composition of the portfolio, by offering four alternative investment segments with increasing equity and a guaranteed line in which to invest.

In the first half of 2018, the insurance advisory catalogue was also extended. Specifically, in March the "Multi-line" range was extended through the new version with 5 combinations of the GEFIN Separate Account and Internal Insurance Funds (AIF) denominated Core Multiramo Extra (net inflows from the beginning of the year of approximately €33 million). Furthermore, in April the new Core Multiramo Target was launched (net inflows from the beginning of the year of approximately €142 million) which uses the Aviva's GEFIN Separate Account as the main initial investment and then gradually transfers assets to an Equity Internal Insurance Fund (AIF) according to the "Target" program defined upon subscription.
Finally, as part of the "Insurance Brokerage" business, a collaboration was launched with the broker First Advisory, through which we launched the new temporary "High Protection" life insurance policy of Eurovita dedicated to Private customers.

As regards consulting services, the first half of 2018 was characterized by the launch of "Plus", the exclusive service dedicated to the FinecoBank network: a consulting contract through which the Consultant can offer its customers highly diversified and freely customizable portfolios.
The main feature offered by "Plus" is the global consulting service offered that spans asset management (funds and SICAVs) as well as asset administration products and ETPs (ETFs, ETCs, ETNs) and, in the short term, also insurance investment products.
"Plus" offers analytical and professional reporting, including through an APP, to analyse performance, monitor the actual risk/ return ratio, the diversification level, the quality of the instruments and their ability to respond to complex market situations, with periodic portfolio checks. With just one "click", you can send the contract, the diagnosis and, where applicable, transfer the products in the ordinary securities account, in line with FinecoBank's typical approach.
In the first half of 2018 the Bank's efforts were also directed to further improve the Fineco Advice Consulting Service reporting and the Network platform, through the inclusion of the withholding taxes applied to sales and Funds/Sicavs dividends and the tax P&L for each security.

	Amounts as at		Amounts as at		Change	
	06.30.2018	%	12.31.2017	Comp %	absolute	%
UCITS and other investment funds	26,808,755	77.7%	26,998,628	80.4%	(189,873)	-0.7%
Insurance products	7,043,377	20.4%	6,074,833	18.1%	968,544	15.9%
Segregated accounts	1,117	0.0%	6,729	0.0%	(5,612)	-83.4%
Asset under custody and Direct deposits under advisory	642,914	1.9%	482,573	1.4%	160,341	33.2%
Total assets under management	**34,496,163**	**100.0%**	**33,562,763**	**100.0%**	**933,400**	**2.8%**

(Amounts in € thousand)

THE NETWORK OF PERSONAL FINANCIAL ADVISORS

With regard to the network of financial advisors, the first half of 2018 was characterized by the entry into force of MiFID II.
This important regulatory change, for a long time the subject of intense debate in the institutional and association arena, required great efforts from the entire organization and, especially from the financial advisors called to carefully follow their customer base. Customers were informed about the implementation and innovations introduced by MIFID II with respect to the previous legislation, with a view to strengthening our relationship with customers, while at the same time implementing the concepts of assistance and transparency required by the new legislation. This activity was therefore carried out in keeping with the approach that has always characterized Fineco's model, even before the

MIFID regulations were designed and implemented. Although not quantifiable in strictly productive terms, the indirect effects on business were unquestionable, arising from FinecoBank’s strengthened image as a careful and transparent partner and promoting customers' trust and loyalty.

The first half of 2018 was in any case an extremely favourable period for growth, confirming FinecoBank's effective and successful business model and its ability to play as leader in the reference market. Net sales came to €3,237 million (+22% y/y).

Assets under management also performed well, despite the higher volatility recorded on the markets:

- assets under management amounted to €1,575 million;
- sales from Advisory services amounted to €1,418 million.

The growth recorded, as also noted in the past, was mainly produced by the existing network, with no special contributions made by tactical commercial and recruitment campaigns.

The input on recruitment selectivity has been strategically strengthened, with the main objective of increasing the average quality of the Network. To this end, the Bank more closely focused on the targets of interest, all of which should share:

- customer-centric view of the business;
- operations focused on advice and transparency;
- tendency to operate in a dynamic and modern environment, characterized by high technological content.

As at June 30, 2018, 34 new financial advisors were recruited from the network, the traditional banks and private banking sectors. As part of the "youth programme" designed to introduce young graduates in the financial profession, 29 new advisors were recruited.

In the first half of the year, an intense activity was also recorded in terms of completing our range of products and services. New advisory services and insurance and pension products were launched, characterized by a planning by objective approach and constant risk monitoring and control. In particular, the "Plus" service, which in just over two months since its launch has achieved sales of €1.7 billion.

The Private segment also continued to record strong growth: in the first half of 2018, sales to this customer segment amounted to approximately €1.5 billion and the number of private customers as at June 30, 2018 was 31,006.

The comeback of volatility was an additional opportunity for keeping close relationships with customers, through the organization of events designed to inform and raise awareness on relevant financial issues. Since the beginning of the year, 572 customer events were held across Italy that saw the participation of over 21,000 customers and prospects.

We consistently invested in training, which is delivered at all levels of the network, to increase the financial advisors’ technical and interpersonal skills, especially as regards the most sophisticated issues that meet the needs for advanced consulting services.

Net sales - Personal Financial Advisors Network

	1st Half 2018	Comp %	1st Half 2017	Comp %	Changes absolute	Changes %
Current accounts and demand deposits	956,685	29.6%	701,817	26.5%	254,868	36.3%
Time deposits and reverse repos	(3,373)	-0.1%	(124,494)	-4.7%	121,121	-97.3%
DIRECT SALES	**953,312**	**29.5%**	**577,323**	**21.8%**	**375,989**	**65.1%**
Segregated accounts	(5,598)	-0.2%	(1,905)	-0.1%	(3,693)	193.9%
Investment funds and other funds	368,410	11.4%	977,000	37.0%	(608,590)	-62.3%
Insurance products	1,041,548	32.2%	770,558	29.2%	270,990	35.2%
Asset under custody and Direct deposits under advisory	170,284	5.3%	51,535	1.9%	118,749	230.4%
ASSETS UNDER MANAGEMENT	**1,574,644**	**48.6%**	**1,797,188**	**68.0%**	**(222,544)**	**-12.4%**
Government securities, bonds and stocks	708,850	21.9%	268,909	10.2%	439,941	163.6%
ASSETS UNDER ADMINISTRATION	**708,850**	**21.9%**	**268,909**	**10.2%**	**439,941**	**163.6%**
NET SALES	**3,236,806**	**100.0%**	**2,643,420**	**100.0%**	**593,386**	**22.4%**
of which Guided products & services	1,418,183	43.8%	1,954,585	73.9%	(536,402)	-27.4%

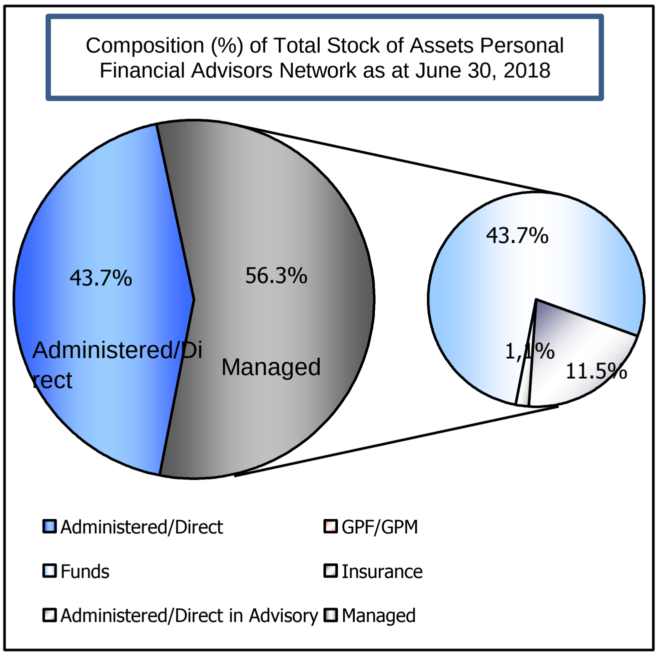
(Amounts in € thousand)

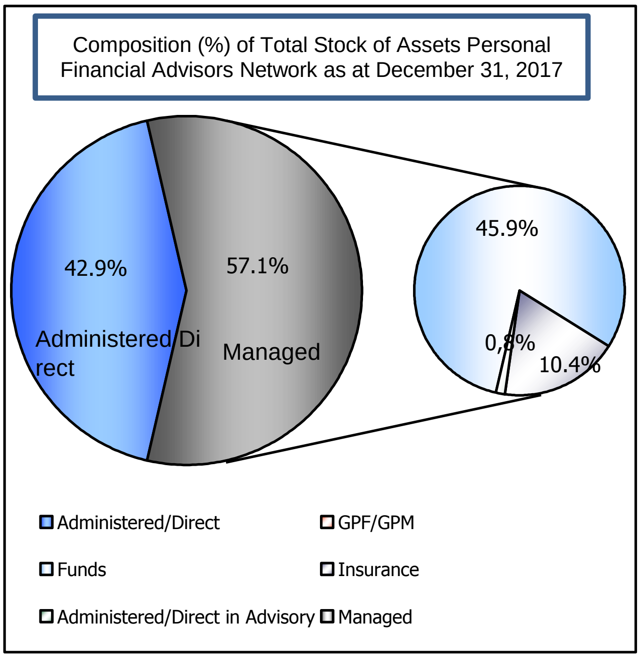
The table below shows the breakdown of sales attributable to the PFA network as at June 30, 2018. Total financial assets, amounting to €60,339 million, increased by 4.2% compared to December 31, 2017.

Total financial assets - Personal Financial Advisors Network

	Amounts as at 06.30.2018	Comp %	Amounts as at 12.31.2017	Comp %	Changes absolute	Changes %
Current accounts and demand deposits	15,630,724	25.9%	14,674,039	25.3%	956,685	6.5%
Time deposits and reverse repos	5,112	0.0%	8,424	0.0%	(3,312)	-39.3%
DIRECT DEPOSITS	**15,635,836**	**25.9%**	**14,682,463**	**25.4%**	**953,373**	**6.5%**
Segregated accounts	1,117	0.0%	6,729	0.0%	(5,612)	-83.4%
UCITS and other investment funds	26,393,184	43.7%	26,565,970	45.9%	(172,786)	-0.7%
Insurance products	6,963,554	11.5%	5,992,040	10.4%	971,514	16.2%
Asset under custody and Direct deposits under advisory	642,912	1.1%	482,571	0.8%	160,341	33.2%
ASSETS UNDER MANAGEMENT BALANCE	**34,000,767**	**56.3%**	**33,047,310**	**57.1%**	**953,457**	**2.9%**
Government securities, bonds and stocks	10,702,171	17.7%	10,157,116	17.5%	545,055	5.4%
ASSETS UNDER CUSTODY	**10,702,171**	**17.7%**	**10,157,116**	**17.5%**	**545,055**	**5.4%**
TOTAL FINANCIAL ASSETS - PERSONAL FINANCIAL ADVISORS NETWORK - ASSORETI FIGURES	**60,338,774**	**100.0%**	**57,886,889**	**100.0%**	**2,451,885**	**4.2%**
of which Guided products & services	22,170,702	36.7%	21,197,073	36.6%	973,629	4.6%

(Amounts in € thousand)





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

As at June 30, 2018, the network was made up of 2,621 personal financial advisors, who operate countrywide through 384 financial shops (Fineco Centers), managed directly by the Company or by the personal financial advisors themselves.

HUMAN RESOURCES

THE PARENT: FINECOBANK S.p.A.

As at June 2018, the Bank's employees are 1,125 compared to 1,120 as at December 31, 2017. The breakdown was as follows:

Human Resources	**June 30, 2018**	**December 31, 2017**
FinecoBank employees	1,128	1,119
Group employees seconded to FinecoBank (+)	1	4
FinecoBank employees seconded to the Group (-)	(4)	(3)
Total human resources	**1,125**	**1,120**

During the first half of 2018, activities continued to strengthen and optimise the areas dedicated to business development, organisational support and risk control and management with particular attention to the gender topics. This led to the hiring of 51 workers, of which:

- 5 from other Group Companies;
- 46 from the market.

Out of the 46 new recruits from the market, the majority were employed in the Customer Relationship Management area, confirming the strong and ongoing focus on young graduates. Customer Relationship Management forms the starting point of a pathway of professional development that can lead to different roles in the Company.

In continuity with the past years, we put our effort in attracting new talents, with particular focus on Millennials, also thanks to education initiatives aimed at raising the middle management awareness on the correct understanding and management of the new generation behavioural matters.

The first half of 2018 showed a significant use of internal job rotation that involved 20 resources enabling, on one hand, to cover the vacant positions within the Company, and on the other hand, to guarantee the continuous staff professional development.

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

- 17 resignations;
- 14 transfers to Group Companies;
- 11 for other reasons.

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

Category	Men		Women		Total	
	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17
Executives	24	23	4	4	28	27
Managers	248	239	106	98	354	337
Professional Areas	367	368	379	387	746	755
Total	**639**	**630**	**489**	**489**	**1,128**	**1,119**

As June 30, 2018, part-time staff in the Bank amounted to 92, accounting for 8% of employees, with women employees representing around 43% of the workforce. The average length of service was 9 years and the average age was around 40.

EMPLOYEE TRAINING

During the first half of 2018, the training of Fineco employees focused both on the acquisition and consolidation of skills, required by the emerging company needs, and on the updating of individual knowledge, with specific focus on mandatory, technical, foreign languages training.

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

Training Area	Hours of Training
Mandatory	3,146
Technical	7,456
Foreign Language	3,767
Conduct – Management	40
Total	**14,409**

Mandatory training

FinecoBank is committed to spreading and enhancing the culture of Risk and Compliance, allowing our business to be sustainable and profitable over time.

In particular, during the first half of 2018, has been confirmed the importance of Compliance Culture, fundamental to promote within the staff that the awareness, transparency and respect of the rules are the basis of FinecoBank business.

For this reason, also in the first half of 2018, FinecoBank paid significant attention to mandatory training extended to all employees, who attended the courses both in e-learning mode, using the Group My Learning Platform, and through live seminars for specific subjects (Anti Money Laundering, Financial Sanctions, Volcker Rule…).

Staff attendance at the courses was periodically monitored in order to ensure that all employees learnt the mandatory subjects, thereby protecting the Bank against operational, legal and reputational risk linked to the lack of attendance to the courses.

Technical training

During the first half of the year, have been organized specific training sessions useful to obtain technical skills necessary to increase not only the productivity, but also the level of specialisation of employees.

The Bank's Employees had the possibility to attend, on a voluntary basis, to the "Risk Cross Functions" course (possibility extended to all the Bank roles), which is a training course on risks, through the Group My Learning platform.

To ensure that FinecoBank high standards of service quality and customer care are maintained, training courses were organised within the Customer Care unit for a total of 5.708 hours, part of them "upon hiring" on technical matters and part "in itinere" on technical-behavioural matters (linked in particular to the Service and Communication).

Foreign language training

Given the importance of the foreign language training, the Bank provided employees with a platform accessible to all for the teaching of English through the use of educational tools such as video, role-playing and virtual classrooms. Ca. 450 colleagues are signed up and use said platform.

Moreover, during the first half of 2018, around 200 employees attended classroom or telephone English courses, according to specific needs.

In some cases (e.g. for Executives), "one-to-one" training courses in Business and Legal English were provided.

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

THE SUBSIDIARY: FINECO ASSET MANAGEMENT DESIGNATED ACTIVITY COMPANY (DAC)

As at June 2018, the Company's employees are 8 of whom 2 women and 6 men and the average age is around 36.

The hirings from the market of the first half of 2018 are due to the company's staff constitution and the selected resources are dedicated to business, staff and control functions.

TECHNOLOGY INFRASTRUCTURE

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

- Banking application software;
- On-line Trading system (dedicated applications for the real-time sale/purchase of securities and financial instruments on the main European and American markets);

- A management system for the operations room and for institutional investors, and access to the information/order sections of Italian/foreign markets;
- A management system for investment services such as Funds, SICAVs and Bank Insurance;
- A credit and debit card management system, with the issue of cards for VISA and MasterCard circuits;
- A personal financial advisors network management system, enabling advisors to work with all the Bank's products through a single portal.

In the first half of 2018, the ICT Area carried out its usual activities for technological renewal, consolidation and development of the Information System in order to provide new and more versatile added value services to customers. Specifically, from an architectural perspective, work continued on optimising infrastructure and applications, as well as the continuous improvement and fine-tuning of application security architecture.

The main project activities completed include:

- offer of the new financial advice product Plus;
- offer of the new trading product CFD Commodities;
- availability of professional trading platform PowerDesk on the English market;
- enrichment of mortgages offers with new products: assumption and refinancing;
- activation of the voice authentication system for retail customers;
- offer of the new mobile payment platform Apple Pay;
- enrichment of the mobile apps with new services: Plus, Logos Day, Extracash Instant Approval.

The regulatory activities include:

- the first Program step required to be compliant with the new GDPR UE Regulation;
- adherence to the dematerialized checks (CIT) management system;
- implementations required to be compliant with the EU accounting principle IFRS9.

INTERNAL CONTROL SYSTEM

The internal control system is a fundamental part of the overall governance system of banks; it ensures that operations are carried out in line with the Bank strategies and policies and based on principles of sound and prudent management.

Circular no. 285 of December 17, 2013 as amended defines the principles and guidelines to which the internal control system of banks must conform. The circular defines the general principles of organisation, identifies the role and responsibilities of governing bodies, and sets out the characteristics and roles of corporate control functions.

The internal control system must provide protective measures that cover all types of business risk. The primary responsibility for these tasks lies with the bank's bodies, each in accordance with its specific duties. The structure of tasks and lines of responsibility of corporate functions and bodies must be clearly specified.

Banks must apply the provisions according to the proportionality principle, i.e. taking into account the operating scale and organisational complexity, the nature of the activities carried out, and the type of services provided.

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

In accordance with the provisions laid down by the Supervisory Authority, the Bank's internal control system consists of a set of rules, functions, organisational structures, resources, processes and procedures aimed at ensuring the achievement of the following objectives, in compliance with the principles of sound and prudent management:

- verifying the implementation of the Bank’s strategies and policies;
- containing risk within the limits set out in the Bank Risk Appetite Framework - "RAF";
- preventing the Bank’s involvement, even if unintentional, in unlawful activities (with specific reference to money laundering, usury and the financing of terrorism);
- protecting the value of assets and preventing losses;
- ensuring the effectiveness and efficiency of corporate processes;
- ensuring the security and reliability of the Bank information and ICT procedures;
- ensuring compliance of transactions with the law and supervisory regulations, as well as internal policies, procedures and regulations.

In terms of the methods applied, the Bank’s internal control system is based on four types of controls:

- level one controls ("line controls"): these are controls for individual activities and are carried out according to specific operational procedures based on a specific internal regulation. Monitoring and continuously updating these processes is entrusted to "process supervisors" who are charged with devising controls able to ensure the proper performance of daily activities by the staff concerned, as well as the observance of any delegated powers. The processes subject to control relate to units that have contact with customers, as well as completely internal Bank units;
- level two controls: these are controls related to daily operations connected with the process to measure quantifiable risks and are carried out by units other than operating units, on an ongoing basis. The Risk Management function controls market, credit and operational risks, as regards compliance with limits assigned to operating functions and the consistency of operations of individual production areas with established risk/return objectives; the Compliance unit is responsible for controls on non-compliance risks; for regulatory areas which already have types of control performed by the Bank's specialised structures, monitoring of compliance risk is assigned to these structures based on the "Indirect Coverage" operating model, also adopted by the Parent Company;
- level three controls: these controls are typical of internal auditing, based on analysis of information obtained from databases or company reports, as well as on-site controls. The purpose of these controls is to check the functioning of the overall internal control system and information communication technology system (ICT audit) and identify any anomalous trends, or infringements of procedures or regulations. These controls are assigned to the Internal Audit function, which operates at central level, at UniCredit S.p.A., based on a specific service agreement;
- institutional supervisory controls: these refer to controls by the Bank’s bodies, including in particular the Board of Statutory Auditors and the Supervisory Body pursuant to Legislative Decree no. 231 of 8 June 2001.

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

- control bodies and functions including, according to their respective responsibilities, the Board of Directors, the Risk and Related Parties Committee, the Remuneration and Appointments Committee, the Chief Executive Officer and General Manager[4], the Board of Statutory Auditors, the Supervisory Body set up pursuant to Legislative Decree 231/01 and the corporate control functions (Risk Management, Compliance[5], Internal Audit) as well as other company functions with specific internal control duties[6];
- procedures for the coordination of entities involved in the internal control and risk management system, which provide for:
  - cooperation and coordination among control functions, through specific information flows that are formalised in internal regulations and through managerial committees dedicated to control issues;
  - application of the Group coordination model defined as part of the management and coordination activity carried out by the Parent Company;
  - definition of information flows both between corporate bodies and control functions within the Bank, and with the Parent Company, in order for the latter to be able to properly carry out its management and coordination activities.

Finally, it should be noted that, under Article 49, paragraph 1, of the Regulation (EU) No. 468/2014 of the European Central Bank (ECB/2014/17) (the SSM - Single Supervisory Mechanism - Framework Regulation), the ECB publishes, as of September 4, 2014, a periodically updated list, containing the names of supervised entities and groups that fall under the direct supervision of the ECB ("significant supervised entities" and "significant supervised groups", as defined in Article 2, points 16) and 22) of the SSM Framework Regulation), indicating the specific reason for direct supervision for each of them, and, if classified as significant based on size, the total value of the assets of the entity or group supervised. The Bank, as a "credit institution established in a participating Member State" belonging to the UniCredit group (classified as a "significant supervised group"), is included in the list of "significant supervised entities".
As regards the subsidiary Fineco AM, which has formally set up at the end of 2017 but not and has started its business from July 2018, the organizational structure establishes that the Compliance and Risk Management activities have performed by internal functions within the company, while Internal Audit will be outsourced to a specific UniCredit S.p.A. structure.

[4] Also appointed as "Director responsible for the internal control and risk management system" in accordance with principle 7.P.3 of the Corporate Governance Code of listed companies.
[5] This function includes the Anti Money Laundering and Anti Terrorism Service, responsible for managing the correct application of regulations on anti-money laundering and combating the financing of terrorism. The Compliance Officer is also appointed Head of the Anti-Money Laundering Function.
[6] The legislative framework and the codes of conduct assign control tasks to specific functions - other than corporate control functions - whose work should be seen as being a functional part of the Internal Control System. For the Bank in particular, these include the Local Control System for legislation concerning related-party transactions carried out with associated persons in a conflict of interest situation (under the responsibility of the Corporate Secretariat Unit of the Legal & Corporate Affairs Department), the Nominated Official in charge of drawing up company accounts pursuant to Article 154-bis of the Consolidated Finance Act (identified as the Bank's CFO), the Occupational Health and Safety Officer; the Human Resources function, the Head of Business Continuity & Crisis Management, and the Head of Outsourcing Management (Costs Manager Assistant). All corporate functions, other than corporate control functions, also participate in the Internal Control System by carrying out the level-one controls included in the business processes within their responsibility.

MAIN RISKS AND UNCERTAINTIES

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

ORGANISATIONAL STRUCTURE

The organisational structure of the Bank is consistent with the *Group Organisation Guidelines* issued by the Parent Company.

The Guidelines set out organisational principles and rules designed to ensure their uniform application across all Group Legal Entities, through:

- clear organisational principles and criteria;
- specific organisational documents;
- suitable processes for organisational changes.

During the first half of 2018 several changes were made to the organisational structure. In particular, as part of the *Global Business Department*, *Legal & Corporate Affairs Department* and of the *Chief Risk Officer (CRO) Department* some activities were redistributed and the affected units reorganised accordingly, with the aim of improving their efficiency and, where possible, reducing the number of hierarchical reports to the departments.

On 1 March 2018, the Bank's Board of Directors appointed the Data Protection Officer, in compliance with article 39 of *Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of their personal data (GDPR).*

Organisational Model

The Bank’s current organisational model is based on a functional model, which favours economies of scale and facilitates the development of vertical skills and knowledge within each area. The model guarantees the necessary decision-making mechanisms, whilst maintaining the "horizontal link" between the various functions. Although the current arrangement applies the concept of “functional specialisation”, a project-based approach is maintained for every phase of definition and release of products and services.

The horizontal links are guaranteed by the work of specific committees that monitor business lines and the progress of the most important projects, also to guarantee the necessary synergies of distribution channels.

In general, the model sets out structured organisational rankings on four levels (Department, Unit, Team and Technical Units) based on their size and the organisational complexity of overseen operations.

The following organisational units report to the Chief Executive Officer and General Manager: Network PFA Department, Investment Services and Private Banking Services Department, Global Business Department, CFO (Chief Financial Officer) Department, CRO (Chief Risk Officer) Department, Network Controls, Monitoring And Services Department, Legal & Corporate Affairs Department, GBS (Global Banking Services) Department, Human Resources Unit, Compliance Unit, and the Identity & Communication Team.

The organisational model identifies four main functional lines, which govern:

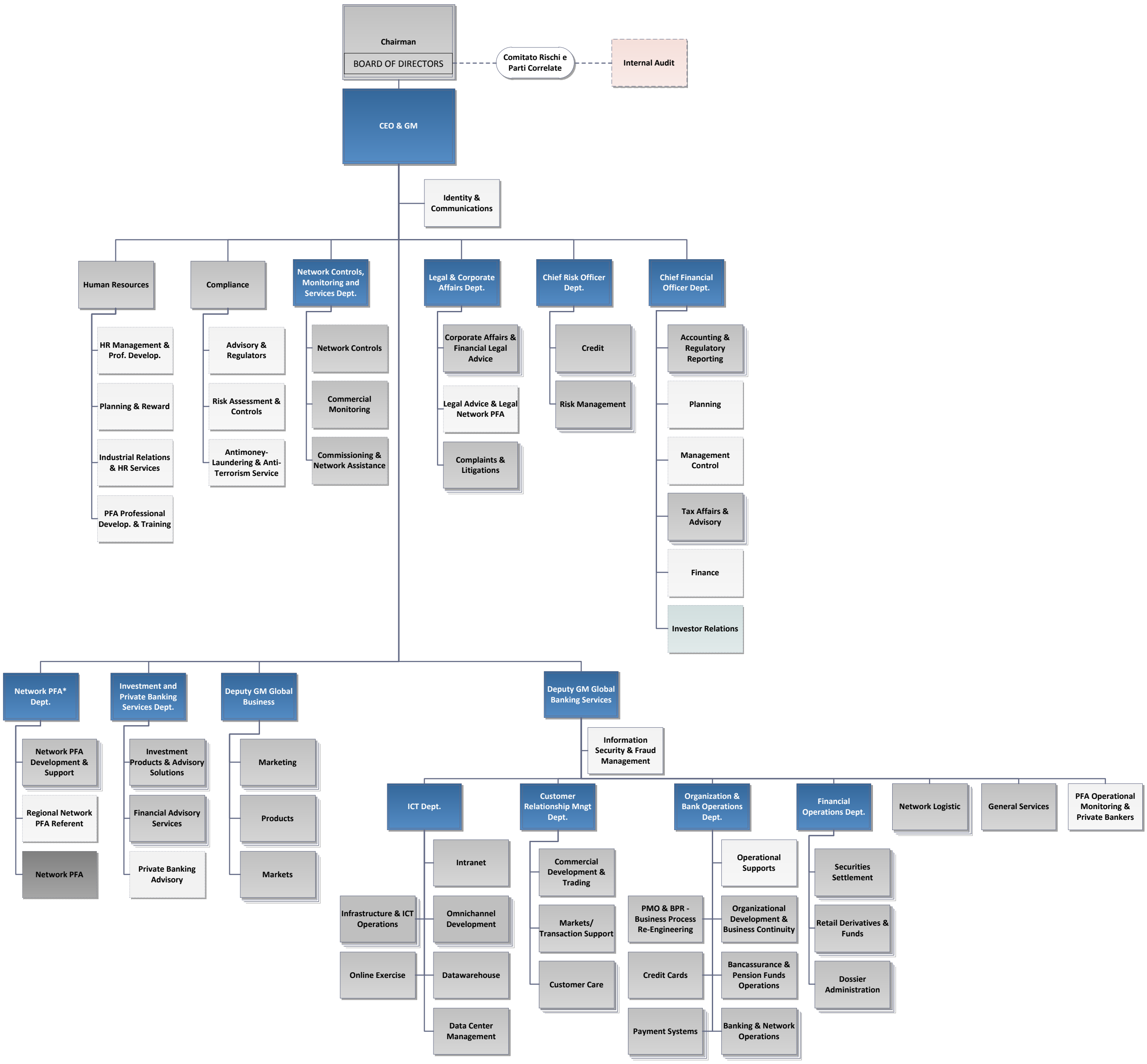
- the sales network (Network PFA Department);
- investment services (Investment Services and Private Banking Services Department);

- Trading, Banking and Credit products and the investment platforms (Global Business Department);
- operational functioning (GBS Department).

In summary:

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

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



*Personal Financial Adviser

MAIN BALANCE SHEET AGGREGATES

ASSETS	Amounts as at		Changes	
	06.30.2018	**12.31.2017**	**Amount**	**%**
Cash and cash balances	1,733	613	1,120	182.7%
Financial assets held for trading	10,871	8,827	2,044	23.2%
Loans and receivables with banks	3,224,477	3,039,207	185,270	6.1%
Loans and receivables with customers	2,632,749	2,129,219	503,530	23.6%
Financial investments	17,188,339	16,715,041	473,298	2.8%
Hedging instruments	2,667	10,048	(7,381)	-73.5%
Property, plant and equipment	15,036	15,205	(169)	-1.1%
Goodwill	89,602	89,602	-	-
Other intangible assets	7,827	7,909	(82)	-1.0%
Tax assets	10,914	9,249	1,665	18.0%
Non-current assets and disposal groups classified as held for sale	91	-	91	-
Other assets	241,054	315,415	(74,361)	-23.6%
Total assets	**23,425,360**	**22,340,335**	**1,085,025**	**4.9%**

(Amounts in € thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	Amounts as at		Changes	
	06.30.2018	**12.31.2017**	**Amount**	**%**
Deposits from banks	907,794	926,001	(18,207)	-2.0%
Deposits from customers	21,196,653	20,205,036	991,617	4.9%
Financial liabilities held for trading	4,568	11,936	(7,368)	-61.7%
Hedging instruments	2,374	(397)	2,771	n.c.
Tax liabilities	22,038	10,234	11,804	115.3%
Other liabilities	417,933	455,699	(37,766)	-8.3%
Shareholders' equity	874,000	731,826	142,174	19.4%
- capital and reserves	*763,818*	*526,046*	*237,772*	*45.2%*
- revaluation reserves	*(14,997)*	*(8,340)*	*(6,657)*	*79.8%*
- net profit	*125,179*	*214,120*	*(88,941)*	*-41.5%*
Total liabilities and Shareholders' equity	**23,425,360**	**22,340,335**	**1,085,025**	**4.9%**

(Amounts in € thousand)

Financial assets held for trading

Financial assets held for trading totaled €10.9 million and include financial instruments that meets the definition of held for trading, in particular:

- bonds, equities and UCIT units, amounting to €4 million, held in the Bank's portfolio as a result of trading activity or used for the operational hedging of CFD positions on shares open with customers and intended to be traded in the short term;
- the positive valuation of spot contracts for securities in the held for trading portfolio and currencies to be settled in time frames established by market practices ("regular way") for €3.8 million, which correspond to negative valuations booked under "Financial liabilities held for trading";
- the positive valuation of CFDs (indices, shares, interest rates, commodities and forex), traded in counterpart of the customers, and futures, used for the related management coverage, for €3.1 million.

CFDs are "Over the counter" derivative contracts that require the payment of a spread generated by the difference between the opening and closing price of the financial instrument. The bank in operational terms hedges the imbalance of customer positions by underwriting futures or the purchase/sale of equity securities on the same underlyings or through forex transactions with institutional.

Loans and receivables with banks

	Amounts as at		Changes	
	06.30.2018	**12.31.2017**	**Amount**	**%**
Current accounts and demand deposits	2,136,232	1,993,139	143,093	7.2%
Time deposits	1,039,565	1,028,152	11,413	1.1%
Other loans:	48,680	17,916	30,764	171.7%
1 Reverse repos	1,566	54	1,512	n.c.
2 Others	47,114	17,862	29,252	163.8%
Total	**3,224,477**	**3,039,207**	**185,270**	**6.1%**

(Amounts in € thousand)

Loans and receivables with banks for “Current accounts and demand deposits” mainly consist of accounts held with UniCredit S.p.A., with a book value of €2,107 million (€1,958.6 million as at December 31, 2017), and to a lesser extent, of current accounts held with other banks not belonging to the UniCredit group, among these the current accounts opened for securities transactions, for the management of the liquidity of the UK customers and for the management of the liquidity of Fineco AM, for an amount of €1.8 million.

“Time deposits” consist of the deposit held with UniCredit S.p.A., include deposit for compulsory reserves, which stood at €1,039.6 million (€1,028.2 million as at December 31, 2017).

The item “Other loans: Reverse repos” includes €1 million relating to transactions done with the Parent Company.

The item “Other loans: Others” consists of €42.3 million for the amount of the initial and variance margins and collateral deposits placed with credit institutions for derivative transactions and repos (€14.6 million as at December 31, 2017), of which €36.2 million with UniCredit S.p.A. (€9 million as at December 31, 2017), and €4.8 million for current receivables associated with the provision of financial services (€3.2 million as at December 31, 2017).

Loans and receivables with customers

	Amounts as at		Changes	
	06.30.2018	12.31.2017	Amount	%
Current accounts	854,373	641,554	212,819	33.2%
Reverse repos	201,303	202,701	(1,398)	-0.7%
Mortgages	721,117	516,251	204,866	39.7%
Credit cards and personal loans	668,726	633,048	35,678	5.6%
Other loans	187,230	135,665	51,565	38.0%
Total	**2,632,749**	**2,129,219**	**503,530**	**23.6%**

(Amounts in € thousand)

Loans and receivables with customers, amounting to €2,632.7 million, can be broken down as follows:

- €2,251.5 million in loans;
- €201.3 million in reverse repos;
- €78.5 million in collateral deposits and initial and variation margins with clearing houses for derivative contract transactions;
- €101.4 million relating to current receivables associated with the provision of financial services.

"Reverse repos" consist of:

- "Multiday leverage" with retail customers and stock lending transactions with transactions institutional customers, securities lending transactions guaranteed by sums of money readily available to the lender and which are basically the equivalent of repos on securities;
- repos on securities executed on MTS market subject to accounting offsetting, as set out in IAS 32.

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

Loans and receivables with customers	Amounts as at		Changes	
(Management reclassification)	06.30.2018	12.31.2017	Amount	%
Current accounts	852,598	639,726	212,872	33.3%
Credit card use	271,475	288,382	(16,907)	-5.9%
Mortgages	721,117	516,237	204,880	39.7%
Personal loans	396,531	343,867	52,664	15.3%
Other loans	7,197	7,641	(444)	-5.8%
Performing loans	*2,248,918*	*1,795,853*	*453,065*	*25.2%*
Current accounts	1,775	1,828	(53)	-2.9%
Mortgages	-	14	(14)	-100.0%
Credit card use	37	43	(6)	-14.0%
Personal loans	683	756	(73)	-9.7%
Other loans	107	26	81	311.5%
Impaired loans	*2,602*	*2,667*	*(65)*	*-2.4%*
Loans receivable with ordinary customers	***2,251,520***	***1,798,520***	***453,000***	***25.2%***
Reverse repos	201,289	202,620	(1,331)	-0.7%
Reverse repos - impaired	14	81	(67)	n.c.
Collateral deposits and initial and variation margins	78,475	42,609	35,866	84.2%
Current receivables not related provision of financial services	101,362	85,284	16,078	18.9%
Current receivables associated with the provision of financial services - impaired	89	105	(16)	-15.2%
Current receivables and other receivables	***381,229***	***330,699***	***50,530***	***15.3%***
Loans and receivables with customers	**2,632,749**	**2,129,219**	**503,530**	**23.6%**

(Amounts in € thousand)

The portfolio of loan receivables with ordinary customers mainly consists of receivables for personal loans, mortgages, current accounts and credit card use; overall, loans receivable with ordinary customers increased of 25.2% thanks to the disbursement in first half 2018 of a further €131 million in personal loan and €231 million in mortgages plus new credit facilities in current accounts for an amount of €550 million, with an increase in exposures in current accounts of €213 million.

Impaired assets

Category	Gross amount		Impairment provision		Net amount		Coverage ratio	
	Amounts as at		Amounts as at		Amounts as at		Data as at	
	06.30.2018	**12.31.2017**	**06.30.2018**	**12.31.2017**	**06.30.2018**	**12.31.2017**	**06.30.2018**	**12.31.2017**
Bad exoposure	19,993	20,848	(18,279)	(19,118)	1,714	1,730	91.43%	91.70%
Unlikely to pay	2,257	2,109	(1,762)	(1,614)	495	495	78.07%	76.53%
Past-due loans	1,577	1,356	(1,081)	(728)	496	628	68.55%	53.69%
Total	**23,827**	**24,313**	**(21,122)**	**(21,460)**	**2,705**	**2,853**	**88.65%**	**88.27%**

(Amounts in € thousand)

The amount of non-performing loans net of impairment losses was €2.7 million, €1.7 million of which in bad exposure, €0.5 million in unlikely to pay exposures and €0.5 million in past-due loans. Non-performing loans mostly relate to current account overdrafts and personal loans.

Financial investments

	Amounts as at		Changes	
	06.30.2018	**12.31.2017**	**Amount**	**%**
Financial assets at fair value through profit or loss c) financial assets mandatorily at fair value	6,725	539,854	(533,129)	-98.8%
Financial assets at fair value through other comprehensive income	1,100,810	1,042,471	58,339	5.6%
Financial assets at amortised cost	16,080,804	15,132,716	948,088	6.3%
- financial assets at amortised cost with banks - debt securities	9,886,081	10,306,326	(420,245)	-4.1%
- financial assets at amortised cost with customers - debt securities	6,194,723	4,826,390	1,368,333	28.4%
Total	**17,188,339**	**16,715,041**	**473,298**	**2.8%**

(Amounts in € thousand)

“Financial assets designated at fair value through profit or loss c) other assets required to be measured at fair value” primarily consist of the Visa INC class “C” preferred shares, for an amount of €6 million, which saw a positive change in *fair value* in the first half of 2018 of €1.5 million and the residual equity exposure to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund (IDPF), amounting to €0.7 million.

"Financial assets designated at fair value through other comprehensive income" consist of securities issued by sovereign states and residually of equity interests in companies in which the Bank does not exercise control or significant influence for €5 thousand for which, upon first application of IFRS 9, the "FVTOCI" option was exercised.[7]

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

The following table shows the debt securities issued by sovereign states:

Counterparty	Amounts as at		Changes	
	06.30.2018	12.31.2017	Amount	%
Italy	718,284	725,220	(6,936)	-1.0%
Spain	239,401	242,451	(3,050)	-1.3%
France	35,509	10,124	25,385	250.7%
USA	65,721	64,671	1,050	1.6%
Ireland	41,890	-	41,890	-
Total	**1,100,805**	**1,042,466**	**58,339**	**5.6%**

(Amounts in € thousand)

The securities recorded in "Financial assets measured at amortized cost" issued by banks exclusively refer to bonds issued by UniCredit S.p.A. Securities issued by customers exclusively refer to government securities and securities issued by the Istituto de Credito Oficial (ICO). The breakdown by counterparty of securities issued by customers is shown below:

Counterparty	Amounts as at		Changes	
	06.30.2018	12.31.2017	Amount	%
Italy	3,171,494	2,557,575	613,919	24.0%
Spain	2,625,965	2,120,318	505,647	23.8%
Poland	79,641	48,572	31,069	64.0%
France	99,781	-	99,781	-
Ireland	117,960	-	117,960	-
Instituto de Credito Oficial	99,882	99,925	(43)	0.0%
Total	**6,194,723**	**4,826,390**	**1,368,333**	**28.4%**

(Amounts in € thousand)

Hedging instruments

	Amounts as at		Changes	
	06.30.2018	12.31.2017	Amount	%
Asset hedging derivatives - positive valuations	134	400	(266)	-66.5%
Liability hedging derivatives - positive valuations	805	58	747	n.c.
Adjustment to the value of assets under macro-hedge	1,728	9,590	(7,862)	-82.0%
Total assets	**2,667**	**10,048**	**(7,381)**	**-73.5%**
of which:				
Positive valuations	555	499	56	11.2%
Accrued interest	384	(41)	425	n.c.
Adjustments to the value of hedged assets	1,728	9,590	(7,862)	-82.0%
Total assets	**2,667**	**10,048**	**(7,381)**	**-73.5%**
Asset hedging derivatives - negative valuations	2,128	249	1,879	754.6%
Liability hedging derivatives - negative valuations	1,275	3,126	(1,851)	n.c.
Adjustment to the value of assets under macro-hedge	(1,029)	(3,772)	2,743	-72.7%
Total liabilities	**2,374**	**(397)**	**2,771**	**-698.0%**
of which:				
Negative valuations	3,267	3,959	(692)	-17.5%
Accrued interest	136	(584)	720	n.c.
Adjustments to the value of hedged liabilities	(1,029)	(3,772)	2,743	-72.7%
Total liabilities	**2,374**	**(397)**	**2,771**	**-698.0%**

(Amounts in € thousand)

Summary of hedging derivative valuations 30-Jun- 2018	**Assets**	**Liabilities**	**Difference**
Valuation of hedging derivatives for assets and liabilities	555	3,267	(2,712)
Change in fair value of hedged assets/liabilities	1,728	(1,029)	2,757
Total	**2,283**	**2,238**	**45**

(Amounts in € thousand)

As at June 30, 2018 the hedged assets consisted of mortgages with customers shown in “Financial assets at amortised cost”, while the hedged liabilities consisted of direct deposits shown in “Financial liabilities at amortised cost”.
Positive and negative valuations of hedging derivatives related solely to derivative contracts that the Bank has entered into to hedge against interest rate risk inherent in the above-mentioned assets and liabilities, whose income statement effect, net of €0.2 million of accrued interest income included in the net interest margin, was a positive amount of €45 thousand.

Property, plant and equipment

As in previous financial years, investments in electronic equipment were made to guarantee the ongoing update of the hardware used by all the Bank’s departments. Investments in furniture, fittings and equipment are intended for use in company offices and in financial stores.

Property, plant and equipment	Balance 12.31.2017	Investments first half 2018	Other changes and sales first half 2018	Amortisation and impairment first half 2018	Balance 06.30.2018
Properties	2,304	2	(91)	(73)	2,142
Electronic equipment	9,798	1,667	(145)	(1,810)	9,510
Office furniture and fittings	1,480	599	-	(277)	1,802
Plant and machinery	1,623	198	-	(239)	1,582
Total	**15,205**	**2,466**	**(236)**	**(2,399)**	**15,036**

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Goodwill

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

As at June 30, 2018 there were no indicators of impairment of the goodwill recognised in the financial statements.
A qualitative analysis was conducted of the main assumptions used in the impairment test carried out with reference to December 31, 2017 and, based on the results of those qualitative analyses, the result of the impairment test as at December 31, 2017 was also confirmed with reference to June 30, 2018.
For all other information on the impairment test, see Part B – Balance Sheet Information in the Notes to the Accounts.

Other intangible assets

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

Other intangible assets	Balance 12.31.2017	Investments first half 2018	Other changes and sales first half 2018	Amortisation and impairment first half 2018	Balance 06.30.2018
Software	7,081	2,323	-	(2,281)	7,123
Other intangible assets	828	32	-	(156)	704
Total	**7,909**	**2,355**	**-**	**(2,437)**	**7,827**

(Amounts in € thousand)

Tax Assets and Other Assets

	Amounts as at		Changes	
	06.30.2018	12.31.2017	Amount	%
Tax assets				
Current assets	1,613	1,765	(152)	-8.6%
Deferred tax assets	30,977	32,927	(1,950)	-5.9%
Deferred tax assets pursuant to Law 214/2011	3,388	3,828	(440)	-11.5%
Total before IAS 12 offsetting	*35,978*	*38,520*	*(2,542)*	*-6.6%*
Offsetting with deferred tax liabilities - IAS 12	(25,064)	(29,271)	4,207	-14.4%
Total Tax assets	**10,914**	**9,249**	**1,665**	**18.0%**
Other assets				
Items in processing	17	99	(82)	-82.8%
Items awaiting settlement	11,736	4,498	7,238	160.9%
Definitive items not recognised under other items	32,540	25,617	6,923	27.0%
Current receivables not related with the provision of financial services	2,059	4,721	(2,662)	-56.4%
Tax items other than those included in the item "Tax assets"	153,545	249,443	(95,898)	-38.4%
Deferred charges	31,201	22,143	9,058	40.9%
Improvement and incremental expenses incurred on leasehol	6,456	6,774	(318)	-4.7%
Other items	3,500	2,120	1,380	65.1%
Total other assets	**241,054**	**315,415**	**(74,361)**	**-23.6%**

(Amounts in € thousand)

The increase in Tax assets, of €1.7 million, is mainly due to the increase in deferred tax assets recorded in relation to changes in the fair value of securities recognized under financial assets at fair value through other comprehensive income.

With reference to Fineco AM, Current tax assets of €1 million and Deferred tax assets were also recognised on losses recorded, totalling €0.2 million, which resulted from initial operating costs incurred as at 30 June 2018 – as operations have not yet begun.

It is also noted that "Deferred tax assets" are shown in the Balance Sheet net of the relevant "Deferred tax liabilities", where the requirements set out in IAS 12 are met.

For the item Other assets, there was a decrease of €95.9 million in the "Tax items other than those recorded under the Tax Assets item", due to lower advance taxes paid, as withholding agent, for the substitute tax on other income, withholding tax on interest and for stamp duties.

The Other assets of Fineco AM were recognized in "Prepaid expenses" for €0.1 million and in "Definitive items not recognised under other items" for €0.1 million.

Deposits from banks

	Amounts as at		Changes	
	06.30.2018	12.31.2017	Amount	%
Deposits from central banks	-	-	-	-
Deposits from banks				
Current accounts and demand deposits	86,785	42,756	44,029	103.0%
Time deposits	-	-	-	-
Loans	820,515	868,651	(48,136)	-5.5%
1. Repos	820,515	868,651	(48,136)	-5.5%
Other liabilities	494	14,594	(14,100)	-96.6%
Total	**907,794**	**926,001**	**(18,207)**	**-2.0%**

(Amounts in € thousand)

The item "Current accounts and demand deposits" consisted of reciprocal current accounts and loans with UniCredit S.p.A., amounting to €6 million (€6.1 million as at December 31, 2017), as well as current accounts opened by customer banks worth €80.8 million (€36.7 million as at December 31, 2017).

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

The item included €687.4 million in transactions effected with UniCredit S.p.A. (€764.4 million as at December 31, 2017) and €50.5 million of securities lending transactions guaranteed by cash carried out with UniCredit Bank AG Monaco (€40.3 million as at December 31, 2017).

The item "Other liabilities" included margin variations received for trading in derivatives. Please note that the item at 31 December 2017 included margin variations received by the Parent Company for reverse repos, for an amount of € 13.3 million.

Deposits from customers

Deposits from customers, mainly consisting of current accounts, totalled €21,196.7 million, up 4.9% compared to December 31, 2017.

	Amounts as at		Changes	
	06.30.2018	12.31.2017	Amount	%
Current accounts and demand deposits	20,960,483	19,935,285	1,025,198	5.1%
Time deposits	5,752	9,631	(3,879)	-40.3%
Loans	123,058	146,410	(23,352)	-15.9%
1. Repos	123,058	146,410	(23,352)	-15.9%
Other liabilities	107,360	113,710	(6,350)	-5.6%
Deposits from customers	**21,196,653**	**20,205,036**	**991,617**	**4.9%**

(Amounts in € thousand)

It is worth noting the increase of €1,025.2 million in the liquidity deposited on current accounts.

"Repos" consist of:

- "*Short selling*" with retail customers and stock lending transactions with transactions institutional customers, securities lending transactions guaranteed by sums of money readily available to the lender and which are basically the equivalent of repos on securities;
- repos on securities executed on MTS market subject to accounting offsetting as set out in IAS 32.

The item "Other payables" comprises current payables related to the provision of financial services, totalling €33 million (€39 million as at December 31, 2017), initial and variance margins for derivative transactions, which came to

€38.8 million (€44.9 million as at December 31, 2017) and other liabilities for rechargeable credit cards and bankers' drafts, amounting to €35.6 million (€29.8 million at December 31, 2017).

Financial liabilities held for trading

Financial liabilities held for trading totaled €4.6 million and include financial instruments that meets the definition of held for trading, in particular:

- technical overdrafts, amounting to €0,5 million, used for the operational hedging of CFD positions on shares open with customers and intended to be traded in the short term;
- the negative valuation of spot contracts for securities in the held for trading portfolio and currencies to be settled in time frames established by market practices ("regular way") for €3.7 million, which correspond to negative valuations booked under "Financial liabilities held for trading";
- the negative valuation of CFDs (indices, shares, interest rates, commodities and forex), traded in counterpart of the customers, and futures, used for the related management coverage, for €0.5 million.

CFDs are "Over the counter" derivative contracts that require the payment of a spread generated by the difference between the opening and closing price of the financial instrument. The bank in operational terms hedges the imbalance of customer positions by underwriting futures or the purchase/sale of equity securities on the same underlyings or through forex transactions with institutional.

Tax liabilities and Other liabilities

	Amounts as at		Changes	
	06.30.2018	**12.31.2017**	**Amount**	**%**
Tax liabilities				
Current liabilities	22,038	10,234	11,804	115.3%
Deferred tax liabilities	25,064	29,271	(4,207)	-14.4%
Total before IAS 12 offsetting	*47,102*	*39,505*	*7,597*	*19.2%*
Offset against deferred tax liabilities - IAS 12	(25,064)	(29,271)	4,207	-14.4%
Total Tax liabilities	**22,038**	**10,234**	**11,804**	**115.3%**
Other liabilities				
Items in processing	1,128	481	647	134.5%
Items awaiting settlement	66,180	91,869	(25,689)	-28.0%
Definitive items not recognised under other items	27,978	42,724	(14,746)	-34.5%
Payment authorisations	80,551	19,068	61,483	322.4%
Payables for share-based payments or shares of the Parent Company UniCredit	339	938	(599)	-63.9%
Payables to employees and other personnel	14,045	11,378	2,667	23.4%
Payables to Directors and statutory auditors	202	148	54	36.5%
Current payables not related with the provision of financial services	21,501	23,690	(2,189)	-9.2%
Tax items other than those included in the item "Tax liabilities"	66,757	116,515	(49,758)	-42.7%
Social security contributions payable	5,570	6,845	(1,275)	-18.6%
Illiquid items for portfolio transactions	9,601	18,097	(8,496)	-46.9%
Other items	7,371	6,534	837	12.8%
Provisions for employee severance pay	4,922	4,998	(76)	-1.5%
Provisions for risks and charges	111,788	112,414	(626)	-0.6%
Total Other liabilities	**417,933**	**455,699**	**(37,766)**	**-8.3%**

(Amounts in € thousand)

"Tax liabilities", after IAS 12 offsetting, refer exclusively to current tax liabilities.

It is also noted that, when the requirements of IAS 12 are met, the “Deferred tax liabilities” are offset against “Deferred tax assets” in the balance sheet.

With regard to the Other liabilities there was:

- a decrease of €25.7 million in “Items awaiting settlement”, mainly attributable to outgoing bank transfers and POS transactions to be settled;
- a decrease of €14.7 million in “Definitive items not recognised under other items”, mainly due to the decrease in transactions in securities and dividends to be settled;
- an increase of €61.5 million in “Payment authorisations”, due to the increase in tax authorities awaiting payment authorisations to the Italian Revenue Agency;
- a decrease of €49.8 million in "Tax items other than those included in the item “Tax liabilities", mainly as a result of higher payables for stamp duty and substitute tax on assets under management to be made.

The liabilities of Fineco AM, equal to €0.3 million, were mainly recognised in “Payables to employees and other personnel”.

The Provision for risks and charges consists of:

- Provisions for credit risk relating to commitments and financial guarantees issued that fall within the scope of application of impairment rules in accordance with IFRS 9, as described in the specific "Impairment” section of the Explanatory Notes to which reference is made for additional details, for an amount of €0.1 million;
- Provisions for risks and charges - Other provisions which include allowances for a total of €111,7 million, for which, given a liability of uncertain amount and expiry date, a current obligation was identified as a result of a past event and the amount arising from fulfilment of said obligation could be estimated reliably. The disbursements, with estimated maturity exceeding 18 months, were discounted to present value using a rate equal to the time value of money.

	Amounts as at		Changes	
	06.30.2018	12.31.2017	Amount	%
Provisions for risks and charges for commitments and financial guarantees given	**62**	**-**	**62**	**-**
Legal and fiscal disputes	**33,899**	25,090	**8,809**	**35.1%**
- Pending cases	25,090	25,525	(435)	-1.7%
- Complaints	4,922	5,531	(609)	-11.0%
- Tax disputes	3,887	3,931	(44)	-1.1%
Staff expenses	**2,767**	**5,690**	**(2,923)**	**-51.4%**
Other	**75,060**	**71,737**	**3,323**	**4.6%**
- supplementary customer indemnity provision	66,756	64,983	1,773	2.7%
- Provision for contractual payments and payments under non-competition agreements	2,270	2,311	(41)	-1.8%
- Other provisions	6,034	4,443	1,591	35.8%
Provisions for risks and charges - other provision	**111,726**	**112,414**	**(688)**	**-0.6%**
Total provisions for risks and charges	**111,788**	**112,414**	**(626)**	**-0.6%**

(Amounts in € thousand)

The item "Staff expenses" includes, mainly, the provisions made for the variable remuneration to be paid to employees in subsequent years, which have an uncertain due date and/or amount.

Shareholders' equity

As at June 30, 2018, the Bank's share capital came to €200.8 million, divided into 608,404,395 ordinary shares with a par value of €0.33 each.

The reserves consisted of the:

- Share premium reserve, amounting to €1.9 million;
- Legal reserve, amounting to €40.2 million;
- Extraordinary reserve, amounting to €289.5 million;
- Reserve for treasury shares held, amounting to €0.6 million;
- Reserve related to equity-settled plans, amounting to €36.5 million;
- Negative reserve recognized following the introduction of IFRS 9, of €-4.9 million.

The loss carried forward, of €0.2 million, refers to the result at 31 December 2017 of Fineco AM which will close its first financial year on 31 December 2018.

Shareholders' equity also includes the Additional Tier 1 Perp Non Call June 2023 notes issue (5.5 years, Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes) issued on 31 January 2018. The issue of the financial instrument was authorized by the Board of Directors of FinecoBank on 23 January 2018. The financial instrument is a perpetual private placement[8], issued for a total of €200 million and entirely subscribed by UniCredit S.p.A. The coupon for the first 5.5 years has been fixed at 4.82%. The decision to carry out an intra-group issuance has many advantages: effective cost savings relating, for example, to the underwriting syndicate, and shorter issue times so as not to miss the right moment, maximising the benefits of the transaction.

In view of the particularly favourable market conditions and spread levels, the Bank decided to issue an Additional Tier 1 in order to improve the diversification of its investment portfolio.

Transaction costs directly attributable to the issue of the financial instrument as well as the coupons paid were accounted for as a reduction in profit reserves for an amount, net of related taxes, of €2.3 million.

On February 6, 2018, in view of the favourable opinion provided by the Remuneration Committee in its meeting of February 5, 2018, the Board of Directors of FinecoBank approved execution of the following incentive/loyalty systems:

- 2014-2017 Top Management Multi-Year Plan for employees. In particular, we approved the allotment of 494,493 free ordinary shares to the beneficiaries of the second tranche of the Plan, assigned in 2015, and consequently a bonus issue for a total amount of €163,182.69 with immediate effect;
- 2014, 2015, 2016 and 2017 incentive systems for employees. In particular, we approved the allotment of 196,557 free ordinary shares to the beneficiaries of the second equity tranche of the 2014 Incentive System and of the first tranche of the 2015 Incentive System, and consequently a bonus issue for a total amount of €64,863.81 with effect from 30 March 2018.

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

The Shareholders' Meeting of FinecoBank held on April 11, 2018 approved the allocation of profit for the year 2017, amounting to €214.3 million, as follows:

[8] Unrated and unlisted

- €0.05 million to the Legal Reserve, corresponding to 0.02% of the profit for the year, having reached the limit of a fifth of the share capital;
- €40.8 million to the Extraordinary Reserve;
- €173.4 million to shareholders, corresponding to a dividend of €0.285 for each of the 608,404,395 ordinary shares with a par value of €0.33 euro.

The amount pertaining to the dividends not distributed to treasury shares held by the Bank at the record date was diverted to the Extraordinary Reserve, equal to €0.03 million.

The “Reserve related to equity-settled plans” was increased by around €4.4 million, due to the recognition during the year of the income statement and balance sheet effects of the payment plans based on FinecoBank ordinary shares during the vesting period for the instruments.

As at June 30, 2018, the Bank held 88,041 treasury shares, corresponding to 0.01% of the share capital, for an amount of €0.6 million. In the first half of 2018 n. 27,644 shares were purchased in relation to the “2017 PFA Incentive System” for personal financial advisors identified as “Key personnel” in accordance with what was authorised by the Fineco Ordinary Shareholders’ Meeting on April 11, 2017.

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

The Revaluation reserves consisted of:

- €-5.4 million from the net negative reserve for debt securities issued by central governments recognized in the "Financial assets designated at fair value through other comprehensive income”, which decreased by €9 million in 2018, of which €8.1 million relating to the negative change in fair value and -€0.9 million relating to the reclassification of gains through profit or loss;
- -€9.6 million from the IAS19 Negative reserve, which decreased by €0.2 million in the first half of 2018 as a result of the recognition of actuarial gains mainly attributable to the Supplementary customer indemnity provision.

Shareholders' equity

	Amounts as at		Changes	
	06.30.2018	**12.31.2017**	**Amount**	**%**
Share capital	200,773	200,545	228	0.1%
Share premium reserve	1,934	1,934	-	-
Reserves	361,897	323,932	37,965	11.7%
- Legal reserve	40,155	40,109	46	0.1%
- Extraordinary reserve	289,459	251,367	38,092	15.2%
- Treasury shares reserve	623	365	258	70.7%
- Other reserves	31,660	32,091	(431)	-1.3%
(Treasury Shares)	(623)	(365)	(258)	70.7%
Revaluation reserves	(14,997)	(8,340)	(6,657)	79.8%
Equity instruments	200,000	-	200,000	-
Retained Profit (Loss)	(163)	-	(163)	-
Net Profit (Loss) for the period	125,179	214,120	(88,941)	-41.5%
Total	**874,000**	**731,826**	**142,174**	**19.4%**

(Amounts in € thousand)

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

Description	Shareholders' equity	of which: net profit (loss) as at 06.30.2018
FinecoBank balances as at June 30, 2018	**875,248**	**126,264**
Effect of consolidation of Fineco AM (loss)	(1,248)	(1,085)
Shareholders' equity and profit attributable to minorities	-	-
Balances attributable to the Group as at June 30, 2018	**874,000**	**125,179**

(Amounts in € thousand)

OWN FUNDS AND PRUDENTIAL REQUIREMENTS

The Bank is not required to prepare the disclosure relating to own funds and regulatory ratios on consolidated basis as it is part of the UniCredit banking group. Therefore, please refer to the section on the results of the parent FinecoBank.

INCOME STATEMENT FIGURES

Condensed Income Statement

	1st Half		Changes	
	2018	2017	Amount	%
Net interest	137,646	127,297	10,349	8.1%
Dividends and other income from equity investments	20	12	8	66.7%
Net fee and commission income	145,978	129,707	16,271	12.5%
Net trading, hedging and fair value income	27,618	25,992	1,626	6.3%
Net other expenses/income	583	(233)	816	n.c.
OPERATING INCOME	**311,845**	**282,775**	**29,070**	**10.3%**
Staff expenses	(41,499)	(38,924)	(2,575)	6.6%
Other administrative expenses	(126,931)	(123,893)	(3,038)	2.5%
Recovery of expenses	48,623	46,492	2,131	4.6%
Impairment/write-backs on intangible and tangible assets	(4,836)	(4,833)	(3)	0.1%
Operating costs	**(124,643)**	**(121,158)**	**(3,485)**	**2.9%**
OPERATING PROFIT (LOSS)	**187,202**	**161,617**	**25,585**	**15.8%**
Net impairment losses on loans and provisions for guarantees and commitments	(1,156)	(1,650)	494	-29.9%
NET OPERATING PROFIT (LOSS)	**186,046**	**159,967**	**26,079**	**16.3%**
Provisions for risks and charges	(3,699)	(3,150)	(549)	17.4%
Integration costs	(4)	(13)	9	-69.2%
Net income from investments	5,158	(353)	5,511	n.c.
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**187,501**	**156,451**	**31,050**	**19.8%**
Income tax for the period	(62,322)	(52,184)	(10,138)	19.4%
NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**125,179**	**104,267**	**20,912**	**20.1%**
PROFIT (LOSS) FOR THE PERIOD	**125,179**	**104,267**	**20,912**	**20.1%**
NET PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP	**125,179**	**104,267**	**20,912**	**20.1%**

(Amounts in € thousand)

Net interest

Net interest for the first half 2018 amounted to €137.6 million, up by 8.1% on the same period of the previous year, due to the increase in sales volume and the greater penetration of lending activities, which offset the fall in interest income linked to the decline in interest rates. In this regard it should be noted that the structure of the investments carried out by the Bank contributed to maintaining a significant level of interest income, with the average gross rate on assets standing at 1.32%, just below the 1.34% as at June 30, 2017.

Interest income	1st Half 2018	1st Half 2017	Changes Amount	Changes %
Financial Assets held for trading	-	1	(1)	-100.0%
Financial assets at fair value through comprehensive income	2,211	4,640	(2,429)	-52.3%
Other financial assets mandatorily at fair value	1	-	1	-
Financial assets at amortised cost - Debt securities issued by banks	82,195	94,570	(12,375)	-13.1%
Financial assets at amortised cost - Debt securities issued by customers	26,631	7,572	19,059	251.7%
Financial assets at amortised cost - Loans and receivables with banks	5,979	1,824	4,155	227.8%
Financial assets at amortised cost - Loans and receivables with customers	26,358	18,208	8,150	44.8%
Hedging derivatives	(500)	4,548	(5,048)	-111.0%
Other assets	7	4	3	75.0%
Financial liabilities	2,057	1,877	180	9.6%
Total interest income	**144,939**	**133,244**	**11,695**	**8.8%**

(Amounts in € thousand)

Interest expenses	1st Half 2018	1st Half 2017	Changes Amount	Changes %
Financial liabilities at amortised cost - Deposits from banks	(350)	(269)	(81)	30.1%
Financial liabilities at amortised cost - Deposits from customers	(5,436)	(5,075)	(361)	7.1%
Financial assets	(1,507)	(603)	(904)	149.9%
Total interest expenses	**(7,293)**	**(5,947)**	**(1,346)**	**22.6%**
Net interest	**137,646**	**127,297**	**10,349**	**8.1%**

(Amounts in € thousand)

Interest income on Financial assets measured at amortized cost - Debt securities issued by banks exclusively refer to interest accrued on bonds issued by UniCredit S.p.A.. The decrease is mainly attributable to the reduction in volumes due to the repayment of securities that have reached maturity.

Interest income on Financial assets measured at amortized cost - Debt securities issued by customers exclusively refer to interest accrued on government securities. The increase is attributable to the growth in volumes due to purchases made in the period, as described above.

The following table provides a breakdown of interest income associated with banks and customers recorded in "Financial assets at amortised cost":

Breakdown of interest income	1st Half 2018	1st Half 2017	Changes Amount	Changes %
Interest income on loans and receivables with banks	**5,979**	**1,824**	**4,155**	**227.8%**
- current accounts	5,750	1,730	4,020	232.4%
- reverse repos	1	64	(63)	-98.4%
- time deposits	206	17	189	n.c.
- other loans	22	13	9	69.2%
Interest income on loans and receivables with customers	**26,358**	**18,208**	**8,150**	**44.8%**
- current accounts	5,019	3,505	1,514	43.2%
- reverse repos	5,467	4,099	1,368	33.4%
- mortgages	4,878	697	4,181	n.c.
- credit cards	2,370	2,279	91	4.0%
- personal loans	8,561	7,542	1,019	13.5%
- other loans	63	86	(23)	-26.7%

(Amounts in € thousand)

Interest income on loans and receivables with banks amounted to €6 million, up €1.8 million compared to June 30, 2017. The increase was mainly attributable to higher interest on current account in dollars due to the trend in market interest rates.

Interest income on loans and receivables with customers amounted to €26.4 million, showing an increase of 44.8% compared to the same period of the previous year thanks to higher interest on mortgages, personal loans and usage of current account due to the continuous development of the lending activity mentioned above, as well as thanks to "Multiday leverage" transactions, due to the increase in volumes.

The following table provides a breakdown of interest expenses related to banks and customers recorded in “Financial liabilities at amortised cost”:

Breakdown of interest expenses	**1st Half**		**Changes**	
	2018	**2017**	**Amount**	**%**
Interest expenses on deposits from banks	**(350)**	**(269)**	**(81)**	**30.1%**
- current accounts	(329)	(259)	(70)	27.0%
- other loans	(21)	(10)	(11)	110.0%
Interest expenses on deposits from customers	**(5,436)**	**(5,075)**	**(361)**	**7.1%**
- current accounts	(5,415)	(4,909)	(506)	10.3%
- time deposits	(21)	(106)	85	-80.2%
- reverse repos	-	(60)	60	-100.0%

(Amounts in € thousand)

Interest expenses on deposits from banks was substantially in line with the same period of the previous year.

Interest expenses on deposits from customers came to €5.4 million, up €0.4 million compared to the first half 2017, mainly due to higher interest on current accounts in dollars attributable to the growth of the USD Libor rate used to remunerate this current accounts, partially offset by lower interest expense paid to customers as a result of marketing campaigns.

Income from brokerage and other income

	1st Half		**Changes**	
	2018	**2017**	**Amount**	**%**
Net interest	**137,646**	**127,297**	**10,349**	**8.1%**
Dividends and other income from equity investments	20	12	8	66.7%
Net fee and commission income	145,978	129,707	16,271	12.5%
Net trading, hedging and fair value income	27,618	25,992	1,626	6.3%
Net other expenses/income	583	(233)	816	n.c.
Operating income	**311,845**	**282,775**	**29,070**	**10.3%**

(Amounts in € thousand)

Net fee and commission income

Management reclassification	1st Half		Changes	
	2018	2017	Amount	%
Management, brokerage and consulting services:	149,052	136,515	12,537	9.2%
1. securities trading and order collection	42,704	39,853	2,851	7.2%
2. custody and administration of securities	(2,264)	(1,820)	(444)	24.4%
3. placement and management of managed asset products	81,250	75,940	5,310	7.0%
4. investment advisory services	27,692	22,685	5,007	22.1%
5. distribution of other products	(330)	(143)	(187)	130.8%
Collection and payment services	4,157	2,134	2,023	94.8%
Holding and management of current/deposit accounts	(223)	(349)	126	n.c.
Other fee expenses personal financial advisers	(14,768)	(13,272)	(1,496)	11.3%
Securities lending	1,925	1,955	(30)	-1.5%
Other services	5,835	2,724	3,111	114.2%
Total net fee and commission income	**145,978**	**129,707**	**16,271**	**12.5%**

(Amounts in € thousand)

Net fee and commission income amounted to €146 million, increasing by 12.5% compared to the same period of the previous year mainly due to:

- higher commissions for securities trading and order collection (+7.2%), mainly due to increase in equity orders;
- higher commissions for investment advisory services (+22.1%);
- higher commissions for the placement and management of managed asset products (+7%), thanks mainly to the increase in Guided products;
- higher commissions for collection and payment services (+94.8%), mainly related to transactions with debit cards and Visa Debit and to the introduction of the fee on withdrawals of less than €100;
- higher commissions for other services (114.2%), relating in particular to the progressive introduction of the annual fee on credit cards;

partially offset by:

- greater fee and commission expense paid to personal financial advisors (+11.3%).

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

Net trading, hedging and fair value income was mainly generated by gains realised from the internalisation of securities and CFDs, financial instruments used for operational hedging of CFDs and the exchange differences on assets and liabilities denominated in currency, which show a result substantially in line with that one recorded in the first half of 2017. Trading profit also incorporates gains and losses from the financial instruments recognised in “Other assets required to be measured at fair value”, including, as described above, the class “C” preferred shares of Visa INC, whose fair-value measurement resulted in a gain of €1.5 million in the first half of 2018.

Net other expenses/income showed income of €0.6 million, up €0.8 million compared to the same period of the previous year, thanks mainly to lower costs for settlement agreements and claims net of insurance recovery.

Operating costs

Breakdown of operating costs	1st Half		Changes	
	2018	2017	Amount	%
Staff expenses	(41,499)	(38,924)	(2,575)	6.6%
Other administrative expenses	(126,931)	(123,893)	(3,038)	2.5%
Recovery of expenses	48,623	46,492	2,131	4.6%
Impairment/write-backs on intangible and tangible assets	(4,836)	(4,833)	(3)	0.1%
Total operating costs	**(124,643)**	**(121,158)**	**(3,485)**	**2.9%**

(Amounts in € thousand)

Staff expenses amounted to €41.5 million, increasing by 6.6% compared to the same period of the previous year thanks to continuous growth of the operating structure. It should be noted that the increase included €0.7 million relating to staff expenses of the subsidiary Fineco AM, not included in the item as at June 30, 2017.

Staff expenses	1st Half		Changes	
	2018	2017	Amount	%
1) Employees	**(40,909)**	**(38,275)**	**(2,634)**	**6.9%**
- wages and salaries	(27,320)	(25,575)	(1,745)	6.8%
- social security contributions	(7,327)	(6,907)	(420)	6.1%
- provision for employee severance pay	(469)	(411)	(58)	14.1%
- allocation to employee severance pay provision	(60)	(55)	(5)	9.1%
- payment to supplementary external pension funds:				
a) defined contribution	(1,657)	(1,573)	(84)	5.3%
- costs related to share-based payments*	(1,918)	(1,323)	(595)	45.0%
- other employee benefits	(2,158)	(2,431)	273	-11.2%
2) Other staff	-	-	**-**	**-**
3) Directors and statutory auditors	(647)	(611)	**(36)**	**5.9%**
4) Early retirement costs	-	-	**-**	**-**
5) Recovery of expenses for employees seconded to other companies	120	120	**-**	**0.0%**
6) Recovery of expenses for employees seconded to the company	(63)	(158)	**95**	**-60.1%**
Total staff expenses	**(41,499)**	**(38,924)**	**(2,575)**	**6.6%**

(Amounts in € thousand)

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

Other administrative expenses and recovery of expenses	1st Half 2018	1st Half 2017	Changes Amount	Changes %
1) INDIRECT TAXES AND DUTIES	**(51,040)**	**(49,278)**	**(1,762)**	**3.6%**
2) MISCELLANEOUS COSTS AND EXPENSES				
A) Advertising expenses - Marketing and communication	**(9,083)**	**(10,899)**	**1,816**	**-16.7%**
Mass media communications	(6,368)	(8,705)	2,337	-26.8%
Marketing and promotions	(2,682)	(2,134)	(548)	25.7%
Sponsorships	(11)	(29)	18	-62.1%
Conventions and internal communications	(22)	(31)	9	-29.0%
B) Expenses related to credit risk	**(881)**	**(939)**	**58**	**-6.2%**
Credit recovery expenses	(292)	(279)	(13)	4.7%
Commercial information and company searches	(589)	(660)	71	-10.8%
C) Expenses related to personnel	**(15,200)**	**(13,636)**	**(1,564)**	**11.5%**
Personnel training	(246)	(277)	31	-11.2%
Car rental and other staff expenses	(33)	(29)	(4)	13.8%
Personal financial adviser expenses	(14,496)	(13,016)	(1,480)	11.4%
Travel expenses	(362)	(279)	(83)	29.7%
Premises rentals for personnel	(63)	(35)	(28)	80.0%
D) ICT expenses	**(16,599)**	**(15,363)**	**(1,236)**	**8.0%**
Lease of ICT equipment and software	(1,207)	(1,263)	56	-4.4%
Software expenses: lease and maintenance	(4,322)	(3,700)	(622)	16.8%
ICT communication systems	(3,111)	(2,584)	(527)	20.4%
ICT services: external personnel/outsourced services	(2,988)	(3,054)	66	-2.2%
Financial information providers	(4,971)	(4,762)	(209)	4.4%
E) Consultancies and professional services	**(2,323)**	**(2,233)**	**(90)**	**4.0%**
Consultancy on ordinary activities	(1,729)	(1,337)	(392)	29.3%
Consultancy for one-off regulatory compliance projects	(10)	-	(10)	n.c.
Consultancy for strategy, business development and organisational optimisation	(247)	(168)	(79)	47.0%
Legal expenses	(24)	-	(24)	n.c.
Legal disputes	(313)	(728)	415	-57.0%
F) Real estate expenses	**(10,020)**	**(10,086)**	**66**	**-0.7%**
Real estate services	(353)	(360)	7	-1.9%
Repair and maintenance of furniture, machinery, and equipment	(232)	(187)	(45)	24.1%
Maintenance of premises	(884)	(896)	12	-1.3%
Premises rentals	(7,270)	(7,047)	(223)	3.2%
Cleaning of premises	(282)	(285)	3	-1.1%
Utilities	(999)	(1,311)	312	-23.8%
G) Other functioning costs	**(20,661)**	**(19,706)**	**(955)**	**4.8%**
Surveillance and security services	(202)	(207)	5	-2.4%
Postage and transport of documents	(1,819)	(1,636)	(183)	11.2%
Administrative and logistic services	(9,734)	(9,322)	(412)	4.4%
Insurance	(1,983)	(1,876)	(107)	5.7%
Printing and stationery	(258)	(262)	4	-1.5%
Association dues and fees	(6,518)	(6,204)	(314)	5.1%
Other administrative expenses	(147)	(199)	52	-26.1%
H) Adjustments of leasehold improvements	**(1,124)**	**(1,753)**	**629**	**-35.9%**
I) Recovery of costs	**48,623**	**46,492**	**2,131**	**4.6%**
Recovery of ancillary expenses	82	163	(81)	-49.7%
Recovery of taxes	48,541	46,329	2,212	4.8%
Total other administrative expenses and recovery of expenses	**(78,308)**	**(77,401)**	**(907)**	**1.2%**

(Amounts in € thousand)

Other administrative expenses net of Recovery of expenses came to €78.3 million, up €0.9 million compared to the first half of the previous year.

“Other functioning costs” increased due to higher call-center costs, administrative activities relating to credit cards and debit cards, the disbursement of mortgages, as did “Consultancies and professional services”, postage and transport of documents and Enasarco contributions “ICT expenses”, due to higher software and communication system

maintenance costs, "Expenses related to personnel" which were mainly attributable to higher costs for incentive plans for personal financial advisors, offset by lower the reduction in "Advertising expenses - Marketing and communication" and lower "Adjustments of leasehold improvements.
With reference to "Indirect and income taxes" and the related "Tax recoveries", the positive effect was due to lower taxes paid by the Bank relating to the Tobin Tax for transactions carried out on behalf of third parties.

Fineco AM's Other administrative expenses amounted to €0.4 million and referred to initial operating costs incurred during the first half of 2018 in order to begin operations.

Impairment/write-backs on intangible and tangible assets were substantially in line with the first half of the previous year.

Profit/(loss) before tax from continuing operations

	1st Half		Changes	
	2018	**2017**	**Amount**	**%**
Operating profit (loss)	**187,202**	**161,617**	**25,585**	**15.8%**
Net impairment losses on loans and provisions for guarantees and commitments	(1,156)	(1,650)	494	-29.9%
Net operating profit (loss)	**186,046**	**159,967**	**26,079**	**16.3%**
Provisions for risks and charges	(3,699)	(3,150)	(549)	17.4%
Integration costs	(4)	(13)	9	-69.2%
Net income from investments	5,158	(353)	5,511	n.c.
Profit (loss) before tax from continuing operations	**187,501**	**156,451**	**31,050**	**19.8%**

(Amounts in € thousand)

Net write-downs of loans and provisions for guarantees and commitments to €-1.2 million. It should be noted that accounting standard IFRS 9, with mandatory application as of January 1st, 2018, introduced a new impairment accounting model for credit exposures and resulted in an extension of the Bank's scope of recognition (for additional information see Section 5 - Other aspects of the Notes to the Accounts), so comparison with the first half of 2017 is not significant.
Net write-downs of loans and provisions for guarantees and commitments for the first half of 2018 included, on the one hand, additional adjustments compared to the first half of 2017, in relation to retail commercial loans, driven by the significant increase in performing exposures (non-performing loans remained essentially unchanged compared to the previous year), and, on the other hand, benefitted from write backs of €2 million on transaction with the Parent Company, of which €1.6 million related to deposits, in relation to the improvement in the risk profile of the segment, and €0.4 million related to the "Liquidity Framework Agreement" with the Parent Company, which expired in the first half of 2018.

Net provisions for risks and charges amounted to €3.7 million, up 17% on €3.2 million recorded as at June 30, 2017, mainly due to higher provisions to the supplementary customer indemnity provision.

Integration costs refer to the discounting to present value costs estimated for the Bank in relation to the UniCredit Group Business Plan.

Profit from investments stood at €5.2 million. As previously described, the accounting standard IFRS 9 introduced significant changes, so comparison with the first half of 2017 is not significant. Net profit for the first half of 2018 mainly include write backs on exposures to debt securities issued by the Parent Company and recognised in "Financial assets at amortised cost" for €5.7 million.

Profit before tax from continuing operations amounted to €187.5 million, up 20% compared to the first half 2017. This result was achieved thanks to the growth in Net interest (+€10.3 million), Net fee and commission income (+€16.3 million) and Net income from investments (+€5.5 million), partially offset by higher Operating costs (-€3.5 million).

Income tax for the period

Breakdown of taxes for the period	1st Half		Changes	
	2018	2017	Amount	%
Current IRES income tax charges	(49,405)	(39,032)	(10,373)	26.6%
Current IRAP corporate tax charges	(10,754)	(9,096)	(1,658)	18.2%
Total current tax	**(60,159)**	**(48,128)**	**(12,031)**	**25.0%**
Change in deferred tax assets	(1,686)	(3,608)	1,922	-53.3%
Change in deferred tax liabilities	(254)	(225)	(29)	12.9%
Total deferred tax liabilities	**(1,940)**	**(3,833)**	**1,893**	**-49.4%**
Gain from substitute tax exemption	(223)	(223)	-	-
Income tax for the period	**(62,322)**	**(52,184)**	**(10,138)**	**19.4%**

(Amounts in € thousand)

Current income taxes were calculated according to the legal provisions introduced by Legislative Decree no. 38 of February 28, 2005, which incorporated the IAS/IFRS Accounting Standards into Italian legislation, of Decree no. 48 of April 1, 2009 which introduced provisions for the implementation and coordination of tax requirements for IAS Adopter parties and subsequent provisions.

Current taxes were determined applying an IRES income tax rate of 27.5% (24% ordinary rate and 3.5% additional rate for banks) and an IRAP tax rate of 5.57% in Italy.

As regards Fineco AM, deferred tax assets were calculated at a rate of 12.5%, according to the currently applicable tax regime.

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

Net profit/(loss) for the period and Net profit/(loss) attributable to the group

The Net profit for the period – which is the same as the net profit attributable to the group as Fineco AM is 100% controlled by the Bank – amounted to €125.2 million, an increase of 20.1% on the same period of the previous year.

RESULTS OF THE PARENT AND THE SUBSIDIARY

THE PARENT: FINECOBANK S.p.A.

The key figures, reclassified balance sheet and income statement are shown below in comparison with 2017 together with a statement on the results achieved by FinecoBank S.p.A. on individual basis.

Key figures

Operating Structure

	Data as at		
	06.30.2018	12.31.2017	06.30.2017
No. Employees	1,128	1,119	1,103
No. Personal financial advisors	2,621	2,607	2,642
No. Financial shops (1)	384	375	370

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

Profitability, productivity and efficiency ratios

	Data as at		
	06.30.2018	12.31.2017	06.30.2017
Net interest/Operating income	44.13%	45.11%	45.02%
Income from brokerage and other income/Operating income	55.87%	54.88%	54.98%
Income from brokerage and other income/Operating costs	141.10%	138.19%	128.32%
Cost/income ratio	39.59%	39.72%	42.85%
Operating costs/TFA	0.36%	0.37%	0.39%
Cost of risk	32 bp	45 bp	40 bp
CoR (incentive system)	31 bp	40 bp	40 bp
ROE	37.27%	39.50%	39.33%
Adjusted ROE		40.32%	
Return on assets	1.08%	0.96%	0.97%
EVA (calculated on economic capital)	101,923	193,269	91,409
EVA (calculated on accounting capital)	85,264	165,295	75,441
RARORAC (calculated on economic capital)	41.84%	54.58%	58.66%
RARORAC (calculated on accounting capital)	19.00%	24.21%	21.82%
ROAC (calculated on economic capital)	51.39%	60.52%	66.91%
ROAC (calculated on accounting capital)	27.90%	31.39%	30.16%
Total sales to customers/Average employees	61,934	60,938	58,133
Total customer sales/(Average employees + average PFAs)	18,684	18,060	17,060

(Amounts in € thousand)

Key

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

Cost/income ratio: Operating Costs divided by Operating Income.

Operating costs/TFA: ratio of operating costs to Total Financial Assets. The TFA used for the ratio is the average for the period, calculated as the average between the period-end balance and the balance as at the previous December 31. Operating costs as at June 30, 2018 and June 30, 2017 have been annualised.

Cost of risk: is the ratio of Net write-downs of loans and provisions for guarantees and commitments with customers to loans to customers (average of single quarters' averages). The scope only includes loans to ordinary customers. Net write-downs of loans and provisions for guarantees and commitments as at June 30, 2018 and June 30, 2017 were annualised. The methods of calculation for this indicator have been changed as of FY2018 and the relevant indicators at December 31, 2017 and June 30, 2017 have been restated for comparative purposes.

CoR (incentive system): is the ratio of Net write-downs of Loans and receivables with customers to Loans and receivables with customers (average of the balance at period end and the balance at December 31 of the previous year). The scope of the exposures excludes positions deriving from bonds and advances to personal financial advisors. Net write-downs of loans and receivables as at June 30, 2018 and June 30, 2017 were annualised.

ROE: ratio between net profit and the average book shareholders' equity for the period (excluding dividends and any donations expected to be distributed and the revaluation reserves). The net profit (loss) for the period as at June 30, 2018 and June 30, 2017 has been annualised.

Return on assets: ratio of net profit after tax to total assets. The net profit (loss) for the period as at June 30, 2018 and June 30, 2017 has been annualised.

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

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

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

For the calculation of EVA, RARORAC and ROAC indicators as at June 30, 2018, internal capital is that as at March 31, 2018, the latest available provided by the Parent Company, and the indicators have been calculated based on the individual situation, as FinecoBank is not required to prepare the disclosure relating to own funds and regulatory ratios on consolidated basis as it is part of the UniCredit banking group.

Main balance sheet figures

	Amounts as at		Changes	
	06.30.2018	12.31.2017	Amount	%
Loans receivable with ordinary customers (1)	2,252,786	1,798,520	454,266	25.3%
Total assets	23,426,305	22,340,391	1,085,914	4.9%
Direct deposits (2)	20,967,565	19,940,715	1,026,850	5.1%
Assets under administration (3)	48,862,648	47,243,837	1,618,811	3.4%
Total customer sales (direct and indirect)	69,830,213	67,184,552	2,645,661	3.9%
Shareholders' equity	875,248	731,990	143,258	19.6%

(Amounts in € thousand)

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

Balance Sheet indicators

	Data as at	
	06.30.2018	12.31.2017
Loans receivable with ordinary customers/Total assets	9.62%	8.05%
Loans and receivables with banks/Total assets	13.76%	13.60%
Financial assets/Total assets	73.38%	74.82%
Direct sales/Total liabilities and Shareholders' equity	89.50%	89.26%
Shareholders' equity (including profit)/Total liabilities and Shareholders' equity	3.74%	3.28%
Ordinary customer loans/Direct deposits	10.74%	9.02%

	Data as at	
Credit quality	06.30.2018	12.31.2017
Impaired loans/Loans receivable with ordinary customers	0.12%	0.16%
Non-performing loans/Loans receivable with ordinary customers	0.08%	0.10%
Coverage (1) - Non-performing loans	91.43%	91.70%
Coverage (1) - Unlikely to pay	78.07%	76.53%
Coverage (1) - Impaired past-due exposures	68.55%	53.69%
Coverage (1) - Total impaired loans	88.65%	88.27%

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

Own funds and capital ratios

	Data as at	
	06.30.2018	**12.31.2017**
Total own funds (€ thousand)	679,326	484,960
Total risk-weighted assets (€ thousand)	2,320,063	2,335,013
Ratio - Common Equity Tier 1 Capital	20.66%	20.77%
Ratio - Tier 1 Capital	29.28%	20.77%
Ratio - Total Own Funds	29.28%	20.77%

	Dati al	
	06.30.2018	**12.31.2017**
Tier 1 Capital (€ thousand)	679,326	484,960
Exposure for leverage (€ thousand)	10,435,426	8,555,862
Transitional leverage ratio	6.51%	5.67%

Own funds and capital ratios were determined applying the current Supervisory Regulations, in line with Basel III standards, including transitional adjustments. The figures shown include the profit for the year 2017 that will not be distributed, assuming the conditions established Article 26.2 of the EU Regulation 575/2013 (CRR) are satisfied.

The figures shown include the share of profit for the first half 2018 to be allocated to the reserves, for an amount of €24.1 million, calculated based on the distribution rate for the last years, assuming the conditions established by Article 26.2 of EU Regulation 575/2013 (CRR) have been satisfied.

The leverage ratio was calculated in accordance with EU Delegated Regulation 2015/62 of October 10, 2014. As required by Circular No. 285 of the Bank of Italy, Part Two, Chapter 12, Section III Exercise of national discretion, exposures to the UniCredit group companies based in Italy and weighted at 0% pursuant to Article 113, par. 6 of the CRR have not been included in the calculation of total exposure, in accordance with Article 429 (7) of the CRR amended by the Delegated Regulation (EU) 2015/62.

Condensed Accounts

Balance Sheet

ASSETS	Amounts as at		Changes	
	06.30.2018	12.31.2017	Amount	%
Cash and cash balances	1,733	613	1,120	182.7%
Financial assets held for trading	10,871	8,827	2,044	23.2%
Loans and receivables with banks	3,222,651	3,038,741	183,910	6.1%
Loans and receivables with customers	2,634,016	2,129,219	504,797	23.7%
Financial investments	17,191,339	16,715,541	475,798	2.8%
Hedging instruments	2,667	10,048	(7,381)	-73.5%
Property, plant and equipment	14,772	15,205	(433)	-2.8%
Goodwill	89,602	89,602	-	-
Other intangible assets	7,827	7,909	(82)	-1.0%
Tax assets	9,742	9,226	516	5.6%
Non-current assets and disposal groups classified as held for sale	91	-	91	-
Other assets	240,994	315,460	(74,466)	-23.6%
Total assets	**23,426,305**	**22,340,391**	**1,085,914**	**4.9%**

(Amounts in € thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	Amounts as at		Changes	
	06.30.2018	12.31.2017	Amount	%
Deposits from banks	907,794	926,001	(18,207)	-2.0%
Deposits from customers	21,196,653	20,205,036	991,617	4.9%
Financial liabilities held for trading	4,568	11,936	(7,368)	-61.7%
Hedging instruments	2,374	(397)	2,771	n.c.
Tax liabilities	22,038	10,234	11,804	115.3%
Other liabilities	417,630	455,591	(37,961)	-8.3%
Shareholders' equity	875,248	731,990	143,258	19.6%
- capital and reserves	*763,981*	*526,046*	*237,935*	*45.2%*
- revaluation reserves	*(14,997)*	*(8,340)*	*(6,657)*	*79.8%*
- net profit	*126,264*	*214,284*	*(88,020)*	*-41.1%*
Total liabilities and Shareholders' equity	**23,426,305**	**22,340,391**	**1,085,914**	**4.9%**

(Amounts in € thousand)

Balance Sheet - Quarterly data

ASSETS	Amounts as at					
	06.30.2018	03.31.2018	01.01.2018	12.31.2017	09.30.2017	06.30.2017
Cash and cash balances	1,733	745	613	613	1,671	2,902
Financial assets held for trading	10,871	10,368	8,827	8,827	8,572	7,834
Loans and receivables with banks	3,222,651	3,485,263	3,035,869	3,038,741	2,834,849	2,979,553
Loans and receivables with customers	2,634,016	2,318,096	2,128,528	2,129,219	1,715,683	1,503,866
Financial investments	17,191,339	17,098,494	16,724,688	16,715,541	16,878,524	16,609,762
Hedging instruments	2,667	356	119	10,048	16,172	15,417
Property, plant and equipment	14,772	14,839	15,205	15,205	15,197	15,396
Goodwill	89,602	89,602	89,602	89,602	89,602	89,602
Other intangible assets	7,827	7,584	7,909	7,909	7,712	8,025
Tax assets	9,742	6,304	8,615	9,226	14,279	9,277
Non-current assets and disposal groups classified as held for sale	91	-	-	-	-	-
Other assets	240,994	203,763	315,459	315,460	233,188	271,613
Total assets	**23,426,305**	**23,235,414**	**22,335,434**	**22,340,391**	**21,815,449**	**21,513,247**

(Amounts in € thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	Amounts as at					
	06.30.2018	03.31.2018	01.01.2018	12.31.2017	09.30.2017	06.30.2017
Deposits from banks	907,794	960,046	926,001	926,001	696,554	929,859
Deposits from customers	21,196,653	20,916,380	20,205,036	20,205,036	20,007,773	19,440,617
Financial liabilities held for trading	4,568	4,892	11,936	11,936	18,656	18,716
Hedging instruments	2,374	(460)	(397)	(397)	3,349	1,481
Tax liabilities	22,038	36,307	7,718	10,234	49,310	19,525
Other liabilities	417,630	325,554	456,042	455,591	368,307	482,182
Shareholders' equity	875,248	992,695	729,098	731,990	671,500	620,867
- capital and reserves	*763,981*	*937,240*	*521,178*	*526,046*	*524,273*	*522,475*
- revaluation reserves	*(14,997)*	*(3,994)*	*(6,364)*	*(8,340)*	*(3,811)*	*(5,875)*
- net profit	*126,264*	*59,449*	*214,284*	*214,284*	*151,038*	*104,267*
Total liabilities and Shareholders' equity	**23,426,305**	**23,235,414**	**22,335,434**	**22,340,391**	**21,815,449**	**21,513,247**

(Amounts in € thousand)

Financial assets held for trading totaled €10.9 million and include financial instruments that meets the definition of held for trading, in particular:

- bonds, equities and UCIT units, amounting to €4 million, held in the Bank's portfolio as a result of trading activity or used for the operational hedging of CFD positions on shares open with customers and intended to be traded in the short term;
- the positive valuation of spot contracts for securities in the held for trading portfolio and currencies to be settled in time frames established by market practices ("regular way") for €3.8 million, which correspond to negative valuations booked under "Financial liabilities held for trading";
- the positive valuation of CFDs (indices, shares, interest rates, commodities and forex), traded in counterpart of the customers and futures, used for the related management coverage, for €3.1 million.

Loans and receivables with banks came to €3,222.7 million, up 6.1% compared to the previous year, as a result of the higher cash on deposit in reciprocal current accounts with UniCredit S.p.A..

Loans and receivables with customers came to €2,634 million, up 23.7% compared to the previous year, thanks to the increase in lending. During the first half of 2018, €131 million in personal loans and €231 million in mortgages were granted, and €551 million in current account overdrafts was arranged arranged, with an increase in exposures in current account of €214 million; this has resulted an overall 25.3% aggregate increase in loans to customers.

Other financial assets amounted to €17,191.3 million, up 2.8% on 31 December 2017, and included:

- “Financial assets designated at fair value through profit or loss c) other financial assets required to be measured at fair value” amounting to €6.7 million, primarily consist of the Visa INC class “C” preferred shares, for an amount of €6 million, and of the residual equity exposure to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund (IDPF), for an amount of €0.7 million;
- "Financial assets designated at fair value through other comprehensive income" for an amount of €1,100.8, consisting of securities issued by sovereign states as well as of equity interests in companies in which the Bank does not exercise control or significant influence for €5 thousand for which, upon first application of IFRS 9, the "FVTOCI" option was exercised;
- “Financial assets at amortised cost - Debt securities issued by banks”, for an amount of €9,886.1 million, consisting exclusively of bonds issued by UniCredit S.p.A.;
- “Financial assets at amortised cost - Debt securities issued by customers”, for an amount of €6,194.7 million, consisting exclusively of government bonds and securities issued by Instituto de Credito Oficial (ICO);
- "Equity investments", for €3 million, consisting exclusively of the 100% interest in Fineco AM. It should be noted that during the first half of 2018 the Bank subscribed the capital increase carried out by the Company for a total of €2.5 million.

Deposits from banks totaled €907.8 million, a slight reduction compared to debts recorded as at December 31, 2017.

Deposits from customers came to €21,196.7 million, up 4.9% compared to the previous year, thanks to the growth in direct deposits.

Shareholders’ equity amounted to €875.2 million, up 19.6% compared to 31 December 2017. The increase is mainly due to the issue on January 31, 2018 of an Additional Tier 1 Perp bond (5.5 years) for an amount of €200 million and the recognition of profit for the first half of 2018, of €126 million, partially offset by the payment of dividends approved by the Shareholders' Meeting of 11 April 2018 for an amount of €173 million.

Income statement

	1st Half		Changes	
	2018	2017	Amount	%
Net interest	137,657	127,297	10,360	8.1%
Dividends and other income from equity investments	20	12	8	66.7%
Net fee and commission income	145,979	129,707	16,272	12.5%
Net trading, hedging and fair value income	27,618	25,992	1,626	6.3%
Net other expenses/income	675	(233)	908	n.c.
OPERATING INCOME	**311,949**	**282,775**	**29,174**	**10.3%**
Staff expenses	(40,768)	(38,924)	(1,844)	4.7%
Other administrative expenses	(126,540)	(123,893)	(2,647)	2.1%
Recovery of expenses	48,623	46,492	2,131	4.6%
Impairment/write-backs on intangible and tangible assets	(4,821)	(4,833)	12	-0.2%
Operating costs	**(123,506)**	**(121,158)**	**(2,348)**	**1.9%**
OPERATING PROFIT (LOSS)	**188,443**	**161,617**	**26,826**	**16.6%**
Net impairment losses on loans and provisions for guarantees and commitments	(1,157)	(1,650)	493	-29.9%
NET OPERATING PROFIT (LOSS)	**187,286**	**159,967**	**27,319**	**17.1%**
Provisions for risks and charges	(3,699)	(3,150)	(549)	17.4%
Integration costs	(4)	(13)	9	-69.2%
Net income from investments	5,158	(353)	5,511	n.c.
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**188,741**	**156,451**	**32,290**	**20.6%**
Income tax for the period	(62,477)	(52,184)	(10,293)	19.7%
CONTINUING OPERATIONS	**126,264**	**104,267**	**21,997**	**21.1%**
PROFIT (LOSS) FOR THE PERIOD	**126,264**	**104,267**	**21,997**	**21.1%**

(Amounts in € thousand)

Income statement - Quarterly data

	2018	
	2nd Quarter	1st Quarter
Net interest	68,753	68,904
Dividends and other income from equity investments	13	7
Net fee and commission income	74,517	71,462
Net trading, hedging and fair value income	13,080	14,538
Net other expenses/income	124	551
OPERATING INCOME	**156,487**	**155,462**
Staff expenses	(20,509)	(20,259)
Other administrative expenses	(61,273)	(65,267)
Recovery of expenses	23,922	24,701
Impairment/write-backs on intangible and tangible assets	(2,482)	(2,339)
Operating costs	**(60,342)**	**(63,164)**
OPERATING PROFIT (LOSS)	**96,145**	**92,298**
Net impairment losses on loans and provisions for guarantees and commitments	154	(1,311)
NET OPERATING PROFIT (LOSS)	**96,299**	**90,987**
Provisions for risks and charges	(1,925)	(1,774)
Integration costs	(2)	(2)
Net income from investments	5,157	1
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**99,529**	**89,212**
Income tax for the period	(32,714)	(29,763)
NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**66,815**	**59,449**
PROFIT (LOSS) FOR THE PERIOD	**66,815**	**59,449**

(Amounts in € thousand)

	2017			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Net interest	70,069	67,415	64,334	62,963
Dividends and other income from equity investments	11	6	6	6
Net fee and commission income	70,696	69,680	65,026	64,681
Net trading, hedging and fair value income	11,100	11,127	12,282	13,710
Net other expenses/income	3,976	63	(764)	531
OPERATING INCOME	**155,852**	**148,291**	**140,884**	**141,891**
Staff expenses	(20,567)	(19,769)	(19,708)	(19,216)
Other administrative expenses	(59,925)	(53,021)	(61,451)	(62,442)
Recovery of expenses	24,989	21,888	23,215	23,277
Impairment/write-backs on intangible and tangible assets	(2,908)	(2,628)	(2,503)	(2,330)
Operating costs	**(58,411)**	**(53,530)**	**(60,447)**	**(60,711)**
OPERATING PROFIT (LOSS)	**97,441**	**94,761**	**80,437**	**81,180**
Net impairment losses on loans and provisions for guarantees and commitments	(2,124)	(1,577)	(1,053)	(597)
NET OPERATING PROFIT (LOSS)	**95,317**	**93,184**	**79,384**	**80,583**
Provisions for risks and charges	5,154	(21,029)	(773)	(2,377)
Integration costs	428	(7)	1	(14)
Net income from investments	(11,598)	(1,448)	(361)	8
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**89,301**	**70,700**	**78,251**	**78,200**
Income tax for the period	(26,055)	(23,929)	(25,678)	(26,506)
NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**63,246**	**46,771**	**52,573**	**51,694**
PROFIT (LOSS) FOR THE PERIOD	**63,246**	**46,771**	**52,573**	**51,694**

(Amounts in € thousand)

Operating income came to €311.9 million, with an increase of 10.3% compared to € 282.8 million of the same period of the previous year.

Net interest, Net fee and commission income and Net trading, hedging and fair value income contributed to the increase in the operating income as they rose, respectively, by 8.1%, 12.5% and 6.3%.

The increase in Net interest of €10.4 million compared to the same period of the previous year was due to the increase in sales volume and the higher penetration of lending, which offset the fall in interest income linked to the decline in interest rates. In this regard it should be noted that the structure of the investments carried out by the Bank contributed to maintaining a significant level of interest income, with the average gross rate on assets standing at 1.32%, just below the 1.34% as at June 30, 2017.

Net fee and commission income increased €16.3 million compared to the same period of the previous year, thanks to higher net fee and commission income for management, brokerage and consulting services (+€12.5 million), collection and payment services (+€2 million), other services mainly relating to the introduction of the annual fee on credit cards (+€3 million), partially offset by higher fee and commission expense paid to personal financial advisors (-€1.5 million).

Net trading, hedging and fair value income was mainly generated by gains realized from the internalization of securities and CFDs, financial instruments used for operational hedging of CFDs and the exchange differences on assets and liabilities denominated in currency, which show a result substantially in line with that one recorded in the first half of 2017. Trading profit also incorporates gains and losses from the financial instruments recognized in "Other assets required to be measured at fair value", including, as described above, the class "C" preferred shares of Visa INC, whose fair-value measurement resulted in a gain of €1.5 million in the first half of 2018.

Net write-downs of loans and provisions for guarantees and commitments and Net income from investments amounted to €-1.2 million and €+5.2 million respectively. It should be noted that accounting standard IFRS 9, with mandatory application as of January 1st, 2018, introduced a new impairment accounting model for credit exposures and resulted in an extension of the Bank's scope of recognition (for additional information see Section 5 - Other aspects of the Notes to the Accounts), so comparison with the first half of 2017 is not significant.

Net write-downs of loans and provisions for guarantees and commitments for the first half of 2018 included in particular additional adjustments compared to the first half of 2017, in relation to retail commercial loans, driven by the significant increase in performing exposures (non-performing loans remained essentially unchanged compared to the previous year), and on the other hand, benefitted from write backs of €2 million on transaction with the Parent Company, of which €1.6 million related to deposits, in relation to the improvement in the risk profile of the segment, and €0.4 million related to the "Liquidity Framework Agreement" with the Parent Company, which expired in the first half of 2018.

The Net income from investments mainly includes write backs on exposures to debt securities issued by the Parent Company and recognised in "Financial assets at amortised cost" for €5.7 million.

Operating costs increased by €2.3 million compared to the same period of the previous year due to the continuous growth of the operating structure (+€1.8 million relating to Staff expenses and +€0.5 million relating to Other administrative expenses net of Recovery of expenses).

Profit before tax from continuing operations amounted to €188.7 million, up 20.6% compared to the same period of the previous year.

The Net profit for the period amounted to €126.3 million, showing an increase of 21.1% compared to the same period of the previous year.

THE SUBSIDIARY: FINECO ASSET MANAGEMENT DESIGNATED ACTIVITY COMPANY (DAC)

Fineco AM[9] was incorporated (set-up) on 26 October 2017 in the Republic of Ireland and during December 2017 sought authorization to the Central Bank of Ireland, in order to become a UCITS Fund Manager, within the UCITS Service Providers, authorization received on 17 May 2018. In order to allow the positive conclusion of that process FinecoBank, the only shareholder of Fineco AM, fully subscribed a capital increase, bringing the share capital from €0.5 million to €3 million in March 2018.

During the first half of 2018 Fineco AM has carried on the passporting process of the UCITS Management Company from Ireland to Luxembourg with the aim to become the Manager of the “Fonds Commun de Placement (FCP) CORE SERIES Umbrella Fund”, managed by Amundi S.a.. The passporting process was successfully concluded on 2 July 2018, subsequently to have obtained CSSF (Commission de Surveillance du Secteur Financier) approval of the new CORE SERIES Prospectus and have signed the transfer contract with Amundi S.a. of CORE SERIES FCP, therefore, from that date the company is fully operational.

As at June 30, 2018, Fineco AM – whose first financial year will end on December 31, 2018 – is not operational and has a total asset of €3.4 million of which €1.8 million related to at sight deposits with Bank AIB, €1.2 million related to deferred and current and deferred tax, €0.2 million of tangible assets and €0.2 million of other assets.

On the liability side, there is a debt of €1.3 million related to the use of a credit line granted by FinecoBank, current payables of €0.4 million and a total Shareholder’s equity position of €1.7 million, made up of the share capital for an amount of €3.0 million, the 2017 retained loss for an amount of -€0.2 million and the loss of the period at 30 June 2018, for an amount of €1.1 million.

The loss of the period accounted by Fineco AM in the first half of 2018 is mostly related to payroll and other administrative expenses cost incurred to set up the legal entity, to support the authorization to the Central Bank of Ireland and to complete passporting processes.

RELATED-PARTY TRANSACTIONS

The Board of Directors, in order to ensure continued compliance with applicable legal and regulatory provisions on corporate disclosure on transactions with related parties and persons in conflict of interest, during the meeting on June 6, 2017 and with the prior favorable opinion of the Risk and Related Parties Committee and the Board of Statutory Auditors released on June 5, 2017, approved the current “*Procedures for managing transactions with subjects in conflict of interest*”.

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

- related parties transactions pursuant to the Consob Regulation adopted by resolution 17221 on March 12, 2010 as subsequently amended;
- transactions with associated persons pursuant to the regulations on "*Risk activities and conflicts of interest with Associated Persons*", laid down by Bank of Italy Circular no. 263 on December 27, 2006, Title V, Chapter 5 ("*New regulations for the prudential supervision of banks*", as amended);
- obligations of bank officers pursuant to Article 136 of Legislative Decree 385 on September 1, 1993, showing the "*Consolidated Law on Banking*".

Given that the Bank belongs to the UniCredit Group, the aforementioned Procedures are also based on the "*UniCredit*

[9] On 4 May 2018 the Company was renamed as "Fineco Asset Management DAC ", thereinafter "Fineco Asset Management Limited" as well.

Global Policy for the management of transactions with persons in conflict of interest" and the relevant "*Global Process Regulation*" issued by UniCredit to subsidiaries as part of its management and coordination.

Considering the above, the following transactions approved during the first half of 2018 are recorded:

- on January 23, 2018, the Board of Directors, with the favorable opinion of the Risks and Related Parties Committee, authorized the issue of an Additional Tier 1 bond totaling € 200 million, fully subscribed by means of private placement by the Group Parent UniCredit S.p.A.; the duration of the loan is perpetual, linked to the statutory duration of the Bank, and the coupon for the first 5.5 years was set at 4.82%. The transaction is an "Ordinary Significant Transaction at market conditions";

- on February 6, 2018 the Board of Directors, with the favorable opinion of the Risk and Related Parties Committee, approved the renewal of the "*Framework Resolution related to the entering into of hedging derivative contracts with the Parent Company or companies in the UniCredit Group*", an ordinary Significant Transaction at market conditions with validity up until February 6th, 2019, which enables the Bank to enter into hedging derivatives with the Parent Company and with UniCredit Bank AG for commercial assets or liabilities that, for ALM purposes, require interest rate hedging for a maximum amount of € 1,000 million with the Parent Company and € 1,300 million with UniCredit Bank AG;

- on May 8, 2018, the Board of Directors, with the favorable opinion by the Risk and Related Parties Committee, approved the renewal of the:
  (a) "*Framework Resolution - Repurchase Agreements and Term Deposits with the Parent Company*", an ordinary Significant Transaction at market conditions (expiring May 9, 2019), concerning *(i)* Repurchase Agreements with the Parent Company for a maximum amount of € 7.1 billion, calculated as the sum of the individual transactions in absolute value (either repos or reverse repos) and *(ii)* Term deposits with the Parent Company for an amount of € 6.3 billion, calculated as the sum of the individual transactions in absolute value;
  (b) "*Framework Resolution for the transactions on current accounts held with UniCredit*", an ordinary Significant Transaction at market conditions (expiring May 8, 2019), which enables the Bank to manage transaction through specific current accounts with UniCredit S.p.A. for an amount of less than € 1,000 million understood as a single transaction (single payment and single withdrawal);

- on June 12, 2018, the Board of Directors, with the favorable opinion of the Risk and Related Parties Committee, subsequently modified by the Board of Directors held on 31 July 2018, approved the renewal of the "*Framework Resolution – Trading of financial instruments with institutional counterparties and with UniCredit, on their own account and on behalf of third parties, respectively by the Treasury and Markets functions* ", an ordinary Significant Transaction at market conditions (expiring June 11, 2019), which enables the Bank to carry out trading in derivatives with related parties institutional counterparties, up to a maximum permitted limit of: (i) €2.70 billion with UniCredit Bank AG, (ii) €250 million with Mediobanca S.p.A. and (iii) €1 billion with UniCredit S.p.A..

As already mentioned in the disclosure provided in the 2017 Financial Statements, on December 5, 2017, the Board of Directors – with the favourable opinion of the Risk and Related Parties Committee – approved the signing of a new life insurance brokerage contract between FinecoBank S.p.A. and Aviva S.p.A. (related party), to replace the agreement originally signed in 2002 by UniCredit Xelion Banca S.p.A., which was replaced by FinecoBank S.p.A. as a result of the merger. The projected figures as at December 31, 2017 (€13.4 million net to be paid to the Bank) classified the transaction as “Significant typical Transaction carried out at arm’s length”. The contract was finalized on April 5, 2018. In the meanwhile, as part of the same agreement, in March 2018 the placement of the Aviva "Multiramo Extra" product was included, which combines with and supplements the range of other “Multi-line" products already in the catalogue.

In relation to the above transactions, the Bank provided a simplified disclosure to CONSOB pursuant to Art. 13, paragraph 3, letter c) of CONSOB Regulation 17221 on March 12, 2010.
During the first half of 2018, no other transactions were undertaken with related parties that could significantly affect the Bank's asset situation and results, or atypical and/or unusual transactions, including intercompany and related party transactions.
Minor Transactions were also carried out with the Parent Company, other Group companies and/or with related parties in general, both Italian and foreign, within the ordinary course of business and related financial activities of the Bank, at market or standard conditions.

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

Transactions with Group companies

The Bank is subject to the direction and coordination of UniCredit S.p.A. and, consequently, pursuant to Article 2497 bis paragraph 4 of the Italian Civil Code, the key figures from the last approved financial statements of UniCredit S.p.A. are provided in Part C – Section 20 of the Notes to the Accounts.
The following table provides a summary of outstanding assets, liabilities, guarantees and commitments as at June 30, 2018 as well as the costs and revenues recorded in the first half of 2018 in relation to Group companies, with the exception of Fineco AM, which is consolidated.

	Assets	Liabilities	Guarantees and commitments	Income Statements
Transactions with Parent Company UniCredit S.p.A.	13,073,848	898,023	256,070	91,174
Transactions with companies controlled by UniCredit S.p.A.	199	51,141	-	(4,828)

(Amounts in € thousand)

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

The following table provides a summary of outstanding assets, liabilities, guarantees and commitments as at June 30, 2018 as well as the costs and revenues recorded in the first half of 2018 with Fineco AM, which is consolidated.

	Assets	Liabilities	Guarantees and commitments	Income Statements
Transactions with the subsidiary Fineco AM	1,389	-	-	102

(Amounts in € thousand)

Number of treasury shares of the parent company

As at June 30, 2018, the Bank held 88,041 treasury shares, corresponding to 0.01% of the share capital, for an amount of €0.6 million. In the first half of 2018 n. 27,644 shares were purchased in relation to the “2017 PFA Incentive System” for personal financial advisors identified as “Key personnel” in accordance with what was authorised by the Fineco Ordinary Shareholders’ Meeting on April 11, 2017.
The Bank and its subsidiary do not hold shares of its Parent Company, even through other companies or third parties.

SUBSEQUENT EVENTS AND OUTLOOK

SUBSEQUENT EVENTS

Starting from July 2nd , 2018, pursuant to and for the purposes of Article 144-bis of CONSOB Regulation no. 11971 of February 24, 1999, the Bank has started the program to purchase a treasury shares to service the stock granting plan - “2015-2017 PFA PLAN” for Personal Financial Advisors Identified Staff as authorized by the Bank’s Ordinary Shareholders Meeting of April 11th, 2017, respectively according to the provisions of articles 2357-ter and 2359-bis of the civil code, and to the other applicable laws and regulations.
The programme refers to the purchasing of treasury shares within the maximum limit of 5,520,000 (equal to 0.91% of the share capital of the Bank); specifically, the treasury shares to be purchased will be used for the execution of the first, second and third tranche of the above-mentioned “2015-2017 PFA PLAN”.

OUTLOOK

As described above, in the last quarter of 2017 the Bank set up an Irish-law investment firm (Fineco AM), which is a wholly owned subsidiary dedicated to asset management activities.
In the first half of 2018 Fineco AM was authorized by the Central Bank of Ireland to carry out the asset management business and obtained the necessary authorisations from Luxembourg’s Commission de Surveillance du Secteur Financier to replace Amundi Luxembourg S.A. in the management of the “Core Series” investment funds. Fineco AM has been fully operational since July 2nd, 2018 Fineco AM's mission is to manage funds of funds, using strategic partnerships with the best international managers. Fineco AM’s structure will take full advantage of the opportunities offered by Fineco’s open architecture and will allow the Bank to more closely cater to its customers' needs, to more efficiently select products and to achieve greater profits through its vertically integrated business model.

The prospective scenario sees FinecoBank benefiting from two trends that are transforming Italian society: digitization and demand for advisory services. In response to the main trends that are redrawing customer behavioural models, Fineco confirms its focus on offering advanced financial advisory services and the digitalisation of its offerings. This includes the cyborg advisory model, aimed at improving the productivity of the Network and at the same time increasing the quality of the service provided to customers.

FinecoBank remains committed to developing the Credit area, with an increasing focus on personal loans, first- and second-home mortgages, and Credit Lombard.

The Bank will continue to pursue its strategy aimed at further strengthening its competitive positioning in the sector of integrated banking, brokerage and investing services, through the high quality and completeness of the financial services offered, which can be summed up in the concept of “one-stop solution”.

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

	Balance sheet assets	06.30.2018	12.31.2017
10.	Cash and cash balances	1,733	613
20.	Financial assets at fair value through profit and loss	17,596	
	a) financial assets held for trading	10,871	
	c) other financial assets required to be designated at fair value	6,725	
Financial assets held for trading (ex IAS 39 Item 20)			10,879
30.	Financial assets at fair value through other comprehensive income	1,100,810	
Available-for-sale financial assets (ex IAS 39 Item 40)			1,047,689
40.	Financial assets at amortised cost	21,938,030	
	a) loans and receivables with banks	13,110,558	
	b) loans and receivables with customers	8,827,472	
Held-to-maturity investments (ex IAS 39 Item 50)			4,826,390
Loans and receivables with banks (ex IAS 39 Item 60)			13,878,117
Loans and receivables with customers (ex IAS 39 Item 70)			2,129,219
50.	Hedging derivatives	939	458
60.	Changes in fair value of portfolio hedged items (+/-)	1,728	9,590
90.	Property, plant and equipment	15,036	15,205
100.	Intangible assets	97,429	97,511
	of which:		
	- goodwill	89,602	89,602
110.	Tax assets	10,914	9,249
	a) current tax assets	1,613	1,765
	b) deferred tax assets	9,301	7,484
120.	Non-current assets and disposal groups classified as held for sale	91	-
130.	Other assets	241,054	315,415
	Total assets	**23,425,360**	**22,340,335**

(Amounts in € thousand)

	Balance sheet liabilities and Shareholders' equity	06.30.2018	12.31.2017
10.	Financial liabilities at amortised cost	22,104,447	
	a) deposits from banks	907,794	
	b) deposits from customers	21,196,653	
Deposits from banks (ex IAS 39 Item 10)			926,001
Deposits from customers (ex IAS 39 Item 20)			20,205,036
20.	Financial liabilities held for trading	4,568	
Financial liabilities held for trading (ex IAS 39 Item 40)			2,617
40.	Hedging derivatives	3,403	12,694
50.	Changes in fair value of portfolio hedged items (+/-)	(1,029)	(3,772)
60.	Tax liabilities	22,038	10,234
	a) current tax liabilities	22,038	10,234
80.	Other liabilities	301,223	338,286
90.	Provisions for employee severance pay	4,922	4,999
100.	Provisions for risks and charges:	111,788	112,414
	a) commitments and guarantees given	62	
	c) other provisions for risks and charges	111,726	112,414
120.	Revaluation reserves	(14,997)	(8,340)
140.	Equity instruments	200,000	-
150.	Reserves	361,734	323,932
160.	Share premium reserve	1,934	1,934
170.	Share capital	200,773	200,545
180.	Treasury shares (-)	(623)	(365)
200.	Net Profit (Loss) for the year	125,179	214,120
	Total liabilities and Shareholders' equity	**23,425,360**	**22,340,335**

(Amounts in € thousand)

CONSOLIDATED INCOME STATEMENT

	Items	01.01.2018 / 06.30.2018	01.01.2017 / 06.30.2017
10.	Interest income and similar revenues	144,939	130,655
	of which: interest income misured	143,373	
20.	Interest expenses and similar charges	(7,293)	(3,467)
30.	**Net interest margin**	**137,646**	**127,188**
40.	Fee and commission income	284,488	259,181
50.	Fee and commission expense	(138,509)	(129,474)
60.	**Net fee and commission income**	**145,979**	**129,707**
70.	Dividend income and similar revenue	52	21
80.	Gains (losses) on financial assets and liabilities held for trading	25,979	
Gains (Losses) on financial assets and liabilities held for trading (ex IAS 39 Item 80)			25,998
90.	Fair value adjustments in hedge accounting	70	(14)
100.	Gains and losses on disposal or repurchase of:	134	
	b) financial assets at fair value through other comprehensive income	134	
110.	Gains (losses) on financial assets and liabilities at fair value through profit or loss	1,402	-
	b) other financial assets required to be designated at fair value	1,402	
120.	**Operating income**	**311,262**	**282,900**
130.	Impairment losses/writebacks on:	3,757	
	a) financial assets at amortised cost	3,810	
	b) financial assets at fair value through other comprehensive income	(53)	
Net losses/recoveries on impairment: (ex IAS 39 Item 130)			(1,541)
a) loans			(1,542)
d) other financial assets			1
150.	**Net profit from financial activities**	**315,019**	**281,359**
180.	**Net profit from financial and insurance activities**	**315,019**	**281,359**
190.	Administrative costs	(167,310)	(161,077)
	a) staff expenses	(41,503)	(38,937)
	b) other administrative expenses	(125,807)	(122,140)
200.	Net provisions for risks and charges	(3,311)	(3,150)
	a) provision for credit risk of commitments and financial guarantees given	388	
	b) other net provision	(3,699)	(3,150)
210.	Impairment/write-backs on property, plant and equipment	(2,399)	(2,418)
220.	Impairment/write-backs on intangible assets	(2,437)	(2,415)
230.	Other net operating income	48,082	44,505
240.	**Operating costs**	**(127,375)**	**(124,555)**
280.	Gains (losses) on disposal of investments	(143)	(353)
290.	**Total profit (loss) before tax from continuing operations**	**187,501**	**156,451**
300.	Tax expense (income) related to profit or loss from continuing operations	(62,322)	(52,184)
310.	**Total profit (loss) after tax from continuing operations**	**125,179**	**104,267**
330.	**Net Profit (Loss) for the period**	**125,179**	**104,267**
350.	**Profit (loss) for the period attributable to the Parent Company**	**125,179**	**104,267**

(Amounts in € thousand)

	01.01.2018 / 06.30.2018	01.01.2017 / 06.30.2017
Earnings per share (euro)	0.21	0.17
Diluted earnings per share (euro)	0.21	0.17

Note:

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Items	01.01.2018 / 06.30.2018	01.01.2017 / 06.30.2017
10.	**Net Profit (Loss) for the period**	**125,179**	**104,267**
	Other comprehensive income after tax without reclassification through profit or loss		
70.	Defined benefit plans	255	982
140.	Financial assets (other equity securities) designated at fair value through other comprehensive income	(8,888)	
	Available-for-sale financial assets:(ex IAS 39 Item N. 100)		(62)
170.	**Total other comprehensive income net tax**	**(8,633)**	**920**
180.	**Comprehensive inc (voce 10+170)**	**116,546**	**105,187**
200.	**Consolidated comprehensive income attributable to the parent**	**116,546**	**105,187**

(Amounts in € thousand)

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

Statement Of Changes In Consolidated Shareholders' Equity at 06.30.2018

	Balance as at 12.31.2017	Change in opening balance	Balance as at 01.01.2018	Allocation of profit from previous year		Change during the year									Shareholders' equity Group as at 06.30.2018	Shareholders' equity Minorities as at 06.30.2018
							Shareholders' equity transactions									
				Reserves	Dividends and other distributions	Changes in reserves	Issues of new shares	Purchase of own shares	Distributions of extraordinary dividends	Changes in equity instruments	Own share derivatives	Stock options	Changes in ownership interests	Comprehensive income as at 06.30.2018		
Share capital:																
a) ordinary shares	200,545		200,545				228								200,773	-
b) other shares																
Share premium reserve	1,934		1,934												1,934	-
Reserves:																
a) from profits	291,841	(4,868)	286,973	40,725		(2,265)						(228)			325,205	-
b) others	32,091		32,091									4,438			36,529	-
Revaluation reserves	(8,340)	1,976	(6,364)											(8,633)	(14,997)	-
Equity instruments										200,000					200,000	-
Treasury shares	(365)		(365)					(258)							(623)	-
Profit (loss) for the year	214,120		214,120	(40,725)	(173,395)									125,179	125,179	-
Shareholders' Equity Group	**731,826**	**(2,892)**	**728,934**	**-**	**(173,395)**	**(2,265)**	**228**	**(258)**	**-**	**200,000**	**-**	**4,210**	**-**	**116,546**	**874,000**	**-**
Shareholders' Equity Minorities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The amount of the dividend paid to shareholders in 2018, totalling €173,395,252.58, corresponds to €0.285 per share.
The column "Stock options" includes the incentives plans serviced by FinecoBank shares.
The "Changes in reserves" column includes: dividends not distributed in relation to any treasury shares held by the Bank at the record date, transferred to the Extraordinary reserve; coupons paid on equity instruments net of related taxes; transaction costs directly attributable to the issue of Equity instruments net of related taxes.

Statement Of Changes In Consolidated Shareholders’ Equity at 06.30.2017

	Balance as at 12.31.2016	Change in opening balance	Balance as at 01.01.2017	Allocation of profit from previous year		Change during the year									Shareholders' equity Group as at 06.30.2017	Shareholders' equity Minorities as at 06.30.2017
							Shareholders' equity transactions									
				Reserves	Dividends and other distributions	Changes in reserves	Issues of new shares	Purchase of own shares	Distributions of extraordinary dividends	Changes in equity instruments	Own share derivatives	Stock options	Changes in ownership interests	Comprehensive income as at 06.30.2017		
Share capital:																
a) ordinary shares	200,246		200,246				299								200,545	-
b) other shares																
Share premium reserve	1,934		1,934												1,934	-
Reserves:																
a) from profits	250,247		250,247	41,684		209						(299)			291,841	-
b) others	28,160		28,160									4,504			32,664	-
Revaluation reserves	(6,794)		(6,794)											920	(5,874)	-
Equity instruments																
Treasury shares	(4,338)		(4,338)					(172)							(4,510)	-
Profit (loss) for the year	211,844		211,844	(41,684)	(170,160)									104,267	104,267	-
Shareholders' Equity Group	**681,299**	**-**	**681,299**	**-**	**(170,160)**	**209**	**299**	**(172)**	**-**	**-**	**-**	**4,205**	**-**	**105,187**	**620,867**	**-**
Shareholders' Equity Minorities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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

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

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

CONSOLIDATED CASH FLOW STATEMENT

Indirect method

A. OPERATING ACTIVITIES	AMOUNT	
	01.01.2018 / 06.30.2018	01.01.2017 / 06.30.2017
1. Operations	**189,819**	**188,766**
- profit (loss) for the year (+/-)	125,179	104,267
'- unrealised gains/losses on financial assets/liabilities held for trading and on other assets/liabilities at fair value through profit or loss (-/+)	263	
- capital gains/losses on financial assets/liabilities held for trading and on assets/liabilities designated at fair value through profit and loss (+/-) (ex IAS 39)		(546)
- gains (losses) on hedge accounting (-/+)	(70)	14
- net losses/recoveries on impairment (+/-)	(3,344)	
- net losses/recoveries on impairment (+/-) (ex IAS 39)		1,905
- net value adjustments/write-backs on property, plant and equipment and intangible assets (+/-)	4,836	4,833
- net provisions for risks and charges and other expenses/income (+/-)	13,473	
- provisions and other incomes/expenses (+/-) (ex IAS 39)		11,871
- uncollected net premiums (-)	-	-
- other uncollected insurance income/expenses (-/+)	-	-
- unpaid duties, taxes and tax credits (+/-)	16,566	9,342
- impairment/write-backs after tax on discontinued operations (+/-)	-	-
- other adjustments (+/-)	32,916	57,080
2. Cash flows from/used by financial assets	**(1,000,367)**	**(88,480)**
- financial assets held for trading	(1,804)	
- financial assets held for trading (ex IAS 39)		(2,267)
- financial assets designed at fair value	-	
- other financial assets required to be designated at fair value	152,006	
- financial assets at fair value (ex IAS 39)		-
- financial assets at fair value through other comprehensive income	(75,602)	
- available-for-sale financial assets (ex IAS 39)		(199,549)
- financial assets at amortised cost	(1,148,541)	
- loans and receivables with banks: demand loans (ex IAS 39)		-
- loans and receivables with banks: other loans (ex IAS 39)		528,750
- loans and receivables with customers (ex IAS 39)		(480,738)
- other assets	73,574	65,324
3. Cash flows from/used by financial liabilities	**877,976**	**607,823**
- financial liabilities measured at amortised cost	926,126	
- deposits from banks: demand deposits (ex IAS 39)		-
- deposits from banks: other deposits (ex IAS 39)		(138,756)
- deposits from customers (ex IAS 39)		638,993
- debt certificates including bonds (ex IAS 39)		-
- financial liabilities held for trading	(12)	
- financial liabilities held for trading (ex IAS 39)		554
- financial liabilities designated at fair value	-	
- financial liabilities designated at fair value (ex IAS 39)		-
- other liabilities	(48,138)	107,032
Net cash flows from/used in operating activities	**67,428**	**708,109**
B. INVESTMENT ACTIVITIES		
1. Cash flows from		
- sales of equity investments	-	-
- collected dividends on equity investments	-	-
- sales of property, plant and equipment	1	228
- sales of intangible assets	-	-
- sales of subsidiaries and divisions	-	-
- financial assets held to maturity (ex IAS 39)		-
2. Cash flows used in		
- purchases of equity investments	-	-
- purchases of property, plant and equipment	(2,466)	(3,944)
- purchases of intangible assets	(2,355)	(2,709)
- purchases of subsidiaries and divisions	-	-
- financial assets held to maturity (ex IAS 39)		(843,377)
Net cash flows from/used in investing activities	**(4,820)**	**(849,802)**
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares	(258)	(172)
- issue/purchase of equity instruments	200,000	300
- dividends and other distributions	(175,660)	(170,251)
- sales/purchases of control	-	
Net cash flows from/used in financing activities	**24,082**	**(170,123)**
NET CASH FLOWS FROM/USED DURING THE PERIOD	**86,690**	**(311,816)**

(Amounts in € thousand)

RECONCILIATION

Balance Sheet Items	AMOUNT	
	01.01.2018 / 06.30.2018	01.01.2017 / 06.30.2017
Cash and cash balances at the beginning of the period	1,950,529	2,284,275
Net cash flows generated/used during the period	86,690	(311,816)
Cash and cash balances: effect of changes in exchange rates	14,829	(22,981)
Cash and cash balances at the end of the period	2,052,049	1,949,478

(Amounts in € thousand)

Key

(+) generated

(-) used

The term "Cash and cash balances" means cash recorded under item 10 of assets "Cash and cash balances" and the equivalent liquid assets recorded under item 40 of assets " Financial assets at amortised cost a) loans and receivables with banks" (consisting of current accounts and deposits maturing within 3 months) net of the equivalent liquid liabilities recorded under item 10 of liabilities " Financial liabilities at amortised cost" (represented by current accounts and deposits maturing within 3 months).

The item “Cash and cash balances” at the end of the first half 2018 consisted of:

- Cash recognised under asset item 10 “Cash and cash balances” in the amount of €1,733 thousand;
- Current accounts and demand deposits recognised under asset item 60 “Loans and receivables with banks” in the amount of €2,137,070 thousand;
- net of the Current accounts and demand deposits recognised under liability item 10 “Deposits from banks” in the amount of €86,754 thousand.

The item “Cash and cash balances” at the end of the prior period consisted of:

- Cash recognised under asset item 10 “Cash and cash balances” in the amount of €2,902 thousand;
- Current accounts and demand deposits recognised under asset item IAS 39 60 “Loans and receivables with banks” in the amount of €1,956,267 thousand;
- net of the Current accounts and demand deposits recognised under liability item IAS 39 10 “Deposits from banks” in the amount of €9,691 thousand.

Notes to the Accounts

Part A - Accounting Policies

A.1 GENERAL

Section 1 - Statement of compliance with IFRS

These Condensed interim consolidated financial statements have been prepared in accordance with the recognition and valuation criteria set out in the International Financial Reporting Standards IAS/IFRS issued by the International Accounting Standards Board (IASB), including the SIC and IFRIC interpretation documents, as endorsed by the European Commission up to June 30, 2018, pursuant to European Union Regulation no. 1606/2002 of July 19, 2012, implemented in Italy through Legislative Decree no. 38 of February 28, 2005 and pursuant to art. 154-ter, paragraph 3, of the Consolidated Finance Act (TUF, Legislative Decree no. 58 of February 24/2/1998).

They are an integral part of the Consolidated First Half Financial Report as required by art. 154-ter, paragraph 2 of the Consolidated Finance Act (TUF, Italian Legislative Decree no. 58 of February 24, 1998).

As required by paragraph 2 of the said article of the TUF, the Consolidated First Half Financial Report comprises the Condensed interim consolidated financial statements, the Consolidated report on operations and the Certification of the Consolidated condensed half-year financial statements in accordance with Art. 81-ter of the Consob Regulation 11971 of May 14, 1999 as amended.

Specifically, the Condensed interim consolidated financial statements as at June 30, 2018 comply with the international accounting standard applicable to interim financial reporting (IAS 34). Based on paragraph 10 of this standard, the consolidated half-year financial statements have been prepared in a condensed form.

Section 2 - Preparation criteria

As mentioned above, these Condensed interim consolidated financial statements have been prepared in accordance with the IFRS endorsed by the European Commission and applicable to financial reports for the periods starting on or after January 1, 2018. The following documents have been used to interpret and support the application of IFRS, even though not all of them have been endorsed by the European Commission:

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

The Condensed interim consolidated financial statements comprise the Consolidated Balance Sheet, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated

Statement of Changes in Shareholders' Equity, the Consolidated Cash Flow Statement (compiled using the indirect method), and these Notes to the Accounts, together with the Consolidated report on operations and the Attachments.

The Condensed interim consolidated financial statements as at June 30, 20108 have been prepared taking into account the instructions on bank financial reports contained in the Bank of Italy Circular 262 of December 22, 2005 as updated. In particular, reference was made to the format envisaged by the 5th update of 22 December 2017 which incorporates the IFRS 9 and IFRS 15 international accounting standards (and the related amendments introduced in other international accounting standards, including IFRS 7). The Bank exercised the option provided for in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", according to which - without prejudice to the retrospective application of the new measurement rules and representation required by the standard - there is no obligation to restate the comparative values in the FTA financial statements. Without prejudice to the disclosure regarding the reconciliation between data in the last approved financial statements and in the first financial statements drawn up according to the new provisions of the Circular and the related methodology set forth in section 5. Other matters - transition to IFRS 9 Financial Instruments of these explanatory notes, the above statements were therefore supplemented, where different, with the accounting items of the 2017 financial statements in order to show the corresponding values determined according to IAS 39. The tables included in the illustrative notes have also been integrated with the tables provided for in the 4th update of Circular 262, presenting the relative values determined according to IAS 39, where it was not possible to report comparative data with respect to the previous year due to the updates above mentioned.

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

The balance sheet figures have been compared with those as at December 31, 2017, while the income statement, statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement have been compared with the corresponding figures for the first half of the previous year. It should be noted that the comparative figures for the first half of the previous year refer to the Condensed interim financial statements of the Bank, as the first consolidated financial statements have been prepared for the year ended December 31, 2017, following the set up on October 26, 2017 of Fineco Asset Management DAC, an Irish company incorporated.

Any discrepancies between the figures shown in the tables of the notes to the accounts and the aforementioned Consolidated Financial Statements is solely due to roundings.

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

The measurement criteria adopted are therefore consistent with this assumption and with the principles of accrual based accounting, the relevance and materiality of accounting information, and the prevalence of economic substance over legal form.

These criteria have been partially modified with respect to the previous year, for details, please refer to the subsequent Part A.2 "Part related to the main balance sheet items" and to the subsequent Section 5 - "Other aspects", with reference to the issuing and entry into force of new principles and interpretations

The activity of the Bank is not affected by any significant seasonal and/or cyclical factor.

Section 3 – Consolidation Procedures and Scope

The following was used in order to prepare the consolidated Accounts at June 30, 2018:

- FinecoBank S.p.A. first-half accounts at June 30, 2018;
- Fineco AM first-half accounts at June 30, 2018, fully consolidated.

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

1. Interests in fully-owned subsidiaries

Company names	*Headquarters:*	*Registered office*	*Type of relationship (1)*	*Ownership relationship*		*Voting rights % (2)*
				Held by	*Holding %*	
1. Fineco Asset Management DAC	Dublin	Dublin	1	FinecoBank	100%	100% effective

Key:

(1) Type of relationship:

1 = majority of voting rights and the ordinary Shareholders' Meeting

2 = dominant influence at Shareholders' Meetings

3 = agreements with other shareholders

4 = other types of control

5 = unified management pursuant to Article 26, paragraph 1, of “Italian legislative decree 87/92”

6 = unified management pursuant to Article 26, paragraph 2, of “Italian legislative decree 87/92”

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

2. Valuations and key assumptions to define the scope of consolidation

No data to report.

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

3.1 Minority interests, availability of minority votes and dividends distributed to minority shareholders

No data to report.

3.2 Significant minority interests: accounting data

No data to report.

4. Significant restrictions

No data to report.

5. Other information

No data to report.

Section 4 - Subsequent events

No significant events occurred after June 30, 2018 that would make it necessary to change any of the information given in the condensed half-year financial statements.

The Condensed interim consolidated financial statements at June 30, 2018 were approved by the Board of Directors of July 31, 2018, which authorised their publication also pursuant to IAS10.

Section 5 – Other matters

In the first half 2018, the following accounting standards, amendments and interpretations become effective for reporting periods beginning on or after January 1, 2018:

- IFRS 15 - Revenue from contracts with customers (EU Regulation 2016/1905);
- IFRS 9 - Financial Instruments (EU Regulation 2016/2067).
- Clarifications on IFRS 15: Income from customer contracts (EU Regulation 2017/1987);
- Amendments to IFRS 4: Implementation of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (EU Regulation 2017/1988)Annual Improvements to International Financial Reporting Standards, 2014-2016 Cycle (EU Regulation 2018/182);
- Amendments to IAS 40: Transfers of investment property (EU Regulation 2018/400);
- IFRIC 22 – Interpretation on foreign currency transactions and advance consideration (EU Regulation 2018/519);
- Amendments to IFRS 2: Classification and measurement of share-based payments (EU Regulation 2018/289);

Where applicable, these accounting standards, amendments and interpretations had no impact on the consolidated financial position and results of the Bank as at June 30, 2018, except of the new accounting standard IFRS 9 which provides for new requirements for the classification, recognition, measurement and derecognition of financial assets and liabilities, for details of which please see the comments below, and, to the extent described below, of the new IFRS 15 accounting standard and related clarifications.

In 2017 and in the first half 2018, moreover, the European Commission approved the following accounting standards, amendments and interpretations become effective and mandatory for reporting periods beginning on or after January 1, 2019:

- IFRS 16 – Leasing (EU Regulation 2017/1986);
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (EU Regulation 2018/498).

These standards and amendments have not been applied in advance by the Bank; with particular reference to the new IFRS 16 standard, refer to the information below.

As at June 30, 2018, the IASB issued the following accounting standards and interpretations or revisions thereof, whose application is subject to completion of the approval process by the European Union, which is still ongoing:

- IFRS 14 - Rate-regulated activities (January 2014);
- Amendments to IFRS 10 and IAS 28: Sale or transfer of assets to a joint venture or associate (September 2014);
- IFRS 17 – Insurance contracts (May 2017);
- IFRIC 23 – Uncertainty over Income Tax Treatments (June 2017);
- Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures (October 2017);
- Annual Improvements to International Financial Reporting Standards, 2015-2017 Cycle (December 2017);
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018);

Furthermore, in March 2018, the IASB published the revised version of the Conceptual Framework for Financial Reporting.

The possible effects of the future adoption of these standards, interpretations and amendments, when applicable and relevant for the Bank, are reasonably estimated as not significant; the related analyses, also in relation to pending approvals, are still to be completed.

As mentioned before, on December 22, 2017 the 5th update of Circular no. 262 was enacted: "The bank balance sheet: format and drafting rules" which implemented IFRS 9" Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" and the resulting changes introduced in other international accounting standards, including IFRS 7 "Financial Instruments: Disclosures". In addition, the same update provided that provisions for off-balance sheet exposures must be shown in liability item 100. "Provisions for risks and charges" instead of the previous liability item 100. "Other liabilities" of the IAS 39 financial statements, and that property, plant and equipment accounted for according to the provisions of IAS 2 must be recorded in balance sheet item 90. "Property, plant and equipment".

Transition to IFRS 15 Revenue from contracts with customers

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

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

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

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

In order to assess the anticipated impacts of IFRS 15 on the Bank's consolidated income statement and financial position, also taking account of the clarifications on the standard published by the IASB in April 2016 and endorsed by the European Union on 6 November, 2017, the chart of accounts was analysed solely with regard to income items of the Bank included in the implementation scope of the standard, identified in Item 40. "Fee and commission income" and Item 230. "Other management charges and income" (for Other income only) of the consolidated income statement.

With regard to the subsidiary Fineco AM, it should be noted that as at 30 June 2018 the Company is not operational and has not recorded revenues from contracts with customers.

The analyses carried out, based on contractual documents and other evidence demonstrating compliance with defined commercial practices when contracts do not specify payment methods and timing, have shown that the accounting treatment of the main types of revenues from contracts with customers (including institutional counterparties) was already in line with the provisions of the new standard and, consequently no significant impact was found on the Bank's consolidated financial position and performance as of 1 January 2018. On the other hand, the changes concern the greater information detail required by the standard and by the corresponding provisions envisaged by the 5th update of Bank of Italy's Circular 262; the standard prescribes a wide set of disclosures on the nature, amount, timing and degree of uncertainty of revenues and cash flows arising from contracts with customers.

More specifically, the Bank analysed the available contractual documentation to verify:

- whether any goods or services contain performance obligations with different pattern of transfer to the customer and, consequently, with different revenue recognition ("over time" or "point in time"). In this respect, the Bank has identified a service that contains two performance obligations that follow a different pattern of transfer to the customer, but the same revenue recognition framework; however, this is a non-material revenue that continues to be entirely attributed to the main performance obligation;
- whether the consideration promised in the contract includes a variable fee. In this respect, no mismatches were identified with respect to the provisions of the new standard, since any variable fees are estimated and recognized if and only to the extent that it is highly probable that when the uncertainty associated with the consideration is subsequently resolved there will be no significant downward adjustment to the amount of cumulative revenue recognized, taking into consideration all information reasonably available to the Bank. Note that the following were not considered as variable consideration:
    - management, placement and advisory fees for financial products collected by the Bank, the amount of which is calculated as the ratio of the equivalent value/average balance of the product placed to the applicable rate envisaged in the contract;
    - the amount received as part of a contract that provides for the application of a different commission level (which includes, for example, the payment of decreasing commissions until they are down to zero) according to quantitative parameters established in the contract,

  as the data for calculating the remuneration are available at the time the revenues are recognized and have no impact on the Bank's future income statement. As regards the placement of insurance policies with return linked to the performance of the separate account on the annual expiration date of the policy, it should be noted, however, that the return is variable in relation to the performance of the separate account, which may result in a reduction in the applicable rate;
- whether the consideration promised in the contract includes a significant funding component. In this respect, no contracts were found containing a significant funding component that was not correctly recognized. There are,

however, some contracts, mainly with institutional counterparties or product companies, that do not explicitly mention the payment date of the fees, which are settled on the basis of market practices or verbal agreements, or contracts that provide for the advance / deferred payment of the good or service. For these contracts the practical expedient envisaged by paragraph 63 of IFRS 15 was used; for this reason the Bank did not adjust the promised consideration amount to take into account the effects of a funding component as the time interval expected between the transfer of the promised good or service and the related payment is less than one year;

- whether there is a consideration to be paid to the customer. In this respect, a number of contracts were found providing for a consideration to be paid, the accounting treatment of which was already in line with the provisions of the new standard;
- whether the revenue recognition criteria are in line with the provisions of the new standard. The analyses did not reveal any significant non-compliances with respect to the provisions of the new standard. To this end, it should be noted that the provision of financial services over a given period of time (for example, the management of current accounts, advisory services) have been considered as satisfied over time ("over time"), regardless of when the consideration is paid by the customer, while the provision of financial services that require specific activities to be carried out (for example, purchase, sale or placement of securities, units of UCIs or insurance products, execution of credit transfers) have been considered as satisfied at a given time ("point in time"), although the contract provides for the service to be provided indefinitely;

The costs recognized for the acquisition of contracts with customers, which the Bank would not have incurred had it not obtained the contract, are recognized as assets and systematically amortized in the income statement in line with the recognition of revenues related to the transfer to customers of the goods or services to which the asset refers.
The analyses carried out did not reveal any contracts providing for a non-cash consideration.

Lastly, the Bank has made use of the option, allowed by the standard, of accounting for the cumulative effect of the initial application as of 1 January 2018, with no restatement of the accounting balances of the years prior to entry into force.

Transition to IFRS 9 Financial Instruments

From 1 January 2018, FinecoBank has adopted the accounting standard IFRS 9 Financial Instruments.
The project – in coordination with a similar project carried out at UniCredit Group level and developed with the involvement of the Bank's reference functions and, most recently, the Board of Directors – was organised through specific work-streams, in particular:

- "Classification and Measurement" work-stream, aimed at reviewing the classification of financial instruments in line with the new criteria of IFRS9;
- "Impairment" work-stream, aimed at developing and implementing models and methodologies for the calculation of impairment losses.

The new accounting standard:

- introduces significant changes compared to IAS 39, regarding the rules on the classification and valuation of financial instruments. With reference to loans and debt instruments, the classification and subsequent valuation of these instruments is based on the business model and cash flow profile of the financial instruments (SPPI - Solely Payments of Principal and Interests). With reference to the equity exposures, they are classified at fair value with a recognition of differences in the income statement or under "Other comprehensive income". In this second case, contrary to the provisions of IAS 39 in relation to financial assets available for sale, IFRS 9 has eliminated the request to recognise long-term value impairments and provides that if the instrument is sold, the profits or losses from the sale must be reclassified in another net equity reserves and not on the income statement. With regard to financial liabilities, IFRS 9 changes the accounting of the so-called "own credit risk", i.e. changes in the value of liabilities measured at fair value linked to fluctuations of one's own credit rating. The new standard requires these changes to be recognised in a Shareholders' equity reserve rather than through profit and loss, as provided for by IAS 39, thus eliminating a source of volatility for economic statement results[10].

- introduced a new model for recognising impairments for credit exposures based on (i) an "expected losses" approach instead of the existing model, which is based on the recognition of "incurred losses" and (ii) on the concept of the expected lifetime loss;
- has intervened on the hedge accounting rules, by revising them in regard to the designation of a hedging account and the verification of efficiency, with the aim of improving the alignment between the accounting representation of the hedging operations and the underlying operational logic. The Bank, like the UniCredit Group, has taken advantage of the option to continue to apply the existing IAS 39 hedge accounting requirements for all hedging accounts until such time as the IASB has completed its macro-hedging accounting rules project.

As a result of the entry into force of the new accounting standard, the Bank has reclassified the financial liabilities existing on 1.1.2018 into the categories provided for in the new accounting standard.
This classification is based on the business model and the contractual cash flow profile; for the classification of financial instruments in the new categories as provided for in the accounting standard, the business model was analysed by mapping the financial assets on the Bank's balance sheet and allocating a specific business model to each of them.
The financial assets in the Bank's portfolio were allocated "Held to collect" or "Held to collect and sell" business models according to the purpose for which they are held, and the expected turnover.
The financial assets in the trading portfolio were allocated the business model "Other business model", to reflect the trading intentions.
For the purposes of classifying financial instruments into the new IFRS 9 categories, the business model analysis must be accompanied by a cash flow analysis (the "SPPI Test").
In this regard, in line with the Parent Company UniCredit S.p.A., the Bank has developed systems and processes to analyse the existing debt securities and loans portfolio, to assess whether the contractual cash flow profiles allow a valuation at the amortised cost (Held to collect) or at fair value with an impact on overall profits (Held to collect and sell).
This analysis was done on a contract by contract basis, both by defining clusters based on the operations' profiles, and by using an internally-developed SPPI Tool to analyse the profiles of the contracts with regard to IFRS 9.

For further clarification on the application of the aforementioned rules, reference should be made to Part A.2 The main items of the accounts of these Notes to the Accounts.

[10] On the FTA and on 31 March 2018, FinecoBank did not hold any own financial liabilities valued at fair value.

With reference to the reclassification of financial instruments in order to implement the new accounting standard, the following tables show, separately, for the financial assets and liabilities:

- the IAS 39 balance sheet item and the related closing balance as at 31 December 2017;
- the reclassification of that balance in the various IFRS 9 balance sheet items;
- the effects resulting from the application of the valuation criteria required by IFRS 9;
- the IFRS 9 opening balance on 1 January 2018 (the sum of b. and c.).

Reclassification of financial assets

Key

A: Reclassification of IAS 39 balance sheet value

B: Change in measurement

C: New balance sheet value ex IFRS 9

IAS 39 Balance sheet items		IFRS 9 Balance sheet items								
		Financial assets at fair value through profit or loss								
	Carryng value 12/31/2017 IAS 39	Financial assets held for trading			Financial assets designated at fair value			Other financial assets required to be designated at fair value		
		A	B	C	A	B	C	A	B	C
Financial assets held for trading	10,879	8,827	-	8,827	-	-	-	2,052	-	2,052
Available-for-sale financial assets	1,047,689	-	-	-	-	-	-	5,218	-	5,218
Held-to-maturity investments	4,826,390	-	-	-	-	-	-	-	-	-
Loans and receivables with banks	13,878,117	-	-	-	-	-	-	532,584	19,338	551,922
Loans and receivables with customers	2,129,219	-	-	-	-	-	-	-	-	-
Total		**8,827**	**-**	**8,827**	**-**	**-**	**-**	**539,854**	**19,338**	**559,192**

(Amounts in € thousand)

IAS 39 Balance sheet items		IFRS 9 Balance sheet items								
					Financial assets at Amortised cost					
	Carryng value 12/31/2017 IAS 39	Financial asset designated at fair value with an impact on other comprehensive income			Loans and receivables with banks			Loans and receivables with customers		
		A	B	C	A	B	C	A	B	C
Financial assets held for trading	10,879	-	-	-	-	-	-	-	-	-
Available-for-sale financial assets	1,047,689	1,042,471	-	1,042,471	-	-	-	-	-	-
Held-to-maturity investments	4,826,390	-	-	-	-	-	-	4,826,390	(469)	4,825,921
Loans and receivables with banks	13,878,117	-	-	-	13,345,533	(12,595)	13,332,938	-	-	-
Loans and receivables with customers	2,129,219	-	-	-	-	-	-	2,129,219	(691)	2,128,528
Total		**1,042,471**	**-**	**1,042,471**	**13,345,533**	**(12,595)**	**13,332,938**	**6,955,609**	**(1,160)**	**6,954,449**

(Amounts in € thousand)

The following classifications have been made:

- financial assets shown in balance sheet item IAS 39 20. “Financial assets held for Trading” are classified in the “Other business models” and shown:
    - in the asset item IFRS 9 20. “Financial assets at fair value through profit and loss a) financial assets held for trading” as to € 8.8 million, relating to securities held in connection with customer insourcing and trading activities;
    - in the asset item IFRS 9 20. “Financial assets at fair value through profit and loss c) other financial assets with compulsory designation at fair value”; as to € 2.05 million, relating to securities withdrawn by customers (splits and/or defaulted securities) to the value of € 30,000, and units in investment funds held in portfolio for initial seeding, to the value of € 2.02 million;
- financial assets shown in balance sheet item IAS 39 40. “Financial assets held for sale”, totalling € 1.048 million, were classified
    - in the business model “Held to collect and sell – HTCS” and shown in balance sheet item IFRS 9 30. “Financial asset designated at fair value with an impact on overall profitability”, as to the part represented by sovereign state issues, as to € 1,042.5 million;
    - in the “Other business models” and balance sheet item IFRS 9 20. “Financial assets valued at fair value through profit and loss c) other financial assets with compulsory designation at fair value” as to € 5.2 million, consisting of the preferred shares of Visa INC class “C” as to € 4.5 million and the residual exposure in equity instruments relating to the Voluntary Scheme of the Interbank Deposit Protection Fund (FITD) totalling € 0.7 million;
    - finally the “FVTOCI”[11] option was exercised for equity instruments relating to shares in UniCredit Business Integrated Solutions S.C.p.A. and the Patti Chiari consortium (recognised, respectively at € 172 and € 5,000), shown in the asset item IFRS 9 30. “Financial assets designated at fair value with an impact on overall profitability”;
- the financial assets shown in the balance sheet item IAS 39 50. “Financial assets held to maturity” which consist exclusively of securities issued by sovereign states totalling € 4,826 million, which were classified in the “Held to collect – HTC” business model and shown in the asset item IFRS 9 40. “Financial assets valued at amortised cost b) loans to customers”;
- the financial assets shown in the balance sheet item IAS 39 60. “Bank receivables”, totalling € 13,878 million, were classified in the “Held to collect – HTC” business model and were shown in the balance sheet item IFRS 9 40. “Financial assets valued at amortised cost a) “bank receivables”, with the exception of:
    - a debt instrument issued by UniCredit S.p.A. with coupon in arrears, totalling € 382.5 million subscribed by the Bank in past years, with the rate risk covered by a derivative with the same Parent Company. Its contractual profile did not pass the SPPI Test and it was thus included in the asset item IFRS 9 20. “Financial assets at fair value through profit and loss c) other financial assets with compulsory designation at fair value”;
    - a debt instrument issued by UniCredit S.p.A. with coupon in arrears, totalling € 150 million subscribed by the Bank in past years. Its contractual profile did not pass the SPPI Test and it was thus included in

[11] With regard to non-trading equity instruments, IFRS 9 provides for the possibility of measuring them at the fair value recognised in the other overall income statement items (“FVTOCI” – Fair Value Through Other Comprehensive Income).

the asset item IFRS 9 20. “Financial assets at fair value through profit and loss c) other financial assets with compulsory designation at fair value”; this exposure expired on 31 December 2017 but was settled on 2 January 2018[12];

- the financial assets shown in the balance sheet item IAS 39 70. “Customer loans”, totalling € 2,129 million, were classified in the “Held to collect – HTC” business model and shown in the balance sheet item IFRS 9 40. “Financial assets valued at amortised cost b) customer loans”

Below are the details of the adjustments made to the starting balances on 1 January 2018 as a result of the changes to classification and measurement following the introduction of IFRS 9:

- as a result of the application of a reduction in value based on Expected Credit Loss or “ECL”.
    - reductions were made to the value of securities, receivables and loans in the HTC business model, entered in the asset item IFRS 9 40. “Financial assets valued at amortised cost a) loans and receivables with banks”, totalling € 12.6 million;
    - reductions were made to the value of securities, receivables and loans in the HTC business model, entered in the asset item IFRS 9 40. “Financial assets valued at amortised cost b) loans and receivables with customers”, totalling € 1.2 million, of which:
        a) € 0.7 million relating to customer loans and receivables;
        b) € 0.5 million relating to exposures to sovereign debt issues, belonging to the HTC business model and valued at the amortised cost;
- a positive fair value valuation was recorded at € 19.3 million, on the debt instrument issued by UniCredit S.p.A. with coupon in arrears, totalling € 19.3 million subscribed by the Bank in past years, with the rate risk covered by a derivative with the same Parent Company. Its contractual profile did not pass the SPPI Test and it was thus reclassified in the asset item IFRS 9 20. “Financial assets at fair value through profit and loss c) other financial assets with compulsory designation at fair value”[13].

With reference to the financial assets reclassified in the asset item IFRS 9 30. “Financial asset designated at fair value with an impact on overall profitability”, this table does not include the effects of applying the impairment rules on these instruments, equal to €0.1 million, as the securities remain entered at fair value on the balance sheet assets. However, these effects have no impact on the total net equity as according to the rules of the accounting standard, impairment leads to the recognition of a negative reserve at the time of first application, in the liability item IFRS 9 150. “Reserves” offset by an increase of the same amount in the liability item IFRS 9 120. “Valuation reserves”.

An adjustment was also made to the opening balance of the asset item IFRS 9 60. “Adjustments to the value of financial assets with generic hedging (+/-)”, to the value of € -9.9 million, as a result of the closure of the positive adjustment to the value of the UniCredit S.p.A. share mentioned above, which was reclassified in the asset item

[12] As this exposure expired on 31 December 2017 and was reimbursed at par value on 2 January 2018, no fair value adjustments were made on first-time adoption.

[13] The UniCredit’s bond valued at fair value in the IFRS 9 transition were restructured on January 2, 2018, incorporating the contractual profile of the derivative used up to that date to hedge the interest rate risk. The Bank therefore derecognised the old financial instrument recognised at December 31, 2017 and recognised the new one, whose characteristics support compliance with the SPPI Test, with consequent classification of the instrument to assets measured at amortised cost.

IFRS 9 20. “Financial assets at fair value through profit and loss c) other financial assets with compulsory designation at fair value”.

Reclassification of financial liabilities

Key

A: Reclassification of IAS 39 balance sheet value

B: Change in measurement

C: New balance sheet value ex IFRS 9

IAS 39 Balance sheet items		IFRS 9 Balance sheet items								
		Financial liabilities at Amortised Cost								
	Carryng value 12/31/2017 IAS 39	Deposits from banks			Deposits from customers			Debt securities in issue		
		A	B	C	A	B	C	A	B	C
Deposits from banks	926,001	926,001	-	926,001	-	-	-	-	-	-
Deposits from customers	20,205,036	-	-	-	20,205,036	-	20,205,036	-	-	-
Financial liabilities held for trading	2,617	-	-	-	-	-	-	-	-	-
Hedging derivatives	12,694	-	-	-	-	-	-	-	-	-
Total		**926,001**	**-**	**926,001**	**20,205,036**	**-**	**20,205,036**	**-**	**-**	**-**

(Amounts in € thousand)

IAS 39 Balance sheet items		IFRS 9 Balance sheet items								
	Carryng value 12/31/2017 IAS 39	Financial liabilities held for trading			Financial liabilities desginated at fair value			Hedging derivatives		
		A	B	C	A	B	C	A	B	C
Deposits from banks	926,001	-	-	-	-	-	-	-	-	-
Deposits from customers	20,205,036	-	-	-	-	-	-	-	-	-
Financial liabilities held for trading	2,617	2,617	-	2,617	-	-	-	-	-	-
Hedging derivatives	12,694	9,320	-	9,320	-	-	-	3,374	-	3,374
Total		**11,937**	**-**	**11,937**	**-**	**-**	**-**	**3,374**	**-**	**3,374**

(Amounts in € thousand)

The reclassification of Financial liabilities shows that the classifications applied on the basis of IFRS 9 are essentially the same as those applied on the basis of IAS 39, despite taking into account the differences in the denomination of the various categories resulting from the application of the 5th Update to Circular 262.

However, there was a reclassification, in liability item 20. “Financial liabilities held for trading” of the fair value of the derivative used to hedge the rate risk of the UniCredit share, with coupon in arrears mentioned above, to the value of € 9.3 million.

In the following tables show:

- the IAS 39 balance sheet as at 31 December 2017 based on the balance sheet scheme that incorporates the changes introduced by IFRS 9 (5th update of 22 December 2017 of Circular 262 Bank of Italy "Banking financial statements: schedules and rules compilation") to be applied to the financial statements for the year 2018;
- the adjustments to these balances made on 1 January 2018 following the introduction of IFRS 9, divided into adjustments resulting from the new provisions for impairment and fair value adjustments deriving from the new classification and measurement, and the related tax effects;
- the opening balance sheet IFRS 9 at January 1, 2018.

	Balance sheet assets	12.31.2017	Adjustments IFRS 9 impairment	Adjustments IFRS 9 Classification and measurement	01.01.2018 post application IFRS 9
10.	Cash and cash balances	613	-	-	613
20.	Financial assets at fair value through profit or loss	548,682	-	19,338	568,020
	a) financial assets held for trading	8,827	-	-	8,827
	c) other financial assets required to be designated at fair value	539,855	-	19,338	559,193
30.	Financial asset designated at fair value with an impact on other comprehensive income	1,042,471	-	-	1,042,471
40.	Financial assets at Amortised cost	20,301,141	(13,756)	-	20,287,385
	a) loans and receivables with banks	13,345,532	(12,596)	-	13,332,936
	b) loans and receivables with customers	6,955,609	(1,160)	-	6,954,449
50.	Hedging derivatives	458	-	-	458
60.	Changes in fair value of portfolio hedged items (+/-)	9,590	-	(9,929)	(339)
90.	Property, plant and equipment	15,205	-	-	15,205
100.	Intangible assets	97,511	-	-	97,511
	of which				
	- goodwill	89,602	-	-	89,602
110.	Tax assets	9,249	909	(1,519)	8,639
	a) current tax assets	1,765	-	-	1,765
	b) deferred tax assets	7,484	909	(1,519)	6,874
130.	Other assets	315,415	-	-	315,415
	Total assets	**22,340,335**	**(12,847)**	**7,890**	**22,335,378**

(Amounts in € thousand)

	Balance sheet liabilities and Shareholders' equity	12.31.2017	Adjustments IFRS 9 impairment	Adjustments IFRS 9 Classification and measurement	01.01.2018 post application IFRS 9
10.	Financial liabilities at Amortised Cost	21,131,037	-	-	21,131,037
	a) deposits from banks	926,001	-	-	926,001
	b) deposits from customers	20,205,036	-	-	20,205,036
20.	Financial liabilities held for trading	11,936	-	-	11,936
40.	Hedging derivatives	3,375	-	-	3,375
50.	Changes in fair value of portfolio hedged items (+/-)	(3,772)	-	-	(3,772)
60.	Tax liabilities	10,234	(3,032)	516	7,718
	a) current tax liabilities	10,234	(3,032)	516	7,718
80.	Other liabilities	338,286	-	-	338,286
90.	Provisions for employee severance pay	4,999	-	-	4,999
100.	Provisions for risks and charges:	112,414	451	-	112,865
	a) commitments and guarantees given	-	451	-	451
	c) other provisions for risks and charges	112,414	-	-	112,414
120.	Revaluation reserves	(8,340)	62	1,914	(6,364)
150.	Reserves	323,932	(10,328)	5,460	319,064
160.	Share premium reserve	1,934	-	-	1,934
170.	Share capital	200,545	-	-	200,545
180.	Treasury shares (-)	(365)	-	-	(365)
200.	Net Profit (Loss) for the year	214,120	-	-	214,120
	Total liabilities and Shareholders' equity	**22,340,335**	**(12,847)**	**7,890**	**22,335,378**

(Amounts in € thousand)

With reference to the impairment, the table below illustrates the gross exposure and value adjustments as at 1 January 2018, divided by item and classification stage. The gross exposure of the financial asset designated at fair value with an impact on overall profitability corresponds to the balance sheet amount, as these financial assets are valued at fair value and the related value adjustments are recognised as an increase to the liability item IFRS 9 120. “Valuation reserves”.

The off-balance sheet exposures refer to the commitments and guarantees issued, which are subject to the IFRS 9 write-down rules.

Breakdown by Stage of the exposures and of the impairment provision

	Gross amount			Impairment provision		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
30. Financial asset designated at fair value with an impact on other comprehensive income	**1,042,470**	**-**	**-**	**(93)**	**-**	**-**
- Debt securities	1,042,465	-	-	(93)	-	-
- Equity instruments	5	-	-	-	-	-
40. Financial assets at Amortised cost	**20,297,910**	**11,454**	**23,723**	**(18,692)**	**(5,964)**	**(21,043)**
- Debt securities	15,132,717	-	-	(10,193)	-	-
- Loans and receivables with banks	3,039,207	-	-	(2,872)	-	-
- Loans and receivables with customers	2,125,986	11,454	23,723	(5,627)	(5,964)	(21,043)
Off-balance sheet exposures	**2,581,092**	**404**	**-**	**(450)**	**-**	**-**

(Amounts in € thousand)

Reconciliation from the IFRS 9 opening balance to the IAS 39 closing balance of the cumulated write-downs

IAS 39 Balance sheet items	IFRS 9 Balance sheet items								
	Financial asset designated at fair value with an impact on other comprehensive income			Financial assets at Amortised cost					
				Loans and receivables with banks			Loans and receivables with customers		
	Cumulated writedowns (ex IAS 39)	Change in measurement	Cumulated writedowns (ex IFRS 39)	Cumulated writedowns (ex IAS 39)	Change in measurement	Cumulated writedowns (ex IFRS 39)	Cumulated writedowns (ex IAS 39)	Change in measurement	Cumulated writedowns (ex IFRS 39)
Financial assets held for trading	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- debt secuties	-	-	-	-	-	-	-	-	-
- loans and receivables	-	-	-	-	-	-	-	-	-
Available-for-sale financial assets	**-**	**(93)**	**(93)**	**-**	**-**	**-**	**-**	**-**	**-**
- debt secuties	-	(93)	(93)	-	-	-	-	-	-
- loans and receivables	-	-	-	-	-	-	-	-	-
Held-to-maturity investments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(470)**	**(470)**
- debt secuties	-	-	-	-	-	-	-	(470)	(470)
- loans and receivables	-	-	-	-	-	-	-	-	-
Loans and receivables with banks	**-**	**-**	**-**	**-**	**(12,595)**	**(12,595)**	**-**	-	-
- debt secuties	-	-	-	-	(9,723)	(9,723)	-	-	-
- loans and receivables	-	-	-	-	(2,872)	(2,872)	-		
Loans and receivables with customers	**-**	**-**	**-**	**-**	**-**	**-**	**(32,534)**	**(100)**	**(32,634)**
- debt secuties	-	-	-	-	-	-	-	-	-
- loans and receivables	-	-	-	-	-	-	(32,534)	(100)	(32,634)
Total	**-**	**(93)**	**(93)**	**-**	**(12,595)**	**(12,595)**	**(32,534)**	**(570)**	**(33,104)**

(Amounts in € thousand)

	Performing			Non performing		
	Cumulated writedowns (ex IAS 39)	Change in measurement	Cumulated writedowns (ex IFRS 39)	Cumulated writedowns (ex IAS 39)	Change in measurement	Cumulated writedowns (ex IFRS 39)
30. Financial asset designated at fair value with an impact on other comprehensive income	**-**	**(93)**	**(93)**	**-**	**-**	**-**
- Debt securities	-	(93)	(93)	-	-	-
- Equity instruments	-	-	-	-	-	-
40. Financial assets at Amortised cost	**(11,074)**	**(13,582)**	**(24,656)**	**(21,460)**	**417**	**(21,043)**
- Debt securities	-	(10,193)	(10,193)		-	-
- Loans and receivables with banks	-	(2,872)	(2,872)		-	-
- Loans and receivables with customers	(11,074)	(517)	(11,591)	(21,460)	417	(21,043)
Off-balance sheet exposures	**-**	**(450)**	**(450)**	**-**	**-**	**-**

(Amounts in € thousand)

The "Change in measurement" column also includes the reduction in the bad debt provision related to default interest, amounting to approximately €0.6 million and mainly attributable to non-performing loans. Starting from January 1, 2018, default interest is recognized in gross value only if no value adjustments have been recorded on the original exposures and if deemed recoverable by the bank. Previously, default interest was accounted for in both gross exposures and the related bad debt provision.

The adoption of IFRS 9 has, overall, had a negative impact on consolidated net equity, in the amount of -€2.9 million (-€4.8 million inclusive of fiscal effects), of which -€4.9 million was recorded in the balance sheet item IFRS 9 150. "Reserves" as a liability, and +€2 million was recorded as a liability in balance sheet item IFRS 9 120. "Valuation reserves", in particular:

- -€ 10.3 million (-€ 14.3 million inclusive of fiscal effects) relating to the application of a value reduction based on the expected loss recorded in the FTA Reserve under the liability item IFRS 9 150. "Reserves";
- +€ 5.4 million (+€ 6.1 million inclusive of fiscal effects) relating to the classification and valuation of financial assets recorded in the FTA reserve in the liability item IFRS 9 150. "Reserves";
- +€ 2 million (+€ 3.4 million inclusive of fiscal effects) relating to the classification and valuation of financial assets recorded in the valuation reserve, in the liability item IFRS 9 110. "Valuation reserves".

Below is the consolidated net equity on the closing date of 31 December 2017 and the consolidated net equity for the start date of 1 January 2018.

	31 December 2017	**Change IFRS 9**	**1 January 2018**
1. Share capital	200,545	-	200,545
2. Share premium reserve	1,934	-	1,934
3. Reserves	323,932	(4,868)	319,064
- from earnings	291,841	(4,868)	286,973
a) legal reserve	40,109	-	40,109
b) treasury shares reserve	365	-	365
c) others	251,367	(4,868)	246,499
- others	32,091	-	32,091
4. Equity instruments	-	-	-
5. (Treasury shares)	(365)	-	(365)
6. Revaluation reserves	(8,340)	1,976	(6,364)
7. Net Profit (Loss) for the year	214,120	-	214,120
Total	**731,826**	**(2,892)**	**728,934**

(Amounts in € thousand)

The reduction in the consolidated net equity for an amount of -€2.9 million, as shown in the table above, coincides with the reduction in the net equity of FinecoBank, given the non-operational nature of the subsidiary Fineco AM as at January 1, 2018.

<u>Impacts on regulatory capital resulting from the adoption of IFRS 9</u>

The application of IFRS 9 has led to a reduction in CET1, corresponding to the reduction in the Bank's net equity, while no significant impacts were detected in the determination of risk-weighted assets and exposure for leverage purposes.

Regulation (EU) 2017/2395 published on 27 December 2017 provides, as an option, for the possibility of financial institutions adopting transitional rules in order to reintegrate within CET1 the adjustments resulting from the adopting of the impairment model according to the new accounting standard, using a phase-in period of 5 years starting in 2018; in line with the choice made by the UniCredit Group, the Bank will not adopt the transition regime.

IFRS 16 - Leasing

IFRS16, applicable from January 1, 2019 replaces the current set of international accounting principles and interpretations on leasing and, in particular, IAS17.

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

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

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

The Bank has identified the contracts that fall within the scope of application of the standard, which mainly consist of leases for offices and financial stores; in addition, activities are underway to analyse and recognize the impacts and effects from first application of the standard as well as the activities for the implementation and/or adjustment of administrative and accounting processes. The first application of the standard is scheduled for 1 January 2019 rather than early application, as permitted, together with the mandatory application of IFRS 15. The Bank intends to apply the standard retroactively, accounting for the cumulative effect of the initial application on that date.

Interbank Deposit Guarantee Fund - Voluntary Scheme

As at June 30, 2018 the exposure in equity instruments recognised as a result of the contribution paid to the Voluntary Scheme established by the Interbank Deposit Guarantee Fund amounts to €0.7 million, unchanged compared to the amount as at December 31, 2017 that was aligned to fair value provided by the Voluntary Scheme following the analysis of the advisor responsible for the valuations of the underlying loans. The Bank decided to confirm this amount as at June 30, 2018. As a result of the implementation of IFRS9, the exposure in equity instruments, previously booked into the "Available-for-sale financial assets (AFS)" portfolio, was recognised in the item "Financial assets at fair value through profit and loss - c) other financial assets required to be designated at fair value".

As at June 30, 2018, the residual commitment to the Voluntary Scheme amounts to €0.1 million and shall be used, only if actually required, to cover the operating expenses for the management of the measure.

Contributions to guarantee and resolution funds

With regard to the contribution obligations under directive 2014/49/EU (Deposit Guarantee Schemes - DGS), these contributions will be due and recognised, in application of IFRIC 21, in the second half of the year.
No contribution has been requested from the Bank by the Single Resolution Board, for the year 2018, with regard to the contribution obligations under directive 2014/59/EU (Single Resolution Fund).

Risks and uncertainties related to the use of estimates

In the application of the accounting policies, the management is required to make judgements, estimates and assumptions about the carrying amounts of certain assets and liabilities as well as the information regarding potential assets and liabilities. Estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances and have been used to estimate the carrying values of assets and liabilities not readily available from other sources.
Estimated figures have been used for the recognition of some of the largest value-based items in the Condensed interim consolidated financial statements as at June 30, 2018, as required by the accounting standards and regulations. These estimates are largely based, as regards assets, on calculations of future recoverability of the values recognised in the accounts and, as regards liabilities, on estimates of the probability of using resources to meet its obligations and the amount of resources necessary to that end, according to the rules laid down in current legislation and standards and have been made on the assumption of a going concern, on which basis these Condensed interim consolidated financial statements have been prepared, i.e. without contemplating the possibility of the forced sale of the estimated items.
The processes adopted support the carrying values at June 30, 2018. For some of the above items the valuation is particularly complex given the uncertainty of the macroeconomic and market situation, characterised by the significant volatility of financial indicators used in the valuation process and still high levels of credit quality impairment, as well as, more generally, the uncertainty and instability in the banking sector.
For other items, however, the complexity and subjectivity of estimates is influenced by the structure of the underlying assumptions and assumptions, the number and variability of available information and the uncertainties connected with possible future outcomes of proceedings, disputes and litigation.
The parameters and information used to determine the above-mentioned values are therefore significantly affected by multiple factors, which could change rapidly in ways that are currently unforeseeable, which means that consequent future effects on the book values cannot be ruled out.
At the date of preparing these Condensed interim consolidated financial statements we believe that there are no uncertainties such as to give rise to significant adjustments to the carrying amounts within one year.
Estimates and underlying assumptions are regularly reviewed. Any changes resulting from these reviews are recognised in the period in which the review was carried out, provided the change only concerns that period. If the revision concerns both current and future periods it is recognised accordingly in both current and future periods.
Uncertainty affecting estimates is inherent, among other factors, in the determination of:

- fair value of financial instruments not listed in active markets;
- receivables, and in general, all other financial assets/liabilities;
- employee severance pay provision (Italy) and other employee and financial advisor benefits;
- provisions for risks and charges;
- goodwill;

- deferred tax assets;
- tax liabilities;

This quantification can vary over time, also to a significant extent, according to the evolution of the national and international social and economic environment and the consequent impacts on the Bank's earnings and customer solvency and the credit quality of the counterparties, the performance of the financial markets, which influence the fluctuation in rates, prices and actuarial assumptions used to determine the estimates, as well as the evolution and developments in existing or potential disputes.

With specific reference to future cash flow projections used in the valuation of the recoverability of goodwill recorded in the balance sheet, it should be noted that the parameters and information used are significantly influenced by the macro-economic market situation, which may change unpredictably. For further information please refer to Part B – Consolidated Balance Sheet – Section 12 – Intangible assets. With specific reference to valuation techniques, unobservable inputs used in the fair value measurement and sensitivities to changes in those inputs, please refer to Section A.4. Information on fair value of this Part A. With particular regard to provisions for risks and charges for risks arising from legal disputes, see Part E – Information on risks and hedging policies - Section 1.5 - Operating risk).

Other information

The Condensed interim consolidated financial statements as at June 30, 2018 have been reviewed by Deloitte & Touche S.p.A. appointed, pursuant to Italian Legislative Decree no. 39 of January 27, 2010 and Regulation (UE) 2014/537, as auditor of the Bank's accounts in implementation of the Shareholders' Meeting resolution of April 16, 2013.

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

PART A.2 THE MAIN ITEMS OF THE ACCOUNTS

Some accounting policies adopted for the preparation of these condensed half-yearly consolidated financial statements and the methods for recognizing revenues have changed compared to those adopted for the preparation of the 2017 Financial Statements.

These changes arise from the coming into force of the following international accounting standards:

- IFRS 9 "Financial Instruments", issued by the IASB in July 2014 and endorsed by the European Commission on November 22, 2016 through Regulation (EU) 2067/2016, which is mandatorily applicable for annual periods beginning on or after January 1, 2018, that will replace IAS 39 Financial Instruments: recognition and measurement.
- IFRS 15 - "Revenue from Contracts with Customers", published by the IASB in May 2014 and endorsed by the European Commission on September 22, 2016 through EU Regulation 2016/1905, which is mandatorily applicable for annual periods beginning on or after January 1, 2018, that will replace IAS 18 - Revenue and IAS 11 - Construction Contracts, as well as IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers and SIC 31 - Revenues-Barter Transactions Involving Advertising Services.

The criteria for classification, recognition and measurement of the main financial statements items, as amended following the entry into force of the accounting standards mentioned above, are presented below; for the accounting items not affected by changes, please see the comments in Part A. 2 of the Notes to the consolidated financial statements for the financial year ended December 31, 2017.

1 – Financial assets at fair value through profit and loss

a) Financial assets held for trading (HFT)

A financial asset is classified as held for trading if it is:

- acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative contract not designated within hedge accounting operations, with a positive fair value incorporated into financial liabilities other than those valued at fair value through profit and loss.

Financial assets held for trading financial are initially recognised, at settlement date with regard to debt and equity securities and disbursement data with regard to loans, at its *fair value*, which is usually equal to the amount paid, excluding transaction costs and income, which are recognised through profit or loss even when directly attributable to the financial assets. Trading book derivatives are recognised at trade date.

After initial recognition these financial assets are measured at their fair value through consolidated profit or loss.
An exception is represented by derivatives settled by delivery of an unlisted equity instrument whose fair value cannot be reliably measured, and which are therefore measured at cost.

A derivative is a financial instrument or other contract with all three of the following characteristics:

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

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

An embedded derivative is separated from financial liabilities other than those measured at fair value through profit or loss and from non-financial instruments, and is recognized as a derivative, if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid (combined) instrument is not measured entirely at fair value through profit or loss.

When an embedded derivative is separated, the host contract is accounted for according to its accounting classification.

A gain or loss arising from sale or redemption or a change in the fair value of a HFT financial asset is recognised in consolidated income statement in item 80 "Gains (losses) on financial assets and liabilities held for trading", including financial derivatives relating to a fair value option.
If the fair value of an instrument falls below zero, which may happen with derivative contracts, it is recognised in item 20. “Financial liabilities held for trading”.

b) Financial assets designated at fair value

A non-derivative financial asset may be designated at fair value if such designation avoids accounting mismatches deriving from the valuation of assets and associated liabilities according to different valuation criteria.

These assets are accounted for alike “Financial assets held for trading” (see point a) Financial Assets held for trading) with the exception of gains and losses, both realised and unrealised, that are recognised in item 110. "Gains (losses) on financial assets and liabilities at fair value through profit and loss a) financial assets and liabilities designated at fair value".

At the balance sheet date, no financial assets classified as "Financial assets designated at fair value" were held.

c) Other financial assets mandatorily at fair value

A financial asset, that is not held for trading, is classified as financial asset mandatorily at fair value if it does not meet the conditions, in terms of business model or cash flow characteristics, for being measured at amortized cost or at fair value through other comprehensive income.

Specifically, the following assets have been classified in this portfolio:

- debt instruments, securities and loans for which the business model is neither held to collect nor held to collect
- and sell but which are not part of the trading book;
- debt instruments, securities and loans with cash flows that are not solely payment of principal and interest;
- units in investment funds;
- equity instruments for which the Bank does not apply the option granted by the standard of valuing these instruments at fair value through other comprehensive income.

These assets are accounted for alike “Financial assets held for trading” (see point a) Financial Assets held for trading) with the exception of gains and losses, both realised and unrealised, that are recognised in item 110. "Gains (losses) on financial assets and liabilities at fair value through profit and loss b) other financial assets mandatorily at fair value".

2 - Financial assets at fair value through comprehensive income

A financial asset is classified among financial assets at fair value through comprehensive income if:

- its business model is held to collect and sell;

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This item also includes equity instrument, not held for trading purposes, for which at the date of initial recognition, or in the first time adoption of the principle, the Bank exercised the option, granted by the standard, to designate this instruments at fair value with an impact on Statement of comprehensive income.

Financial assets measured at fair value through comprehensive income are initially recognised, at settlement date with regard to debt and equity securities and disbursement data with regard to loans, at its fair value, which is usually equal to the consideration of the transaction, plus transaction costs and income directly attributable to the instrument.

The interest accruing on interest-bearing instruments is recognised on the income statement, in net interest margin, on an accrual basis using the effective interest rate method. This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

(a) purchased or originated credit-impaired financial assets. For those financial assets, the entity shall apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

(b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

Delay interest is taken to the income statement on collection or receipt.

After initial recognition, for debt instruments, gains or losses arising from changes in fair value are recognized in the Statement of comprehensive income and shown in item 120. “Valuation reserves” in shareholders' equity.

These instruments are the subject to reductions / write backs in accordance with the illustration given in the relevant section “Impairment”. Gain/losses are recorded in the consolidated income statement item 130. "Impairment losses/write backs on: b) financial assets at fair value through comprehensive income” with contra-entry in the Consolidated Statement of Comprehensive Income and are also shown in item 120. “Valuation reserves” in shareholders' equity.

The time value interest are recognised in the interest margin.

In the event of disposal, the accumulated profits and losses are recognised in the consolidated income statement in item 100. "Gains (losses) on disposal or repurchase of: b) financial assets at fair value through comprehensive income".

With regard to equity instrument, the profits and losses from changes in fair value are recognised in the Consolidated Statement of Comprehensive Income and shown in item “120 Valuation reserves” in shareholders' equity.

In accordance with the provisions of IFRS9, no impairment losses on equity instruments are recognized in the income statement.

In the event of disposal, the accumulated profits and losses are recorded in item 150. Other Reserves.

3 - Financial assets at amortised cost

A financial asset is classified within the financial assets measured at at amortized cost if:

- its business model is held to collect;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

More specifically, this item includes:

• loans to banks and customers in the various technical forms that meet the requirements of the previous paragraph;

• debt securities that meet the requirements of the previous paragraph.

This item also includes current receivables associated with the provision of financial assets and services as defined by the T.U.B. and from the T.U.F. (e.g. current receivables associated with the distribution of financial products).

Financial assets at amortized cost are initially recognised, at settlement date with regard to debt securities and disbursement data with regard to loans, at its fair value, which is usually equal to the consideration paid, plus transaction costs and income directly attributable to the instrument; the interest is recognised on the income statement, in net interest margin, on an accrual basis using the effective interest rate method. This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

(a) purchased or originated credit-impaired financial assets. For those financial assets, the entity shall apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

(b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

Delay interest is taken to the income statement on collection or receipt.

After initial recognition at fair value, these assets are measured at amortized cost using the effective interest method, which can be adjusted to take account of any write-downs/write-backs resulting from the valuation process in accordance with the illustration given in the relevant section “Impairment”. Gain/losses are recorded in the consolidated income statement item 130. "Impairment losses/write backs on: a) financial assets at amortised cost”. The time value interest are recognised in the interest margin.

In the event of derecognition, the profits and losses are recognised in the consolidated income statement in item 100. "Gains (losses) on disposal or repurchase of: a) financial assets at amortised cost".

4 - Hedge Accounting

The Bank, like the UniCredit Group, has taken advantage of the option to continue to apply the existing IAS 39 hedge accounting requirements for all hedging accounts until such time as the IASB has completed its macro-hedging accounting rules project.

Hedging derivatives are those created to hedge market risks (interest-rate, currency and price) to which the hedged positions are exposed. They may be described as follows:

- fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability, or an identifiable portion of such an asset or liability;
- cash flow hedge: a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction which could affect profit or loss in future periods;
- hedge of a net investment in a foreign entity, whose operations are presented in a currency other than euro.

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

A hedging relationship qualifies for hedge accounting if there is formal designation and documentation of the hedging relationship including the risk management objective, the strategy for undertaking the hedge, and how the hedging instrument's prospective and retrospective effectiveness will be assessed. It is necessary to assess the hedge's effectiveness, at inception and in subsequent periods, in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

A hedge is regarded as highly effective if, at the inception of the hedge and in subsequent periods, it is determined prospectively to remain highly effective, and the retrospectively verified that the hedge ratio (i.e. the changes in fair value of hedged items and hedging instruments) is within a range of 80-125 per cent. The hedge is assessed on an ongoing basis and thus must prospectively remain highly effective throughout the financial reporting periods for which the hedge has been designated.

The assessment of effectiveness is made at each balance-sheet date or other reporting date. If the assessment does not confirm the effectiveness of the hedge, from that time on hedge accounting is discontinued in respect of the hedge and the hedging derivative is reclassified as a held-for-trading instrument.

In addition, the hedging relationship ceases when the hedging instrument expires or is sold, terminated or exercised; the hedged item is sold, expires or is repaid; or it is no longer highly probable that the forecast transaction will occur.

Hedging derivatives are measured at fair value. In particular:

- **Fair Value Hedging** - an effective fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value is recognised in the consolidated income statement in item 90. "Fair value adjustments in hedge accounting". The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised through profit or loss in the same item. Hedging ineffectiveness is represented by the difference between the change in the fair value of hedging instruments and the change in the fair value of hedged item. If the hedging relationship is terminated for reasons other than the sale of the hedged item, this is measured according to the original criterion dictated by the accounting standard applied to the relevant portfolio. In the case of interest-bearing instruments, the difference between the carrying amount of the hedged item on termination of the hedging and the carrying amount it would have had if the hedge had never existed, is recognised through profit or loss in interest receivable or payable over the residual life of the original hedge. If the hedged item is sold or repaid, the portion of fair value which is still unamortised is recognised immediately in item 100. "Gains (losses) on disposal or repurchase" in the consolidated income statement. The difference in fair value of the hedging derivative since the latest effectiveness testing date is recognised in consolidated profit or loss under item 90. "Fair value adjustments in hedge accounting";
- **Cash Flow Hedging** – hedges are valued at fair value. Change in the fair value of a hedging instrument that is considered effective is recognised in consolidated equity item 120. "Revaluation reserves". The ineffective portion of the gain or loss is recognised through consolidated profit or loss in item 90."Fair value adjustments in hedge accounting". If a cash flow hedge is determined to be no longer effective or the hedging relationship is terminated, the cumulative gain or loss on the hedging instrument that remains recognised in "Revaluation reserves" from the period when the hedge was effective remains separately recognised in "Revaluation reserves" until the forecast hedged transaction occurs or is determined to be no longer possible; in the latter case, the gains or losses are transferred from consolidated shareholders' equity to item 80. "Gains and losses on financial assets and liabilities held for trading" in the consolidated income statement. The overall fair value changes recorded in item 120. "Revaluation reserves" are reported in the Consolidated Statement of Comprehensive Income;

- **Hedging a Net Investment in a Foreign entity -** hedges of a net investment in a foreign entity, whose operations are presented in a currency other than euro, are accounted for similarly to cash flow hedges. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised directly in equity is recognised through profit or loss on disposal of the foreign entity. The fair value changes recorded in item 120. "Revaluation reserves" are also reported in the Consolidated Statement of Comprehensive Income. The ineffective portion of the gain or loss is recognised through consolidated profit or loss in item 90. "Fair value adjustments in hedge accounting";
- **Macro-hedged financial assets (liabilities)** - IAS 39 allows a fair-value item hedged against interest rate fluctuations to be not only a single asset or liability but also a monetary position contained in a number of financial assets or liabilities (or parts of them); accordingly, a group of derivatives can be used to offset fair-value fluctuations in hedged items due to changes in market rates. Macro hedging may not be used for net positions resulting from the offsetting of assets and liabilities. As for fair value micro hedging, macro hedging is considered highly effective if, at the inception of the hedge and throughout its life, changes in the fair value attributable to the hedged position are offset by changes in fair value of the hedging instrument and if the hedge ratio is retrospectively assessed falling within the range of 80-125 per cent. Net changes – gains or losses – in the value of the macro-hedged assets and liabilities attributable to the hedged risk are recognised in asset item 60. and liability item 50. respectively and offset the profit and loss item 90. "Fair value adjustments in hedge accounting" in the consolidated income statement. The gain or loss from remeasuring the hedging instrument at fair value is recognised in the same consolidated profit and loss item. The ineffectiveness of the hedging arises to the extent that the change in the fair value of the hedging item differs from the change in the fair value of the hedged monetary position. The extent of hedge ineffectiveness is in any case recognised in profit and loss item 90. "Fair value adjustments in hedge accounting" in the consolidated income statement.

  If the hedging relationship is terminated, for reasons other than the sale of the hedged items, cumulative gain or loss in items 60 (Assets) and 50 (Liabilities) is recognised through profit or loss in interest income or expenses, along the residual life of the hedged financial assets or liabilities.

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

The Bank had in place at the reporting date only macro-hedges against the interest rate risk of mortgages loans to retail customers and fixed-rate direct deposits.

5 - Provisions for risks and charges

Provisions for risks and charges for commitments and guarantees given

The sub-item of the provisions for risks and charges in question includes the funds for credit risk recognized for commitments to disburse funds and guarantees given which fall within the scope of application of the rules on impairment in accordance with IFRS 9, according to illustrated in the specific section "Impairment".

The effects of valuation are recognised in item 200. "Net provisions for risks and charges a) for risks and charges for commitments and guarantees given " in the consolidated income statement.

6 - Financial liabilities at amortised cost

Financial liabilities valued at an amortised cost include financial instruments (other than trading liabilities and those valued at fair value), representing various forms of third-party funding.

On initial recognition, at settlement date, financial liabilities at amortized cost are measured at fair value, which is normally the consideration received less transaction costs directly attributable to the financial liability; the interest is recognised on the income statement, in net interest margin, on an accrual basis using the effective interest rate method.

After initial recognition, these instruments are measured at amortised cost using the effective interest method.

Hybrid debt instruments relating to equity instruments, foreign exchange, credit instruments or indexes, are treated as structured instruments. The embedded derivative is separated from the host contract and recognised as a derivative, provided that separation requirements are met, and recognised at fair value. The embedded derivative is entered at fair value, classified under financial assets or liabilities held for trading, and is then valued at fair value, with the relative profits or losses recognised in the consolidated income statement in item 80 "Gains (losses) on financial assets and liabilities held for trading". The difference between the total amount received and the initial fair value of the embedded derivative is attributed to the host contract.

Instruments convertible into treasury shares imply recognition, at the issuing date, of a financial liability and of the equity part, recognized in item “140. “Equity instruments”, whenever the contractual terms provide for physical delivery. The equity component is initially measured at residual value, i.e., the overall value of the instrument less the separately determined value of a financial liability with no conversion clause and the same cash flow. The financial liability is recognised at amortised cost using the effective interest method.

Securities in issue are recognised net of the repurchased amounts; the difference between the book value of the liability and the amount paid to buy it, is recorded in the consolidated income statement in item 100."Gains (losses) on disposal or repurchase of: c) financial liabilities". Subsequent disposal by the issuer is considered as a new issue which doesn’t produce gains or losses.

The Bank's consolidated debts do not include covenants (see glossary in the attachments) that would cause default or restructuring events. There are no debt instruments involving convertibility to equity instruments (under IASB IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments).
At the balance sheet date, there were no debt securities in issue, hybrid debt instruments or instruments convertible into treasury shares.

7 - Financial liabilities held for trading

Financial liabilities held for trading include:

- derivatives that are not designated as hedging instruments;
- obligations to deliver financial assets borrowed by a short seller (i.e., an entity that sells financial assets it does not yet own);

- financial liabilities issued with an intention to repurchase them in the near term;
- financial liabilities that are part of a portfolio of financial instruments considered as a unit and for which there is evidence of a recent pattern of trading.

HFT financial liabilities, including derivatives, are measured at fair value initially and for the life of the transaction.

A gain or loss arising from sale or redemption or a change in the fair value of a HFT financial asset is recognised in consolidated income statement in item 80 "Gains (losses) on financial assets and liabilities held for trading", including financial derivatives relating to a fair value option.

8 - Financial liabilities designated at fair value

Financial liabilities, like financial assets may also be designated or in the first time adoption of the principle, according to IFRS 9, on initial recognition as measured at fair value, provided that:

- this designation eliminates or considerably reduces the discrepancy that could arise from the application of different methods of measurement of assets and liabilities and related gains or losses;

or

- a group of financial assets, financial liabilities or both are managed and measured at fair value under risk management or investment strategy which is internally documented with the entity's Board of Directors or equivalent body.

This category may also include financial liabilities represented by hybrid (combined) instruments containing embedded derivatives that otherwise should have been separated from the host contract.

Financial liabilities in this category, including derivatives, are valued at fair value initially, and during the life of the operation.

Changes in fair value are recognised in consolidated income statement in item 110. "Gains (losses) on financial assets and liabilities at fair value through profit and loss a) financial assets and liabilities designated at fair value", except for any changes in fair value that derive from changes in the credit rating, which are shown in item 120. "Valuation reserves" in shareholders' equity unless that recognition causes a discrepancy that would result from a different valuation of assets and liabilities and related gains and losses, in which case the changes in fair value deriving from changes in credit rating are also recognised on the income statement.

At the balance sheet date, no financial liabilities classified as " Financial liabilities designated at fair value " were held.

9 - Other information

Purchased or originated Credit Impaired - POCI

When on initial recognition an exposure, presented in item 30. "Financial assets at fair value through comprehensive income" or 40. "Financial assets at amortised cost", is non-performing, it is qualified as "Purchased Originated Credit Impaired - POCI". The amortised cost and the interest income generated by these assets are calculated by considering, in the estimate of future cash flows, the expected credit losses over the entire residual duration of the asset. This expected credit loss is subject to periodic review thus determining the recognition of impairment or write - backs.

Purchased Originated Credit Impaired assets are conventionally classified on initial recognition in Stage 3. If, as a result of an improvement in the creditworthiness of the counterparty, the assets become "performing" they are classified under Stage 2. These assets are never classified under Stage 1 because the expected credit loss is always calculated considering a time horizon equal to their residual duration.

At the Accounts date, no Purchased or Originated Credit Impaired - POCI were held.

Classification of financial assets

The new standard for the classification and measurement of financial assets provided for by IFRS 9 is based on the “business model” and the financial instrument's contractual cash flows (SPPI criterion - Solely Payments of Principal and Interests).

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

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

It is also possible upon initial recognition to:

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

Business model

With regard to the business model, IFRS 9 identifies three types of cases in relation to the manner in which cash flows are managed and sales of financial assets:

- Held to Collect (HTC): whose objective is to hold assets in order to collect contractual cash flows are managed to realize cash flows by collecting contractual payments over the life of the instrument. The inclusion of a portfolio of financial assets in this business model does not necessarily mean that it is impossible to sell the instruments even if it is necessary to consider the frequency, the value and the timing of sales in previous years, the reasons for sales and expectations regarding to future sales;
- Held to Collect and Sell (HTCS): whose objective is achieved by both collecting contractual cash flows and selling financial assets. Both activities (collection of contractual flows and sales) are essential for achieving the business model objective. Therefore, sales are more frequent and significant than an HTC business model and are an integral part of the strategies pursued;
- Other business models: which include both financial assets held for trading purposes and financial assets managed with a business model not attributable to previous business models.

The Bank's Business Model is determined by Key management personnel at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.
The entity's business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation with the corporate objective of pursuing, time in time, specific performance of maximizing net interest income and accessory commissions, in order to limit credit risk, always compatible with the RAF (risk appetite framework) established annually by the Bank. However, a single entity may have more than one business model for managing its financial instruments.
For the Held to Collect portfolios, the Bank has defined the eligibility thresholds for sales that do not affect the classification (frequent but not significant, individually and in aggregate, or infrequent even if of a significant amount) and, at the same time, the parameters were established to identify sales consistent with this business model as they are attributable to an increase in credit risk.

The Bank included the following financial assets in the "HTC" business model, according to the purposes for which they are held and their expected turnover:

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

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

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

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

SPPI Test

In order to assess whether the features of contractual cash flows support either an amortised cost valuation (HTC) or at fair value through comprehensive income (HTCS) - in addition to the analysis relating to the business model - it is necessary that the contractual terms of financial assets provide for, at given dates, financial flows consisted solely of principal and interest payments on the outstanding capital share (SPPI criterion - Solely Payments of Principal and Interests).

The tests were carried out on each individual financial instrument at initial recognition in the financial statements.

Subsequent to initial recognition, and as long as it is recognized in the financial statements, the asset is no longer subject to new assessments for the purpose of the SPPI test. If a financial instrument is cancelled (derecognition) and a new financial asset is recognised, the SPPI test must be carried out on the new asset.

For the application of the SPPI test, IFRS 9 provides the following definitions:

- Principal: is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset, for example if there are repayments of principal;
- Interest: consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

For the assess of the SPPI test in the context of credit granting processes and for transactions in debt securities, a tool was developed based on an internally developed methodology (decision trees), in compliance and in line with the parent company UniCredit S.p.A..

For transactions in debt securities, the test is carried out using the previously mentioned tool at the time of purchase of the financial instrument.

For standard credit products, the SPPI test is carried out during the proposal to market a new product or to change the standard conditions of an existing product and the test result is extended to all the individual relationships referable to the same product catalog.

For credit products with contractual conditions other than those stated in standard term sheet, the SPPI test is performed at the time of disbursement of each loan/concession of a new credit line through the use of the same tool.

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

Derecognition of financial assets

Derecognition is the removal of a previously recognised financial asset from an entity's consolidated balance sheet.

Before evaluating whether, and to what extent, derecognition is appropriate, under IFRS 9 an entity should determine whether the relevant conditions apply to a financial asset in its entirety or to a part of a financial asset. The standard is applied to a part of financial assets being transferred if, and only if, the part being considered for de-recognition meets one of the following conditions:

- the part comprises only specifically identified cash flows from a financial asset (or a group of similar financial assets);
- the part comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset (or a group of similar financial assets);

- the part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).

In all other cases, the standard is applied to the financial asset in its entirety (or to the group of similar financial assets in their entirety).

An entity shall derecognise a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the contractual rights to receive the cash flows of the financial asset to a third party.

Rights to cash flow are considered to be transferred even if contractual rights to receive the asset's cash flow are retained but there is an obligation to pay this cash flow to one or more entities and all the following conditions are fulfilled (pass-through agreement):

- there is no obligation on the company to pay uncollected amounts associated with the original asset;
- sale or pledge of the original asset is not allowed, unless it secures the obligation to pay cash flow;
- there is an obligation to transfer forthwith all cash flows received and may not invest them, except for liquidity invested for the short period between the date of receipt and that of payment, provided that the interest accrued in that period is paid on.

Recognition is also subject to verification of substantially transfer of all the risks and rewards of ownership of the financial asset. If the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall de-recognise the asset (or group of assets) and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer.

Conversely, if the entity substantially retains all the risks and rewards of ownership of the asset (or group of assets), the entity shall continue to recognise the transferred asset(s). In this case it is necessary to recognise a liability corresponding to the amount received under the transfer and subsequently recognise all income accruing on the asset or expense accruing on the liability.

The main transactions that do not allow, under the above rules, total derecognition of a financial asset are securitisations, repurchase (sell and buy- backs) and securities lending transactions.

In the case of securitisations, the company does not de-recognise the financial asset on purchase of the equity tranche or provision of other forms of support of the structure which result in retention by the company of the credit risk of the securitised portfolio.

In the case of repurchase transactions and stock lending, the assets transacted are not derecognised since the terms of the transaction entail the retention of all their risks and rewards.

Lastly, it should be noted that securities lending transactions collateralised by other securities or not collateralised were recorded as off-balance sheet items.

At the reporting date, no loan securitisation transactions were present.

Impairment

General matters

Loans and debt instruments classified in the items: financial assets at amortised cost, financial assets at fair value through comprehensive income and the relevant off-balance sheet exposures (commitments and guarantees given), are subjected to an impairment calculation in accordance with IFRS 9.

These instruments are classified in Stage 1, Stage 2 or Stage 3 depending on their absolute or relative credit rating, compared to the initial disbursement. In particular:

- Stage 1: this includes newly originated or acquired credit exposures and exposures that have not suffered a significant deterioration in credit risk compared to the date of first recognition;
- Stage 2: this includes credit exposures that are performing but which have suffered a significant deterioration in credit risk compared to the date of first recognition;
- Stage 3: this includes impaired credit exposures.

For Stage 1 exposures, the impairment is equal to the expected loss calculated on a time frame of up to one year. For Stage 2 and 3 exposures, the impairment is equal to the expected loss calculated on a timeframe equivalent to the residual duration of the related exposure.

In order to meet the standard, the Group has developed specific models to calculate the expected loss. These models draw on the PD, LGD and EAD criteria used for regulatory purposes, to which specific directions are made to ensure full cohesion with the accounting standard[14]. In this regard, forward-looking information has also been included[15] with the elaboration of specific scenarios.

Expected loss is calculated, for the institutional counterparties common to the Group, using the methods and credit parameters developed at the centralized level.

As the retail counterparties do not have internal rating systems at their disposal, they use proxies. Segmentation by product type is carried out and the PD is replaced by the average decay rate observed by the transition matrixes defining the change to classify. This approach is based on the assumption that when there are no changes in the criteria adopted to assess the creditworthiness of the individual counterparties, the quality of the future credit will be consistent with the quality of the credit found in the time series available. To implement the requirements of the IFRS9 rule, the proxies of the parameters are corrected using forward looking information, entirely in line with the Group's approach as described below.

A key aspect of the new accounting model required to calculate the expected loss is the Stage Allocation model, the aim of which is to transfer exposures between Stage 1 and Stage 2 (as Stage 3 is equivalent to that of impaired exposures), where Stage 1 mainly includes (i) newly disbursed exposures, (ii) exposures that have no significant impairment of credit risk compared to initial recognition, and (iii) exposures with a low credit risk (low credit risk exemption) on the reporting date.

The Stage Allocation valuation model is based on a combination of relative and absolute elements. The main elements were:

- the comparison at transaction level between the PD value at the time of disbursement and the value on the reporting date, both qualified according to internal models at fixed thresholds to take into account all the key variables of each transaction that may influence the Bank's expectations about ongoing changes in PD (e.g. age, maturity, level of PD at the time of disbursement);

[14] See paragraph "Parameters and definitions of risk level used in the calculation of value adjustments" for a more detailed explanation of the risk measures used within the Group to calculate the expected credit loss in accordance with IFRS 9.

[15] See paragraph "Forward-looking information used in calculating value adjustments" for a more detailed explanation of the forward-looking information and scenarios used to calculate the expected credit loss in accordance with IFRS 9.

- absolute elements such as the backstops provided for by the regulation (e.g. 30 day Expired);
- other internal findings (forborne classification).

With reference to debt instruments, the Bank has opted to apply the low credit risk exemption on investment grade securities, in full accordance with the provisions of the accounting standard.

The criteria for determining the write-downs of receivables are based on the discounting of expected cash flows of principal and interest. In line with the business model, these can also refer to market operations; for determining the present value of cash flows, the basic requirement is the identification of estimated collections, the timing of payments and the discounting rate used.

The amount of the loss on impaired exposures classified as non-performing, unlikely to pay and past due according to the categories specified below, is the difference between the carrying value and the present value of estimated cash flows discounted at the original interest rate of the financial asset.

For all fixed-rate positions, the interest rate determined in this manner is also held constant in future years, while for floating rate positions the interest rate is updated according to contractual terms. If the original interest rate is not directly available, or if finding it would be excessively onerous, the interest rate that best approximates the original one is applied, including through practical expedients that do not affect the substance and ensure consistency with international accounting standards.

Recovery times are estimated on the basis of business plans or forecasts based on historical recovery experience observed for similar classes of loans, taking into account the customer segment, type of loan, type of security and any other factors considered relevant.

Parameters and definitions of risk level used in the calculation of value adjustments
As mentioned above the Group has developed specific models to calculate the expected loss, which draw on the PD, LGD and EAD criteria, as well as the effective interest rate.

These models are used for calculating value adjustments of all the institutional counterparties common to the Group, for the most part made up of FIBS (Financial Institutions, Banks and Sovereigns) counterparties.
Specifically:

- PD (Probability of Default) expresses the percentage of estimated loss, and hence the expected recovery rate whenever a credit position default event occurs;
- LGD (Loss Given Default) expresses the percentage of estimated loss, and hence the expected recovery rate is the complement to the unit (of the LGD) whenever a credit position default event occurs;
- EAD (Exposure at Default) expresses the measurement of the exposure at the time of the credit position default event;
- Effective Interest Rate is the discount rate expressing the time value of the money.

These parameters are calculated on the basis of identical parameters used for regulatory purposes, with specific adjustments made to ensure full cohesion, net of the various regulatory requirements, between the accounting treatment and the regulatory treatment.

The main adjustments are made in order to:

- remove the conservatism which is only required for regulatory purposes;
- introduce point-in-time adjustments to replace the through-the-cycle adjustments required for regulatory purposes;
- include forward-looking information;
- extend the credit risk parameters to a multi-year perspective.

With regard to the lifetime PD, the through-the-cycle PD curves obtained by adapting the cumulative non-compliance rates are adjusted to reflect point-in-time provisions and forward-looking provisions with regard to the portfolio non-compliance rates.

The rate of recovery incorporated in the through-the-cycle LGD was adapted in order to remove the conservatism margin and to reflect the latest trends in recovery rates, and expectations about future trends discounted to the actual interest rate or its best approximation.

With reference to the quantitative component of the Staging assignment model, the Group has adopted a statistical approach based on a regression of the quantiles, whose objective is to define a threshold in terms of maximum acceptable change between the measurement of the PD at the time of disbursement and that recorded on the reporting date. The target variable of the regressive model is therefore the change between PD on the reporting date compared to disbursement, while the explanatory variables are factors such as transaction age, the PD on the disbursement date, etc. A fundamental component of the model is the definition of the quantile that identifies the expected Stage 2 quota on the average over the long-term and that affects determination of the PD change threshold that, when passed, the transaction is moved to Stage 2. The average long-term quantile is determined based on the average expectation of decay of the portfolio, which is determined by the rate of slipping into default like in one of the other decay stages (e.g. past-due 30 days). The Stage 2 amount on each reporting date will fluctuate around the long-term quantile based on the current economic conditions and on the future expectations regarding evolution of the economic cycle.

For Stage 3, this includes the corresponding impaired exposures which, in accordance with the Bank of Italy rules defined in Circular 272 of 30 July 2008 as updated, correspond to the aggregate Non-Performing Exposures referred to in ITS EBA (EBA/ITS /2013/03/rev1 24/7/2014).

Specifically, the EBA has identified Non-Performing exposures as those that satisfy either or both of the following criteria:

- material exposures which are more than 90 days past due;
- exposures for which the Bank has assessed that the debtor is unlikely to pay its credit obligations, without the enforcement and realisation of collateral, regardless of the existence of any past due and/or overdrawn impaired exposures or of the number of days past due.

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

- Bad exposures, i.e., the on-balance-sheet and off-balance-sheet exposures to insolvent borrowers, even if the insolvency has not been recognised in a court of law. They are measured individually (including by verifying statistically defined coverage levels for some loan portfolios below a predefined threshold) or, for individually insignificant amounts, on a flat basis by type of homogeneous exposure.
- Unlikely to pay – on - and off-balance sheet exposures which do not meet the borrower's condition for classification as non-performing loans and for which, in the absence of actions such as the enforcement of collateral, the debtor's ability to fully meet its credit obligations (principal and/or interest) is assessed as unlikely. This assessment is made independently of any past due and unpaid amount (or instalment). The classification of an exposure as unlikely to pay is not necessarily tied to evident issues (non-repayment), but is rather linked to indicators of a potential default of the borrower. The "unlikely to pay" exposures are measured in the accounts individually (including by verifying statistically defined coverage levels for some loan portfolios below a predefined threshold) or by applying a percentage on a flat basis by type of homogeneous exposures. Exposures classified as unlikely to pay and identified as forborne, may only be reclassified to unimpaired loans after at least one year has passed from the time of the forbearance and the conditions established in paragraph 157 of the EBA Implementing and Technical Standards have been met. With regard to their measurement, they are generally measured on an individual basis or by applying a percentage on a flat basis by type of homogeneous exposures and the resulting allowance may include the discounted cost due to renegotiation of the interest rate at a rate lower than the original contractual rate.
- past due and/or overdrawn impaired exposures - on-balance sheet exposures, other than those classified as non-performing or unlikely to pay that are past due or overdrawn at the reporting date. The past due and/or overdrawn impaired exposures are determined with respect to the individual debtor. Specifically, they represent the total exposure to any borrower not included in the unlikely to pay and non-performing loans categories, who at the reporting date has expired facilities or unauthorised overdrafts that are more than 90 days past due and meet the requirements set out by local supervisory regulations for their classification under the "past due exposures". Past-due and/or overdrawn impaired exposures are valued at a flat rate on a historical/stochastic basis by applying where available the risk rating referred to Loss Given Default (LGD) under Regulation (EU) No. 575/2013 (CRR) on prudential requirements for credit institutions and investment firms.

Forward-looking information used in calculating value adjustments

The credit loss expected from the parameters described in the forgoing paragraph considers macroeconomic forecasts by applying multiple scenarios to the forward looking components in order to offset the partial non-linearity that is naturally implied in the correlation between the macroeconomic changes and credit risk.

The process defined to include macroeconomic scenarios is also fully consistent with the macroeconomic forecasting processes used by the Group for further risk management purposes (such as the processes used to translate macroeconomic forecasts into expected credit losses based on the EBA Stress Test and the ICAAP Framework) and was also drawn from the independent work of UniCredit Research.

The forecasts in terms of change in Default rate and change in Recovery Rate provided by the Stress Test function are incorporated within the PD and LGD parameters during calibration. The credit parameters are usually calibrated over a through-the-cycle (TTC) horizon, so their point-in time (PIT) and forward-looking (FL calibration become necessary in so far as it reflects the current situation and the expectations on the future evolution of the economic cycle in these credit parameters.

To this regard, the PD parameter is calibrated using a normal calibration procedure - logistic or Bayesian - taking an arithmetic mean between the latest default rates seen on the portfolio and the expected default rates provided by the Stress Test function as the pegging point. The PD obtained this way will lose its TTC nature in favour of a PIT/FL philosophy.

The LGD parameter is made PIT with a graduated factor that offers the possibility to consider the ratio between average long-term recoveries and recoveries made in recent years. Forecasts are instead included in the LGD parameter by adjusting implicit annual recovery rates in this parameter in order to take into account expectations of future recovery rates provided by the Stress Test function changing.

Governance (Risk management organization, processes and key functions have been organized to run the ECL Methodology)

The process of determining loan loss provisions for accounting purposes includes the adjustments described for the credit parameters, calculation of the expected multi-period loss, inclusion of the macroeconomic and forward-looking components and inclusion of the sales scenarios, where applicable.

A specific process for production and sharing multi-scenario and forward looking adjustments pertaining to the Group Wide loans perimeter (i.e. loans pertaining to Customers common to the Group) between Fineco and the Group has also been defined.

Renegotiations

When, during the life of an instrument, the contractual clauses are subject to modification by the parties to the contract, it is necessary to verify whether following the renegotiation the original asset must continue to be recognized in the financial statements and accounted for using the "modification accounting" or if, on the contrary, the original instrument must be cancelled from the financial statements (derecognition) and a new financial instrument must be recognized.

To this end, the renegotiations of financial instruments that lead to a change in the contractual terms are recognised on the basis of the "substantiality" of those contractual changes.

The assessment of the substantial nature of the change must be carried out considering both qualitative and quantitative elements. In some cases it is possible to establish whether the modification introduced substantially change the characteristics and/or contractual cash flows of a given activity through a qualitative analysis, whereas in other cases, further analyses, including quantitative ones, must be carried out to appreciate the effects of the same and verify the need to proceed or not with the derecognition of the asset and the recognition of a new financial instrument.

If the risks and rewards of ownership of the financial asset, after the modification, are not substantially transferred, the accounting representation that offers the most relevant information for the reader of the financial statements is that performed through the "modification accounting", which implies that the gross value is redetermined by calculating the present value of cash flows resulting from the renegotiation, at the original rate of the exposure. The difference between the gross value of the financial instrument prior to and after the renegotiation of the contractual terms, adjusted to consider the associated changes to the cumulative value adjustments, is recognised in item 140. “Profit/loss from contractual modification without derecognition” on the income statement as a profit or loss from contractual modification without derecognition.

Otherwise, when the risks and rewards of ownership of the financial asset, after the modification, are substantially transferred, it is necessary to proceed with the derecognition.

Renegotiations formalised by means of changes to the existing contract or by the signing of a new contract, which lead to the exclusion of the right to receive cash flows according to the provisions of the original contract, are considered to be significant. The rights to receive cash flows are considered to be excluded in the case of renegotiations that lead to the introduction of clauses resulting in a change of classification of the instrument, which result in a change in the currency and which are made at market conditions, thus not constituting a credit exposure.

Write – offs

The Bank will enter a write-off by reducing the gross exposure of a financial asset if there are no reasonable expectations of recovering all or part of that asset.

A write-off, which may relate to the whole of a financial asset or of part of it is recognised before the legal debt recovery actions have been concluded, and does not imply the waiver of the legal right of recovery.

As a result, the Bank will recognise a write-off in the following cases:

- there is no longer any reasonable expectation of recovering all or part of the asset despite the presence of the legal rights to recover the accrued capital and interest;
- waiver of the legal right to recover the accrued capital and interest;
- cessation of the legal right to recover capital and interest due to completion of the attempts at recovery.

RECOGNITION OF INCOME AND EXPENSES

The main revenues and costs are recorded in the income statement as follows:

- interest is recognized pro rata temporis based on the contractual interest rate or the effective interest rate if the amortized cost method is applied. Interest income (or interest expense) also includes the spreads or margins, positive (or negative), accrued up to the reporting date, relating to
  a) derivative financial contracts hedging interest-bearing assets and liabilities;
  b) financial derivative contracts classified in the balance sheet as held for trading, but operationally linked to financial assets and / or liabilities designated at fair value (*fair value option*);
  c) financial derivative contracts operationally linked to assets and liabilities classified in the balance sheet as held for trading or operationally linked to "other financial assets required to be measured at fair value" and which provide for the settlement of spreads or margins with several maturities ("multi-flow contracts") ");
- default interest is taken to the income statement on actual collection;
- dividends are recognised in profit or loss in the financial year in which their distribution has been approved;
- fees and commissions from services are recognized, based on the underlying contractual agreements, in relation to the provision of the services from which they originated. The fees included in amortised cost to calculate the effective interest rate are recognized as interest;

- gains and losses on financial instrument disposal, determined as the difference between the amount paid or collected in the transaction and the fair value of the instrument, are recognized in the income statement upon recognition of the transaction if the fair value can be determined with reference to official prices available on active markets, or for assets and liabilities measured on the basis of valuation techniques using observable market parameters other than the quoted prices of the financial instrument (level 1 and level 2 of the fair value hierarchy). If the reference parameters used for valuation are not observable on the market (level 3) or the instruments are illiquid, the financial instrument is recorded for an amount equal to the transaction price; the difference with respect to fair value is recognized in the income statement over the term of the transaction;
- gains and losses from securities trading are recognized in the income statement at the time the sale is finalized, based on the difference between the amount paid or collected and the carrying amount of the instruments;
- gains and losses from the sale of non-financial assets are recognized at the time the sale is finalized, or when the performance obligation to the customer is fulfilled;
- the costs are recognized in the income statement according to the accrual principle; the costs recognized for the acquisition of contracts with customers, which the Bank would not have incurred had it not obtained the contract, are recognized as assets and systematically amortized in the income statement in line with the recognition of revenues related to the transfer to customers of the goods or services to which the asset refers.

Revenues booked in application of accounting standard IFRS 15 can be recognized:

- at a specific moment, when the entity fulfills the obligation to transfer the promised good or service ("point in time") to the customer,

or

- over time, as the entity fulfils its obligation to transfer the promised good or service ("over time") to the customer.

The entity must recognize revenues when (or as it) fulfils the obligation to transfer the promised good or service (i.e. the asset) to the customer. The asset is transferred when (or as the client) gains control of it.

With reference to the main revenue recognized by the Bank in application of the IFRS 15 accounting standard, it should be noted that:

- the commissions for trading and placement of financial instruments are accounted for "point in time" when the service is rendered;
- advisory, collective portfolio management and insurance product management commissions are recorded "over time" during the term of the contract;
- commissions related to payment systems are mainly recognized "point in time", except for some services that are recorded "over time" during the term of the contract;
- recoveries of the stamp duty on financial assets are recorded "over time" during the term of the contract;
- revenues from contracts that provide for two or more performance obligations with different pattern of transfer of the goods or services to the customer are recognized in the income statement using different methods ("over time" or "point in time"). If the allocation is particularly burdensome and where revenues are not material, revenue is entirely allocated to the main performance obligation;
- where envisaged, the fees to be paid to customers are recorded as a reduction in revenues from the supply of goods or services and consistently with the recognition of said goods or services;

- any variable fees are estimated and recognized if and only to the extent that it is highly probable that when the uncertainty associated with the consideration is subsequently resolved there will be no significant downward adjustment to the amount of cumulative revenue recognized, taking into consideration all information reasonably available to the Bank;

any revenues that include a significant funding component are adjusted to take into account the effects of the time value of money, to reflect the price that the customer would have paid if the payment had occurred upon (or gradually with) the transfer of the promised goods or services. The Bank uses the practical expedient envisaged by paragraph 63 of IFRS 15; for this reason the Bank does not adjust the promised amount to take into account the effects of a funding component when the time interval expected between the transfer of the promised good or service and the related payment is less than one year.

A.3 DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

IFRS 9 and IFRS 7 allow, after initial recognition, the modification of their business model for managing financial assets and, consequently, impose the reclassification of reclassify all affected financial assets.

Such changes are expected to be very infrequent. Such changes are determined by the entity's senior management as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties. Accordingly, a change in an entity's business model will occur only when an entity either begins or ceases to perform an activity that is significant to its operations; for example, when the entity has acquired, disposed of or terminated a business line.

Specifically, the following may be reclassified:

- the financial assets out of the amortised cost measurement category and into the fair value through profit or loss measurement category and vice versa;
- the financial assets out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category and vice versa;
- the financial assets out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category and vice versa.

The following changes in circumstances are not considered reclassifications:

(a) an item that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;

(b) an item becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge;

(c) changes in measurement.

The following are not changes in business model:

a) a change in intention related to particular financial assets (even in circumstances of significant changes in market conditions);

b) the temporary disappearance of a particular market for financial assets;

c) a transfer of financial assets between parts of the entity with different business models.

In the first half 2018 the Bank has not made any reclassifications following the change in its business model.

A.3.1 Reclassified financial assets: change of business model, book value and interest income

No data to report.

A.3.2 Reclassified financial assets: change of business model, fair value and impact on comprehensive income

No data to report.

A.3.3 Reclassified financial assets: change of business model and effective interest rate

No data to report.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

This section presents a disclosure on fair value hierarchy as required by IFRS 13.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date (i.e. an exit price).

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

For financial instruments listed in active markets, fair value is determined on the basis of official prices in the principal market (most advantageous) to which the Bank has access (Mark to Market).

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from a pricing service, dealer, broker, agency that determines prices or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value is determined on the basis of the relevant market prices for the component parts.

If market quotations or other observable inputs, such as the quoted price of a similar instrument in an inactive market, are not available, the Bank should use other valuation techniques, such as:

(i) a market approach (e.g. using quoted prices for similar liabilities or equity instruments held by other parties as assets);

(ii) cost approach (e.g. it reflects the amount that would be required currently to replace the service capacity of an asset, that is the current replacement cost);

(i) An income approach (e.g. a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset).

The Bank uses valuation models (Mark to Model) in keeping with the methods generally accepted and used by the market. Valuation models include techniques based on the discounting of future cash flows and on volatility estimates, and they are subject to revision both during their development and periodically in order to ensure their consistency with the objectives of the valuation.

These methods use inputs based on prices set in recent transactions for the instrument being valued and/or prices/quotations for instruments having similar characteristics in terms of risk profile.

Indeed, these prices/quotations are relevant for determining significant parameters in terms of the credit risk, liquidity risk and price risk of the instrument being valued. Reference to these "market" parameters makes it possible to limit the discretionary nature of the valuation, and ensures that the resulting fair value can be verified.
If, for one or more risk factors it is not possible to refer to market data, the valuation models employed use estimates based on historical data as inputs.

As a further guarantee of the objectivity of valuations derived from valuation models, the Bank employs:

- independent price verifications (IPVs);
- fair Value Adjustment or FVAs.

Independent price verification requires that the prices are verified monthly by Risk Management units that are independent from the units that assume the risk exposure. This verification calls for comparing and adjusting the daily price in line with valuations obtained from independent market participants. For instruments not listed in active markets, the above verification process uses prices contributed by infoproviders as a reference, and assigns a greater weighting to those prices that are considered representative of the instrument being valued. This valuation includes: the "executability" of the transaction at the price observed, the number of contributors, the degree of similarity of the financial instruments, the consistency of prices from different sources, and the process followed by the infoprovider to obtain the information.

A.4.1 Fair value levels 2 and 3: valuation techniques and input used

To determine the fair value of Level 2 and Level 3 financial instruments that are not listed and actively traded on the market, the Bank utilises the valuation techniques widely-used in the market that are described below.

Discounted cash flow

Discounted cash flow valuation techniques generally consist of developing an estimate of future cash flows that are expected to occur over the life of an instrument. The model requires the estimation of the cash flow and the adoption of market's parameters for the discounting: discount rate or discount margin reflects the credit and / or funding spreads required by the market for instruments with similar risk and liquidity profiles to produce a "present value". The fair value of the contract is given by the sum of the present values of future cash flow.

Internal valuation models - Market multiples

The market multiples approaches based on the price of can parable assets (listed companies belonging to the same industry sector) applied to the fashion and shall statement figures and therefore represents the relationship between the price (capitalisation) and the financial statement figures. The financial statements most commonly used are earnings, shareholders' equity and sales.

Fair Value Adjustments (FVAs)

Fair value adjustment is defined as the amount to be added either to the market observed mid-price or to the theoretical price generated by a valuation model with the aim of obtaining a fair value of the position. The FVA thus ensure that fair value reflects the realisation amount from an actual possible market transaction.

A.4.2 - Valuation processes and sensitivity of fair value measurements

The Bank verifies that the value attributed to each trading position reflects the current fair value in an appropriate way. The fair value measurement of assets and liabilities is calculated using various techniques, including discounted cash flow models and internal measurement models. On the basis of the observability of the input used, all instruments are classified as Level 1, Level 2 or Level 3 of the fair value hierarchy. When a position is characterised by one or more significant inputs that are not directly observable, a further price verification procedure is implemented. These procedures include the revision of relevant historical data, the analysis of profits and losses, the individual valuation of each component for structural products and benchmarking. According to the Parent Group Market Risk Governance guidelines, in order to ensure the appropriate level of separation between the functions in charge of development activities and those in charge of validation processes, all valuation models developed by the front offices of Group companies are independently and centrally tested and validated by the Group Internal Validation functions. The aim of this independent control structure is to evaluate the model risk deriving from theoretical robustness, calibration techniques where applicable and appropriateness of the model for a specific product in a defined market point of views.

In addition to the daily mark to market or mark to model valuation, the Independent Price Verification (IPV) is applied monthly by the Bank's Market Risk with the aim of guaranteeing an independent fair value.

A.4.3 Fair value hierarchy

The IFRS 13 principle establishes a fair value hierarchy according to the observability of the input used in the valuation techniques adopted.

In particular, three levels are considered:

- Level 1: the fair value of instruments classified in this level is determined based on quotation prices observed in active markets;
- Level 2: fair value for instruments classified within this level is determined according to the valuation models which use observable market inputs;
- Level 3: fair value for instruments classified within this level is determined according to valuation models which prevalently use significant inputs not observable on active markets.

A.4.4 Other information

Hereby we provide IFRS 13 disclosure requirements.

Assets and liabilities measured at *fair value* on recurring basis

Fixed Income Securities

Fixed Income Securities are priced in a two-tier process depending on the liquidity in the respective market. Liquid instruments in active markets are marked to market and consequently positions in these instruments are disclosed in reference to Fair Value Hierarchy under Level 1.

Instruments not traded in active markets are marked to model based on implied credit spread curves derived from the former Level 1 instruments. The model maximises the use of observable input and minimises the use of unobservable inputs. With this respect, depending on the proximity of the credit spread curve applied, the bonds are disclosed as Level 2 or Level 3 respectively; Level 3 is applied in case a significant unobservable credit spread is used.

In the global bond Independent Price Verification (IPV) process market prices of Level 1 bonds and pricing models for illiquid bonds are regularly verified for accuracy.

Structured Financial Products

The Bank determines the fair value of structured financial products using the appropriate valuation methodology given the nature of the embedded structure. Such instruments are classified as Level 2 or Level 3 depending on the observability of significant inputs to the model.

OTC derivatives

Fair value of derivatives not traded in an active market is determined using a valuation technique. In such cases, where active markets exist for the components of the derivative, fair value is determined on the basis of the market prices for the individual components. Valuation techniques that are based on significant inputs that are observable are referred to as Level 2 valuations, while those based on techniques that use unobservable inputs are referred to as Level 3 valuations.

Equity Instruments

Equity Instruments are assigned to Level 1 when a quoted price is available on an active market and to Level 3 when no quotations are available or quotations have been suspended indefinitely. These instruments are classifies as Level 2 only when trading volume on the market where the instrument is quoted has decreased significantly. For equity instruments measured at cost an impairment is given, if the carrying amount exceeds the recoverable amount significantly and/or over a prolonged period of time.

For the measurement of the Visa INC class "C" preferred shares, the Bank has adopted the model developed by the Parent Company to determine the fair value that converts the market price in dollars of the Visa INC class "A" shares into euro and applies a discount factor of around7%, determined by estimating the litigation risk (1%) and the illiquidity risk (6%). The litigation risk component was extracted from historical series of data provided by Visa INC, whereas the illiquidity risk component was derived from the illiquidity of the shares, which have limitations on their transferability for a particular period. The Visa INC class "C" preferred shares were assigned a fair value hierarchy of 3.

The equity instruments recognised in relation to the result of the contribution made to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund were valued by aligning the fair value of the mezzanine and junior securities issued to securitise the NPLs of the three banks, provided by the IDGF and resulting from the analysis of the advisor tasked with the valuation of underlying receivables, calculated using a discounted cash flow model based on recovery forecasts formulated by special servicers. The fair value as at June, 30 2018 was unchanged compared to the amount recorded at the end of 2017. These equities were classed as fair value 3.

Investment Funds

The investment funds calculate the Net Asset Value (NAV) per unit and may include investments in funds managed by the Group.

Assets and liabilities not measured fair value or measured at fair value on a non-recurring basis

For these financial instruments fair value is calculated for disclosure purposes only and does not impact the balance sheet or the profit or loss. Additionally, since these assets and liabilities are not generally traded, there is significant management judgment required to determine their fair values as defined by IFRS 13.

Loans and receivables with banks and customers

Fair value for performing Loans and Receivables from customers and banks, recorded at amortised cost, is determined using the discounted cash flow model adjusted for credit risk. Some portfolios are valued using simplified approaches, which however take into account their financial characteristics. Loans and receivables with banks and customers with a duration of less than 12 months for which the fair value was estimated to be equal to the book value have been assigned the level 3 fair value hierarchy.

For the UniCredit securities recorded in “Financial assets at amortised cost” portfolio, fair value level 2 has been calculated using the Group's methodology based on discounted cash flow, which consists of producing an estimate of the estimated cash flows over the life of the instrument and discounting at a rate that incorporates the credit spread. The credit spread is calculated based on the credit spread curve of the issuer, constructed by selecting issues, also from the second market, with the same specific characteristics.

Liabilities

Fair value for liabilities, recorded at amortised cost, is determined using the discounted cash flow model adjusted for UniCredit credit risk. The Credit Spread is determined using UCG's subordinated and non-subordinated risk curves. Deposits from banks and customers with a duration of less than 12 months for which the fair value was estimated to be equal to the book value have been assigned the level 3 fair value hierarchy.

Cash and cash balances

Cash and cash balances are not carried at fair value on the Balance Sheets, but they are carried at amounts that approximate fair value, due to their short term nature and generally negligible credit risk.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by level of fair value

	06.30.2018			12.31.2017		
Assets/liabilities at fair value	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss	7,798	3,105	6,693			
a) financial assets held for trading	7,766	3,105	-			
b) financial assets designed at fair value	-	-	-			
c) other financial assets required to be designated at fair value	32	-	6,693			
2. Financial assets at fair value through other comprehensive income	1,100,805	-	5			
Financial assets held for trading (ex IAS 39)				6,030	4,834	15
Financial assets designated at fair value through profit or loss (ex IAS 39)				-	-	-
Available-for-sale financial assets (ex IAS 39)				1,042,465	-	5,224
3. Hedging derivatives	-	939	-	-	458	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Totale	**1,108,603**	**4,044**	**6,698**	**1,048,495**	**5,292**	**5,239**
1. Financial liabilities held for trading	4,027	541	-			
2. Financial liabilities designated at fair value	-	-	-			
Financial liabilities held for trading (ex IAS 39)				2,032	579	6
Financial liabilities designated at fair value (ex IAS 39)				-	-	-
3. Hedging derivatives	-	3,403	-	-	12,694	-
Total	**4,027**	**3,944**	**-**	**2,032**	**13,273**	**6**

(Amounts in € thousand)

Key:

L1 = Level 1 - L2 = Level 2 - L3 = Level 3

In the first half 2018 there were no transfers between levels of fair value hierarchy (level 1 and level 2).

Credit Value Adjustment (CVA) and/or Debit Value Adjustment (DVA) have not been applied in determining the fair value of derivative financial instruments.

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets at fair value through profit or loss				Financial assets at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets required to be designated at fair value				
1. Opening balance	**5,234**	**6**	**-**	**5,228**	**5**	**-**	**-**	**-**
2. Increases	**6,589**	**5,120**	**-**	**1,469**	**-**	**-**	**-**	**-**
2.1 Purchases	5,122	5,120	-	2	-	-	-	-
2.2 Profits recognised in:	1,467	-	-	1,467	-	-	-	-
2.2.1 Income Statement	1,467	-	-	1,467	-	-	-	-
- of which Unrealised gains	1,463	-	-	1,463	-	-	-	-
2.2.2 Shareholders' Equity	-	X	X	X	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	-
2.4 Other increases	-	-	-	-	-	-	-	-
3. Decreases	**(5,130)**	**(5,126)**	**-**	**(4)**	**-**	**-**	**-**	**-**
3.1 Sales	(5,124)	(5,120)	-	(4)	-	-	-	-
3.2 Redemptions	-	-	-	-	-	-	-	-
3.3 Losses recognised in:	(6)	(6)	-	-	-	-	-	-
3.3.1 Income Statement	(6)	(6)	-	-	-	-	-	-
- of which Unrealised losses	(6)	(6)	-	-	-	-	-	-
3.3.2 Shareholders' Equity	-	X	X	X	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-	-	-
4. Closing balances	**6,693**	**-**	**-**	**6,693**	**5**	**-**	**-**	**-**

(Amounts in € thousand)

The initial balance shown in the table refers to the financial assets recorded at January 1, 2018 after the reclassifications made following the entry into force of IFRS 9 (for further details, see Section 5 - Other matters of the Explanatory Notes).

The sub-items 2.2.1 Profits through profit and loss and 3.3.1 Losses through profit and loss are included, where present, in Consolidated Profit and Loss in the following items:

- Item 80: Gains (losses) on financial assets and liabilities held for trading;
- Item 110: Gains (losses) on financial assets and liabilities at fair value through profit and loss;
- Item 90: Fair value adjustments in hedge accounting.

The sub-items 2.2.2 Profits recognised in equity and 3.3.2 Losses recognised in equity arising from changes in fair value of Financial assets at fair value through other comprehensive income are recognised, if any, in equity item 120. "Revaluation reserves" of consolidated shareholder's equity - except losses due to impairment and exchange rate gains or losses on monetary items (debt instruments) which are recognised under item 130. "Impairment losses/write backs on: b) financial assets at fair value through other comprehensive income" and item 80. "Gains (losses) on financial assets and liabilities held for trading" of the consolidated income statement, respectively - until the financial asset is sold, at which time cumulative gains and losses are recognised in consolidated profit or loss in item 100.b) "Gains (losses) on disposal or repurchase of: financial assets at fair value through other comprehensive income".

A.4.5.3 Annual changes in financial liabilities measured at fair value level 3 on a recurring basis

	Financial liabilities held for trading	Financial Liabilities at fair value through profit or loss	Hedging derivatives
1. Opening balance	**6**	**-**	**-**
2. Increases	**-**	**-**	**-**
2.1 Issues	-	-	-
2.2 Losses allocated to:	-	-	-
2.2.1 Income Statement	-	-	-
- of which capital losses	-	-	-
2.2.2 Shareholders' Equity	X	X	-
2.3 Transfers from other levels	-	-	-
2.4 Other increases	-	-	-
3. Decreases	(6)	-	-
3.1 Reimbursements	-	-	-
3.2 Repurchases	-	-	-
3.3 Profits recognised in:	(6)	-	-
3.3.1 Income Statement	(6)	-	-
- of which capital gains	(6)	-	-
3.3.2 In equity	X	X	-
3.4 Transfers to other levels	-	-	-
3.5 Other decreases	-	-	-
4. Closing balances	**-**	**-**	**-**

(Amounts in € thousand)

The initial balance shown in the table refers to the financial assets recorded at January 1, 2018 after the reclassifications made following the entry into force of IFRS 9 (for further details, see Section 5 - Other matters of the Explanatory Notes).

The sub-items 2.2.1 Losses through profit and loss and 3.3.1 Profits through profit and loss from financial liabilities are included, where present, in Consolidated Profit and Loss in the following items:

- Item 80: Gains (losses) on financial assets and liabilities held for trading;
- Item 110: Gains (losses) on financial assets and liabilities at fair value through profit and loss;
- Item 90: Fair value adjustments in hedge accounting.

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by level of fair value

Assets and liabilities not measured at fair value or measured at fair value on a non-	06.30.2018				12.31.2017			
	VB	L1	L2	L3	VB	L1	L2	L3
1. Financial assets at amortised cost	21,938,030	6,132,431	10,037,086	5,947,350				
Held to maturity investments (ex IAS 39)					4,826,390	4,855,200	-	-
Loans and receivables with banks (ex IAS 39)					13,878,117	-	11,311,889	3,039,207
Loans and receivables with customers (ex IAS 39)					2,129,219	-	-	2,204,926
2. Tangible assets held for investment	2,142	-	-	3,375	2,304	-	-	3,491
3. Non-current assets and disposal groups classified as held for sale	91	-	-	91	-	-	-	-
Total	**21,940,263**	**6,132,431**	**10,037,086**	**5,950,816**	**20,836,030**	**4,855,200**	**11,311,889**	**5,247,624**
1. Financial liabilities at amortised cost	22,104,447	-	5,792	22,098,743				
Deposits from banks (ex IAS 39)					926,001	-	-	926,001
Deposits from customers (ex IAS 39)					20,205,036	-	9,622	20,195,477
Debt securities in issue (ex IAS 39)					-	-	-	-
2. Liabilities included in disposal groups classified as held for sale	-	-	-	-	-	-	-	-
Total	**22,104,447**	**-**	**5,792**	**22,098,743**	**21,131,037**	**-**	**9,622**	**21,121,478**

(Amounts in € thousand)

Key:
L1 = Level 1 - L2 = Level 2 - L3 = Level 3 - BV = Book Value

Property, plant and equipment held for investment consist of one property held by the Bank, the fair value of which corresponds to the market value as determined by an appraisal carried out by an external and independent valuation firm. Discontinued operations refer to a property intended for sale.

A.5 DAY-ONE PROFIT/LOSS

Financial instruments are initially recognised at fair value on the recognition date.

The fair value of financial instruments, other than those measured at fair value through consolidated profit or loss, at the recognition date is usually assumed to be equal to the amount collected or paid.

For financial instruments held for trading and financial instruments measured at fair value, any difference from the amount collected or paid is recognised in the appropriate line items of the consolidated income statement upon initial measurement of the financial instrument.

The use of prudent valuation models, the review processes of these models and their parameters and value adjustments to reflect model risk ensure that the amount recognised in the consolidated income statement is not derived from the use of unobservable valuation parameters. In particular, the quantification of the value adjustments relating to the risk model ensures that the part of the fair value of these instruments that refers to the use of subjective parameters is not recognised through consolidated profit or loss, but rather as an adjustment to the equity value of those instruments. Accordingly, this item is only subsequently recognised through consolidated profit or loss when there is a predominance of objective parameters and, consequently, when the mentioned adjustments are no longer required.

There are no day-one profits/losses to disclose in accordance with paragraph 28 of IFRS 7.

PART B - CONSOLIDATED BALANCE SHEET

ASSETS

Section 1 - Cash and cash balances - Item 10

1.1 Cash and cash balances: breakdown

	Total 06.30.2018	Total 12.31.2017
(a) Cash	1,733	613
(b) Demand deposits with central banks	-	-
Total	**1,733**	**613**

(Amounts in € thousand)

Section 2 - Financial assets at fair value through profit or loss - Item 20

2.1 Financial assets held for trading: product breakdown

Item/Amount	Total 06.30.2018			Total 12.31.2017		
	L1	L2	L3	L1	L2	L3
A. On-balance sheet assets						
1. Debt securities	34	-	-			
1.1 Structured securities	-	-	-			
1.2 Other debt securities	34	-	-			
2. Equity instruments	3,938	-	-			
3. Units in investment funds	46	-	-			
4. Loans	-	-	-			
4.1 Reverse repos	-	-	-			
4.2 Others	-	-	-			
Total A	**4,018**	**-**	**-**			
B. Derivatives						
1. Financial derivatives	3,748	3,105	-			
1.1 trading derivatives	3,748	3,105	-			
1.2 related to the fair value option	-	-	-			
1.3 other	-	-	-			
2. Credit derivatives	-	-	-			
2.1 trading derivatives	-	-	-			
2.2 related to the fair value option	-	-	-			
2.3 other	-	-	-			
Total B	**3,748**	**3,105**	**-**			
Total (A+B)	**7,766**	**3,105**	**-**			

(Amounts in € thousand)

Key:
L1 = Level 1

L2 = Level 2

L3 = Level 3

Financial derivatives refer to the positive valuation of CFD contracts on forex, indices, shares, interest rates, commodities and futures used for the operational hedging of CFDs on indices, interest rates and commodities. They amounted to €3,036 thousand (€4,756 thousand as at December 31, 2017).

Sub-item B.1.1 Derivative instruments - Trading financial derivatives includes the positive valuations of spot contracts for securities that meets the definition of held for trading and currencies to be settled in times established by market practices ("regular way"). They amounted to €3,818 thousand (€1,758 thousand as at December 31, 2017).

2.5 Other financial assets mandatorily at fair value: product breakdown

Items/Amounts	Total 06.30.2018			Total 12.31.2017		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**26**	**-**	**-**			
1.1 Structured securities	4	-	-			
1.2 Other debt securities	22	-	-			
2. Equity instruments	**6**	**-**	**6,693**			
3. Units in investment funds	**-**	**-**	**-**			
4. Loans	**-**	**-**	**-**			
4.1 Reverse repos	-	-	-			
4.2 Others	-	-	-			
Total	**32**	**-**	**6,693**			

(Amounts in € thousand)

Key:
L1 = Level 1

L2 = Level 2

L3 = Level 3

The *"*Other assets required to be measured at fair value" primarily consist of the Visa INC class "C" preferred shares, for an amount of €5,964 thousand, which saw a positive change in *fair value* in the first half of 2018 of €1,463 thousand and the residual equity exposure to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund (IDPF), amounting to €718 thousand.

Financial assets at fair value through profit or loss (ex IAS 39 Item 20)

Items/Amounts	Total 06.30.2018			Total 12.31.2017		
	Livello 1	Livello 2	Livello 3	Livello 1	Livello 2	Livello 3
A. On-balance sheet assets						
1. Debt securities				18	30	-
1.1 Structured securities				3	-	-
1.2 Other debt securities				15	30	-
2. Equity instruments				2,288	-	9
3. Units in investment funds.				2,019	-	-
4. Loans				-	-	-
4.1 Reverse repos				-	-	-
4.2 Others				-	-	-
Total A				**4,325**	**30**	**9**
B. Derivatives						
1. Financial derivatives				1,705	4,804	6
1.1 trading derivatives				1,705	4,804	6
1.2 related to the fair value option				-	-	-
1.3 other				-	-	-
2. Credit derivatives				-	-	-
2.1 trading derivatives				-	-	-
2.2 related to the fair value option				-	-	-
2.3 other				-	-	-
Total B				**1,705**	**4,804**	**6**
Total (A+B)				**6,030**	**4,834**	**15**

(Amounts in € thousand)

Section 3 - Financial assets at fair value through comprehensive income - Item 30

3.1 Financial assets at fair value through comprehensive income: product breakdown

Items/Amounts	Total 06.30.2018			Total 12.31.2017		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**1,100,805**	**-**	**-**			
1.1 Structured securities	-	-	-			
1.2 Other debt securities	1,100,805	-	-			
2. Equity instruments	**-**	**-**	**5**			
3. Loans	**-**	**-**	**-**			
Total	**1,100,805**	**-**	**5**			

(Amounts in € thousand)

Key:
L1 = Level 1

L2 = Level 2

L3 = Level 3

"Financial assets designated at fair value through other comprehensive income" consist of securities issued by sovereign states and residually of equity interests in companies in which the Bank does not exercise control or significant influence for €5 thousand for which, upon first application of IFRS 9, the "FVTOCI" option was exercised.[16] For more details, see the information on Sovereign exposures set out in Part E of the Explanatory Notes.

3.3 Financial assets at fair value through comprehensive income: gross exposure and total impairment

	Gross amount				Impairment provision			Total partial Write-off
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	1,100,936	1,100,936	-	-	(131)	-	-	-
Loans	-	-	-	-	-	-	-	-
Total 06.30.2018	**1,100,936**	**1,100,936**	**-**	**-**	**(131)**	**-**	**-**	**-**
Total 12.31.2017	**n.d.**	**n.d.**	**n.d.**	**n.d.**	**n.d.**	**n.d.**	**n.d.**	**n.d.**
of which: financial assets purchased or originated credit impaired	X	X	-	-	X	-	-	-

(Amounts in € thousand)

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

Available-for-sale financial assets (ex IAS 39 Item 40)

Available-for-sale financial assets: product breakdown

Items/Amounts	Total 06.30.2018			Total 12.31.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities				1,042,465	-	-
1.1 Structured securities				-	-	-
1.2 Other debt securities				1,042,465	-	-
2. Equity Instruments					-	5,224
2.1 Carried at fair value				-	-	5,219
2.2 Carried at cost				-	-	5
3. Units in investment funds				-	-	-
4. Loans				-	-	-
Total				**1,042,465**	**-**	**5,224**

(Amounts in € thousand)

Section 4 - Financial assets at amortised cost – Item 40

4.1 Financial assets at amortised cost: product breakdown of loans and receivables with banks

Type of transaction/Amount	Total 06.30.2018						Total 12.31.2017					
	Carryng amount			Fair value			Carryng amount			Fair value		
	First and second stage	Third stage	of which: purchased or originated credit impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit impaired	L1	L2	L3
A. Loans and receivables with Central Banks	**-**	**-**	**-**	**-**	**-**	**-**						
1. Time deposits	-	-	-	X	X	X						
2. Compulsory reserves	-	-	-	X	X	X						
3. Reverse repos	-	-	-	X	X	X						
4. Other	-	-	-	X	X	X						
B. Loans and receivables with banks	**13,110,558**	**-**	**-**	**-**	**10,037,086**	**3,224,477**						
1. Loans	3,224,477	-	-	-	-	3,224,477						
1.1 Current accounts and demand deposits	2,136,232	-	-	X	X	X						
1.2 Time deposits	1,039,565	-	-	X	X	X						
1.3 Other loans:	1,566	-	-	X	X	X						
- Reverse repos	1,566	-	-	X	X	X						
- Finance leases	-	-	-	X	X	X						
- Other	47,114	-	-	X	X	X						
2. Debt securities	9,886,081	-	-	-	10,037,086	-						
2.1 Structured securities	-	-	-	-	-	-						
2.2 Other debt securities	9,886,081	-	-	-	10,037,086	-						
Total	**13,110,558**	**-**	**-**	**-**	**10,037,086**	**3,224,477**						

(Amounts in € thousand)

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Loans and receivables with banks for "Current accounts and demand deposits" mainly consist of accounts held with UniCredit S.p.A., with a book value of €2,106,987 thousand and to a lesser extent, of current accounts held with other banks not belonging to the UniCredit Group, including current accounts opened to trade securities, to manage the liquidity of UK customers and to manage the liquidity of Fineco AM, for €1,826 thousand.

"Time deposits" consist of deposits held with UniCredit S.p.A., including the compulsory reserve deposit, for a total of €1,039,565 thousand.

"Reverse Repos" include €1,014 thousand related to transactions with Unicredit S.p.A..

The item "Other loans: Other" refers for €42,318 thousand to the amount of the initial and variance margins and collateral deposits placed with credit institutions for derivative transactions and repos, of which €36,182 thousand with UniCredit S.p.A. and €4,797 thousand to current receivables associated with the provision of financial services.

4.2 Financial assets at amortised cost: product breakdown of loans and receivables with customers

Type of transaction/Amount	Total 06.30.2018						Total 12.31.2017					
	Carryng amount			Fair value			Carryng amount			Fair value		
	First and second stage	Third stage	of which: purchased or originated credit impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit impaired	L1	L2	L3
1. Loans	**2,630,044**	**2,705**	**-**	**-**	**-**	**2,722,873**						
1.1 Current accounts	852,598	1,775	-	X	X	X						
1.2 Reverse repos	201,289	14	-	X	X	X						
1.3 Mortgages	721,117	-	-	X	X	X						
1.4 Credit cards, personal loans and wage assignment loans	668,006	720	-	X	X	X						
1.5 Finance leases	-	-	-	X	X	X						
1.6 Factoring	-	-	-	X	X	X						
1.7 Other loans	187,034	196	-	X	X	X						
2. Debt securities	**6,194,723**	**-**	**-**	**6,132,431**	**-**	**-**						
2.1 Structured securities	-	-	-	**-**	**-**	**-**						
2.2 Other debt securities	6,194,723	-	-	**6,132,431**	**-**	**-**						
Total	**8,824,767**	**2,705**	**-**	**6,132,431**	**-**	**2,722,873**						

(Amounts in € thousand)

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Debt securities consist exclusively of government securities and securities issued by the Istituto de Credito Oficial (ICO). For more details, see the information on Sovereign exposures set out in Part E of the Explanatory Notes.

4.5 Financial assets at amortised cost: gross exposure and total impairment

	Gross amount				Impairment provision			**Total partial Write-off**
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	16,085,641	16,085,641	-	-	(4,838)	-	-	-
Loans	5,853,331	-	15,711	23,827	(8,260)	(6,261)	(21,122)	-
Total 06.30.2018	**21,938,972**	**16,085,641**	**15,711**	**23,827**	**(13,098)**	**(6,261)**	**(21,122)**	**-**
Total 12.31.2017	**n.d.**	**n.d.**	**n.d.**	**n.d.**	**n.d.**	**n.d.**	**n.d.**	**n.d.**
of which: financial assets purchased or originated credit impaired	X	X	-	-	X	-	-	-

(Amounts in € thousand)

Held-to-maturity investments (ex IAS 39 Item 50)

Held-to-maturity investments: product breakdown

	Total 06.30.2018				Total 12.31.2017			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities					4,826,390	4,855,200	-	-
- Structured					-	-	-	-
- Other					4,826,390	4,855,200	-	-
2. Loans					-	-	-	-
Total					**4,826,390**	**4,855,200**	**-**	**-**

(Amounts in € thousand)

Key

FV = fair value

BV = book value

Loans and receivables with banks (ex IAS 39 Item 60)

Loans and receivables with banks: product breakdown

Type of transaction/Amount	Total 06.30.2018				Total 12.31.2017			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Loans and receivables with Central Banks					**-**	**-**	**-**	**-**
1. Time deposits					-	X	X	X
2. Compulsory reserves					-	X	X	X
3. Reverse repos					-	X	X	X
4. Other					-	X	X	X
B. Loans and receivables with banks					**13,878,117**	**-**	**11,311,889**	**3,039,207**
1. Loans					**3,039,207**	**-**	**-**	**3,039,207**
1.1 Current accounts and demand deposits					1,993,139	X	X	X
1.2 Time deposits					1,028,152	X	X	X
1.3 Other loans:						X	X	X
- Reverse repos					54	X	X	X
- Finance leases					-	X	X	X
- Other					17,862	X	X	X
2. Debt securities					**10,838,910**	**-**	**11,311,889**	**-**
2.1 Structured securities					-	X	X	X
2.2 Other debt securities					10,838,910	X	X	X
Total					**13,878,117**	**-**	**11,311,889**	**3,039,207**

(Amounts in € thousand)

Key

FV = fair value

BV = book value

Loans and receivables with customers (ex IAS 39 Item 70)

Loans and receivables with customers: product breakdown

Type of transaction/Amount	Total 06.30.2018						Total 12.31.2017					
	Book value			Fair value						Fair value		
	Unimpaired	Impaired		L1	L2	L3	Unimpaired	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans							**2,126,366**	**-**	**2,853**	**-**	**-**	**2,204,926**
1. Current accounts							639,726	-	1,828	X	X	X
2. Reverse repos							202,620	-	81	X	X	X
3. Mortgages							516,237	-	14	X	X	X
4. Credit cards, personal loans and wage assignment loans							632,249	-	799	X	X	X
5. Finance leases							-	-	-	X	X	X
6. Factoring							-	-	-	X	X	X
7. Other loans							135,534	-	131	X	X	X
Debt securities							**-**	**-**	**-**	**-**	**-**	**-**
8. Structured securities							-	-	-	X	X	X
9. Other debt securities							-	-	-	X	X	X
Total							**2,126,366**	**-**	**2,853**	**-**	**-**	**2,204,926**

(Amounts in € thousand)

Section 5 – Hedging derivatives – Item 50

5.1 Hedging derivatives: breakdown by type of hedge and by level

	Fair value 06.30.2018			NA	Fair value 12.31.2017			NA
	L1	L2	L3	06.30.2018	L1	L2	L3	12.31.2017
A. Financial derivatives	**-**	**939**	**-**	**327,336**	**-**	**458**	**-**	**151,109**
1) Fair value	-	939	-	327,336	-	458	-	151,109
2) Cash flows	-	-	-	-	-	-	-	-
3) Net investment in foreigr	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**939**	**-**	**327,336**	**-**	**458**	**-**	**151,109**

(Amounts in € thousand)

Key:

NA = notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

Section 6 – Changes in fair value of portfolio hedged financial assets – Item 60

6.1 Adjustments to the value of hedged assets: breakdown by hedged portfolio

Adjustments to the value of hedged assets/Amount	Total 06.30.2018	Total 12.31.2017
1. Positive changes	**2,029**	**10,130**
1.1 of specific portfolios	2,029	10,130
a) loans and receivables	2,029	10,130
b) available-for-sale financial assets	-	-
1.2 overall	-	-
2. Negative changes	**(301)**	**(540)**
2.1 of specific portfolios	(301)	(540)
a) loans and receivables	(301)	(540)
b) available-for-sale financial assets	-	-
2.2 overall	-	-
Total	**1,728**	**9,590**

(Amounts in € thousand)

Section 7 - Equity investments - Item 100

No data to report.

Section 8 – Technical provisions for re-insurers – Item 80

No data to report.

Section 9 - Property, plant and equipment - Item 90

9.1 Property, plant and equipment used in the business: breakdown of assets carried at cost

Asset/Amount	Total 06.30.2018	Total 12.31.2017
1. Owned assets	**12,894**	**12,901**
a) land	-	-
b) buildings	-	-
c) office furniture and fittings	1,802	1,480
d) electronic systems	9,510	9,798
e) other	1,582	1,623
2. Assets under financial lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) office furniture and fittings	-	-
d) electronic systems	-	-
e) other	-	-
Total	**12,894**	**12,901**
of which: obtained through enforcement of the guarantees received	-	-

(Amounts in € thousand)

9.2 Property, plant and equipment held for investment: breakdown of assets carried at cost

Assets/Amount	Total 06.30.2018				Total 12.31.2017			
	Carryng value	Fair value			Carryng value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned assets	**2,142**	**-**	**-**	**-**	**2,304**	**-**	**-**	**3,491**
a) land	-	-	-	-	-	-	-	-
b) buildings	2,142	-	-	-	2,304	-	-	3,491
2. Assets under finance lease	**-**	**-**	**-**	**3,375**	**-**	**-**	**-**	**-**
a) land	-	-	-	3,375	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**2,142**	**-**	**-**	**3,375**	**2,304**	**-**	**-**	**3,491**
of which: obtained through enforcement of the guarantees received	-	-	-	-	-	-	-	-

(Amounts in € thousand)

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

9.3 Property, plant and equipment used in the business: breakdown of revalued assets

No data to report.

9.4 Property, plant and equipment held for investment: breakdown of assets measured at fair value

No data to report.

9.5 Inventories of property, plant and equipment regulated by IAS 2: breakdown

No data to report.

Section 10 - Intangible assets - Item 100

10.1 Intangible assets: breakdown by type assets

Assets/Amount	Total 06.30.2018		Total 12.31.2017	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**89,602**	**X**	**89,602**
A.1.1 attributable to the group	X	89,602	X	**89,602**
A.1.2 attributable to minorities	X	-	X	-
A.2 Other intangible assets	**7,827**		**7,909**	
A.2.1 Assets carried at cost:	7,827	-	7,909	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	7,827	-	7,909	-
A.2.2 Assets carried at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**7,827**	**89,602**	**7,909**	**89,602**

(Amounts in € thousand)

10.3 Other information

We also report that there were no intangible assets acquired through government concession; no intangible assets were used as collateral for own debts; no intangible assets were held under a finance lease; and there were no revalued intangible assets.

<u>Other information - Impairment test</u>

Under IAS 36, impairment testing of intangible assets with indefinite useful lives must be performed at least annually and, in any case, whenever there is objective evidence of the occurrence of events that may have reduced their value.

Recoverable value is the greater of the value in use (present value of future cash flows generated by the asset being valued) and the associated fair value, net of sales costs.

The recoverable value of the assets subject to impairment testing must be determined for the individual assets, unless both of the following conditions exist:

- the value in use of the asset is not estimated to be close to the fair value net of selling costs;
- the asset does not generate incoming cash flows largely independent of those coming from other assets (or group of assets).

If these conditions exist, the impairment test is conducted at the level of the Cash Generating Unit (CGU) of the asset, as required by the accounting principle.

According to IAS 36, when determining the value in use of assets subject to impairment testing, reference must be made to the cash flows of assets in their current conditions at the testing date and representing the best estimate by the management of the overall economic conditions in place during the residual useful life of the asset.

For the purposes of impairment testing, the value in use of the cash generating unit (CGU) to which the intangible assets have been assigned must be calculated considering the cash flows for all the assets and liabilities included in the CGU and not just those for which goodwill and/or the intangible asset has been recognised upon application of IFRS 3.

Definition of CGU

Estimating the value in use for the purposes of any impairment testing of intangible assets, including goodwill, which do not independently generate cash flows, but only in conjunction with other business assets, requires that these assets first be attributed to operating units that are relatively autonomous in the business context (from the points of view of independent cash flows generated and of internal planning and reporting). These operating units are defined as Cash Generating Units (CGU).

Goodwill recorded in these consolidated financial statements, deriving from the separate financial statements of the Bank, relates to buy-outs of divisions or companies engaged in trading activities or the distribution of financial, banking and insurance products through personal financial advisors. These activities have been fully integrated with FinecoBank's ordinary operations, as a result it is not possible to isolate the contribution of each company/business division from the Bank's overall income; this means that to establish the recoverability of the value of goodwill recognised in the financial statements it is necessary to take account of the Bank's comprehensive income.

The cash generating unit (CGU) to be considered for the impairment test is therefore the Bank as a whole. In view of the specific business model adopted by FinecoBank, which envisages a high level of integration between personal financial advisors and the trading and banking platform, so that the personal financial advisors network is an integral part of the overall offering of the Bank, which includes banking, brokerage and investing services, an allocation of costs/revenues per business units is not considered relevant or meaningful.

Impairment test results

As regards the impairment test, at June 30, 2018 there were no indicators of impairment of the goodwill recognised in the financial statements. A qualitative analysis was conducted of the main assumptions used in the impairment test carried out with reference to December 31, 2017 and, based on the results of those qualitative analyses, the result of the impairment test as at December 31, 2017 was also confirmed with reference to June 30, 2018. For any other information on the impairment test, see the 2017 financial statements.

It should be noted that the value of “FinecoBank” shares resulted in a market capitalisation of €5.9 billion at June 30, 2018, markedly higher than the Bank's net assets and the results provided by the internal model, which confirms the use of prudent criteria in the calculation of the value in use.

Section 11 - Tax Assets and Tax Liabilities - Asset item 110 and liability item 60

The item "Tax assets" amounting to €10,914 thousand comprises:

- "Current tax assets" of €1,613 thousand;
- "Deferred tax assets" of €9,301 thousand.

Deferred tax assets are shown in the consolidated balance sheet net of the related deferred tax liabilities; the detail is as follows:

  - "Deferred tax assets" of €29,783 thousand recognised as a balancing entry in the income statement;
  - "Deferred tax assets" of €4,582 thousand recognised as a balancing entry of shareholders' equity;
  - "Deferred tax liabilities" of €24,323 thousand recognised as a balancing entry in the income statement;
  - "Deferred tax liabilities" of €741 thousand recognised as a balancing entry of shareholders' equity.

The item "Tax liabilities" amounting to €22,038 thousand, consists exclusively of "Current tax liabilities".

Current Tax Assets and Liabilities

Asset/Amount	Total 06.30.2018	Total 12.31.2017
Current tax assets	1,613	1,765
Current tax liabilities	22,038	10,234

(Amounts in € thousand)

Prepaid/deferred tax assets/liabilities

In accordance with the law and regulations currently in force:

- the recognition of deferred tax assets for IRES income tax purposes takes into account the expected income figures of the Bank for future years, according to the decisions made by the competent company bodies;
- the recognition of deferred tax assets for IRAP corporate tax purposes takes place on the basis of the Bank's expected income figures for future years, and takes into account changes in the legal context;
- deferred tax liabilities are recognised whenever the relevant requirements are satisfied.

When calculating prepaid/deferred tax assets/liabilities, a 27.5% IRES rate was used (24% standard rate and 3.5% additional rate for banks), as well as IRAP rate of 5.57% for Italy.

With regard to Fineco AM, taxes were calculated using a 12.5% rate; in particular, deferred tax assets have been recognised on the loss for the period (from incorporation to June 30, 2087) taking into account the expected profit/loss of the same in view of the expected development of the business.

There were no tax-loss carry-forwards.

11.1 Deferred tax assets: breakdown

Asset/Amount	Total 06.30.2018	Total 12.31.2017
Allocations through profit or loss	26,395	26,702
Allocations through other comprehensive income	4,582	6,225
Impairment losses on receivables (of which pursuant to Law 214/2011	3,388	3,828
Total before IAS 12 offset	**34,365**	**36,755**
Offset against deferred tax liabilities - IAS 12	(25,064)	(29,271)
Total	**9,301**	**7,484**

(Amounts in € thousand)

11.2 Deferred tax liabilities: breakdown

Asset/Amount	Total 06.30.2018	Total 12.31.2017
Allocations through profit or loss	24,323	23,982
Allocations through other comprehensive income	741	5,289
Total before IAS 12 offset	**25,064**	**29,271**
Offset against deferred tax liabilities - IAS 12	(25,064)	(29,271)
Total	**-**	**-**

(Amounts in € thousand)

Section 12 - Non-current assets and disposal groups classified as held for sale and associated liabilities - Assets item 120 and liabilities item 70

12.1 Non-current assets and disposal groups classified as held for sale: breakdown by type assets

	Total 06.30.2018	Total 12.31.2017
A. Assets classified as held for sale		
A.1 Financial assets	-	-
A.2 Equity investments	-	-
A.3 Property, Plant and Equipment	91	-
of which: obtained through enforcement of the guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total (A)	**91**	**-**
of which carried at cost	*-*	*-*
of which designated at fair value - level 1	*-*	*-*
of which designated at fair value - level 2	*-*	*-*
of which designated at fair value - level 3	*91*	*-*
B. Disposal assets		
B.1 Financial assets at fair value through profit and loss	-	-
- financial assets held for trading	-	-
- financial assets designated at fair value	-	-
- other financial assets required to be designated at fair value	-	-
B.2 Financial assets at fair value through other comprehensive income	-	-
B.3 Financial assets at amortised cost	-	-
B.4 Equity investments	-	-
B.5 Property, Plant and Equipment	-	-
of which: obtained through enforcement of the guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total (B)	**-**	**-**
of which carried at cost	*-*	*-*
of which designated at fair value - level 1	*-*	*-*
of which designated at fair value - level 2	*-*	*-*
of which designated at fair value - level 3	*-*	*-*
C. Liabilities associated with assets classified as held for sale		
C.1 Deposits	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total (C)	**-**	**-**
of which carried at cost	*-*	*-*
of which designated at fair value - level 1	*-*	*-*
of which designated at fair value - level 2	*-*	*-*
of which designated at fair value - level 3	*-*	*-*
D. Liabilities included in disposal groups		
D.1 Financial liabilities at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total (D)	**-**	**-**
of which carried at cost	*-*	*-*
of which designated at fair value - level 1	*-*	*-*
of which designated at fair value - level 2	*-*	*-*
of which designated at fair value - level 3	*-*	*-*

(Amounts in € thousand)

12.2 Other information

No information to report.

Section 13 - Other assets - Item 130

13.1 Other assets: breakdown

	Total 06.30.2018	Total 12.31.2017
Accrued income other than income to be capitalised on the related financial assets	3,364	1,982
Items in transit not allocated to relevant accounts	16	18
Items awaiting settlement:		
- notes, cheques and other documents	11,736	4,498
Items in processing:		
- other items in processing	17	99
Current receivables not associated with the provision of financial services	2,059	4,721
Definitive items not recognised under other items:		
- securities and coupons to be settled	8,635	4,617
- fees to be charged to customers	6,660	4,985
- other transactions	17,246	16,017
Tax items other than those included in item 110:		
- tax advances	146,730	242,539
- tax credit	6,815	6,875
- tax advances on employee severance indemnities	-	28
Receivables due to disputed items not deriving from lending	119	119
Prepayments	31,201	22,143
Improvement and incremental expenses incurred on leasehold assets	6,456	6,774
Total	**241,054**	**315,415**

(Amounts in € thousand)

LIABILITIES

Section 1 - Financial liabilities at amortised cost - Item 10

1.1 Financial liabilities at amortised cost: product breakdown deposits from banks

Transaction type/Amount	Total 06.30.2018				Total 12.31.2017			
	VB	Fair value			VB	Fair value		
		L1	L2	L3		L1	L2	L3
1. Deposits from central banks	-	X	X	X				
2. Deposits from banks	**907,794**	X	X	X				
2.1 Current accounts and demand deposits	86,785	X	X	X				
2.2 Time deposits	-	X	X	X				
2.3 Loans	820,515	X	X	X				
2.3.1 Repos	820,515	X	X	X				
2.3.2 Other	-	X	X	X				
2.4 Liabilities in respect of commitments to repurchase treasury shares	-	X	X	X				
2.5 Other liabilities	494	X	X	X				
Total	**907,794**	**-**	**-**	**907,794**				

(Amounts in € thousand)

Key:

VB = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

1.2 Financial liabilities at amortised cost: product breakdown deposits from customers

Transaction type/Amount	Total 06.30.2018				Total 12.31.2017			
	VB	Fair value			VB	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	20,960,483	X	X	X				
2. Time deposits	5,752	X	X	X				
3. Loans	123,058	X	X	X				
3.1 Repos	123,058	X	X	X				
3.2 Other	-	X	X	X				
4. Liabilities in respect of commitments to repurchase treasury shares	-	X	X	X				
5. Other liabilities	107,360	X	X	X				
Total	**21,196,653**	**-**	**5,792**	**21,190,949**				

(Amounts in € thousand)

Key:

VB = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

1.3 Financial liabilities at amortised cost: product breakdown of debt securities in issue

No data to report.

Deposits from banks (ex IAS Item 10)

Deposits from banks: product breakdown

Transaction type/Components of the group	Total 06.30.2018	Total 12.31.2017
1. Deposits from central banks		-
2. Deposits from banks		**926,001**
2.1 Current accounts and demand deposits		42,756
2.2 Time deposits		-
2.3 Loans		868,651
2.3.1 Repos		868,651
2.3.2 Other		-
2.4 Liabilities in respect of commitments to repurchase treasury shares		-
2.5 Other liabilities		14,594
Total		**926,001**
Fair value - level 1		**-**
Fair value - level 2		**-**
Fair value - level 3		***926,001***
Total fair value		**926,001**

(Amounts in € thousand)

Deposits from customers (ex IAS Item 20)

Deposits from customers: product breakdown

Transaction type/Components of the group	Total 06.30.2018	Total 12.31.2017
1. Current accounts and demand deposits		19,935,285
2. Time deposits		9,631
3. Loans		146,410
3.1 Repos		146,410
3.2 Other		-
4. Liabilities in respect of commitments to repurchase treasury shares		-
5. Other liabilities		113,710
Total		**20,205,036**
Fair value - level 1		***-***
Fair value - level 2		***9,622***
Fair value - level 3		***20,195,477***
Total fair value		**20,205,099**

(Amounts in € thousand)

Section 2 - Financial liabilities held for trading - Item 20

2.1 Financial liabilities held for trading: product breakdown

Transaction type/Amount	Total 06.30.2018					Total 12.31.2017				
	NA	Fair value			Fair value*	NA	Fair value			Fair value*
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Deposits from banks	-	-	-	-	-					
2. Deposits from customers	576	351	-	-	351					
3. Debt securities	-	-	-	-	X					
3.1 Bonds	-	-	-	-	X					
3.1.1 Structured	-	-	-	-	X					
3.1.2 Other bonds	-	-	-	-	X					
3.2 Other securities	-	-	-	-	X					
3.2.1 Structured	-	-	-	-	X					
3.2.2 Others	-	-	-	-	X					
Total A	**576**	**351**	**-**	**-**	**351**					
B. Derivatives										
1. Financial derivatives	X	3,676	541	-	X					
1.1 Trading derivatives	X	3,676	541	-	X					
1.2 Related to the fair value option	X	-	-	-	X					
1.3 Other	X	-	-	-	X					
2. Credit derivatives	X	-	-	-	X					
2.1 Trading derivatives	X	-	-	-	X					
2.2 Related to the fair value option	X	-	-	-	X					
2.3 Other	X	-	-	-	X					
Total B	**X**	**3,676**	**541**	**-**	**X**					
Total (A+B)	**X**	**4,027**	**541**	**-**	**X**					

(Amounts in € thousand)

Key:

NA = notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

FV* = Fair value calculated excluding the changes in value due to the change in the issuer's credit rating since the issue date

Financial derivatives refer to the negative valuation of CFD contracts on forex, indices, shares, interest rates, commodities and futures used for the operational hedging of CFDs on indices, interest rates and commodities. They amounted to €476 thousand (€565thousand as at December 31, 2017).

Sub-item B.1.1 Derivative instruments - Trading financial derivatives includes the negative valuations of spot contracts for securities that meets the definition of held for trading and currencies to be settled in times established by market practices ("regular way"). They amounted to €3,741 thousand (€1,670 thousand as at December 31, 2017).

Financial liabilities held for trading (ex IAS Item 40)

Financial liabilities held for trading: product breakdown

Transaction type/Components of the group	Total 06.30.2018					Total 12.31.2017				
	NA	FV			FV*	NA	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Deposits from banks						-	-	-	-	-
2. Deposits from customers						578	382	-	-	382
3. Debt securities						-	-	-	-	X
3.1 Bonds						-	-	-	-	X
3.1.1 Structured						-	-	-	-	X
3.1.2 Other bonds						-	-	-	-	X
3.2 Other securities						-	-	-	-	X
3.2.1 Structured						-	-	-	-	X
3.2.2 Others						-	-	-	-	X
Total A						**578**	**382**	**-**	**-**	**382**
B. Derivatives										
1. Financial derivatives						X	1,650	579	6	X
1.1 Trading derivatives						X	1,650	579	6	X
1.2 Related to the fair value option						X	-	-	-	X
1.3 Other						X	-	-	-	X
2. Credit derivatives						X	-	-	-	X
2.1 Trading derivatives						X	-	-	-	X
2.2 Related to the fair value option						X	-	-	-	X
2.3 Other						X	-	-	-	X
Total B						**X**	**1,650**	**579**	**6**	**X**
Total (A+B)						**X**	**2,032**	**579**	**6**	**X**

(Amounts in € thousand)

Key

FV = fair value

FV* = Fair value calculated excluding the changes in value due to the change in the issuer's credit rating since the issue date

NA = Nominal or Notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

Section 3 - Financial liabilities at fair value through profit or loss - Item 30

No data to report.

Section 4 - Hedging derivatives - Item 40

4.1 Hedging derivatives: breakdown by type of hedge and by level

	NA 06.30.2018	Fair value 06.30.2018			NA 12.31.2017	Fair value 12.31.2017		
		L1	L2	L3		L1	L2	L3
A. Financial derivatives	**717,014**	**-**	**3,403**	**-**	**1,085,339**	**-**	**12,694**	**-**
1) Fair value	717,014	-	3,403	-	1,085,339	-	12,694	-
2) Cash flows	-	-	-	-	-	-	-	-
3) Net investment in foreign subsidiaries	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**717,014**	**-**	**3,403**	**-**	**1,085,339**	**-**	**12,694**	**-**

(Amounts in € thousand)

Key:

NA = notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

The hedging derivatives as at December 31, 2017 included the negative fair value of derivatives entered into with UniCredit S.p.A. for €9,320 thousand.

Section 5 – Changes in fair value of portfolio hedged financial liabilities - Item 50

5.1 - Adjustments to the value of hedged financial liabilities

Adjustments to the value of hedged liabilities/Components of the group	Total 06.30.2018	Total 12.31.2017
1. Positive changes to financial liabilities	285	-
2. Negative changes to financial liabilities	(1,314)	(3,772)
Total	**(1,029)**	**(3,772)**

(Amounts in € thousand)

Section 6 – Tax liabilities – Item 60

See section 11 of assets.

Section 7 – Liabilities included in disposal groups classified as held for sale – Item 70

See section 12 of assets.

Section 8 – Other liabilities – Item 80

8.1 Other liabilities: breakdown

	Total 06.30.2018	Total 12.31.2017
Accrued expenses other than those to be capitalised for the financial liabilities concerned	184	148
Other liabilities relative to employees	14,044	11,378
Other liabilities relative to other personnel	1	-
Other liabilities due to directors and statutory auditors	202	148
Sums available to be paid to customers	4,830	4,650
Items in processing:		
- incoming bank transfers	1,087	423
- other items in processing	40	57
Items awaiting settlement:		
- outgoing bank transfers	60,043	75,288
- POS and ATM cards	6,138	16,581
Current payables not related to the provision of financial services	21,501	23,690
Definitive items not recognised under other items:		
- securities and coupons to be settled	19,901	30,351
- payment authorisations	80,551	19,068
- other items	8,077	12,373
Payables for share-based payments or shares of the Parent Company UniCredit	339	938
Illiquid items for portfolio transactions	9,601	18,097
Tax items other than those included in item 60:		
- sums withheld from third parties as withholding agent	16,541	22,173
- other	50,216	94,342
Prepayments	2,357	1,737
Social security contributions payable	5,570	6,845
Total	**301,223**	**338,287**

(Amounts in € thousand)

On December 22, 2017 the 5th update of Circular no. 262 was enacted: "The bank balance sheet: format and drafting rules" which provided that provisions for off-balance sheet exposures must be shown in liability item 100. "Provisions for risks and charges" instead of the previous liability item 100. "Other liabilities" provided for in the 4th update of Circular 262. It should be noted that as of December 31, 2017, any provisions for off-balance sheet exposures had been recorded.

Section 9 - Provisions for employee severance pay - Item 90

The balance of the item "Provision for employee severance pay" at June 30, 2018 amounted to €4,922 thousand (€4,999 thousand at December 31, 2017).

The following table shows the main actuarial assumptions used to remeasure the liability.

Description of the main actuarial assumptions	06.30.2018	12.31.2017
Discount rate	1.50%	1.45%
Expected inflation rate	1.45%	1.40%

The re-measurement at June 30, 2018 of the Provision for employee severance pay determined a positive change in the valuation reserve relating to actuarial gains / losses on defined benefit plans of €9 thousand, net of taxes.
For more information and details on the sensitivities in terms of amount, timing and uncertainty of the cash flows see the Annual Report as at December 31, 2017.

Section 10 - Provisions for risks and charges - Item 100

10.1 - Provisions for risks and charges: breakdown

Item/Components	Total 06.30.2018	Total 12.31.2017
1. Provisions for credit risk of commitments and financial guarantees given	62	
2. Provisions for other commitments and other guarantees given	-	
3. Provisions for retirement payments and similar obligations	-	-
4. Other provisions for risks and charges	111,726	112,414
4.1 legal and tax disputes	33,900	34,987
4.2 staff expenses	2,767	5,690
4.3 other	75,059	71,737
Total	**111,788**	**112,414**

(Amounts in € thousand)

On December 22, 2017 the 5th update of Circular no. 262 was enacted: "The bank balance sheet: format and drafting rules” which provided that provisions for off-balance sheet exposures must be shown in liability item 100. "Provisions for risks and charges" instead of the previous liability item 100. "Other liabilities" provided for in the 4th update of Circular 262. It should be noted that as of December 31, 2017, any provisions for off-balance sheet exposures had been recorded.

Item 4.1 “legal and tax disputes” mainly includes provisions made to cover complaints and disputes for damage to customers arising from the unlawful behaviour of the Bank's personal financial advisors, provisions relating to pending disputes with personal financial advisors (generally employment-related) and other ongoing court and out-of-court litigation with customers, in relation to normal banking activities, and other parties for €30,012 thousand (€31,056 thousand as at December 31, 2017). and provisions for tax disputes (penalties and interest) for €3,887 thousand (€3,931 thousand as at December 31, 2017). This provision includes the court costs borne by the Bank in the event of an adverse conclusion of the dispute plus the estimated expenses to be paid to lawyers, technical advisors and/or experts who assist the Bank, to the extent that it is believed that they will not be reimbursed by the counterparties.

Item 4.2 "staff expenses" includes, mainly, the provisions made for the variable remuneration to be paid to employees in subsequent years, which have an uncertain due date and/or amount.

Item 4.3 “Other” includes the Supplementary customer indemnity provision, of €66,756 thousand (€64,983 thousand as at December 31, 2017), the Provision for contractual payments, of €2,270 thousand (€2,311 thousand as at December 31, 2017) and other provisions made for risks related to the Bank's business and operations, of €6,034 thousand (€4,443 thousand as at December 31, 2017).

10.3 Provisions for risks and charges for commitments and financial guarantees given

	Provisions for risks and charges for commitments and guarantees given			
	First stage	Second stage	Third stage	Total
Commitments	41	-	-	41
Financial guarantees given	21	-	-	21
Total	**62**	**-**	**-**	**62**

(Amounts in € thousand)

10.4 Provisions for other commitments and other guarantees given

No data to report.

10.5 Provisions for retirement payments and similar obligations

No data to report.

10.6 Provisions for risks and charges - other provisions

	Total 06.30.2018	Total 12.31.2017
Legal and fiscal disputes	**33,899**	**34,987**
- Pending cases	25,090	25,525
- Complaints	4,922	5,531
- Tax disputes	3,887	3,931
Staff expenses	**2,767**	**5,690**
Other	**75,060**	**71,737**
- Supplementary customer indemnity provision	66,756	64,983
- Provision for contractual payments and payments under non-competition agreements	2,270	2,311
- Other provisions	6,034	4,443
Total provisions for risks and charges	**111,726**	**112,414**

(Amounts in € thousand)

Provisions for risks and charges	Total 12.31.2017	Uses	Transfers and other changes	Actuarial gains (losses) IAS 19R *	Net provisions **	Total 06.30.2018
Legal and fiscal disputes	**34,987**	**(1,724)**	**-**	**-**	**636**	**33,899**
- Pending cases	25,525	(833)	208	-	190	25,090
- Complaints	5,531	(847)	(208)	-	446	4,922
- Tax disputes	3,931	(44)	-	-	-	3,887
Staff expenses	**5,690**	**(4,471)**	**(437)**	**-**	**1,985**	**2,767**
Other	**71,737**	**(3,146)**	**-**	**(364)**	**6,833**	**75,060**
- Supplementary customer indemnity provision	64,983	(682)	-	(357)	2,812	66,756
- Contractual payments and payments under non-competition agreements	2,311	(60)	-	(7)	26	2,270
- Other provisions	4,443	(2,404)	-	-	3,995	6,034
Total provisions for risks and charges	**112,414**	**(9,341)**	**(437)**	**(364)**	**9,454**	**111,726**

(Amounts in € thousand)

* The item " IAS 19R actuarial gains (losses)" includes the actuarial gains (losses) recognised in the item "Revaluation reserves" in application of IAS 19R.

** The item "Net provisions" includes the costs recognised in their own income statement item to better reflect their nature (e.g. "Staff expenses", "Administrative costs" and "Interest expenses and similar charges").

The following table shows the main actuarial assumptions used to measure the liability for the supplementary customer indemnity provision and the provision for contractual payments.

Description of the main actuarial assumptions	06.30.2018	12.31.2017
Discount rate	1.50%	1.45%
Salary increase rate	2.60%	2.60%

The re-measurement at June 30, 2018 of the supplementary customer indemnity provision and of the provision for contractual payments, determined a positive change in the valuation reserve relating to actuarial gains / losses on defined benefit plans of respectively €241 thousand and €5 thousand, net of taxes.
For more information and details on the sensitivities in terms of amount, timing and uncertainty of the cash flows see the Annual Report as at December 31, 2017.

The **Provision for legal disputes** includes provisions made to cover complaints and disputes for damage to customers arising from the unlawful behaviour of the Bank's personal financial advisors, provisions relating to pending disputes with personal financial advisors (generally employment-related) and other ongoing court and out-of-court litigation with customers, in relation to normal banking activities, and other parties. This provision includes the costs of proceedings borne by the Bank in the event of an adverse conclusion of the dispute plus the estimated expenses to be paid to lawyers, technical advisors and/or experts who assist the Bank, to the extent that it is believed that they will not be reimbursed by the counterparties.

The **Supplementary customer indemnity provision** is accrued to cover the amount of severance indemnity to be paid to the PFA network pursuant to art. 1751 of the Italian Civil Code, in the event of termination of the contract for reasons not attributable to the advisor, such as, for example, when reaching retirement age.
The amount of the obligation at the end of the period was assessed with the aid of an independent actuary.

The **Provision for staff expenses** includes provisions made in relation to the variable remuneration to be paid to employees in subsequent years which have an uncertain due date and amount.

The **Provision for contractual payments and payments under non-competition agreements** is related to a limited number of personal financial advisors; these payments are contractually provided. More specifically, the non-competition agreement is an extension of the loyalty obligation at the end of the employment contract which protects the Bank from competition from former personal financial advisors; contractual payments are a special indemnity that the Bank agrees to pay to personal financial advisors, who opted to transfer the rights and obligations arising from their contract with the Bank to third parties, where these advisors continue to keep an ethical and professional conduct with the Bank after termination of employment, with specific regard to the customer portfolio. The amount of the obligation at the end of the period relating to contractual payments was assessed with the aid of an independent actuary.

The **Provision for tax disputes** is allocated to cover tax demands received from the Italian Revenue Agency following tax audits carried out on the Bank over the years, in relation to which the Bank considers it has calculated the tax correctly and legitimately and has therefore submitted an appeal at various levels of proceedings.
The above provisions for risks and charges include the allocations for fines and interest for the additional tax being contested and requested by the Tax Authorities through tax bills or payment notices paid and for the estimated amount of legal expenses to be incurred in the various proceedings.
For more details, see Part E – Information on risks and hedging policies – Section 1.5 – Operational risk – paragraph "Risks arising from tax disputes and audits" of these Notes to the Accounts.

The **Other Provisions** are mainly allocated to cover the risks related to the business and operations of the Bank. The provision specifically includes provisions for marketing and customer loyalty campaigns, incentive plans for the personal financial advisors and the provision for training events for the personal financial advisors.

Section 11 – Technical provisions – item 110

No data to report.

Section 12 - Redeemable shares - Item 130

No data to report.

Section 13 - Group Shareholders' equity - Items 120, 130, 140, 150, 160, 170 and 180

13.1 "Share capital" and "Treasury shares": breakdown

As at June 30, 2018, share capital came to €200,773 thousand, comprising 608,404,395 ordinary shares with a par value of €0.33 each.

As at June 30, 2018, the Bank held 88,041 treasury shares, corresponding to 0.01% of the share capital, for an amount of €623 thousand. In the first half of 2018 n. 27,644 shares were purchased in relation to the "2017 PFA Incentive System" for personal financial advisors identified as "Key personnel" in accordance with what was authorised by the Fineco Ordinary Shareholders' Meeting on April 11, 2017.
The Bank and its subsidiary do not hold shares of its Parent Company, even through other companies or third parties.

On February 6, 2018, in view of the favourable opinion provided by the Remuneration Committee in its meeting of February 5, 2018, the Board of Directors of FinecoBank approved execution of the following incentive/loyalty systems:

- 2014-2017 Top Management Multi-Year Plan for employees. In particular, we approved the allotment of 494,493 free ordinary shares to the beneficiaries of the second tranche of the Plan, assigned in 2015, and consequently a bonus issue for a total amount of €163,182.69 with immediate effect;
- 2014, 2015, 2016 and 2017 incentive systems for employees; In particular, we approved the allotment of 196,557 free ordinary shares to the beneficiaries of the second equity tranche of the 2014 Incentive System and

of the first tranche of the 2015 Incentive System, and consequently a bonus issue for a total amount of €64,863.81 with effect from 30 March 2018.

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

	Total 06.30.2018	Total 12.31.2017
Share capital	200,773	200,545
Share premium reserve	1,934	1,934
Reserves	361,897	323,932
- Legal reserve	40,155	40,109
- Extraordinary reserve	289,459	251,367
- Treasury shares reserve	623	365
- Other reserves	31,660	32,091
(Treasury shares)	(623)	(365)
Revaluation reserves	(14,997)	(8,340)
Equity instruments	200,000	-
Net Profit (Loss) carried forward	(163)	-
Net Profit (Loss) for the period	125,179	214,120
Total	**874,000**	**731,826**

(Amounts in € thousand)

13.2 Share capital - Number of shares of the Parent Company: annual changes

Items/Type	Ordinary	Other
A. Shares outstanding at the beginning of the year		
- fully paid	607,713,345	-
- not fully paid	-	-
A.1 Treasury shares (-)	(60,397)	-
A.2 Shares outstanding: opening balance	**607,652,948**	**-**
B. Increases		
B.1 New issues		
- against payment:		
- business combinations	-	-
- bonds converted	-	-
- warrants exercised	-	-
- other	-	-
- free		
- to employees	691,050	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases		
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	(27,644)	-
C.3 Business transfers	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balance	**608,316,354**	**-**
D.1 Treasury shares (+)	88,041	-
D.2 Shares outstanding at the end of the year	-	-
- fully paid	608,404,395	-
- not fully paid	-	-

13.3 Share capital: other information

The shares are not subject to any right, privilege or constraint; there are no shares reserved for issue under option and sales contracts.

13.4 Reserves from allocation of profit from previous years: other information

The reserves from profits consist of the:

- Legal reserve, amounting to €40,155 thousand;

- Extraordinary reserve, amounting to €289,459 thousand;

- Reserve for treasury shares held, amounting to €623 thousand.

Shareholders' equity also includes the negative reserve recognized following the introduction of IFRS 9, amounting to €-4,868 thousand, and the loss carried forward, amounting to €-163 thousand, relating to the result as at December 31, 2017 of Fineco AM which will close its first financial year on December 31, 2018.

The FinecoBank Shareholders' Meeting of April 11, 2018 approved the allocation of profit for the year 2017, amounting to €214,284 thousand, as follows:

- €46 thousand to the Legal reserve, corresponding to 0.02% of the profit for the year, having reached the limit of a fifth of the share capital;
- €40,843 thousand to the extraordinary reserve;
- to the 608,404,395 ordinary shares with a par value of €0.33, a unit dividend of €0.285 for a total amount of €173,395 thousand.

The share of dividends not distributed to treasury shares held by the bank on the record date, equal to €25 thousand, was allocated to the Extraordinary Reserve.

In the first half of 2018, following the purchase of treasury shares in relation to the "2017 PFA incentive system" for Financial Advisors identified as "Key personnel", the treasury stock reserve increased by €258 thousand with simultaneous reduction of the Extraordinary Reserve. In addition, the Extraordinary Reserve was used for an amount of €2,289 thousand, net of taxes, to pay the coupon and the transaction costs directly attributable to the issue of the Additional Tier 1 Perp Non Call June 2023 bond described below.

13.5 Equity instruments: breakdown and annual changes

On January 31, 2018, FinecoBank issued an Additional Tier 1 Perp Non Call June 2023 notes issue (5.5 years, Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes). The issue of the financial instrument was authorized by the Board of Directors of FinecoBank on 23 January 2018. The financial instrument is a perpetual private placement[17], issued for a total of €200,000 thousand and entirely subscribed by UniCredit S.p.A.. The coupon for the first 5.5 years has been fixed at 4.82%. The decision to carry out an intra-group issuance had many advantages: effective cost savings relating, for example, to the underwriting syndicate, and shorter issue times so as not to miss the right moment, maximising the benefits of the transaction.

In view of the particularly favourable market conditions and spread levels, the Bank decided to issue an Additional Tier 1 in order to improve the diversification of its investment portfolio.

13.6 Other information

No data to report.

[17] Unrated and unlisted

Section 14 – Minority interests – Item 190

14.1 Breakdown of Item 190 "Minority interests"

No data to report.

14.2 Equity instruments: breakdown and annual changes

No data to report.

Other information

1 Commitments and financial guarantees given

	Nominal amount of commitments and financial guarantees given			Total 06.30.2018	Total 12.31.2017
	First stage	Second stage	Third stage		
1. Commitments	**947,766**	**505**	**195**	**948,466**	**2,904,788**
a) Central Banks	-	-	-	-	-
b) Governments	-	-	-	-	-
c) Banks	-	-	-	-	2,125,000
d) Other financial companies	791	-	2	793	884
e) Non-financial companies	246	-	-	246	311
f) Households	946,729	505	193	947,427	778,593
2. Financial guarantees given	**256,844**	**-**	**-**	**256,844**	**256,732**
a) Central Banks	-	-	-	-	-
b) Governments	-	-	-	-	-
c) Banks	256,070	-	-	256,070	256,065
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	-	-	-	-	-
f) Households	774	-	-	774	667

(Amounts in € thousand)

The commitments to disburse funds mainly include the margins available on credit lines granted to customers and, to a lesser extent, commitments to disburse reverse repos.

Financial guarantees given to banks include 5 guarantees issued in 2012 on request of UniCredit, with indefinite duration, for a total amount of €256,065 thousand.

The "Liquidity Framework Agreement", entered into with the Parent Company in previous years, expired in the first half of 2018 and was not renewed.

2 Other commitments and other guarantees given

	Nominal amount	
	Total 06.30.2018	**Total 12.31.2017**
1. Other guarantees given	**-**	**-**
of which: impaired credit exposure	-	
a) Central Banks	-	-
b) Governments	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
2. Other commitments	**285,702**	**165,987**
of which: impaired credit exposure	-	
a) Central Banks	-	-
b) Governments	-	-
c) Banks	1,199	790
d) Other financial companies	33,583	26,774
e) Non-financial companies	610	804
f) Households	250,310	137,619

(Amounts in € thousand)

The Other commitments exclusively refer to spot contracts for the purchase and sale of securities to be settled in times established by market practices ("regular way").

3. Assets given as collateral for own liabilities and commitments

Portfolios	Amount 06.30.2018	Amount 12.31.2017
1. Financial assets at fair value through profit and loss	-	
2. Financial assets at fair value through other comprehensive income	204,579	
3. Financial assets at amortised cost	1,476,886	
4. Property, plant and equipment	-	
of which: Property, plant and equipment material assets that constitute inventories	-	

(Amounts in € thousand)

Assets given as collateral for own liabilities and commitments shown in the above table refer to:

- government securities used to enter into repos with the obligation for the buyer to resell the assets covered by the transaction upon expiration of said transaction. The securities are given as collateral for the entire duration of the transaction;
- government securities given as collateral for bankers' drafts, as guarantee for transactions in foreign markets and/or as guarantee for transactions in derivatives. Securities are used as collateral until the Bank decides to stop the transactions for which the collateral or guarantees are granted;
- debt securities issued by UniCredit S.p.A. given as collateral in securities lending transactions carried out with customers. The securities are given as collateral for the entire duration of the transaction.
- government securities used to enter into repos with the obligation for the buyer to resell the assets covered by the transaction upon expiration of said transaction, given as collateral for bankers' drafts, as guarantee for transactions in foreign markets and as guarantee for transactions in derivatives.

As at December 31, 2017, securities were used as collateral for banker’s drafts, as guarantee for transactions on foreign markets and as guarantee for derivative contract transactions; more specifically, the Bank used government bonds classified as "Available-for-sale financial assets", for a book value of €131,101 thousand.
With regard to securities lending transactions with customers, UniCredit securities were committed, belonging to the *“*Loans and receivables" category*”,* for a carrying amount of €890,325 thousand.

4. Information on operating leases

With regard to outstanding non-cancellable leases, the future payments amount to:

- €971 thousand up to twelve months;
- €31 thousand from one to five years.

There are no sub-leases in place.

9. Securities lending transactions

The Bank conducts securities lending transactions on a continuous and systematic basis, with the objective of optimising the returns of customer portfolios, satisfying the requests of institutional counterparties and obtaining a profit for the Bank. The Bank operates as the borrower, borrowing the securities of its customers and using them in repos and securities lending transactions guaranteed by cash amounts with retail and institutional customers interested in the temporary ownership of the securities.

Against securities lending transactions guaranteed by other securities, the Bank issued as collateral UniCredit S.p.A. bonds, recorded in"Financial asset at amortised cost", held in a dedicated dossier at the custodian bank for an amount higher than that of the securities borrowed by the customers, with the aim of providing a collective guarantee.

The face value of the underlying securities not recognised as assets in the accounts totalled €787,760 thousand, while their fair value was €893,171 thousand, broken down as follows:

	Type of securities (nominal value June 30, 2018)		
Securities received on loan from:	**Sold**	**Sold in repos**	**Other purposes**
Banks	-	-	-
Financial companies	-	103	-
Insurance companies	-	-	-
Non-financial companies	-	3,042	3
Other entities	576	782,203	1,833
Total nominal value	**576**	**785,348**	**1,836**

(Amounts in € thousand)

	Type of securities (fair value June 30, 2018)		
Securities received on loan from:	**Sold**	**Sold in repos**	**Other purposes**
Banks	-	-	-
Financial companies	-	166	-
Insurance companies	-	-	-
Non-financial companies	-	3,347	6
Other entities	351	882,047	7,254
Total fair value	**351**	**885,560**	**7,260**

(Amounts in € thousand)

PART C - CONSOLIDATED INCOME STATEMENT

Section 1 - Interest - Items 10 and 20

1.1 Interest income and similar revenues: breakdown

Items/Type	Debt securities	Loans	Other transaction	Total 06.30.2018	Total 06.30.2017
1. Financial assets at fair value through profit and loss	**1**	**-**	**-**	**1**	
1.1 Financial assets held for trading	-	-	-	**-**	
1.2 Financial assets designated at fair value	-	-	-	**-**	
1.3 Other financial assets required to be designated at fair value	1	-	-	**1**	
2. Financial assets at fair value through other comprehensive income	**2,211**	**-**	**X**	**2,211**	
3. Financial assets at amortised cost	**108,826**	**32,337**	**-**	**141,163**	
3.1 loans and receivables with banks	82,195	5,979	X	**88,174**	
3.2 loans and receivables with customers	26,631	26,358	X	**52,989**	
4. Hedging derivatives	**X**	**X**	**(500)**	**(500)**	
5. Other assets	**X**	**X**	**7**	**7**	
6. Financial liabilities	**X**	**X**	**X**	**2,057**	
Total	**111,038**	**32,337**	**(493)**	**144,939**	
of which: interest income on impaired financial assetes	-	99	-	99	

(Amounts in € thousand)

1.3 Interest expenses and similar charges: breakdown

Items/Type	Payables	Debt securities in issue	Other transaction	Total 06.30.2018	Total 06.30.2017
1. Financial liabilities at amortised cost	(5,786)	-	-	**(5,786)**	
1.1 Deposits from central banks	-	X	X	**-**	
1.2 Deposits from banks	(350)	X	X	**(350)**	
1.3 Deposits from customers	(5,436)	X	X	**(5,436)**	
1.4 Debt securities in issue	X	-	X	**-**	
2. Financial liabilities held for trading	-	-	-	**-**	
3. Financial liabilities designated at fair value	-	-	-	**-**	
4. Other liabilities and provisions	X	X	-	**-**	
5. Hedging derivatives	X	X	-	**-**	
6. Financial assets	X	X	X	**(1,507)**	
Total	**(5,786)**	**-**	**-**	**(7,293)**	

(Amounts in € thousand)

Interest - (ex IAS 39 Items 10 and 20)

Interest income and similar revenues: breakdown

Items/Type	Debt securities	Loans	Other transactions	Total 06.30.2017
1. Financial assets held for trading	1	-	-	1
2. Available-for-sale financial assets	4,640	-	-	4,640
3. Held-to-maturity investments	7,572	-	-	7,572
4. Loans and receivables with banks	94,570	1,372	-	95,942
5. Loans and receivables with customers	-	17,948	-	17,948
6. Financial assets designated at fair value through profit or loss	-	-	-	-
7. Hedging derivatives	-	-	4,548	4,548
8. Other assets	-	-	4	4
Total	**106,783**	**19,320**	**4,552**	**130,655**

(Amounts in € thousand)

Interest expenses and similar charges: breakdown

Items/Type	Payables	Securities	Other transactions	Total 06.30.2017
1. Deposits from central banks	-	-	-	-
2. Deposits from banks	1,524	-	-	1,524
3. Deposits from customers	(4,991)	-	-	(4,991)
4. Debt securities in issue	-	-	-	-
5. Financial liabilities held for trading	-	-	-	-
6. Financial liabilities at fair value through profit or loss	-	-	-	-
7. Other liabilities and provisions	-	-	-	-
8. Hedging derivatives	-	-	-	-
Total	**(3,467)**	**-**	**-**	**(3,467)**

(Amounts in € thousand)

Section 2 – Fee and commission - Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amount	Total 06.30.2018	Total 06.30.2017
(a) guarantees given	34	34
(b) credit derivatives	-	-
(c) management, brokerage and consulting services:	258,880	238,582
1. securities trading	39,703	37,773
2. currency trading	-	-
3. segregated accounts	-	-
3.1. individual	-	-
3.2. collective	-	-
4. custody and administration of securities	175	403
5. custodian bank	-	-
6. placement of securities	5,836	7,793
7. reception and transmission of orders	6,894	6,011
8. advisory services	24,785	20,558
8.1. related to investments	24,785	20,558
8.2. related to financial structure	-	-
9. distribution of third-party services:	181,487	166,044
9.1. segregated accounts	145,638	136,033
9.1.1 individual	7	14
9.1.2 collective	145,631	136,019
of which maintenance commissions for UCIT units	143,982	134,652
9.2. insurance products	35,849	30,010
9.3. other products	-	1
(d) collection and payment services	14,445	12,671
(e) securitisation servicing	-	-
(f) factoring	-	-
(g) tax collection services	-	-
(h) management of multilateral trading systems	-	-
(i) management of current accounts	2,331	2,313
(j) other services	5,898	2,716
(k) securities lending transactions	2,900	2,865
Total	**284,488**	**259,181**

(Amounts in € thousand)

2.2 Fee and commission expense: breakdown

Service/Amount	Total 06.30.2018	Total 06.30.2017
(a) guarantees received	-	-
(b) credit derivatives	-	-
(c) management and brokerage services:	(127,057)	(117,911)
1. securities trading	(3,808)	(3,830)
2. currency trading	-	-
3. segregated accounts:	-	-
3.1 own	-	-
3.2 delegated to third parties	-	-
4. custody and administration of securities	(2,439)	(2,223)
5. placement of financial instruments	-	-
6. cold-calling to offer securities, products and services	(120,810)	(111,858)
(d) collection and payment services	(10,288)	(10,537)
(e) other services	(189)	(116)
(f) securities lending transactions	(975)	(910)
Total	**(138,509)**	**(129,474)**

(Amounts in € thousand)

Item “c) management and brokerage services: 6. cold-calling to offer securities, products and services”, includes costs incurred by the Bank in relation to Equity Settled and Cash Settled plans assigned to personal financial advisors, that are respectively recorded against the item 150. “Reserves” of the net equity for an amount of €195 thousand (€313 thousand as at June 30, 2017) and the item 80. “Other liabilities” for an amount of €60 thousand (€77 thousand as at June 30, 2017).

Section 3 – Dividend income and similar revenue – Item 70

3.1 Dividend income and similar revenue: breakdown

Items/Income	Total 06.30.2018		Total 06.30.2017	
	Dividends	Income from UCITS units	Dividends	Income from UCITS units
A. Financial assets held for trading	32	-		
B. Other financial assets required to be designated at fair value	20	-		
C. Financial assets at fair value through other comprehensive income	-	-		
D. Equity investments	-	X		
Total	**52**	**-**		

(Amounts in € thousand)

Dividend income and similar revenue (ex IAS 39 Item 70)

Dividend income and similar revenue: breakdown

Items/Income	Total 06.30.2017	
	Dividends	Income from UCITS units
A. Financial assets held for trading	9	-
B. Available-for-sale financial assets	12	-
C. Financial assets designated at fair value through profit or loss	-	-
D. Equity investments	-	X
Total	**21**	**-**

(Amounts in € thousand)

Section 4 – Gains (losses) on financial assets and liabilities held for trading – Item 80

4.1 Gains (losses) on financial assets and liabilities held for trading: breakdown

As at June 30, 2018

Transaction/Income item	Unrealised gains (A)	Realised gains (B)	Unrealised losses (C)	Realised losses (D)	**Net profit (loss) [(A+B)-(C+D)]**
1. Financial assets held for trading	**11**	**64,226**	**(110)**	**(58,923)**	**5,204**
1.1 Debt securities	-	1,446	(1)	(1,281)	164
1.2 Equity instruments	11	61,660	(107)	(56,656)	4,908
1.3 UCITS units	-	1,120	(2)	(986)	132
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**3**	**461**	**-**	**(525)**	**(61)**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	3	461	-	(525)	(61)
Financial assets and liabilities: exchange differences	X	X	X	X	**2,711**
3. Derivatives	**6,926**	**38,599**	**(7,478)**	**(26,296)**	**18,125**
3.1 Financial derivatives:	6,926	38,599	(7,478)	(26,296)	18,125
- On debt securities and interest rates	232	1,026	(227)	(846)	185
- On equity securities and share indices	6,599	35,553	(7,249)	(24,374)	10,529
- On currencies and gold	X	X	X	X	6,374
- Other	95	2,020	(2)	(1,076)	1,037
3.2 Credit derivatives	-	-	-	-	-
of which: natural hedge related to the fair value option	X	X	X	X	-
Total	**6,940**	**103,286**	**(7,588)**	**(85,744)**	**25,979**

(Amounts in € thousand)

As at June 30, 2017 (ex IAS 39)

Transaction/Income item	Unrealised gains (A)	Realised gains (B)	Unrealised losses (C)	Realised losses (D)	**Net profit (loss) [(A+B)-(C+D)]**
1. Financial assets held for trading	**2**	**45,623**	**(79)**	**(41,113)**	**4,433**
1.1 Debt securities	-	1,854	-	(1,473)	381
1.2 Equity instruments	2	43,088	(30)	(39,092)	3,968
1.3 UCITS units	-	681	(49)	(548)	84
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**30**	**-**	**(3)**	**-**	**27**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	30	-	(3)	-	27
3. Other financial assets and liabilities: exchange differences	X	X	X	X	**3,646**
4. Derivatives	**6,264**	**28,860**	**(5,812)**	**(18,741)**	**17,892**
4.1 Financial derivatives:	6,264	28,860	(5,812)	(18,741)	17,892
- On debt securities and interest rates	125	837	(132)	(635)	195
- On equity securities and share indices	6,139	25,325	(5,680)	(16,881)	8,903
- On currencies and gold	X	X	X	X	7,321
- Other	-	2,698	-	(1,225)	1,473
4.2 Credit derivatives	-	-	-	-	-
Total	**6,296**	**74,483**	**(5,894)**	**(59,854)**	**25,998**

(Amounts in € thousand)

Section 5 – Fair value adjustments in hedge accounting – Item 90

5.1 Fair value adjustments in hedge accounting: breakdown

Income item/Amount	Total 06.30.2018	Total 06.30.2017
A. Gains on:		
A.1 Fair value hedging instruments	2,746	1,612
A.2 Hedged asset items (in fair value hedge relationship)	2,067	6,859
A.3 Hedged liability items (in fair value hedge relationship)	-	4,661
A.4 Cash-flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in currency	-	-
Total gains on hedging activities (A)	**4,813**	**13,132**
B. Losses on:		
B.1 Fair value hedging instruments	(2,000)	(11,538)
B.2 Hedged asset items (in fair value hedge relationship)	-	(1,608)
B.3 Hedged liability items (in fair value hedge relationship)	(2,743)	-
B.4 Cash-flow hedging derivatives	-	-
B.5 Assets and liabilities denominated in currency	-	-
Total losses on hedging activities (B)	**(4,743)**	**(13,146)**
C. Fair value adjustments in hedge accounting (A-B)	**70**	**(14)**
of which: net profit (loss) on net position	-	-

(Amounts in € thousand)

Section 6 – Gains (Losses) on disposals/repurchases – Item 100

6.1 Gains (Losses) on disposals/repurchases: breakdown

Items/Income items	Total 06.30.2018			Total 06.30.2017		
	Gains	Loss	Net profit (loss)	Gains	Loss	Net profit (loss)
Financial assets						
1. Financial assets at amortised cost	-	-	-			
1.1 Loans and receivables with banks	-	-	-			
1.2 Loans and receivables with customers	-	-	-			
2. Financial assets at fair value through other comprehensive income	134	-	134			
2.1 Debt securities	134	-	134			
2.2 Loans	-	-	-			
Total assets (A)	**134**	**-**	**134**			
Financial liabilities at amortised cost						
1. Deposits from banks	-	-	-			
2. Deposits from customers	-	-	-			
3. Debt securities in issue	-	-	-			
Total liabilities (B)	**-**	**-**	**-**			

(Amounts in € thousand)

Gains (Losses) on disposals/repurchases (ex IAS 39 Item 100)

Gains (Losses) on disposals/repurchases: breakdown

No data to report.

Section 7 – Gains (losses) on financial assets and liabilities measured at fair value through profit and loss – Item 110

7.1 Net change in value of other financial assets and liabilities measured at fair value through profit and loss: breakdown of financial assets and liabilities designated at fair value

No data to report.

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit and loss: breakdown of other financial assets required to be designated at fair value

As at June 30, 2018

Transaction/Income items	Unrealised gains (A)	Realised gains (B)	Unrealised losses (C)	Realised losses (D)	**Net profit (loss) [(A+B)-(C+D)]**
1. Financial assets	**1,333**	**6**	**(2)**	**(65)**	**1,272**
1.1 Debt securities	-	2	(1)	-	1
1.2 Equity instruments	1,333	4	(1)	-	1,336
1.3 UCITS units	-	-	-	(65)	(65)
1.4 Loans	-	-	-	-	-
2. Financial assets in currency: exchange differences	X	X	X	X	**130**
Total	**1,333**	**6**	**(2)**	**(65)**	**1,402**

(Amounts in € thousand)

Section 8 – Impairment losses - Item 130

8.1 Impairment losses on financial assets at amortised cost: breakdown

Transactions/Income items	**Impairment (1)**			**Write-backs (2)**		**Total 06.30.2018**	**Total 06.30.2017**
	First and second stage	Third stage: Write-off	Third stage: Other	First and second stage	Third stage		
A. Loans and receivables with banks	**(589)**	**-**	**-**	**7,855**	**-**	**7,266**	
- Loans	(430)	-	-	2,027	-	1,597	
- Debt securities	(159)	-	-	5,828	-	5,669	
of which: financial assetes purchased or originated credit impaired	-	-	-	-	-	-	
B. Loans and receivables with customers	**(3,856)**	**(48)**	**(2,308)**	**1,886**	**870**	**(3,456)**	
- Loans	(3,541)	(48)	(2,308)	1,885	870	(3,142)	
- Debt securities	(315)	-	-	1	-	(314)	
of which: financial assetes purchased or originated credit impaired	-	-	-	-	-	-	
Total	**(4,445)**	**(48)**	**(2,308)**	**9,741**	**870**	**3,810**	

(Amounts in € thousand)

8.2 Impairment losses on financial assets at fair value through other comprehensive income: breakdown

Transactions/Income items	**Impairment (1)**			**Write-backs (2)**		**Total 06.30.2018**	**Total 06.30.2017**
	First and second stage	Third stage: Write-off	Third stage: Other	First and second stage	Third stage		
A. Debt securities	(53)	-	-	-	-	(53)	
B. Loans	-	-	-	-	-	-	
- with customer	-	-	-	-	-	-	
- with banks	-	-	-	-	-	-	
of which: financial assetes purchased or originated credit impaired	-	-	-	-	-	-	
Total	**(53)**	**-**	**-**	**-**	**-**	**(53)**	

(Amounts in € thousand)

Impairment losses (ex IAS 39 Item 130)

Impairment losses on loans and receivables: breakdown

Transaction/Income item	Impairments (1)			Write-backs (2)				Total 06.30.17
	Specific		Portfolio	Specific		Portfolio		
	Write-offs	Other		A	B	A	B	
A. Loans and receivables with banks	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-
B. Loans and receivables with customers	(76)	(2,053)	(804)	109	627	-	655	(1,542)
Impaired related to purchase agreements	-	-		-	-	-		-
- Loans	-	-	X	-	-	-	X	-
- Debt securities	-	-	X	-	-	-	X	-
Other loans	(76)	(2,053)	(804)	109	627	-	655	(1,542)
- Loans	(76)	(2,053)	(804)	109	627	-	655	(1,542)
- Debt securities	-	-	-	-	-	-	-	-
C. Total	**(76)**	**(2,053)**	**(804)**	**109**	**627**	**-**	**655**	**(1,542)**

(Amounts in € thousand)

Key

A = From interest

B = Other write-backs

Impairment losses on available-for-sale financial assets: breakdown

No data to report.

Impairment losses on held-to-maturity investments: breakdown

No data to report.

Net value adjustments for the impairment of other financial assets: breakdown

Transaction/Income item	Impairments (1)			Write-backs (2)				Total 06.30.17
	Specific		Portfolio	Specific		Portfolio		
	Write-offs	Other		A	B	A	B	
A. Guarantees given	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	*1*	-	-	1
E. Total	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**1**

(Amounts in € thousand)

Key

A = From interest B = Other write-backs

Section 9 – Profit/loss from contract changes without cancellation – Item 140

No data to report.

Section 10 – Net premiums – Item 160

No data to report.

Section 11 – Balance of other net operating income and charges from insurance management – Item 170

No data to report.

Section 12 – Administrative costs – Item 190

12.1 Staff expenses: breakdown

Type of expense/Sector	Total 06.30.2018	Total 06.30.2017
1) Employees	(40,793)	(38,168)
a) wages and salaries	(27,320)	(25,575)
b) social security contributions	(7,327)	(6,907)
c) pension costs	(469)	(411)
d) severance pay	-	-
e) allocation to employee severance pay provision	(60)	(55)
f) provision for retirements and similar provisions:		
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:		
- defined contribution	(1,657)	(1,573)
- defined benefit	-	-
h) costs related to share-based payments	(1,918)	(1,323)
i) other employee benefits	(2,162)	(2,444)
l) recovery of expenses for employees seconded	120	120
2) Other staff	(63)	(158)
3) Directors and statutory auditors	(647)	(611)
4) Early retirement costs	-	-
Total	**(41,503)**	**(38,937)**

(Amounts in € thousand)

Item 1 h) Employees: costs related to share-based payments, includes costs incurred by the Bank in relation to payment agreements based on financial instruments issued by the Bank, that are recorded against the item 150. “Reserves” of the net equity for an amount of €1,898 thousand (€1,305 thousand as at June 30, 2017), and on financial instruments issued by UniCredit S.p.A., that are recorded against the item 80. “Other liabilities” for an amount of €20 thousand (€18 thousand as at June 30, 2017).

12.4 Other employee benefits

Type of expense/Amount	Total 06.30.2018	Total 06.30.2017
Leaving incentives	(4)	(13)
Medical plan	(516)	(990)
Luncheon vouchers	(474)	(465)
Other	(1,168)	(976)
Total	**(2,162)**	**(2,444)**

(Amounts in € thousand)

12.5 Other administrative expenses: breakdown

	Total 06.30.2018	Total 06.30.2017
1) INDIRECT TAXES AND DUTIES	**(51,040)**	**(49,278)**
2) MISCELLANEOUS COSTS AND EXPENSES		
A) Advertising expenses - Marketing and communication	**(9,083)**	**(10,899)**
Mass media communications	(6,368)	(8,705)
Marketing and promotions	(2,682)	(2,134)
Sponsorships	(11)	(29)
Conventions and internal communications	(22)	(31)
B) Expenses related to credit risk	**(881)**	**(939)**
Credit recovery expenses	(292)	(279)
Commercial information and company searches	(589)	(660)
C) Expenses related to personnel	**(15,200)**	**(13,636)**
Personnel training	(246)	(277)
Car rental and other staff expenses	(33)	(29)
Personal financial advisor expenses	(14,496)	(13,016)
Travel expenses	(362)	(279)
Premises rentals for personnel	(63)	(35)
D) ICT expenses	**(16,599)**	**(15,363)**
Lease of ICT equipment and software	(1,207)	(1,263)
Software expenses: lease and maintenance	(4,322)	(3,700)
ICT communication systems	(3,111)	(2,584)
ICT services: external personnel/outsourced services	(2,988)	(3,054)
Financial information providers	(4,971)	(4,762)
E) Consultancies and professional services	**(2,323)**	**(2,233)**
Consultancy on ordinary activities	(1,729)	(1,337)
Consultancy for one-off regulatory compliance projects	(10)	-
Consultancy for strategy, business development and organisational optimisation	(247)	(168)
Legal expenses	(24)	-
Legal disputes	(313)	(728)
F) Real estate expenses	**(10,020)**	**(10,086)**
Real estate services	(353)	(360)
Repair and maintenance of furniture, machinery, and equipment	(232)	(187)
Maintenance of premises	(884)	(896)
Premises rentals	(7,270)	(7,047)
Cleaning of premises	(282)	(285)
Utilities	(999)	(1,311)
G) Other functioning costs	**(20,661)**	**(19,706)**
Surveillance and security services	(202)	(207)
Postage and transport of documents	(1,819)	(1,636)
Administrative and logistic services	(9,734)	(9,322)
Insurance	(1,983)	(1,876)
Printing and stationery	(258)	(262)
Association dues and fees	(6,518)	(6,204)
Other administrative expenses	(147)	(199)
Total	**(125,807)**	**(122,140)**

(Amounts in € thousand)

Item “C) Expenses related to personnel - Personal financial advisor expenses“, includes costs, incurred by the Bank in relation to the plan “PFA 2015-2017” assigned to personal financial advisors, that are recorded against the item 150. “Reserves” of the net equity for an amount of €2,281 thousand. As at June 30, 2017 this item amounted to €2,873 thousand and included the costs incurred by the Bank in relation to the plan “PFA 2014”, whose vesting period ended on June 30, 2017.

Section 13 – Net provisions for risks and charges – Item 200

13.1 Net provisions for credit risk of commitments and financial guarantees given: breakdown

Transaction/Income item	Provisions		Reallocations		Total 06.30.2018	Total 06.30.2017
	First and second stage	Third stage	First and second stage	Third stage		
1. Commitments	(41)	-	429	-	388	
2. Financial guarantees given	-	-	-	-	-	
Total	**(41)**	**-**	**429**	**-**	**388**	

(Amounts in € thousand)

13.2 Net provisions for other commitments and other guarantees given: breakdown

No data to report.

13.3 Net provisions for risks and charges: breakdown

	Total 06.30.2018			Total 06.30.2017		
	Provisions	Reallocations	Total	Provisions	Reallocations	Total
Legal and fiscal disputes	(1,657)	1,021	(636)	(3,167)	2,538	(629)
Supplementary customer indemnity provision	(2,812)	-	(2,812)	(2,504)	-	(2,504)
Other provisions for risks and charges	(251)	-	(251)	(25)	8	(17)
Total	**(4,720)**	**1,021**	**(3,699)**	**(5,696)**	**2,546**	**(3,150)**

(Amounts in € thousand)

Section 14 – Net impairment/write-backs on property, plant and equipment – Item 210

14.1 Impairment/write-backs on property, plant and equipment: breakdown

Assets/Income items	Depreciation (a)	Write-downs (b)	Write-backs (c)	**Net profit (loss) 06.30.2018 (a+b-c)**	**Net profit (loss) 06.30.2017**
A. Property, plant and equipment					
A.1 Owned	(2,354)	(45)	-	**(2,399)**	**(2,418)**
- Used in the business	(2,299)	(45)	-	**(2,344)**	**(2,362)**
- Held for investment	(55)	-	-	**(55)**	**(56)**
- Rimanenze	X	-	-	**-**	**-**
A.2 Held under finance lease	-	-	-	**-**	**-**
- Used in the business	-	-	-	**-**	**-**
- Held for investment	-	-	-	**-**	**-**
Total	**(2,354)**	**(45)**	**-**	**(2,399)**	**(2,418)**

(Amounts in € thousand)

Section 15 – Net impairment/write-backs on intangible assets – Item 220

15.1 Impairment on intangible assets: breakdown

Attività/Componente reddituale	Depreciation (a)	Write-downs (b)	Write-backs (c)	**Net profit (loss) 06.30.2018 (a+b-c)**	**Net profit (loss) 06.30.2017**
A. Intangible assets					
A.1 Owned	(2,437)	-	-	**(2,437)**	**(2,415)**
- Generated internally by the company	-	-	-	**-**	**-**
- Other	(2,437)	-	-	**(2,437)**	**(2,415)**
A.2 Held under finance lease					
Total	**(2,437)**	**-**	**-**	**(2,437)**	**(2,415)**

(Amounts in € thousand)

Section 16 – Other net operating income – Item 230

16.1 Other operating expenses: breakdown

	Total 06.30.2018	Total 06.30.2017
Refunds and allowances	(83)	(81)
Penalties, fines and unfavourable rulings	(201)	(1,909)
Improvements and incremental expenses incurred on leasehold properties	(1,112)	(1,741)
Improvements and incremental expenses incurred on group properties	(13)	(12)
Exceptional write-downs of assets	(71)	(120)
Other operating expense	(42)	(107)
Total	**(1,522)**	**(3,970)**

(Amounts in € thousand)

16.2 Other operating income: breakdown

	Total 06.30.2018	Total 06.30.2017
Recovery of expenses:	48,624	46,492
- recovery of ancillary expenses - other	82	163
- insurance premiums customers	-	-
- recovery of taxes	48,542	46,329
Rental income from real estate investments	-	116
Other income from current year	980	1,867
Total	**49,604**	**48,475**

(Amounts in € thousand)

Section 17 – Profit (loss) of associates – Item 250

No data to report.

Section 18 – Gains (losses) on tangible and intangible assets measured at fair value – Item 260

No data to report.

Section 19 – Impairment of goodwill – Item 270

No data to report.

Section 20 – Gains (losses) on disposal of investments – Item 280

20.1 Gains (losses) on disposal of investments: breakdown

Income items/Sectors	Total 06.30.2018	Total 06.30.2017
A. Properties		
- Gains on disposal	-	-
- Losses on disposal	-	-
B. Other assets		
- Gains on disposal	-	8
- Losses on disposal	(143)	(361)
Net profit (loss)	**(143)**	**(353)**

(Amounts in € thousand)

Section 21 – Tax expense (income) related to profit or loss from continuing operations – Item 300

21.1 Tax expense (income) related to profit or loss from continuing operations: breakdown

Income items/Sector	Total 06.30.2018	Total 06.30.2017
1. Current tax (-)	(60,382)	(48,351)
2. Adjustment to current tax of prior years (+/-)	-	-
3. Reduction of current tax for the period (+)	-	-
3.bis Reduction of current tax for the period due to tax receivables pursuant to Law 214/2011 (+)	-	-
4. Changes in deferred tax assets (+/-)	(1,686)	(3,608)
5. Changes in deferred tax liabilities (+/-)	(254)	(225)
6. Tax expense for the period (-) (-1+/-2+3+ 3 bis +/-4+/-5)	(62,322)	(52,184)

(Amounts in € thousand)

Section 22 – Profit (Loss) after tax from discontinued operations – Item 320

No data to report.

Section 23 – Minority interests – Item 340

No data to report.

Section 24 – Other information

FinecoBank and Fineco Asset Management DAC belong to the UniCredit Banking Group and are subject to management and co-ordination by UniCredit S.p.A.

1.1 Designation of Parent Company

UniCredit S.p.A.

Registration in the Companies' Register of Milan-Monza-Brianza-Lodi

Registered in the Register of Banking Groups and Parent Company of the UniCredit Banking Group with code 2008.1

1.2 Registered Office of Parent Company

Registered Office and Head Office: Piazza Gae Aulenti 3 - Tower A - 20154 Milan

1.3 Key figures for the Parent Company (income statement, balance sheet, structure)

FinecoBank and Fineco Asset Management DAC are subject to management and coordination of UniCredit S.p.A.; therefore, in accordance with Article 2497 bis, paragraph 4 of the Italian Civil Code the key figures of the last approved financial statements of the parent company are provided below:

UniCredit S.p.A. – Reclassified balance sheet as at December 31, 2017

ASSETS	**12.31.2017**
Cash and cash balances	25,817
Financial assets held for trading	13,864
Loans and receivables with banks	27,567
Loans and receivables with customers	208,965
Financial investments	105,278
Hedging instruments	6,114
Property, plant and equipment	2,209
Goodwill	-
Other intangible assets	4
Tax assets	10,311
Non-current assets and disposal groups classified as held for sale	150
Other assets	4,701
Total assets	**404,980**

(Amounts in € million)

LIABILITIES AND SHAREHOLDERS' EQUITY	**12.31.2017**
Deposits from banks	56,807
Deposits from customers and debt securities in issue	262,084
Financial liabilities held for trading	13,068
Financial liabilities at fair value through profit or loss	2,738
Hedging instruments	6,279
Provisions for risks and charges	1,843
Tax liabilities	1
Liabilities included in disposal groups classified as held for sale	-
Other liabilities	8,652
Shareholders' equity	53,508
- capital and reserves	*964*
- revaluation reserves (available-for-sale financial assets - cash flow hedges - on defined benefit plans)	*308*
- net profit (loss)	*6,236*
Total liabilities and shareholders' equity	**404,980**

(Amounts in € million)

UniCredit S.p.A. – Condensed Income Statement 2017

	12.31.2017
Net interest	3,711
Dividends and other income from equity investments	3,808
Net fee and commission income	3,798
Net trading, hedging and fair value income	302
Net other expenses/income	(95)
OPERATING INCOME	**11,524**
Payroll costs	(3,139)
Other administrative expenses	(2,694)
Recovery of expenses	546
Impairment/write-backs on intangible and tangible assets	(137)
Operating costs	**(5,424)**
OPERATING PROFIT (LOSS)	**6,100**
Net write-downs of loans and provisions for guarantees and commitments	(1,854)
NET OPERATING PROFIT (LOSS)	**4,246**
Provisions for risks and charges	(565)
Integration costs	14
Net income from investments	2,427
GROSS PROFIT (LOSS) FROM CONTINUING OPERATIONS	**6,122**
Income tax for the year	30
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS	**6,152**
Profit (Loss) after tax from discontinued operations	84
Goodwill impairment	-
NET PROFIT	**6,236**

(Amounts in € million)

Section 25 - Earnings per share

25.1 Average number of diluted ordinary shares

Basic earnings per share are calculated by dividing the net profit of the first half 2018 by the average number of ordinary shares outstanding during the first half 2018.

	06.30.2018	06.30.2017
Net profit for the period (€ thousands)	125,179	104,267
Average number of outstanding shares	608,111,697	606,769,353
Average number of outstanding shares (including potential ordinary shares with dilution effect)	609,512,881	609,347,306
Basic earnings per share	0.21	0.17
Diluted Earnings Per Share	0.21	0.17

25.2 Other information

No data to report.

PART E - INFORMATION ON RISKS AND HEDGING POLICIES

Introduction

In order to ensure lean and efficient management of risks, the risk management process is structured in accordance with the organisational choices made by the Group and the provisions of the Supervisory Instructions for Banks pertaining to the internal control system.

Risk management and control is performed by the Risk Management function of the Bank in collaboration with the same function of the Parent Company, which performs its role of guidance, coordination and control of risks at Group level. The organisational model provides for a specific contact person, the Chief Risk Officer (hereinafter, “CRO”) of the Parent Company, who is responsible for credit risk, market risk, operating risk and reputational risk.

The Bank is responsible for first and second-level monitoring, especially for verifying that the risk level of individual companies is compatible with the guidelines set by the Parent Company, individual company equity, and prudential supervisory rules.

Organisational structure

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

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

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

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

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

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

Given the complexity of the Bank's activities and the significant risks involved, the Board of Directors of the Bank decided to establish an Risk and Related Parties Committee to carry out internal control tasks; the committee is made up of non-executive members of the same Board and its task is to carry out adequate investigations to support the Board of Directors in its assessments and decisions on the internal control system and risk management.

Lastly, the participation by the Chief Risk Officer and Head of Risk Management in the Products Committee ensures oversight of the operational risk associated with the Bank's new business activities, as well as creating and disseminating a risk culture in the various functional areas.

Section 1 – Consolidated financial statements risks

Please refer to the qualitative information contained in Section 2 – "Prudential consolidated risks".

Qualitative information

A. Credit quality

A.1 Impaired and unimpaired exposure: amounts, impairment, changes, distribution by business activity

A.1.1 Breakdown of financial assets by portfolio and credit quality (carrying value)

Portfolio/Quality	Bad exposure	Unlikely to pay	Past due impaired exposures	Past due unimpaired exposures	Other unimpaired exposures	**Total**
1. Financial assest at amortised cost	1,714	495	496	16,587	21,918,738	**21,938,030**
2. Financial assets at fair value through other comprehensive income	-	-	-	-	1,100,805	**1,100,805**
3. Financial assets designated at fair value	-	-	-	-	-	**-**
4. Other financial assets required to be designated at fair value	-	-	-	-	27	**27**
5. Financial instruments classified as held for sale	-	-	-	-	-	**-**
Total 06.30.2018	**1,714**	**495**	**496**	**16,587**	**23,019,570**	**23,038,862**
Total 12.31.2017	**1,730**	**495**	**627**	**7,511**	**21,865,828**	**21,876,191**

(Amounts in € thousand)

As at June 30, 2018 there were no impaired purchased loans.

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net values)

Portfolio/Quality	Impaired				Unimpaired			Total (net exposure)
	Gross exposure	Total impairment provision	Net exposure	Total partial write-off	Gross exposure	Total impairment provision	Net exposure	
1. Financial assest at amortised cost	23,828	(21,122)	2,705	-	21,954,683	(19,359)	21,935,325	21,938,030
2. Financial assets at fair value through other comprehensive income	-	-	-	-	1,100,937	(132)	1,100,805	1,100,805
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets required to be designated at fair value	-	-	-	-	X	X	27	27
5. Financial instruments classified as held for sale	-	-	-	-	-	-	-	-
Total 06.30.2018	**23,828**	**(21,122)**	**2,705**	**-**	**23,055,620**	**(19,491)**	**23,036,157**	**23,038,862**
Total 12.31.2017	**24,313**	**(21,460)**	**2,853**	**-**	**21,884,411**	**(11,073)**	**21,873,338**	**21,876,191**

(Amounts in € thousand)

Portfolio/Quality	Assets with of clearly poor credit quality		Other assets
	Accumulated unrealised losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	6,887
2. Hedging derivatives	-	-	939
Total 06.30.2018	**-**	**-**	**7,826**
Total 12.31.2017	**-**	**-**	**7,021**

(Amounts in € thousand)

B. Disclosure on structured entities (other than securitisation companies)

B.1 Consolidated structured entities

No data to report.

B.2 Non-consolidated structured entities

No data to report.

B.2.1 Consolidated structured entities for supervisory purposes

No data to report

B.2.2 Other structured entities

Qualitative information

The Bank has exposures towards unconsolidated structured entities as a result of investments in units issued by investment funds (UCITS) that qualify as structured entities according to IFRS 12.

Quantitative information

The table below shows the assets, liabilities and off-balance sheet exposure to structured entities represented by unconsolidated UCITS units.

Balance sheet items/Type of structured entity	Accounting portfolios of assets	**Total assets (A)**	Accounting portfolios of liabilities	**Total liabilities (B)**	**Net carrying amount (C=A-B)**	**Maximum exposure to loss (D)**	**Difference between exposure to the risk of loss and the carrying amount (E=D-C)**
1. UCITS	HFT	**46**		**-**	**46**	**46**	**-**

(Amounts in € thousand)

Key

HFT = Financial assets held for trading

Section 2 – Prudential consolidated risks

1.1 Credit risk

Qualitative information

1. General aspects

The Bank’s objective is to provide an adequate range of products able to satisfy and encourage loyalty among customers, through a competitive and complete offer. The development of the products and of the product line must also seek to maintain portfolio quality and, in any event, adequate processes to monitor profitability.

The factors that generate credit risk are determined by acceptance and creditworthiness polices, which are always adequately correlated to the risk/return ratio and in line with the Risk Appetite defined by the Board of Directors.

The quality of the loan portfolio, which is constantly monitored and supported by risk mitigation instruments, is protected by scoring models that contribute to evaluation during the approval process, ensuring that it is consistent and controlled. In addition to adequate coverage of the risk levels, monitoring of the portfolio and its segmentation by product and seniority allow a better understanding of the best loan issue strategies. The identification of any high-risk areas permits intervention on the automated measurement systems as well as on disbursement standards, with the possibility to take measures to limit credit risk in advance.

The credit product offer has evolved over the years, especially through the offer of mortgages loans, launched in 2016, and the granting of current account credit facilities guaranteed by a pledge on securities and investment funds with the rotational clause (Credit Lombard).

The mortgage offering mainly involves mortgages for the purchase of first and second homes (including subrogation), in addition to home-secured loans and, to a limited extent, non-residential mortgages. As at June 30, 2018, the carrying amount of mortgage loans amounted to €721 million.

Credit Lombard is the solution of FinecoBank suitable for net worth clients who wish to obtain additional liquidity from their investments.

The Bank, moreover, continued to develop products already included in its catalogue by issuing convenience credit cards to current account holders and granting personal loans. The latter can also be assessed using the "Instant approval", a service that allows the request to be assessed in a few moments and to provide the loan in real time to selected customers.

Choices concerning the investment of the Bank's liquidity are governed by a prudential approach aimed at containing credit risk and mainly involve deposits with UniCredit S.p.A. and the subscription of Eurozone government bonds. In order to optimise its portfolio by diversifying counterparty risk, in first half 2018 the Bank also increased its exposure (in terms of nominal value) to Italian government securities by € 558 million, Spanish government securities by € 460 million, Ireland government securities by € 135 million, French government securities by € 125 million and Polish government securities by € 29 million.

The Bank in 2017 issued and approved the policy "Issuer risk in bonds - Contingency Plan" aimed at defining principles and rules to efficiently and comprehensively evaluate, control and limit the issuer's risk associated with bonds in the banking book. In accordance with the policy, the Risk Management function monitors a series of indicators to analyse the exposure of the Bank's portfolio to issuer risk; through this analysis it is possible to identify the emergence of abnormal situations and assess the need for corrective actions to avoid deterioration of the portfolio position.

2. Credit Risk Management Policy

2.1 Organisational aspects

The credit process can be broken down into the following stages:

- assessment of creditworthiness;
- granting/disbursement of credit;
- credit monitoring;
- management of impaired loans;
- risk measurement and control.

The assessment of creditworthiness entails ascertaining the ability of the borrower to repay. It is performed by specific centralised and specialist operating units in the various product lines disbursed to customers (personal loans, credit cards, credit lines, and mortgages). On receipt of the request, the offices in question assess the reliability of documentation, evaluate the equity and income situation, and gather information, also by consulting public records, private banks and system data such as the information contained in the Bank of Italy's risk centre and in the Group archives.

In addition to an assessment of creditworthiness by the dedicated functions, credit approval also requires that they assess the compatibility of the request with the customer's overall situation, considering the amount requested and agreeing on a different amount with the Customer, where necessary, evaluate and finalise guarantees, if any, linking them to credit facilities and filing them according to specific processes. Lastly, the decision-making parties approve or reject the application on the basis of their powers or send the application to a higher decision-making body.

Credit monitoring is carried out on credit lines to check that the economic situation of the customer and the guarantor that resulted in the approval has not changed. This check may entail collecting updated system data and information, as well as information from private banks. Checks are carried out according to established processes at set intervals, and may vary according to the amount of the credit line granted.

With regard to products with payment plans and in particular for mortgages, specific measurements of outstanding amounts are made for movement between statuses. This method is also accompanied by the collection of information on the debtor customer already used when granting credit lines.

In line with the general principles laid down by the Regulatory Authority, receivables are classified on the basis of the level of impairment, which may be established on the basis of qualitative or quantitative criteria.

The management of impaired loans entails taking all action necessary to restore them to normality or to recover the credits in situations where the relationship cannot be continued. All of these measures are established by specific processes based on the type and amount of the past-due loan and the past-due period as well as taking into account any financial assets of the customer, which may be offered as collateral. Credit collection is performed through payment reminders directly carried out by the Bank as well as through reminders and debt recovery carried out by specialised, authorised external companies.
Lastly, management also entails forecasting losses on an individual basis, which is continuously updated based on the progress of recovery actions for the amounts due or based on information collected during the recovery actions.

The measurement and control of credit risk takes place at the assessment stage with the support of scoring tools that analyse the customers' socio-demographic profiles, making an assessment of individual counterparties on a statistical basis and supplementing the assessment, on one hand, with the support of credit bureaus for better knowledge of public and private data and on the other hand, with information contained in the Bank of Italy's risk centre.
Credit risk control is also performed through the systematic assessment of the performance of loan portfolios in order to estimate expected losses and intervene on disbursement policies where necessary.

2.1.1 Factors that generate Credit Risk

In the course of its credit business activities the Bank is exposed to the risk that its loans may, due to the deterioration of the debtor's financial condition, not be repaid at maturity, and thus result in a partial or full write-down. This risk is always inherent in traditional lending operations regardless of the form of the credit facility. The main reasons for default lie in the borrower's lack of autonomous ability to ensure the repayment of the debt.
In addition to the risk associated with the granting and disbursement of credit, the Bank is also exposed to counterparty risk for all clearing and pre-clearing operations with the institutional and banking counterparties necessary to conduct the Bank’s business. Counterparty risk is defined as the risk that a counterparty to one of the transactions is in default prior to the final settlement of the cash flows involved in the transaction. The counterparties in these transactions could default as a result of insolvency, political and economic events, lack of liquidity, operating problems or other reasons.
Other transactions involving counterparty risk are:

- entering into derivative contracts;
- purchasing and selling securities, futures, or currencies;
- holding third-party securities.

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

The Bank monitors and manages the specific risk of each counterparty and the overall risk of loan portfolios through procedures, structures and rules that steer, govern and standardise the assessment and management of credit risk, in line with the Group principles and best practice, and which are capable of extending their effectiveness to all phases of the economic cycle.

The Bank reports all information to the Parent Company that can help it in its assessment of each FIBS counterparty ("Financial Institutions, Banks and Sovereigns") that the Bank intends to have dealings with and with respect to whom a risk limit (ceiling) is to be set within which the Group intends to operate.
The assessment is conducted within the risk limits assigned to the counterparty's Economic Group, i.e. considering the Group's exposure towards all the parties legally and economically linked to the counterparty. At the end of the assessment, the Parent Company assigns the Bank a risk limit that has to be monitored.

2.2 Management, measurement and control system
The measurement of credit risk during the issue process is supported by automated assessment systems (so-called credit scoring systems). These systems also incorporate all available information and facts: public and private data provided by Credit rating bureaus, Risk Center data flows or information requests submitted to the Bank of Italy, Group archives with data relating to positions shared with other Group banks and other performance information on customers, stored by the Bank. During the loan application process, attention is always focused on the possibility of optimising all information concerning customers that has been provided by the Bank, the Group and the System.
The collection of any guarantees, their assessment and the margins between the *fair value* of the guarantee and the amount of the loan granted are a simple kind of support to credit risk mitigation, but there is no relevant positive correlation between the value of the financial guarantee and the applicant's creditworthiness.

Starting from January 1, 2018 FinecoBank has adopted the accounting standard IFRS 9: Financial Instruments.
The project, in coordination with a similar project carried out at the UniCredit Group level and developed with the involvement of the Bank's reference functions and, lastly, the Board of Directors, introduced a new accounting model of impairment for credit exposures based on (i) an "expected losses" approach instead of the previous one based on the recognition of "incurred losses" and (ii) on the concept of "lifetime" expected loss. For each detail, refer to paragraph 2.3. Measurement methods for expected losses.

The global assessment of portfolio risks, in order to identify the sustainability of the asset and the remuneration margins, is made both with the assistance of a tool shared with the Parent Company (Credit Tableau de Board), which contains all the main risk indicators and the largest receivables of those listed, and with the support of specific product reports which identify the trend of default rates, broken down by disbursement period and default level.

The monitoring of credit risk as part of the management of the trading book is conducted by breaking it down into rating class and issuer sector, which determine the implicit risk of contracts.

2.3 Measurement methods for expected losses

According to the accounting standard IFRS 9, financial assets at amortized cost, financial assets at fair value through other comprehensive income and the relevant off-balance sheet exposures are subjected to an impairment calculation.

These instruments are classified in stage 1, stage 2 or stage 3 depending on their absolute or relative credit rating, compared to the initial disbursement. In particular:

- Stage 1: this includes newly originated or acquired credit exposures and exposures that have not suffered a significant deterioration in credit risk compared to the date of first recognition;
- Stage 2: this includes credit exposures that are performing but which have suffered a significant deterioration in credit risk compared to the date of first recognition;
- Stage 3: this includes impaired credit exposures.

For Stage 1 exposures, the impairment is equal to the expected loss calculated on a time frame of up to one year.
For Stage 2 and 3 exposures, the impairment is equal to the expected loss calculated on a timeframe equivalent to the residual duration of the related exposure.

In order to meet the standard, the Group has developed specific models to calculate the expected loss. These models draw on the PD, LGD and EAD criteria used for regulatory purposes, to which specific directions are made to ensure full cohesion with the accounting standard. In this regard, forward-looking information has also been included with the elaboration of specific scenarios.

Expected loss is calculated for the institutional counterparties common to the Group, using the methods and credit parameters developed at the centralized level.
As the retail counterparties do not have internal rating systems at their disposal, they use proxies. Segmentation by product type is carried out and the PD is replaced by the average decay rate observed by the transition matrixes defining the change to classify. This approach is based on the assumption that when there are no changes in the criteria adopted to assess the creditworthiness of the individual counterparties, the quality of the future credit will be consistent with the quality of the credit found in the time series available. Nevertheless, unlike the approach followed when applying the IAS 39 standard to implement the requirements of the IFRS9 rule, the proxies of the parameters are corrected using forward looking information, entirely in line with the Group's approach as described below.
A key aspect of the new accounting model required to calculate the expected loss is the Stage Allocation model, the aim of which is to transfer exposures between Stage 1 and Stage 2 (as Stage 3 is equivalent to that of impaired exposures), where Stage 1 mainly includes (i) newly disbursed exposures, (ii) exposures that have no significant impairment of credit risk compared to initial recognition, and (iii) exposures with a low credit risk (low credit risk exemption) on the reporting date.
The Stage Allocation valuation model is based on a combination of relative and absolute elements: The main elements were:

- the comparison at transaction level between the PD value at the time of disbursement and the value on the reporting date, both qualified according to internal models at fixed thresholds to take into account all the key variables of each transaction that may influence the Bank's expectations about ongoing changes in PD (e.g. age, maturity, level of PD at the time of disbursement);

- absolute elements such as the backstops provided for by the regulation (e.g. 30 day Expired);
- other internal findings (forborne classification).

With reference to debt instruments, the Bank has opted to apply the low credit risk exemption on investment grade securities, in full accordance with the provisions of the accounting standard.

The criteria for determining the write-downs of receivables are based on the discounting of expected cash flows of principal and interest. In line with the business model, these can also refer to market operations; for determining the present value of cash flows, the basic requirement is the identification of estimated collections, the timing of payments and the discounting rate used.

The amount of the loss on impaired exposures classified as non-performing and unlikely to pay according to the categories specified below, is the difference between the carrying value and the present value of estimated cash flows discounted at the original interest rate of the financial asset.

For all fixed-rate positions, the interest rate determined in this manner is also held constant in future years, while for floating rate positions the interest rate is updated according to contractual terms.

If the original interest rate is not directly available, or if finding it would be excessively onerous, the interest rate that best approximates the original one is applied, including through practical expedients that do not affect the substance and ensure consistency with international accounting standards.

Recovery times are estimated on the basis of business plans or forecasts based on historical recovery experience observed for similar classes of loans, taking into account the customer segment, type of loan, type of security and any other factors considered relevant.

Parameters and definitions of risk level used in the calculation of value adjustments

As mentioned above the Group has developed specific models to calculate the expected loss, which draw on the PD, LGD and EAD criteria, as well as the effective interest rate. These models are used for calculating value adjustments of all the institutional counterparties common to the Group, for the most part made up of FIBS (Financial Institutions, Banks and Sovereigns) counterparties.

Specifically:

- PD (Probability of Default) expresses the percentage of estimated loss, and hence the expected recovery rate whenever a credit position default event occurs;
  - LGD (Loss Given Default) expresses the percentage of estimated loss, and hence the expected recovery rate is the complement to the unit (of the LGD) whenever a credit position default event occurs;
- EAD (Exposure at Default) expresses the measurement of the exposure at the time of the credit position default event;
- Effective Interest Rate is the discount rate expressing the time value of the money.

These parameters are calculated on the basis of identical parameters used for regulatory purposes, with specific adjustments made to ensure full cohesion, net of the various regulatory requirements, between the accounting treatment and the regulatory treatment.

The main adjustments are made in order to:

- remove the conservatism which is only required for regulatory purposes;
- introduce point-in-time adjustments to replace the through-the-cycle adjustments required for regulatory purposes;
- include forward-looking information;
- extend the credit risk parameters to a multi-year perspective.

With regard to the lifetime PD, the through-the-cycle PD curves obtained by adapting the cumulative non-compliance rates are adjusted to reflect point-in-time provisions and forward-looking provisions with regard to the portfolio non-compliance rates.

The rate of recovery incorporated in the through-the-cycle LGD was adapted in order to remove the conservatism margin and to reflect the latest trends in recovery rates, and expectations about future trends discounted to the actual interest rate or its best approximation.

For Stage 3, this includes the corresponding impaired exposures which, in accordance with the Bank of Italy rules defined in Circular 272 of 30 July 2008 as updated, correspond to the aggregate Non-Performing Exposures referred to in ITS EBA (EBA/ITS /2013/03/rev1 24/7/2014).

Specifically, the EBA has identified Non-Performing exposures as those that satisfy either or both of the following criteria:

- material exposures which are more than 90 days past due;
- exposures for which the Bank has assessed that the debtor is unlikely to pay its credit obligations, without the enforcement and realization of collateral, regardless of the existence of any past due and/or overdrawn impaired exposures or of the number of days past due.

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

- Bad exposure i.e., the on-balance-sheet and off-balance-sheet exposures to insolvent borrowers, even if the insolvency has not been recognized in a court of law. They are measured individually (including by verifying statistically defined coverage levels for some loan portfolios below a predefined threshold) or, for individually insignificant amounts, on a flat basis by type of homogeneous exposure.
- Unlikely to pay - on- and off-balance sheet exposures which do not meet the borrower’s condition for classification as non-performing loans and for which, in the absence of actions such as the enforcement of collateral, the debtor’s ability to fully meet its credit obligations (principal and/or interest) is assessed as unlikely. This assessment is made independently of any past due and unpaid amount (or instalment). The classification of an exposure as unlikely to pay is not necessarily tied to evident issues (non-repayment), but is rather linked

to indicators of a potential default of the borrower. The "unlikely to pay" exposures are measured in the accounts individually (including by verifying statistically defined coverage levels for some loan portfolios below a predefined threshold) or by applying a percentage on a flat basis by type of homogeneous exposures. Exposures classified as unlikely to pay and identified as forborne, may only be reclassified to unimpaired loans after at least one year has passed from the time of the forbearance and the conditions established in paragraph 157 of the EBA Implementing and Technical Standards have been met. With regard to their measurement, they are generally measured on an individual basis and the resulting allowance may include the discounted cost due to renegotiation of the interest rate at a rate lower than the original contractual rate.

- past due and/or overdrawn impaired exposures - on-balance sheet exposures, other than those classified as non-performing or unlikely to pay that are past due or overdrawn at the reporting date. The past due and/or overdrawn impaired exposures in FinecoBank are determined with respect to the individual debtor. Specifically, they represent the total exposure to any borrower not included in the unlikely to pay and non-performing loans categories, who at the reporting date has expired facilities or unauthorized overdrafts that are more than 90 days past due and meet the requirements set out by local supervisory regulations for their classification under the "past due exposures". Past-due and/or overdrawn impaired exposures are valued at a flat rate on a historical/stochastic basis by applying where available the risk rating referred to Loss Given Default (LGD) under Regulation (EU) No. 575/2013 (CRR) on prudential requirements for credit institutions and investment firms.

Forward-looking information used in calculating value adjustments

The credit loss expected from the parameters described in the forgoing paragraph considers macroeconomic forecasts by applying multiple scenarios to the forward looking components.

The process defined to include macroeconomic scenarios is also fully consistent with the macroeconomic forecasting processes used by the Group for further risk management purposes (such as the processes used to translate macroeconomic forecasts into expected credit losses based on the EBA Stress Test and the ICAAP Framework) and was also drawn from the independent work of UniCredit Research.

The forecasts in terms of change in Default rate and change in Recovery Rate provided by the Stress Test function are incorporated within the PD and LGD parameters during calibration. The credit parameters are usually calibrated over a through-the-cycle (TTC) horizon, so their point-in time (PIT) and forward-looking (FL calibration become necessary in so far as it reflects the current situation and the expectations on the future evolution of the economic cycle in these credit parameters.

2.4 Credit risk mitigation techniques

In order to mitigate risk when granting the different types of credit facilities, various types of collateral are obtained. Mortgages on property loans, pledge on shares, bonds or investment funds, insurance contracts and government bonds are used to guarantee current account overdraft facilities.

The presence of collateral does not, however, relieve the Bank from the requirement to carry out on overall assessment of the credit risk, primarily centred on the customer's income capacity regardless of the additional guarantee provided. The valuation of the lien collateral is based on its actual value, i.e. the market value for the

financial instruments listed in a regulated market. The resulting value is subject to percentage haircuts, differentiated based on the financial instruments used as security and the concentration of the instrument in the customer's portfolio provided as security.
For real estate collateral, the principles and rules are described in the policy on the granting of residential mortgages with property collateral to current account holders of FinecoBank S.p.A. The valuation of the assets is performed by external technical experts included in the Register of Engineers, Architects and Surveyors or industrial experts who are not therefore susceptible to conflict of interest.
Valuations, moreover, are subject to periodic reviews.

3. Impaired credit exposures

3.1 Management strategies and policies

Loans are classified as past due, unlikely to pay or bad exposure in accordance with the criteria set forth by the Bank of Italy and the thresholds established by the Parent Company. The classification as bad exposure, linked to the customer's insolvency, is always individual and defined on the basis of the progress of debt recovery actions. The loss estimate for positions classified as past due and unlikely to pay is also individual.
The classification criterion used for overdrawn accounts is related to the performance of debt recovery activity or the forced sale of securities to cover debts.
The reclassification of loans to a category of lower risk exposure is only authorised if the amount past due has been paid in full in observance of the original payment schedule, or if considerable payments have been made leading the Bank to believe the debt exposure is very likely to be repaid.
The procedure for the management of irregularly performing loans involves actions that may be taken to recover debts by ranking them by seniority of expiration.

3.2 Write-off

The Bank will enter a write-off by reducing the gross exposure of a financial asset if there are no reasonable expectations of recovering all or part of that asset.

As a result, the Bank will recognise a write-off in the following cases:

- there is no longer any reasonable expectation of recovering all or part of the asset despite the presence of the legal rights to recover the accrued capital and interest;
- waiver of the legal right to recover the accrued capital and interest;
- cessation of the legal right to recover capital and interest due to completion of the attempts at recovery.

3.3 Purchased or originated financial assets impaired

The current business model of the Bank and company policies approved by the Board of Directors do not provide for purchased of impaired loans or the provision of "new finance" in any form (personal loans, mortgages, current account credit facilities, etc. ...) to already non-performing customers.

4. Renegotiations

Renegotiations of financial instruments that lead to a change in the contractual terms are recognized on the basis of the materiality of those contractual changes.

For renegotiations considered not to be significant, the gross value is redetermined by calculating the present value of cash flows resulting from the renegotiation, at the original rate of the exposure. The difference between the gross value of the financial instrument prior to and after the renegotiation of the contractual terms, adjusted to consider the associated changes to the cumulative value adjustments, is recognized as a profit or loss from contractual amendments without cancellations, on the income statement.

In this regard, renegotiations achieved both by amending the original contract or by closing a new one, are considered significant when they determine the expiry of the right to receive cash flows accordingly to the original contract.

In particular, rights to receive cash flows are considered as expired in case of renegotiations that introduce contractual clauses which determine a change in the financial instrument classification, which determine a change in the currency or which are carried out at market conditions therefore without causing credit concession.

Quantitative information

A. Credit quality

A.1 Impaired and unimpaired credit exposures: amounts, impairment, changes, distribution by business activity

A.1.1 Prudential consolidated - Breakdown of financial assets by past due bands (carrying value)

Portfolios/Stage	First stage			Second stage			Third stage		
	From 1 to 30 days	Between 30 days and 90 days	Over 90 days	From 1 to 30 days	Between 30 days and 90 days	Over 90 days	From 1 to 30 days	Between 30 days and 90 days	Over 90 days
1. Financial assets at amortised cost	11,891	45	-	19	1,697	2,935	8	7	2,533
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total 06.30.2018	**11,891**	**45**	**-**	**19**	**1,697**	**2,935**	**8**	**7**	**2,533**
Total 12.31.2017									

(Amounts in € thousand)

A.1.2 Prudential consolidated – Financial assets, commitments and financial guarantees: changes in overall impairment and overall provisions

Source/Stage	Total impairment provision													**Total provisions on commitments and financial guarantees given**			**Total**
	Assets included in the first stage				Assets included in the second stage				Assets included in the third stage				Of which: financial assets purchased or originated credit impaired				
	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	of which: individually measured allowances	of which: collectively measured allowances	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	of which: individually measured allowances	of which: collectively measured allowances	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	of which: individually measured allowances	of which: collectively measured allowances		First stage	Second stage	Third stage	
Opening balance	**(18,692)**	**(93)**	**-**	**(18,785)**	**(5,964)**	**-**	**-**	**(5,964)**	**(21,043)**	**-**	**(21,043)**	**-**	**-**	**(450)**	**-**	**-**	**(46,242)**
Increases due to origination and acquisition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Decreases due to derecognition other than write-off	15	-	-	15	-	-	-	-	-	-	-	-	-	-	-	-	**15**
Changes due to change in credit risk (net) (+/-)	5,578	(38)	-	5,540	(297)	-	-	(297)	(1,450)	-	(1,450)	-	-	388	-	-	**4,181**
Changes due to modifications without derecognition (net)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Changes due to update in the institution's methodology for estimation (net)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Write-off	-	-	-	-	-	-	-	-	1,371	-	1,371	-	-	-	-	-	**1,371**
Other adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Closing balance	**(13,099)**	**(131)**	**-**	**(13,230)**	**(6,261)**	**-**	**-**	**(6,261)**	**(21,122)**	**-**	**(21,122)**	**-**	**-**	**(62)**	**-**	**-**	**(40,675)**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	-	-	-	-	-	-	-	-	11	-	11	-	-	-	-	-	**11**
Amounts written-off directly to the statement of profit or loss	-	-	-	-	-	-	-	-	(48)	-	(48)	-	-	-	-	-	**(48)**

(Amounts in € thousand)

A.1.3 Prudential consolidated - Financial assets, commitments and financial guarantees given: transfers between the different stages (gross amount and nominal amount)

Portfolios/Stage	Gross carrying amount/nominal amount					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
1. Financial assets at amortised cost	4,933	766	614	22	1,112	285
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
3. Commitments and financial guarantees given	-	-	-	-	-	-
Total 06.30.2018	**4,933**	**766**	**614**	**22**	**1,112**	**285**
Total 12.31.2017						

(Amounts in € thousand)

A.1.4 Prudential consolidated - On-balance sheet and off-balance-sheet credit exposures to banks: gross and net values

Type of exposure/Amount	Gross exposure		Total impairment	Net exposure	Total partial write-off
	Impaired	Unimpaired			
A. On-balance sheet credit exposures					
a) Bad exposure	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Past-due impaired loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Past due non-impaired exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other unimpaired exposures	X	13,115,895	(5,329)	13,110,566	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**-**	**13,115,895**	**(5,329)**	**13,110,566**	**-**
B. Off-balance sheet exposures					
a) Impaired	-	X	-	-	-
b) Unimpaired	X	283,964	(20)	283,944	-
Total (B)	**-**	**283,964**	**(20)**	**283,944**	**-**
Total (A+B)	**-**	**13,399,859**	**(5,349)**	**13,394,510**	**-**

(Amounts in € thousand)

In the above table, item B. "Off-balance sheet exposures" includes the counterparty risk related to repos that can be classified as "Securities Financing Transactions" (SFT) defined in prudential regulations, amounting to €26,611 thousand.

There were no securities lending transactions collateralised by other securities or without a cash guarantee with banks.

A.1.5 Prudential consolidated - On-balance sheet and off-balance-sheet credit exposures to customers: gross and net values

Type of exposure/Amount	Gross exposure		Total impairment	Net exposure	Total partial write-off
	Impaired	Unimpaired			
A. On-balance sheet credit exposures					
a) Bad exposure	19,993	X	(18,279)	1,714	-
- of which: forborne exposures	135	X	(114)	21	-
b) Unlikely to pay	2,258	X	(1,762)	496	-
- of which: forborne exposures	137	X	(97)	40	-
c) Past-due impaired loans	1,577	X	(1,081)	496	-
- of which: forborne exposures	76	X	(52)	24	-
d) Past due non-impaired exposures	X	17,472	(885)	16,587	-
- of which: forborne exposures	X	50	(1)	49	-
e) Other unimpaired exposures	X	9,922,314	(13,276)	9,909,038	-
- of which: forborne exposures	X	70	-	70	-
Total (A)	**23,828**	**9,939,786**	**(35,283)**	**9,928,331**	**-**
B. Off-balance sheet exposures					
a) Impaired	195	X	-	195	-
b) Unimpaired	X	1,187,460	(42)	1,187,418	-
Total (B)	**195**	**1,187,460**	**(42)**	**1,187,613**	**-**
Total (A+B)	**24,023**	**11,127,246**	**(35,325)**	**11,115,944**	**-**

(Amounts in € thousand)

In the above table, item B. "Off-balance sheet exposures" includes the counterparty risk related to securities lending transactions collateralised by other securities and to repos that can be classified as "Securities Financing Transactions" (SFT) defined in prudential regulations, amounting to €225,758 thousand.

There were no securities lending transactions without a cash guarantee or not collateralised by other securities with customers.

A.1.6 Prudential consolidated - On-balance sheet credit exposures to banks: gross changes in non-performing exposures

No data to report.

A.1.6bis Prudential consolidated - On-balance sheet credit exposures to banks: gross changes in forborne non-performing exposures breakdown by credit quality

No data to report.

A.1.7 Prudential consolidated - On-balance sheet credit exposures to customers: gross changes in non-performing exposures

Sources/Categories	Bad exposure	Unlikely to pay	Past-due impaired loans
A. Opening balance - gross exposure	**20,260**	**2,107**	**1,355**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**1,628**	**2,186**	**3,077**
B.1 transfers from performing exposures	3	332	2,829
B.2 transfers from financial assets purchased or originated credit impaired	-	-	-
B.3 transfers from other categories of impaired exposures	1,577	1,638	-
B.4 contractual changes without write-off	-	-	-
B.5 other increases	48	216	248
C. Decreases	**(1,895)**	**(2,036)**	**(2,855)**
C.1 transfers to performing exposures	-	(128)	(288)
C.2 write-off	(1,387)	(30)	(1)
C.3 collections	(443)	(298)	(863)
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of impaired exposures	-	(1,577)	(1,638)
C.7 contractual changes without write-off	-	-	-
C.8 other decreases	(65)	(3)	(65)
D. Gross exposure closing balance	**19,993**	**2,257**	**1,577**
- of which: assets sold but not derecognised	-	-	-

(Amounts in € thousand)

The initial balance shown in the table refers to the financial assets recorded at January 1, 2018 after the reclassifications made following the entry into force of IFRS 9 (for further details, see Section 5 - Other matters of these Explanatory Notes). In particular, the gross exposure was reduced by the amount of default interest (non-performing loans for €588 thousand, unlikely to pay for €2 thousand and impaired past due exposures for €1 thousand). Starting from January 1, 2018, default interest is recognized in gross value only if no value adjustments have been recorded on the original exposures and if deemed recoverable by the Bank.

A.1.7bis Prudential consolidated - On-balance sheet credit exposures to customers: gross changes in forborne non-performing exposures breakdown by credit quality

Sources/Quality	Forborne exposures: non performing	Forborne exposures: performing
A. Opening balance - gross exposure	**298**	**183**
- of which: assets sold but not derecognised	-	-
B. Increases	**217**	**81**
B.1 transfers from performing exposures not forborne	33	53
B.2 transfers from performing forborne exposures	87	X
B.3 transfers from impaired forborne exposures	X	12
B.4 other increases	97	16
C. Decreases	**(166)**	**(144)**
C.1 transfers to performing exposures not forborne	X	-
C.2 transfers to performing forborne exposures	(24)	X
C.3 transfers to impaired forborne exposures	X	(87)
C.4 write-off	(10)	-
C.5 collections	(49)	(57)
C.6 proceeds from disposals	-	-
C.7 losses on disposal	-	-
C.8 other decreases	(83)	-
D Gross exposure closing balance	**349**	**120**
- of which: assets sold but not derecognised	-	-

(Amounts in € thousand)

A.1.8 Prudential consolidated - On-balance sheet credit exposures to banks: changes in overall impairment

No data to report.

A.1.9 Prudential consolidated - On-balance sheet credit exposures to customers: changes in overall Impairment

Source/Categories	**Bad loans**		**Unlikely to pay**		**Past-due impaired loans**	
	Total	Of which: forborne exposures	Total	Of which: forborne exposures	Total	Of which: forborne exposures
A. Total opening impairment	**(18,530)**	**(98)**	**(1,660)**	**(118)**	**(853)**	**(26)**
of which: assets sold but not derecognised	-	-	-	-	-	-
B. Increases	**(1,622)**	**(31)**	**(1,213)**	**(25)**	**(922)**	**(42)**
B.1 value adjustments from financial assets purchased or originated credit impaired	-	X	-	X	-	X
B.2 other value adjustments	(688)	(8)	(816)	(17)	(922)	(42)
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other categories impaired exposures	(924)	(23)	(397)	(8)	-	-
B.5 contractual changes without write-off	-	X	-	X	-	X
B.6 Other increases	(10)	-	-	-	-	-
C. Decreases	**1,873**	**15**	**1,111**	**46**	**694**	**16**
C.1 write-backs from assessments	171	2	74	21	236	6
C.2 write-backs from recoveries	315	3	94	1	50	2
C.3 Gains on disposal	-	-	-	-	-	-
C.4 write-off	1,387	10	30	-	1	-
C.5 Transfers to other categories of impaired exposures	-	-	913	24	407	8
C.6 contractual changes without write-off	-	X	-	X	-	X
C.7 Other decreases	-	-	-	-	-	-
D. Final overall impairment	**(18,279)**	**(114)**	**(1,762)**	**(97)**	**(1,081)**	**(52)**
of which: assets sold but not derecognised	-	-	-	-	-	-

(Amounts in € thousand)

The initial balance shown in the table refers to the financial assets recorded at January 1, 2018 after restating the opening balances following the entry into force of IFRS 9 (for further details, see Section 5 - Other matters of these Explanatory Notes).

B.4 Large exposures

At June 30, 2018 the following "risk positions" constituted "significant exposures" pursuant to Circular 286 of December 17, 2013, "Instructions for the prudential reporting of banks and securities firms" issued by the Bank of Italy:

a) non-weighted value: €: 21,572,166 thousand, of which €: 14,073,517 with the UniCredit Group;

b) weighted value: €: 182,846 thousand, none with the UniCredit Group;

c) number of "risk positions": 8, including the UniCredit Group.

Please note that deferred tax assets within the exposure towards the Italian Central Government have been exempted and, therefore, their weighted value is null.

C. Securitisation transactions

Qualitative information

No data to report.

Quantitative information

No data to report.

D. Sales Transactions

A. Financial assets sold and partially derecognised

Qualitative information

The Bank carries out repos using securities of its proprietary portfolio and securities not recognised in assets, received through reverse repos and securities lending.

Securities from its proprietary portfolio used in repos were not derecognized as the Bank carries out repos with the obligation for the buyer to resell the assets covered by the transaction upon expiration of the transaction and maintains all the risks associated with ownership of the securities.

Quantitative information

D.1 Prudential consolidated - Financial assets sold but not derecognised and associated financial liabilities: carrying value

No data to report.

D.2 Prudential consolidated - Financial assets sold partially recognized and associated financial liabilities: : carrying value

No data to report.

D.3 Prudential consolidated - Sales transactions relating to financial liabilities with repayment exclusively based on assets sold and not derecognised: fair value

No data to report.

B. Assets sold and fully derecognised with recognition of continuing involvement

Qualitative information

No data to report.

Quantitative information

No data to report.

D.4 Prudential consolidated - Covered bond transactions

No data to report.

E. Prudential consolidated - Credit Risk Measurement Models

Credit Risk Measurement – Trading Book

The monitoring of credit risk as part of the management of the trading book is conducted through the rating of all financial instruments held.

Credit Risk Measurement – Banking Book

The banking book of the Bank consists of securities, current accounts and deposits with the Parent Company. Retail customer activities are limited to the granting of personal loans, mortgages, credit cards and credit lines.

Information on Sovereign Exposures

The Bank is exposed to the sovereign debt of some countries, having invested a portion of its assets in debt securities issued by governments and recognised in “Financial assets designated at fair value through other comprehensive income” and in “Financial assets measured at amortised cost”. The following table shows the face value, the book value and the fair value of these exposures as at June 30, 2018.

The Bank is exposed to debt securities issued by sovereign entities which are classified under "Other financial assets required to be measured at fair value" for €11 thousand and securities issued by the Istituto del Credito Oficial (ICO), accounted for in "Financial assets measured at amortized cost", for a carrying amount of €99.9 million.

	Nominal amount as at 06.30.2018	Carryng amount as at 06.30.2018	Fair value as at 06.30.2018	% Financial Statement item
Exposure to the Italian governement	**3,638,000**	**3,889,778**	**3,792,425**	
Financial assets at fair value through other comprensive income	697,000	718,284	718,284	65.25%
Financial assets at amortised cost	2,941,000	3,171,494	3,074,141	14.46%
Exposure to the Spanish governement	**2,560,000**	**2,865,366**	**2,896,708**	
Financial assets at fair value through other comprensive income	225,000	239,401	239,401	21.75%
Financial assets at amortised cost	2,335,000	2,625,965	2,657,307	11.97%
Exposure to the Polish governement	**73,000**	**79,641**	**79,686**	
Financial assets at amortised cost	73,000	79,641	79,686	0.36%
Exposure to the French governement	**135,000**	**135,290**	**136,909**	
Financial assets at fair value through other comprensive income	35,000	35,509	35,509	3.23%
Financial assets at amortised cost	100,000	99,781	101,400	0.45%
Exposure to the US governement	**68,622**	**65,721**	**65,721**	
Financial assets at fair value through other comprensive income	68,622	65,721	65,721	5.97%
Exposure to the Ireland governement	**135,000**	**159,850**	**161,467**	
Financial assets at fair value through other comprensive income	35,000	41,890	41,890	3.81%
Financial assets at amortised cost	100,000	117,960	119,577	0.54%
Total Sovereign exposures	**6,609,622**	**7,195,646**	**7,132,916**	**30.72%**

(Amount in € thousand)

Please note that securities in currencies other than the euro have been converted into euro at the spot exchange rate at the balance sheet date

As at June 30, 2018, investments in debt securities issued by sovereign states accounted for 30.72% of the Bank's total assets. There were no structured debt securities among the sovereign debt securities held by the Bank. The Bank is therefore exposed to fluctuations in the price of the public debt securities of the countries listed above. Tensions or volatility in the government bond market could negatively impact on the Bank's financial position and performance.

The following table shows the sovereign ratings as at June 30, 2018 for countries to which the Bank is exposed, provided by Fitch Ratings, Moody's and Standard & Poor's.

	Italy	Spain	Poland	France	USA	Ireland
MOODY'S	Baa2	Baa1	A2	Aa2	Aaa	A2
FITCH RATINGS	BBB	A-	A-	AA	AAA	A+
STANDARD & POOR'S	BBB	A-	BBB+	AA	AA+	A+

Section 1.2 - Market risk

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

Risk Management Strategies and Processes

The Board of Directors of the Parent Company, as part of its powers of management and coordination powers, sets the strategic guidelines for the assumption of market risks by defining maximum risk appetite levels.

The Board of Directors of Bank, in line with the Group's approach, approves a general framework of reference for market risk and any significant changes, relating to the organisational structure, strategies, and methods.

The Bank's strategy is to keep the minimum level of market risk in line with business needs and the limits set by the Risk Appetite Framework approved by the Board of Directors.

Market risk in FinecoBank is defined through two sets of limits:

- Global measures of market risk (e.g. VaR): which are meant to establish a boundary to the economic capital absorption and to the economic loss accepted in trading activities; these limits must be consistent with assigned revenue targets and the defined risk taking capacity;
- Granular measures of market risk (Sensitivity limits, Stress scenario limits, Nominal limits): which exist independently of, but act in concert with the global limits; in order to control more effectively and more specifically different risk types, desks and products, these limits are generally granular sensitivity or stress-related limits. The levels set for granular limits aim at limiting the concentration in individual risk factors and the excessive exposure in risk factors which are not sufficiently covered under VaR.

Structure and Organisation

In order to ensure the effective implementation of operations and the consistency of policies, methods and practices related to market risk in the Group legal entities, the Group model for activities related to market risk is based on the definition of specific responsibilities.

In its relations with FinecoBank, the Parent Company is mainly responsible for:

- establishing, implementing and refining appropriate measures at global level for measuring exposure to market risk;
- setting risk limits, based on measurements identified, in line with the risk appetite approved by the Group.

The Market Risk function of the Bank, within the Risk Management Unit, in full compliance with local legal and regulatory obligations, works together with the Financial Risk Management Italy Function of the Parent Company and is tasked primarily – but not exclusively – with:

- calculating the risk measurements for the global and granular measures for the Bank's portfolios;
- checking that the measurements are compatible with the approved limits;
- initiating the escalation process when limits are exceeded, engaging the Financial Risk Italy function of the Parent Company;
- discussing and approving new products with innovative and complex market risk profiles, providing the Financial Risk Italy function of the Parent Company with adequate information in order for the said function to issue a non-binding opinion on the matter.

Risk measurement and reporting systems

<u>Trading Book</u>

The main tool used by the Bank to measure the market risk of trading positions is Value at Risk (VaR), calculated using the historic simulation approach.

The historic simulation method involves the daily revaluation of positions on the basis of market price trends over an appropriate observation period. The resulting distribution of gains and losses is analysed to determine the effect of extreme market fluctuations on portfolios. The percentile value of the distribution corresponding to the set confidence level represents the VaR. The following parameters are used to calculate VaR: confidence level 99%; time horizon of 1 day; daily update of the time series; observation period of 500 days.

Banking Book

The primary responsibility for monitoring and controlling Market Risk management in the Banking Book lies with the Bank's competent Bodies. The Parent Company is responsible for monitoring market risk in the banking book at consolidated level, while sharing this responsibility with the relevant functions of the Legal Entities at local level.
The Parent Company, defines structure, data and frequency of the necessary Group and local level reporting.

Market risk in the banking book mainly consists of credit spread risk, interest rate risk and exchange rate risk.
Credit spread risk mainly arises from investments in debt securities held for liquidity purposes. Market risk associated with the bond portfolio is monitored and subject to limits on the notional amount, the sensitivity to Economic Value and the Value at Risk.
The management of interest rate risk focuses on stabilising this second type of risk. The banking book interest rate risk measure covers the dual aspect of the value and the net interest income/expense of the Bank. More precisely, the different, and complementary, perspectives involve:

- Economic value perspective: variation in interest rates can affect the economic value of assets and liabilities. The economic value of the Bank can be viewed as the present value of the expected net cash flows, defined as the expected cash flows on assets minus the expected cash flows on liabilities. A relevant risk measure from this perspective is the economic value sensitivity per time bucket for a 1 basis point rate shock. This measure is reported to the relevant committees to assess the economic value impact of various changes in the yield curve. The economic value sensitivity is also calculated for a 200bp parallel shock. A monitoring variable from this perspective is the value at risk resulting from interest rate risk exposure;
- Income perspective: the focus of analysis is the impact of changes of interest rates on accrual or reported Net Interest Income that is the difference between revenues generated by interest sensitive assets and the cost related to interest sensitive liabilities. An example of a measure of risks used is Net Interest Income sensitivity for a 100bp parallel shock in rates. This measure provides an indication of the impact that such a shock would have on the net interest margin over the next 12 months.

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

Procedures and methodologies for valuation of Trading Book positions

The Bank ensures that the value applied to each trading book position appropriately reflects the current fair (market) value, i.e. the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of each financial instrument is based on, or derived from, observable market prices or inputs. The availability of observable prices or inputs differs by product and market, and might change over time.

If observable prices or parameters are readily and regularly available (i.e. satisfying adequate liquidity requirements), they are directly employed in the determination of fair value (mark-to-market).
In non-active markets or for certain instruments, for which observable prices or inputs are not available, fair value is calculated using valuation techniques that are appropriate for the specific instrument (mark-to-model). This approach involves estimation and judgement and, therefore, might require valuation adjustments which take into account bid-ask spreads, liquidity and counterparty risk, besides the employed pricing model. In addition, each pricing model used for *fair value* calculation is validated by a dedicated function independent from business units.
According to the Group Market Risk Governance Guidelines, which define principles and rules for managing and controlling activities potentially involving a market risk, in order to ensure the adequate separation between functions in charge of development activities and functions in charge of validation, all valuation models developed need to be centrally tested and validated by independent functions with respect to the functions that have proceeded to development. Model validation is also carried out centrally for any novel system or analysis framework whose utilisation has a potential impact on the Bank's economic results.
In addition to daily marking to market or marking to model, Independent Price Verification (IPV) shall be performed by the Risk Management function. This is the process by which market prices or model inputs are regularly verified for accuracy and independence. While daily marking to market or marking to model may be performed by front-office dealers, verification of market prices and model inputs is performed at least monthly.

Risk measures

<u>VaR</u>

The VaR calculated within the measurement of the market risk of the banking and trading book uses a historical simulation approach. The choice of model adopted by the Parent Company has a series of advantages:

- easy to understand and communicate;
- does not require any explicit assumptions about the particular functional form of the distribution of yields of the risk factors;
- does not require estimation of the variance-covariance matrix of the market factors that may affect the value of the portfolio.
- captures the correlation structure reflected in the simultaneous changes in market factors, implicitly assuming that it will remain constant in the future.

On the other hand VaR models based on historical simulations do not provide any information on the amount of the loss exceeding the VaR. This why the framework established by the Parent Company uses additional instruments such as stress tests.

2.1 Interest rate risk and price risk – regulatory trading book

Qualitative information

A. General Matters

The trading book is used to hold debt securities (ordinary and subordinated, structured and plain vanilla), equity instruments, and certificates – listed and non-listed – related to brokerage activities with retail customers.

The Bank does not perform proprietary trading and does not assume speculative positions in its books. Entries in the Bank's trading book are recorded against brokerage activities with retail customers particularly during the trading of OTC instruments. Other entries in the trading book are made for the internalisation of various financial instruments when the Bank is a counterparty to the Customer. This activity is performed as a result of the options introduced by the MiFID which allow the execution of orders for financial instruments in a number of execution venues including internal execution.

B. Processes for managing and methods for measuring interest rate risk and price risk

For both a description of internal processes for monitoring and managing risk and an illustration of the approaches used to analyse exposure, please refer to the introduction.

Quantitative information

3. Regulatory trading book: internal models and other methods of sensitivity analysis

The Bank monitors the VaR of the Trading Book on a weekly basis.

As at June 30, 2018, the daily VaR of the trading book amounted to €94.9 thousand.

1.2.2 Interest rate risk and price risk – banking book

Qualitative information

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

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

- net interest margin sources, and thus, the Bank’s earnings (cash flow risk);
- the net present value of assets and liabilities, due to their impact on the present value of future cash flows (fair value risk).

In line with the Group approach, the Bank measures and monitors interest rate risk daily, within the methodological framework and the corresponding limits or thresholds set by the Parent Company. These relate to the sensitivity of the net interest margin and the economic value.

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

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

- repricing risk: the risk resulting from timing mismatches in terms of the repricing of the bank’s assets and liabilities. These mismatches result in a risk associated with the rate curve. This risk relates to the Bank's exposure to changes in the slope and shape of the interest rate curve. An associated risk is the basis risk. This risk derives from the imperfect correlation in lending and borrowing interest rate changes for different instruments that may also show similar repricing characteristics;
- optionality risk – risk resulting from implicit or explicit options in the Group’s banking book positions.

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

To assess effects of the change in the interest rate curve on the banking book, scenario analyses are conducted that involve the parallel shifts in the rate curve of +/- 100 bps and +/- 200 bps at weekly intervals. For more details see section *2. Banking book: internal models and other methods of sensitivity analysis*

Hedging strategies aimed at complying with interest rate risk limits for the banking portfolio are carried out with unlisted derivative contracts. These derivatives, which are usually interest rate swaps, are the type of contracts most used. Macro-hedging is generally used, meaning hedges related to the amounts of cash contained in asset or liability portfolios.

There are currently no cash flow hedges generated by the Bank business operations.

Quantitative information

2. *Banking book: internal models and other methods of sensitivity analysis*

The following table provides the results of the analyses conducted.

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

The availability of historic data made it possible to completely align the representation of the interest rate risk profile to the profile used by the Group and that representation provided the breakdowns below.

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

	Value analysis (Shift + 200 bp)	**Value analysis (Shift - 200 bp)**	**Value analysis (Shift +1 bp)**	**IRVaR***	**Interest rate analysis (+100)**	**Interest rate analysis (-30)**
06.30.2018	-17,492	169,586	-250.80	1,093.74	116,319	-33,222

(Amounts in € thousand)

*1 day holding period, 99% confidence level%.

The sensitivity analysis on the value of shareholders' equity, which was conducted assuming a shift of + 200 basis points on the euro interest rate curve, showed a negative impact of € -17,492 thousand. A shift of -200 basis points showed a positive impact of € 169,586 thousand.

The sensitivity analysis on the value of shareholders' equity, which was conducted assuming a shift of + 1 basis point, showed a positive impact of € 250.80 thousand.

The interest rate VaR figure for the Bank came to approximately € 1.093.74 thousand.

Total VaR, including the Credit Spread Risk component arising mainly from Italian and Spanish government securities held as investment of liquidity, amounted to € 45,356.18 thousand.

The sensitivity analysis on the value of shareholders' equity, which was conducted assuming a shift of +100 basis points on the euro interest rate curve, showed a positive impact of € 116,319 thousand. A shift of -30 basis points would have a negative impact of € -33,222 thousand on the interest rate over the next 12 months.

1.2.3 Exchange Rate Risk

Qualitative information

A. General aspects, management processes and measurement methods for exchange rate risk

As part of its treasury activities, the Bank collects funds in foreign currencies, mainly US dollars, through customer current accounts, subsequently investing these funds in bonds, current accounts and time deposits, in the same currency, with the Parent Company UniCredit S.p.A. The impact on the value of balance sheet items is estimated using the Forex VaR indicator.

The VaR of the Bank's positions is not used for the calculation of the Pillar 1 capital requirement because the traditional standardised approach is used. The VaR is only used for management and risk monitoring purposes.

B. Exchange rate risk hedging

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

The component of exchange rate risk that contributes to the formation of the overall VaR is usually tied to the temporal mismatch between assets and liabilities in US dollars.

Quantitative information

2. Internal models and other methods of sensitivity analysis

As at June 30, 2018, the daily Forex VaR of the overall portfolio (banking and trading books) was approximately €67.5 thousand.

1.4 Liquidity Risk

Qualitative information

A. General aspects, management processes and measurement methods for liquidity risk

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

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

- funding risk, the Bank may not be able to effectively address any expected or unexpected cash outflows due to the unavailability of funding sources;
- market risk, in liquidating a considerable amount of assets, the Bank may be facing a considerable (and unfavourable) change in price generated by internal or external factors;
- risk of mismatch, the risk generated by a mismatch between the amounts and/or the maturities of cash inflows and outflows;
- contingency risk, future unexpected commitments (credit facilities being drawn down, deposit withdrawals, increase of collateral) may require a higher amount of liquidity compared to that used by the Bank in ordinary operations.

To address its exposure to liquidity risk, the Bank invests the portion of liquidity that according to its internal analyses is less stable ("non-core liquidity") in liquid assets or assets readily convertible into cash, such as, for example, demand deposits, short-term loans or government bonds that can be used as a source of short-term financing with the central bank.

At the reporting date, there were no "Contingent liquidity and funding needs", such as, for example, accelerated repayment clauses or the issue of additional guarantees relating to a downgrade of the bank.

The key principles

"Fineco Liquidity Policy" approved by the Board of Directors of the Bank establishes the managerial autonomy of the Bank’s Treasury department and sets forth the principles and rules that the Bank applies to both normal and emergency liquidity management in line with the UniCredit Group liquidity risk management.

Roles and responsibilities

The "Fineco Liquidity Policy" establishes the principles adopted in terms of internal governance, which envisage the involvement of the Finance, Treasury and Risk Management departments, in line with the Group's approach.

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

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

To this end, "Fineco Liquidity Policy" explicitly refers to Group rules regarding the implementation of first and second level monitoring, both from a regulatory and management standpoint:

1. Short-term liquidity risk management (operational liquidity), which considers the events that may impact upon the Bank's liquidity position from one day up to one year. The primary objective is to maintain the Bank's capacity to fulfil its ordinary and extraordinary payment obligations while minimising the relevant costs.
2. Structural liquidity risk management (structural risk), which considers the events that may impact upon the Bank's liquidity position over one year. The primary objective is to maintain an adequate ratio between medium/long term liabilities and medium to long-term assets, with a view to avoiding pressures on short-term funding sources (both current and future).
3. Stress tests: Liquidity risk is a low probability, high impact event. Therefore stress testing is a tool to reveal potential vulnerabilities. The Bank uses several scenarios ranging from general market crisis to idiosyncratic crisis, and combinations hereof.

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

Short term liquidity management

Short-term liquidity management aims at ensuring that the Bank remains in a position to fulfil its cash payment obligations always, whether expected or unexpected, focused on the exposure for the first twelve months.

On a daily basis, the Bank calculates the Operative Maturity Ladder, which measures the cash inflows and outflows affecting the monetary base, with details of the main temporal buckets.
The Bank's objective is to provide sufficient short-term liquidity to deal with the particularly adverse liquidity crises for at least three months.

Structural liquidity management

The objective of the Bank's structural liquidity management is to maintain an adequate ratio between medium/long term assets and liabilities (generally over one year), with a view to avoiding pressures on short-term funding sources, both current and future. To this end, the Bank adopts a prudent approach to its investments of liquidity, taking into account funding maturities. The indicators used and monitored as part of the wider Risk Appetite Framework (NSFR- and NSFR-adjusted) ensure that assets and liabilities have a sustainable maturity structure.

Liquidity Stress Test

Stress testing is a risk management technique used to evaluate the potential effects of a specific event on an entity's financial position. As a forward looking tool, liquidity stress testing diagnostics the institution's liquidity risk.

Periodically, the Bank uses scenario analysis to evaluate the impact of simultaneous changes in various risk factors, defining a hypothetical and consistent stress event whose assumptions and size are shared and agreed with the Parent Company's functions.

Behavioural modelling of Assets and Liabilities

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

FinecoBank Contingency Liquidity Policy

A liquidity crisis is a high impact, low probability event. Therefore, a crisis-mode operating model, that can be activated effectively in case of crisis according to an approved procedure, has been defined in FinecoBank "Contingency Plan for liquidity risk".

The ability to act in time is essential to minimise the potentially disruptive consequences of a liquidity crisis. The analytics of the Stress tests form a valuable tool to identify the expected consequences and to define up front the most suitable actions in a certain crisis scenario. In combination with Early Warning Indicators (EWI) the Bank may be able to reduce the liquidity effects in the initial stages of a crisis.

FinecoBank "Contingency Plan on liquidity risk" has the objective of ensuring effective interventions also during the initial stage of a liquidity crisis, through the clear identification of individuals, powers, responsibilities, communication, and reporting criteria, with a view of increasing significantly the probability of successfully overcoming the state of emergency. This is achieved through:

- activation of extraordinary liquidity governance and operating model;
- consistent communication both internally and to the Group;
- a set of available mitigating liquidity actions;
- a set of early warning indicators that may point towards a developing crisis.

1.5 - Operating risk

Qualitative information

A. General aspects, operational processes and methods for measuring operational risk

Operational risk definition

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

Group operational risk framework

The UniCredit Group has defined the policies and procedures for measuring and mitigating operational risk within the Group and its Subsidiaries Operational risk policies, applicable to all Group entities, are common principles that define the roles of company bodies and of the risk management function as well as the interactions with other functions involved in the process. These principles and provisions have been set out in the Group Framework for the management of operational risk and adopted in FinecoBank's Operational Risk Manual.

The methods for classifying data and verifying its completeness, scenario analysis, risk indicators and risk capital reporting and measurement are set by the Group Operational & Reputational Risks department of the Parent Company and applied by FinecoBank in its capacity as a Group Legal Entity. A pivot element of the risk control framework is the operational risk management application, allowing the collection of the data required for operational risk control and capital measurement.
The compliance of the operational risk control and measurement system with external regulations and Group standards is assessed through an internal validation process, under the responsibility of the Group Internal Validation department of the Parent Company, which is independent from the Group Operational & Reputational Risks department.
The Bank has obtained the approval of the Bank of Italy for the use of advanced approaches (AMA) to calculate its capital requirement for operational risk with effect from June 30, 2010.

Organisational structure

The Board of Directors is responsible for approving all aspects relating to the operational risk framework and verifying the adequacy of the measurement and control system and is regularly updated on changes to the risk profile and operational risk exposure.

The reports produced by Risk Management for the Board of Directors ensure that management and the control bodies are constantly updated on the trend in operational risk within the Bank and can actively intervene in the management and mitigation of the risks. The Chief Risk Officer's participation in the Products Committee also ensures oversight of the operational risk associated with the Bank's new business activities.

The Operational Risk Management (ORM) team is part of the broader Risk Management office which reports to the Chief Risk Officer of FinecoBank who in turn reports directly to the Chief Executive Officer and General Manager.

The main activities carried out by the Risk Management office in terms of operational risk are:

- recognition, classification, validation and reporting of operating losses with consequent identification of problem areas;
- assessment of potential risks through scenario analyses and risk indicators (Key Risk Indicator-KRI);
- monitoring and optimisation of the internal control system;
- policies to mitigate and transfer risk through insurance cover;
- development of an operational risk culture within the Bank;
- generating reports for the Board of Directors and Senior Management on risk trends.

Internal validation process

In compliance with external regulations, the operational risk control and measurement system is subject to an internal validation process established by the Parent Company, in order to verify its compliance with minimum requirements and Group standards. This process is owned by the Operational and Pillar II Risk Validation Unit, within the Group Internal Validation department.

The use of the Advanced Measurement Approach (AMA) to calculate regulatory capital requires the preparation of an annual report on the management and control system for operational risk by the Operational Risk team. This Annual Report contains a self-assessment of the system and a detailed examination of the governance structure, the process for collecting data on losses, the scenario analyses and internal control system, as well as the operational use of the measurement system.

The Report is submitted to the approval of the Board of Directors and is validated by the Internal Audit department and Group Internal Validation (GIV). For 2017, the most recent validation, the Internal Audit department and Group GIV confirmed that adequate protection measures are in place for operating risk as well as the adequacy of the existing management and control system.

Operational risk management

Operational risk management consists of the review of processes to reduce the risks found and the management of the related insurance policies, with the identification of the suitable deductibles and limits.

From September 2011, a Permanent Work Group (PWG) has been established, which includes the CRO, the Risk Manager as well as Information Security & Fraud Manager and Organisation, to allow them to share their respective expertise in relation to the projects planned or in under way, new processes and products, or changes to them, and anything else that may affect the Bank's risk profile; the PWG's ultimate objective is to identify and then develop new mitigation measures.

As part of the prevention of operational risk and to control sales channels remotely, the Risk Management office has focused on fraud prevention measures.

The development of remote monitoring to prevent fraud has led to the creation of a system called System of Fraud Identification and Analysis (SoFIA). This system enables a larger amount of data and information on individual indicators to be analysed at the same time and enables possible irregularities to be detected on a daily basis through an alert system.

In this way, all of the names put forward to be checked are assessed at the same time with regard to all remote indicators (20 indicators).

On the basis of qualitative and quantitative assessments of these indicators, the assigned staff select any cases that need to be reported to the Network Controls Department, Monitoring and Network Services Department – reporting directly to the Chief Executive Officer – for subsequent examination.

Moreover, the Operational Risk team is updated annually on the results of the tests conducted in accordance with the Business Continuity and Disaster Recovery plans.

Risk capital measurement and allocation mechanism

UniCredit developed an internal model for measuring the capital requirement. The capital requirement is calculated on the basis of internal loss data, external loss data, scenario loss data and risk indicators.

The collection and classification of operating losses is managed by a Group system called Application for Risk Gauging On line (ARGO). In addition to being used for internal prevention and improvement purposes, the information gathered is also used to calculate Pillar 1 and 2 capital requirements.

In terms of risk indicators, there are currently 47 key risk indicators split into eight control areas (Legal, Claims, Credit Cards, Back Office, PFA, IT systems, Payment Systems, Compliance) that contribute to the calculation of the regulatory capital, which the Bank uses to measure its exposure to operational risk. If an indicator shows an irregular value, this may be related to changes in the exposure to operational risk.

Scenario analyses enable the Bank’s exposure to operational risk, characterised by low frequency but high potential impact, to be estimated. The scenarios are identified by analysing internal losses, external events, risk indicator trends, critical processes, products and risk classes.

The inclusion of the data generated through the analyses of the scenario and of the trend of risk indicators are a forward-looking element of the risk capital calculation model.

Data collection and control is managed by the Bank, while the management and maintenance of the model to calculate regulatory capital is centralised for all Legal Entities of the Group at the Parent Company.

Risk capital for operational risk used for regulatory purposes as at June 30, 2018, amounted to €53.526 thousand.

Risks arising from significant legal disputes

The Bank is involved in individually insignificant legal proceedings over which there is considerable uncertainty regarding the outcome and the amount of possible charges, which the Bank could be forced to incur. Where it is possible to reliably estimate the amount of possible charges and the charges are considered likely, provisions have been made in an appropriate amount based on the circumstances and consistent with international accounting standards, by making the best possible estimate of the amount that the Bank will reasonably be expected to incur in discharging its obligations. Specifically, as a precaution against these obligations and customer claims that have not yet resulted in legal proceedings, as at June 30, 2018, the Bank had a provision in place for risks and charges of €30,012 thousand. This provision includes the costs of proceedings borne by the Bank in the event of an adverse conclusion of the dispute plus the estimated expenses to be paid to lawyers, any technical advisors and/or experts who assist the Bank, to the extent that it is believed that they will not be reimbursed by the counterparties. This estimate was determined by the Bank, in relation to the current dispute, based on the analysis of the historical trend of legal expenses incurred, by type of litigation and degree of judgment, consistent with the methodology defined by the Parent Company in this regard.

Risks arising from tax disputes and audits

Risks arising from tax disputes and audits as at June 30, 2018 mainly relate to a notice of assessment for the year 2003 containing an objection to the use of tax credits for €2.3 million, in relation to which the bank has appealed to the Supreme Court as it considers its position to be well-founded. The bank has already paid the additional taxes and interest due.

With regard to disputes, the higher taxes, interests and penalties have already been recognised in the income statement with a contra entry, respectively, in tax liabilities and the provision for risks and charges.

Moreover, tax receivables for the amounts paid have been recognised.

In light of the foregoing, as at June 30, 2018 the Bank had in place provisions that adequately reflect the specific circumstances and are in line with international accounting standards; specifically, to tax liabilities of for a total of €5.6 million, for higher tax, and to provisions for risks and charges of €3.9 million, for penalties and interest.

The assessment of ICT operational risk

The prudential regulations require Banks to conduct an analysis, at least annually, of the Bank's ICT risk and to submit the results of the assessment made to the Board of Directors.

In particular, the regulations have introduced standards and specific requirements for managing and assessing ICT risk that require Banks to assess the exposure to these risks, not only by gathering and analysing economic losses, but also by considering additional information, such as ICT incidents occurring and information related to the riskiness of the Bank's assets (hardware and software).

The Parent Company, in performing its role of direction, coordination and control, has established a common framework for the entire Group for the assessment of ICT risk and FinecoBank Risk Management function has adopted that framework.

The results of the analysis, conducted in collaboration with the Bank's Business, ICT and Organisation departments, were reported to the Bank's Board of Directors during 2017.

Quantitative information

Internal operating loss data is the main component used to calculate capital requirements against operational risk. Loss analyses enable the ORM team to make assessments on the Bank's exposure to operational risk and to identify any critical areas. As at June 30, 2018, operating losses recorded in the accounts amounted to approximately €0.8 million.

The main sources of operating losses are shown below by "event type", i.e. by type of event that generated them according to the Basel II Accord:

- Internal fraud: losses due to unauthorised activities, fraud, embezzlement or infringement of laws, regulations or company directives that involve at least one internal staff member of the bank or a resource hired under an agency contract (PFA);
- External fraud: losses owing to fraud, embezzlement or violation of laws by subjects external to the bank;
- Employment practices and workplace safety: losses due to actions not compliant with the law or to agreements regarding employment, health and safety, to the payment of compensation for bodily harm, or to cases of discrimination or non-application of equality conditions;
- Customers, products and professional practices: losses arising from non-fulfilment of professional obligations towards customers or from the nature or characteristics of the products or services provided;
- Damage from external events: losses arising from external events, including natural disasters, acts of terrorism and vandalism;
- Business disruption and system failures: losses owing to business disruption and system failures or interruptions;
- Process management, execution and delivery: losses due to deficiencies in the completion of transactions or management of processes, as well as losses due to relations with commercial counterparties, vendors and suppliers.

1.6 - Other risks

Although the types of risk described above represent the main categories, there are other types that the Bank considers important. In accordance with the provisions of Basel II Pillar 2, the Bank – with the support of the Parent Company – has identified other types of risk in addition to the credit, market, operational and liquidity risks described above:

- **Business risk** is defined as the distance between the Bank's expected net result and any unforeseen and adverse variances. First of all, it may be caused by a significant deterioration of market conditions, changes to competition or the Bank's cost structure;

- **Strategic risk** is the risk of suffering potential losses due to decisions or radical changes in the business environment, improper implementation of decisions, lack of responsiveness to changes in the business environment, which result in negative impacts to the risk profile, capital and earnings as well as the overall direction and scope of a bank over the long run;

- **Reputational risk**, which represents the current or future risk of a fall in profits resulting from a negative perception of the Bank's image by Customers, counterparties, shareholders, investors or Supervisory Authorities.

The Bank has not included Real Estate Risk within the Bank's scope of risk, because it does not hold significant positions in real estate, nor insurance risk, as the insurance companies are not included in its scope of consolidation.

Following the identification of the significant risks, the Parent Company establishes the best way to analyse them in qualitative and quantitative terms. The quantitative measurement is carried out by the Parent Company using data sent by the Bank and is used to calculate the Internal Capital.

Credit, market, operational and business risks are measured quantitatively by the Parent Company, using:

- economic capital, calculation of the benefit of diversification and aggregation as a component of internal capital (including prudential cushion for model risk and variability of the economic cycle);
- stress tests.

Internal Capital is the capital set aside as a buffer against the potential losses inherent in the Group's business activities and it takes into consideration all risk types that the Group has identified as measurable in terms of Economic Capital in line with Pillar II requirements.

For control purposes, Internal Capital is calculated quarterly by the Parent Company based on the periodic figures sent by the Bank.

The multi-dimensional nature of risk makes it necessary to supplement the measurement of economic capital with stress testing, not only in order to estimate losses in certain scenarios, but also to ascertain the impact of their determinants.

The stress test is one of the instruments used control significant risks in order to assess the Bank's vulnerability to "exceptional but plausible" events, providing additional information to the monitoring activities.

Stress testing, in accordance with regulatory requirements, is conducted on the basis of a set of internally defined stress scenarios and is periodically performed by specific Parent Company functions.

ICAAP - Internal Capital Adequacy Assessment Process

Measuring the risk profile is a fundamental element of the Internal Capital Adequacy Assessment Process under Pillar 2 (ICAAP).

The UniCredit Group's approach to ICAAP relies on the definition of the "Risk Governance", as a preliminary requirement, while the process consists of following phases:

- defining the scope and identifying the risks;
- assessing the risk profile;
- risk appetite setting and capital allocation;
- monitoring and reporting.

Capital adequacy is assessed by considering the balance between assumed risks, both Pillar I and Pillar II, and the available capital. With respect to Pillar II, the relevant metric is the Risk Taking Capacity, which is the ratio of available capital (Available Financial Resources - AFR) to Internal Capital.

Risk Appetite

The main elements of the internal process for determining capital adequacy include the setting and monitoring of the risk appetite. The risk appetite is defined as the level of risk that the Bank is willing to accept for the pursuit of its strategic objectives and business plan, taking into account the interests of its customers and shareholders, capital requirements and other requirements.

The main objectives of the risk appetite are:

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

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

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

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

For each of the above mentioned factors, one or more KPIs are identified, in order to quantitatively measure the Bank’s positioning under several respects: absolute values, ratio between comparable measures, sensitivity analysis on defined parameters.

The Targets represent the amount of risk that the Bank is willing to take in normal operating conditions in line with its Ambitions. The Targets should be considered as reference thresholds for business development. Triggers are the maximum acceptable deviation from the targets; they are defined to ensure operations under stress within the maximum acceptable level of risk.

Limits are the maximum level of risk that the Bank accepts to assume.

The setting of the thresholds is evaluated on a case by case basis, also through managerial decisions by the Board of Directors, in compliance with the regulatory requirements and of the supervisory bodies and considering the consistency with the Group risk appetite.

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

Section 3 – Insurance companies risk

No information to report.

Section 4 – Other companies' risk

No information to report.

PART F - CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1 - Consolidated Shareholders' equity

A. Qualitative information

The Bank has made a priority of capital management and allocation on the basis of the risk assumed in order to expand its operations and create value. These activities involve the various planning and control stages and, specifically, the planning, budgeting and monitoring processes (analysis of expected and actual performance, analysis and monitoring of limits, performance analysis and monitoring of capital ratios). These activities are also planned in relation to the subsidiary Fineco AM, once it has commenced operations.

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

Capital is managed dynamically: the Bank prepares the financial plan, monitors capital requirements for regulatory purposes and anticipates the appropriate steps required to achieve goals.

Monitoring refers, on one hand, to both shareholders' equity and the composition of own funds and, on the other hand, to the planning and performance of risk-weighted assets (RWA).

On January 31, 2018, FinecoBank issued an Additional Tier 1 Perp Non Call June 2023 notes issue (5.5 years, Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes). The issue of the financial instrument was authorized by the Board of Directors of FinecoBank on 23 January 2018. The financial instrument is a perpetual private placement[18], issued for a total of €200,000 thousand and entirely subscribed by UniCredit S.p.A. The coupon for the first 5.5 years has been fixed at 4.82%. The decision to carry out an intra-group issuance had many advantages: effective cost savings relating, for example, to the underwriting syndicate, and shorter issue times so as not to miss the right moment, maximising the benefits of the transaction.

In view of the particularly favourable market conditions and spread levels, the Bank decided to issue an Additional Tier 1 in order to improve the diversification of its investment portfolio.

[18] Unrated and unlisted

B. Quantitative information

B.1 Consolidated Shareholders' equity: breakdown by company type

Shareholders' equity item	Prudential consolidated	Insurance companies	Other companies	Eliminations and adjustments from consolidation	Total
Share capital	200,773	-	-	-	200,773
Share premium reserve	1,934	-	-	-	1,934
Reserves	361,734	-	-	-	361,734
Equity instruments	200,000	-	-	-	200,000
(Treasury shares)	(623)	-	-	-	(623)
Revaluation reserves	(14,997)	-	-	-	(14,997)
- Equity securities designated at fair value through other comprehensive income	-	-	-	-	-
- Coverage of equity securities designated at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other equity securities) designated at fair value through other comprehensive income	(5,440)	-	-	-	(5,440)
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedging instruments of foreign investments	-	-	-	-	-
- Cash flow hedges	-	-	-	-	-
- Hedge instruments (non-designated elements)	-				-
- Exchange differences	-	-	-	-	-
- Non-current assets classified as held for sale	-				-
- Financial liabilities designated at fair value through profit and loss (changes in own creditworthiness)	-	-	-	-	-
- Actuarial gains (losses) on defined benefit plans	(9,557)	-	-	-	(9,557)
- Revaluation reserves for associates carried at equity	-	-	-	-	-
- Special revaluation laws	-	-	-	-	-
Net profit (loss) for the period (+/-) of group and minorities	125,179	-	-	-	125,179
Total	**874,000**	**-**	**-**	**-**	**874,000**

(Amounts in € thousand)

B.2 Revaluation reserves for financial assets at fair value through comprehensive income: breakdown

Asset/Amount	Prudential consolidated		Insurance companies		Other companies		Eliminations and adjustments from consolidation		**Total**	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	**Positive reserve**	**Negative reserve**
1. Debt securities	1,500	(6,940)	-	-	-	-	-	-	**1,500**	**(6,940)**
2. Equity instruments	-	-	-	-	-	-	-	-	**-**	**-**
3. Loans	-	-	-	-	-	-	-	-	**-**	**-**
Total 06.30.2018	**1,500**	**(6,940)**	**-**	**-**	**-**	**-**	**-**	**-**	**1,500**	**(6,940)**
Total 12.31.2017										

(Amounts in € thousand)

Revaluation reserves for available-for-sale financial assets: breakdown (ex IAS 39)

Asset/Amount	Banking Group		Insurance companies		Other companies		Eliminations and adjustments from consolidation		**Total**	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	**Positive reserve**	**Negative reserve**
1. Debt securities	10,529	(10,216)	-	-	-	-	-	-	**10,529**	**(10,216)**
2. Equity instruments	1,159	-	-	-	-	-	-	-	**1,159**	**-**
3. Units in investment funds	-	-	-	-	-	-	-	-	**-**	**-**
4. Loans	-	-	-	-	-	-	-	-	**-**	**-**
Total 12.31.2017	**11,688**	**(10,216)**	**-**	**-**	**-**	**-**	**-**	**-**	**11,688**	**(10,216)**

(Amounts in € thousand)

B.3 Revaluation reserves for financial assets at fair value through comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balance	**3,449**	**-**	**-**
2. Increases	**409**	**-**	**-**
2.1 Fair value increases	374	-	-
2.2 Adjustments for credit risk	35	-	-
2.3 Reclassification through profit or loss of realised negative reserves	-	-	-
2.4 Transfer from other shareholder's equity item (equity securities)	-	-	-
2.5 Other changes	-	-	-
3. Decreases	**(9,298)**	**-**	**-**
3.1 Fair value reductions	(8,384)	-	-
3.2 Recoveries for credit risk	-	-	-
3.3 Reclassification through profit or loss of realised positive reserves	(914)	-	-
3.4 Transfer to other shareholder's equity item (equity securities)	-	-	-
3.5 Other changes	-	-	-
4. Closing balances	**(5,440)**	**-**	**-**

(Amounts in € thousand)

The initial balance shown in the table refers to the valuation reserves recorded at January 1, 2018 after restating the opening balances following the entry into force of IFRS 9 (for further details, see Section 5 - Other matters of these Explanatory Notes).

B.4 Revaluation reserves on defined benefit obligations: annual changes

	Actuarial gains (losses) on defined benefits plans
1. Opening balance	**(9,812)**
2. Increases	**255**
2.1 Fair value increases	255
2.2 Other Changes	-
3. Decreases	**-**
3.1 Fair value reductions	-
3.2 Other Changes	-
4. Closing balances	**(9,557)**

(Amounts in € thousand)

Section 2 - Own funds and banking regulatory ratios

FinecoBank is not obliged to report on own funds and consolidated regulatory ratios because it is part of the UniCredit Group.

The own funds and individual regulatory ratios of FinecoBank S.p.A are therefore shown below.

2.1 Own funds

A. Qualitative information

Own funds are measured on a quarterly basis in accordance with regulatory provisions. The results are reported to the Parent Company's Board of Directors.

Own Funds at June 30, 2018 amounted to €679,326 thousand and were calculated by applying the supervisory regulations in force according to the Basel III regulatory framework including transitional adjustments. The increase compared to December 31, 2017 is mainly due to the issue on January 31, 2018 of an Additional Tier 1 equity instrument (for more details, see paragraph 2. Additional Tier 1 capital).

The Common Equity Tier 1 includes the profit for the period (for the amount that will not be distributed calculated based on the distribution rate for the last years) assuming the conditions established Article 26.2 of the EU Regulation 575/2013 (CRR) are satisfied.

	Total 06.30.2018	Total 12.31.2017
Common Equity Tier 1 - CET1	479,326	484,960
Additional Tier 1 – AT1	200,000	-
TIER 2 – T2	-	-
Total Own Funds	**679,326**	**484,960**

(Amounts in € thousand)

***1.* Common Equity Tier 1 - CET1**

The financial instruments included in the Common Equity Tier 1 consist of 608,404,395 ordinary shares with a par value of €0.33 euro, amounting to €200,773 thousand, net of 88,041 treasury shares, amounting to €623 thousand.

For information on the other items that make up the Common Equity Tier 1 see the details provided at the foot of the table presented in the Quantitative information.

***2.* Additional Tier 1 – AT1**

On January 31, 2018, FinecoBank issued an Additional Tier 1 Perp Non Call June 2023 notes issue (5.5 years, Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes). The issue of the financial instrument was authorized by the Board of Directors of FinecoBank on 23 January 2018. The financial instrument is a perpetual private placement[19], issued for a total of €200,000 thousand and entirely subscribed by UniCredit S.p.A. The coupon for the first 5.5 years has been fixed at 4.82%.

***3.* TIER 2 – T2**

As at June 30, 2018 there were no Tier 2 capital items.

[19] Unrated and unlisted

B. Quantitative information

	Total 06.30.2018	Total 12.31.2017
A. Common Equity Tier 1 - CET1 first time application of prudential filters	**552,124**	**556,545**
of which CET1 instruments subject to transitional provisions	-	-
B. Prudential filters for cet1 (+/-)	(395)	(1,256)
C. CET1 before items to be deducted and the effects of the transitional arrangements (A +/- B)	**551,729**	**555,289**
D. Items to be deducted from CET1	**74,168**	**73,766**
E. Transitional arrangements – Impact on CET1 (+/-)	**1,765**	**3,437**
F. Total Common Equity Tier 1 Capital - CET1 (C - D +/- E)	**479,326**	**484,960**
G. Additional Tier 1 - AT1 before items to be deducted and the effects of the transitional arrangements	**200,000**	**-**
of which AT1 instruments subject to transitional provisions	-	-
H. Items to be deducted from AT1	**-**	**-**
I. Transitional arrangements – Impact on AT1 (+/-)	**-**	**-**
L. Total Additional Tier 1 - AT1 (G - H +/- I)	**200,000**	**-**
M. Tier 2 before items to be deducted and the effects of the transitional arrangements	**-**	**-**
of which T2 instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	**-**	**-**
O. Transitional arrangements – Impact on T2 (+/-)	**-**	**-**
P. Total Tier 2 (Tier 2 - T2) (M - N +/- O)	**-**	**-**
Q. Total own funds (F + L + P)	**679,326**	**484,960**

(Amounts in € thousand)

A. Common Equity Tier 1 - CET1 first time application of prudential filters

The item includes:

- share capital, comprising 608,404,395 ordinary shares with a nominal value of €0.33, for an equivalent amount of €200,773 thousand;
- share premium reserve of €1,934 thousand;
- legal reserve, extraordinary reserve and other reserves, for an amount of €361,898 thousand, inclusive of the negative reserve arising from first time adoption of IFRS 9, amounting to €-4,868 thousand;
- accumulated other comprehensive income (OCI) which consists of the net negative reserve of debt securities issued by central governments, accounted for in "Financial assets designated at fair value through other comprehensive income", for €-5,440 thousand, and the IAS19 negative reserve for €-9,557 thousand;
- share of profit for the first half of 2018 to be allocated as an increase in the value of the reserves, for an amount of €24,093 thousand, calculated based on the payout ratio of the previous year, assuming the conditions set forth in art. 26, paragraph 2, of the EU Regulation 575/2013 (CRR) have been met. To this end, in the absence of a formal dividend policy, solely for the purpose of calculating own funds at June 30, 2018, retained earnings included in Common Equity Tier 1 were estimated by taking as reference the higher of the dividend calculated on the basis of the payout ratio of the previous year and the dividend calculated on the basis of the average payout ratio of the last three years, as required by Decision (EU) No. 2015/656 of the European Central Bank.

The following elements were deducted from the item:

- Own CET1 instruments held in portfolio for €623 thousand;
- CET1 instruments held by third parties, the purchase of which was financed by the Bank for €951 thousand;
- synthetic exposures in own CET1 instruments held in the Bank's regulatory trading book, amounting to €34 thousand;
- the commitment to repurchase treasury shares for €19,969 thousand. As of July 2nd, pursuant to art. 144-bis of the Regulation adopted by CONSOB with resolution no. 11971 of February 24, 1999, the Bank launched a

treasury shares purchase program to cover the stock granting plan - "2015-2017 PFA PLAN" - in favour of selected Financial Advisors, in accordance with the authorization granted by the Ordinary Shareholders' Meeting of the Bank of 11 April 2017, pursuant respectively to Articles 2357-ter and 2359-bis of the Italian Civil Code and to other applicable laws and regulations. The program concerns the purchase of treasury shares up to the maximum limit of 5,520,000 shares (or approximately 0.91% of the Bank's share capital); in particular, the treasury shares purchased are intended to cover the implementation of the first, second and third tranches of the aforementioned stock granting plan - "2015-2017 PFA PLAN".

B. CET1 Prudential filters

This item includes the filter for additional valuation adjustments (AVA) calculated on the assets and liabilities measured at fair value, amounting to -€394 thousand.

D. Items to be deducted from CET1

This item includes:

- goodwill, net of deferred taxes, amounting to €65,624 thousand;
- other intangible assets, amounting to €7,827 thousand;
- the equity exposure to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund totalling €718 thousand

E. Transitional arrangements – Impact on CET1

La voce include il filtro prudenziale positivo del 20% dell’importo della riserva netta negativa IAS19 per un importo di 1.765 migliaia di euro. La modifica apportata con decorrenza 1° gennaio 2013 (IAS 19R), che ha comportato l’eliminazione del metodo del corridoio con conseguente iscrizione del valore attuale dell’obbligazione a benefici definiti, ha determinato un impatto sul patrimonio netto della Banca connesso alla rilevazione nelle riserve di valutazione degli utili/perdite attuariali non precedentemente rilevate in applicazione di detto metodo. Dal punto di vista regolamentare, il regolatore ha disposto l’applicazione di un filtro prudenziale volto a sterilizzare l’impatto delle modifiche in esame pari, per l’anno 2018, al 20%.

G. Additional Tier 1 - AT1 before items to be deducted and the effects of the transitional arrangements

The Additional Tier 1 capital includes the Additional Tier 1 Perp Non Call June 2023 notes issue (5.5 years, Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes) issued by FinecoBank on January 31, 2018, as previously described.

Reconciliation of Own funds with Carrying amounts

	Total 06.30.2018	Total 12.31.2017
Share capital, issue-premium reserves and other reserves	564,605	526,411
Accumulated other comprehensive income (OCI)	(14,997)	(8,340)
Profit allocated to reserves	24,093	40,888
Own CET1 instruments	(623)	(365)
CET1 instruments held by customers who simultaneously used a credit facility	(951)	-
CET1 instruments own held indirectly or synthetically	(34)	(2,049)
Commitments to purchase own CET1 instruments	(19,969)	-
Fair value adjustment (AVA)	(394)	(538)
Intangible assets – Goodwill	(65,624)	(65,857)
Intangible assets - Other intangible assets	(7,827)	(7,909)
Deduction equity exposure Voluntary Scheme	(718)	(718)
Other transitional adjustments to CET1 capital	1,765	3,437
Common Equity Tier 1 Capital - CET1	**479,326**	**484,960**
Additional Tier 1 – AT1	**200,000**	**-**
Tier 1 Capital (T1= CET1 + AT1)	**679,326**	**-**
TIER 2 – T2	**-**	**-**
Total Own Funds	**679,326**	**484,960**

(Amounts in € thousand)

Changes in Own Funds

	01.01.2017 / 06.30.2018	01.01.2017 / 12.31.2017
Common Equity Tier 1 - CET1		
Start of period	**484,960**	**438,121**
Instruments and Reserves		
Share capital, issue-premium reserves and other reserves	(2,694)	4,140
Own CET1 instruments	(258)	3,973
CET1 instruments held by customers who simultaneously used a credit facility	(951)	-
CET1 instruments own held indirectly or synthetically	2,015	(1,985)
Commitments to purchase own CET1 instruments	(19,969)	1,750
Accumulated other comprehensive income (OCI)	(6,657)	(1,546)
Profit allocated to reserves	24,093	40,888
Regulatory adjustments		
Intangible assets – Goodwill	233	467
Intangible assets - Other intangible assets	82	(178)
Fair value adjustments (AVA)	144	40
Deduction equity exposure Voluntary Scheme	-	(718)
Other transitional adjustments to CET1 capital	(1,672)	8
End of period	**479,326**	**484,960**
Additional Tier 1 – AT1		
Start of period	**-**	**-**
Issue of Tier 1 additional capital instruments (Additional Tier 1 - AT1)	200,000	
End of period	**200,000**	**-**
Tier 2 capital (T2)		
Start of period	**-**	**-**
End of period	**-**	**-**
Total Own Funds	**679,326**	**484,960**

(Amounts in € thousand)

2.2 Capital adequacy

A. Qualitative information

The Bank's supervisory prudential requirements at June 30, 2018 have been calculated by applying the current Basel III supervisory provisions, standardised approach, with the exception of operational risk capital requirements, calculated using the advanced approaches.

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

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

Furthermore, in addition to the Common Equity Tier 1 necessary to meet own funds requirements under Article 92 of the CRR, banks are required to hold a capital buffer, for 2018, of 1.875% of the bank's overall risk exposure (2.5% from 2019).

Article 136 of the directive EU/2013/36 (Capital Requirements Directive, CRD4) establishes the requirement for the designated national authorities to set up an operational framework for establishing the countercyclical capital buffer (CCyB) with effect from January 1, 2016. The buffer is reviewed on a quarterly basis. The European legislation was implemented in Italy through the Bank of Italy Circular 285/2013 (Supervisory regulations for banks), which contain specific rules on the CCyB. Legislative Decree 72 of May 12, 2015 identified the Bank of Italy as the authority designated to adopt the macro prudential measures in the banking sector, including the CCyB. The rules apply at individual and consolidated level to banks and investment firms. Accordingly, with effect from January 1, 2016, institutions are required to maintain an institution-specific countercyclical capital buffer, equivalent to their total risk exposure amount, calculated in accordance with Article 92(3) of Regulation (EU) No 575/2013 multiplied by the weighted average of the buffer rates. The introduction of the countercyclical buffer includes a phase-in period between January 1, 2016 and the end of 2018, and will become fully effective from January 1, 2019 (in 2018 the countercyclical buffer cannot be higher than 1.875%). The Bank's specific countercyclical capital buffer as at June 30, 2018 was 0.0004%, corresponding to around €89 thousand.

Following the results of the Supervisory Review and Evaluation Process (SREP) conducted by the ECB in 2017, the competent authorities determined that no decision is due for the Bank under the national legislation implementing article 104(1)(a) of Directive 2013/36/EU or article 16 of Regulation (EU) No 1024/2013.

As for the qualitative information on the methods used by the Bank for assessing its own funds adequacy to support current and future operations, please refer to Section 1 - Shareholders' Equity of this Part F.

B. Quantitative information

Category/Amount	Non weighted assets		Weighted assets	
	06.30.2018	12.31.2017	06.30.2018	12.31.2017
A. RISK ASSETS				
A.1 Credit and counterparty risk	**23,208,546**	**22,964,253**	**1,626,482**	**1,585,514**
1. Traditional standardised approach	23,208,546	22,964,253	1,626,482	1,585,514
2. Internal rating method	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**130,119**	**126,841**
B.2 Risk of credit valuation adjustment			**76**	**47**
B.3 Regulatory risk			**8**	**2**
B.4 Market risk			**1,876**	**4,149**
1. Traditional standardised approach			1,876	4,149
2. Internal models			-	**-**
3. Concentration risk			-	-
B.5 Operational risk			**53,526**	**55,762**
1. Basic Indicator Approach			-	-
2. Traditional standardised approach			-	-
3. Advanced measurement approach			53,526	55,762
B.6 Other calculation elements			**-**	**-**
B.7 Total prudential requirements			**185,605**	**186,801**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,320,063	2,335,013
C.2 Common equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio)			20.66%	20.77%
C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			29.28%	20.77%
C.3 Own funds/risk-weighted assets (Total capital ratio)			29.28%	20.77%

(Amounts in € thousand)

Risk-weighted assets have been calculated by multiplying the total of prudential requirements by 12.5 (the inverse of the minimum compulsory coefficient of 8%).

Exposure to credit and counterparty risk: breakdown by type of portfolio

Portfolio	06.30.2018		12.31.2017	
	Exposure to credit and counterparty risk	Risk-weighted assets	Exposure to credit and counterparty risk	Risk-weighted assets
Exposures subject to the IRB method				
Total – IRB approach	-	-	-	-
Exposures subject to the standardised approach				
Exposures with or secured by central governments or central banks	7,382,934	80,856	6,051,345	72,270
Exposures with or secured by Institutions	13,427,738	29,807	14,656,637	28,597
Public sector organisations	99,882	-	99,924	-
Exposures to or guaranteed by multilateral development banks	1	-	-	-
Exposures with or secured by Companies or other entities	185,700	185,691	194,078	194,064
Retail exposures	1,275,423	956,567	1,347,655	1,010,741
Exposures secured by real estate property	721,095	252,739	515,982	180,847
Exposures in default	2,699	2,702	2,779	2,798
Exposures in equity instruments	8,980	13,480	5,006	5,006
Other exposures	104,048	104,040	90,818	90,812
Total - traditional standardised approach	**23,208,500**	**1,625,882**	**22,964,224**	**1,585,135**
Risk assets - credit and counterparty risk	**23,208,500**	**1,625,882**	**22,964,224**	**1,585,135**
Exposures to central counterparties in the form of pre-financed contributions to the Guarantee Fund		**600**		**379**
Capital requirement - credit and counterparty risk		**130,119**		**126,841**

(Amounts in € thousand)

Capital requirement per type of risk and approach used

Type of risk	Approach used	Capital requirements 06.30.2018	Capital requirements 12.31.2017
1. On-balance-sheet risk assets	Traditional standardised approach	115,331	111,647
2. Guarantees given and commitments to disburse funds	Traditional standardised approach	103	100
3. Derivative contracts	Current value method	263	123
4. SFT Transactions	CRM - Comprehensive method with regulatory adjustments for volatility	14,374	14,941
Capital requirements - credit and counterparty risk		**130,071**	**126,811**
Capital requirements exposures to central counterparties in the form of pre-financed contributions to the Guarantee Fund		**48**	**30**
Market risk			
1. Exchange rate risk	Traditional standardised approach	-	1,090
2. Debt securities position risk	Traditional standardised approach	865	1,691
3. Equity securities position risk	Traditional standardised approach	930	722
4. Position risk on commodities	Traditional standardised approach	80	-
5. Position risk on OIC	Traditional standardised approach	1	646
Capital requirements for market risk		**1,876**	**4,149**
1. Concentration risk	Traditional standardised approach	-	-
Capital requirements for concentration risk		**-**	**-**
1. Risk of credit valuation adjustment	Traditional standardised approach	76	47
Capital requirements for risk of credit valuation adjustment		**76**	**47**
1. Regulatory risk	Traditional standardised approach	8	2
Capital requirements regulatory risk		**8**	**2**
1. Advanced measurement approach	Advanced approach	53,526	55,762
Capital requirements for operational risk		**53,526**	**55,762**
Total capital requirements		**185,605**	**186,801**

(Amounts in € thousand)

2.3 Minimum ratios established by the Bank

Capital adequacy indicators	06.30.2018	Target 2018	Trigger 2018	Limit 2018
Common Equity Tier 1 ratio	20.66%	12.00%	7.125%	6.625%
Total capital ratio	29.28%	16.00%	10.625%	10.125%

The Common Equity Tier 1 and the Total Capital Ratio comply with the limits provided in the Risk Appetite Framework approved by the Board of Directors on December 5, 2017.

PART H - RELATED-PARTY TRANSACTIONS

Information on the fees paid to key management personnel and on related-party transactions, pursuant to IAS 24 is shown below.

1. Details of compensation for key management personnel

Key management personnel are persons having authority and responsibility for planning, directing, and controlling the Companies' activities, directly or indirectly. This category includes Board members and members of the Board of Statutory Auditors, pursuant to requirements of the Bank of Italy Circular no. 262 of December 22, 2005 as amended and updated, as well as the Chief Executive Officer and General Manager, the Deputy General Manager/GBS Manager, the Chief Financial Officer, the PFA Network Commercial Manager, the Deputy General Manager/Direct Bank Manager and the Investment & Wealth Management Services Manager.

	Total 06.30.2018	Total 06.30.2017
Fees paid to "Key Management Personnel", Directors and the Board of Statutory Auditors		
a) short-term benefits	2,952	2,712
b) post-employment benefits	109	107
of which under defined benefit plans	-	-
of which under defined contribution plans	*109*	*107*
c) other long-term employee benefits	-	-
d) termination benefits	-	-
e) share-based payments	1,429	1,196
TOTAL	**4,490**	**4,015**

(Amounts in € thousand)

2. Related-party transactions

The Board of Directors, in order to ensure continued compliance with applicable legal and regulatory provisions on corporate disclosure on transactions with related parties and persons in conflict of interest, during the meeting on June 6, 2017 and with the prior favorable opinion of the Risk and Related Parties Committee and the Board of Statutory Auditors released on June 5, 2017, approved the current "*Procedures for managing transactions with subjects in conflict of interest*".

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

- related parties transactions pursuant to the Consob Regulation adopted by resolution 17221 on March 12, 2010 as subsequently amended;
- transactions with associated persons pursuant to the regulations on "*Risk activities and conflicts of interest with Associated Persons*", laid down by Bank of Italy Circular no. 263 on December 27, 2006, Title V, Chapter 5 ("*New regulations for the prudential supervision of banks*", as amended);

- obligations of bank officers pursuant to Article 136 of Legislative Decree 385 on September 1, 1993, showing the "*Consolidated Law on Banking*".

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

Considering the above, the following transactions approved during the first half of 2018 are recorded:

- on January 23, 2018, the Board of Directors, with the favorable opinion of the Risks and Related Parties Committee, authorized the issue of an Additional Tier 1 bond totaling € 200 million, fully subscribed by means of private placement by the Group Parent UniCredit S.p.A.; the duration of the loan is perpetual, linked to the statutory duration of the Bank, and the coupon for the first 5.5 years was set at 4.82%. The transaction is an “Ordinary Significant Transaction at market conditions”;

- on February 6, 2018 the Board of Directors, with the favorable opinion of the Risk and Related Parties Committee, approved the renewal of the "*Framework Resolution related to the entering into of hedging derivative contracts with the Parent Company or companies in the UniCredit Group*", an ordinary Significant Transaction at market conditions with validity up until February 6th, 2019, which enables the Bank to enter into hedging derivatives with the Parent Company and with UniCredit Bank AG for commercial assets or liabilities that, for ALM purposes, require interest rate hedging for a maximum amount of € 1,000 million with the Parent Company and € 1,300 million with UniCredit Bank AG;

- on May 8, 2018, the Board of Directors, with the favorable opinion by the Risk and Related Parties Committee, approved the renewal of the:
  (a) "*Framework Resolution - Repurchase Agreements and Term Deposits with the Parent Company*", an ordinary Significant Transaction at market conditions (expiring May 9, 2019), concerning *(i)* Repurchase Agreements with the Parent Company for a maximum amount of € 7.1 billion, calculated as the sum of the individual transactions in absolute value (either repos or reverse repos) and *(ii)* Term deposits with the Parent Company for an amount of € 6.3 billion, calculated as the sum of the individual transactions in absolute value;
  (b) "*Framework Resolution for the transactions on current accounts held with UniCredit*”, an ordinary Significant Transaction at market conditions (expiring May 8, 2019), which enables the Bank to manage transaction through specific current accounts with UniCredit S.p.A. for an amount of less than € 1,000 million understood as a single transaction (single payment and single withdrawal);

- on June 12, 2018, the Board of Directors, with the favorable opinion of the Risk and Related Parties Committee, subsequently modified by the Board of Directors held on 31 July 2018, approved the renewal of the “*Framework Resolution – Trading of financial instruments with institutional counterparties and with UniCredit, on their own account and on behalf of third parties, respectively by the Treasury and Markets functions* ", an ordinary Significant Transaction at market conditions (expiring June 11, 2019), which enables the Bank to carry out trading in derivates with related parties institutional counterparties, up to a maximum permitted limit of: (i) €2.70

billion with UniCredit Bank AG, (ii) €250 million with Mediobanca SpA and (iii) €1 billion with UniCredit S.p.A..

As already mentioned in the disclosure provided in the 2017 Financial Statements, on December 5, 2017, the Board of Directors – with the favourable opinion of the Risk and Related Parties Committee – approved the signing of a new life insurance brokerage contract between FinecoBank S.p.A. and Aviva S.p.A. (related party), to replace the agreement originally signed in 2002 by UniCredit Xelion Banca S.p.A., which was replaced by FinecoBank S.p.A. as a result of the merger. The projected figures as at December 31, 2017 (€13.4 million net to be paid to the Bank) classified the transaction as "Significant typical Transaction carried out at arm's length". The contract was finalized on April 5, 2018. In the meanwhile, as part of the same agreement, in March 2018 the placement of the Aviva "Multiramo Extra" product was included, which combines with and supplements the range of other "Multi-line" products already in the catalogue.

In relation to the above transactions, the Bank provided a simplified disclosure to CONSOB pursuant to Art. 13, paragraph 3, letter c) of CONSOB Regulation 17221 on March 12, 2010.

During the first half of 2018, no other transactions were undertaken with related parties that could significantly affect the Bank's asset situation and results, or atypical and/or unusual transactions, including intercompany and related party transactions.

Minor Transactions were also carried out with the Parent Company, other Group companies and/or with related parties in general, both Italian and foreign, within the ordinary course of business and related financial activities of the Bank, at market or standard conditions.

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

The following statement shows the outstanding assets, liabilities, guarantees and commitments as at June 30, 2018, for each group of related parties pursuant to IAS 24:

	Amounts as at June 30, 2018			
	Directors, board of statutory auditors and key management personnel	Other related parties	Total	% of carrying amount
Financial assets at amortised cost a) loans and receivable with banks	-	7	7	0.00%
Financial assets at amortised cost a) loans and receivable with customers	1,015	11,828	12,843	0.15%
Other assets	-	-	-	0.00%
Total assets	**1,015**	**11,835**	**12,850**	**0.05%**
Financial liabilities at amortised cost a) deposits from banks	-	18,060	18,060	0.09%
Financial liabilities at amortised cost a) deposits from customers	1,474	19,005	20,479	0.10%
Other liabilities	141	26	167	0.06%
Total liabilities	**1,615**	**37,091**	**38,706**	0.17%
Guarantees given and commitments	90	3	93	0.01%

(Amounts in € thousand)

The following table sets out the impact of transactions with related parties on the main Consolidated Income Statement items, for each group of related parties.

	Income statement as at June 30, 2018			
	Directors, board of statutory auditors and key management personnel	Other related parties	Total	% of carrying amount
Interest income and similar revenues	-	4	4	0.00%
Fee and commission income	2	21,531	21,533	7.57%
Fee and commission expense	-	(123)	(123)	0.09%
Gains (losses) on financial assets and liabilities held for trading	-	11	11	0.04%
Impairment losses/writebacks	(2)	(2)	(4)	-0.11%
Other administrative expenses	-	(95)	(95)	0.08%
Other net operating income	16	5	21	0.04%
Total income statement	**16**	**21,331**	**21,347**	

(Amounts in € thousand)

With regard to the category "Directors, Board of Statutory Auditors and Key Management Personnel", in application of the special regulations laid down in Article 136 of Legislative Decree 385/93 (Consolidated Law on Banking), the obligations established for persons that perform administrative, management and control functions pursuant to those regulations were unanimously approved by a resolution of the Board of Directors with the favourable vote of all members of the Board of Statutory Auditors, in accordance with Article 136 of said Consolidated Law on Banking.

The category "Directors, Board of Statutory Auditors and Key Management Personnel" includes their dealings with the Bank (excluding their fees, which are discussed in point 1. *Details of compensation for key management personnel*) and the Parent Company UniCredit S.p.A., mainly concerning assets for credit card use and mortgages, liabilities for funds held by them with the Bank and costs and revenues generated from the aforesaid assets and liabilities.

The "other related parties" category, where present, includes:

- close family members of key management personnel (i.e., relatives who could be expected to influence, or be influenced by the party involved);
- companies controlled (or jointly controlled) by, or associated with, "key management personnel" or their close family members;
- associates, and their subsidiaries, of the Parent Company UniCredit S.p.A.;
- shareholders, and their subsidiaries, of FinecoBank and of the Parent Company UniCredit S.p.A..

Transactions with "Other related parties", mainly refer to:

- assets for credit card use and liabilities for funds held with the Bank or securities lending transactions guaranteed by sums of money;
- assets for current receivables associated with the provision of financial services, mainly referring to fees for the placement of asset management and insurance products;
- costs and revenues generated from the above assets and liabilities, mainly referring to subscription and management fee and commission income related to the placement of asset management and insurance products and insurance premiums.

Amounts as at June 30, 2018 and the income components accrued in first half 2018 relating to the Parent Company UniCredit S.p.A. and the UniCredit group companies are not included, as they are presented further below.

TRANSACTIONS WITH THE PARENT COMPANY AND OTHER UNICREDIT GROUP COMPANIES

Total transactions with UniCredit Group companies	**Total 06.30.2018**	**% of carrying amount**
Financial assets at amortised cost a) loans and receivables with banks	13,069,904	99.69%
Financial assets at amortised cost b) loans and receivables with customers	9	0.00%
Other assets	4,134	1.71%
Assets	**13,074,047**	**55.81%**
Financial liabilities at amortised cost a) deposits from banks	743,979	81.95%
Other liabilities	5,165	1.71%
Provisions for risks and charges: a) commitments and guarantees given	20	32.26%
Equity instruments	200,000	100.00%
Liabilities	**949,164**	**4.05%**
Guarantees given and commitments	256,070	17.17%
Guarantees and commitments	**256,070**	**17.17%**
Interest income and similar revenues	89,893	62.02%
Interest expenses and similar charges	(1,677)	22.99%
Fee and commission income	581	0.20%
Fee and commission expense	(3,223)	2.33%
Impairment losses/writebacks on	7,266	193.40%
Administrative costs	(6,934)	4.14%
Net provisions for risks and charges a) provision for credit risk of commitments and financial guarantees given	430	110.82%
Other net operating income	10	0.02%
Income statement	**86,346**	

(Amounts in € thousand)

The following table summarises transactions with UniCredit group companies as at June 30, 2018.

Company	**Assets**	**Liabilities**	**Guarantees and commitments**	**Income Statement**
Unicredit S.p.A.	13,073,848	898,023	256,070	91,174
Unicredit Bank AG	142	50,508	-	354
Unicredit Bank AG Milano	-	-	-	78
UniCredit International Bank (Luxembourg) S.A.	-	-	-	27
Unicredit Factoring S.p.A.	16	-	-	34
Unicredit Leasing S.p.A.	6	-	-	6
Unicredit Business Integrated Solutions S.C.p.A.	20	613	-	(5,330)
Cordusio Società Fiduciaria per Azioni	15	20	-	3
Total	**13,074,047**	**949,164**	**256,070**	**86,346**

(Amounts in € thousand)

The following tables contain a breakdown of the items relating to Assets, Liabilities, Guarantees and Commitments, Costs and Revenues for each individual Group company.

Transactions with parent company

Unicredit S.p.A.	Total 06.30.2018
Financial assets at amortised cost a) loans and receivables with banks	13,069,828
Other assets	4,020
Assets	**13,073,848**
Financial liabilities at amortised cost a) deposits from banks	693,471
Other liabilities	4,532
Provisions for risks and charges: a) commitments and guarantees given	20
Equity instruments	200,000
Liabilities	**898,023**
Guarantees given and commitments	256,070
Guarantees and commitments	**256,070**
Interest income and similar revenues	89,825
Interest expenses and similar charges	(1,677)
Fee and commission income	180
Fee and commission expense	(3,206)
Impairment losses/writebacks on	7,266
Administrative costs	(1,654)
Net provisions for risks and charges a) provision for credit risk of commitments and financial guarantees given	430
Other net operating income	10
Income statement	**91,174**

(Amounts in € thousand)

Transactions with companies controlled by UniCredit S.p.A.

Unicredit Bank AG	Total 06.30.2018
Financial assets at amortised cost a) loans and receivables with banks	76
Other assets	66
Assets	**142**
Financial liabilities at amortised cost a) deposits from banks	50,508
Liabilities	**50,508**
Interest income and similar revenues	68
Interest expenses and similar charges	-
Fee and commission income	286
Income statement	**354**

(Amounts in € thousand)

Unicredit Bank AG Milano	Total 06.30.2018
Fee and commission income	78
Income statement	**78**

(Amounts in € thousand)

UniCredit International Bank (Luxembourg) S.A.	Total 06.30.2018
Fee and commission income	27
Income statement	**27**

(Amounts in € thousand)

Unicredit Factoring S.p.A.	Total 06.30.2018
Other assets	16
Assets	**16**
Administrative costs	34
Income statement	**34**

(Amounts in € thousand)

Unicredit Leasing S.p.A.	Total 06.30.2018
Other assets	6
Assets	**6**
Administrative costs	6
Income statement	**6**

(Amounts in € thousand)

Unicredit Business Integrated Solutions S.C.p.A.	Total 06.30.2018
Other assets	20
Assets	**20**
Other liabilities	613
Liabilities	**613**
Administrative costs	(5,330)
Income statement	**(5,330)**

(Amounts in € thousand)

Cordusio Società Fiduciaria per Azioni	Total 06.30.2018
Financial assets at amortised cost b) loans and receivables with customers	9
Other assets	6
Assets	**15**
Other liabilities	20
Liabilities	**20**
Fee and commission income	10
Fee and commission expense	(17)
Administrative costs	10
Income statement	**3**

(Amounts in € thousand)

PART L - SEGMENT REPORTING

Segment reporting information is not provided as the Bank's particular business model (given the non-operational nature of the subsidiary Fineco Asset Management DAC) provides for a high level of integration among its different activities. The Bank offers its services (banking and investment services) through a network of personal financial advisors and online and mobile channels, that operate in a coordinated and integrated manner. The fully-comprehensive nature of the services offered allows the Bank to act as a one-stop solution for customers' banking and investment requirements.

This strategy, which is strongly anchored to the customer, means that revenues and margins relative to various products/services (investing, banking and brokerage) are highly interdependent on each other.

This integration approach has also inspired top management in setting company targets and identifying the means to achieve them.

As regards information on revenues from customers by product/service, in view of the above, reference should be made to information in Part C - Information on the income statement of these Notes to the Accounts. FinecoBank mainly targets retail customers in Italy, as the impact of operations in the UK is still immaterial; information concerning geographic segments and the degree of dependency on main customers is therefore considered by top management as not being of material importance for information purposes, and is not therefore disclosed.

Annexes

RECONCILIATION OF CONDENSED CONSOLIDATED ACCOUNTS TO MANDATORY REPORTING SCHEDULE

ASSETS	**Amounts as at 06.30.2018**	**Amounts as at 12.31.2017**
Cash and cash balances = item 10	1,733	613
Financial assets held for trading	10,871	8,827
20. Financial assets at fair value through profit or loss a) financial assets held for trading	*10,871*	*8,827*
Loans and receivables with banks	3,224,477	3,039,207
40. Financial assets at amortised cost a) loans and receivables with banks	*13,110,558*	*13,345,533*
less: Financial assets at amortised cost a) loans and receivables with banks - Debt securities	*(9,886,081)*	*(10,306,326)*
Loans and receivables with customers	2,632,749	2,129,219
40. Financial assets at amortised cost b) loans and receivables with customers	*8,827,472*	*6,955,609*
less: Financial assets at amortised cost b) loans and receivables with customers - Debt securities	*(6,194,723)*	*(4,826,390)*
Financial investments	17,188,339	16,715,041
20. Financial assets at fair value through profit or loss c) other financial assets required to be designated at fair value	*6,725*	*539,854*
30. Financial asset designated at fair value with an impact on other comprehensive income	*1,100,810*	*1,042,471*
Financial assets at amortised cost a) loans and receivables with banks - Debt securities	*9,886,081*	*10,306,326*
Financial assets at Amortised cost b) loans and receivables with customers - Debt securities	*6,194,723*	*4,826,390*
Hedging instruments	2,667	10,048
50. Hedging derivatives	*939*	*458*
60. Changes in fair value of portfolio hedged items (+/-)	*1,728*	*9,590*
Property, plant and equipment = item 90	15,036	15,205
Goodwill = item 100. Intangible assets of which: goodwill	89,602	89,602
Other intangible assets = item 100 net of goodwill	7,827	7,909
Tax assets = item 110	10,914	9,249
Non-current assets and disposal groups classified as held for sale = item 110	91	-
Other assets = item 130	241,054	315,415
Total assets	**23,425,360**	**22,340,335**

(Amounts in € thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	Amounts as at 06.30.2018	12.31.2017
Deposits from banks	907,794	926,001
10. Financial liabilities at amortised cost a) deposits from banks	*907,794*	*926,001*
Deposits from customers	21,196,653	20,205,036
10. Financial liabilities at Amortised Cost b) deposits from customers	*21,196,653*	*20,205,036*
Financial liabilities held for trading = item 20	4,568	11,936
Hedging instruments	2,374	(397)
40. Hedging derivatives	*3,403*	*3,375*
50. Changes in fair value of portfolio hedged financial assets	*(1,029)*	*(3,772)*
Tax liabilities = item 60	22,038	10,234
Other liabilities	417,933	455,699
80. Other liabilities	*301,223*	*338,286*
90. Provisions for employee severance pay	*4,922*	*4,999*
100. Provisions for risks and charges	*111,788*	*112,414*
Shareholders' Equity	874,000	731,826
- capital and reserves	763,818	526,046
140. Equity instruments	*200,000*	-
150. Reserves	*361,734*	*323,932*
160. Share premium reserve	*1,934*	*1,934*
170. Share capital	*200,773*	*200,545*
180. Treasury shares (-)	*(623)*	*(365)*
- revaluation reserves	(14,997)	(8,340)
120. Revaluation reserves of which: financial assets at fair value through other comprehensive ir	*(5,440)*	*1,472*
120. Revaluation reserves for actuarial net gains (losses) for defined benefit plans	*(9,557)*	*(9,812)*
- net profit = item 200	125,179	214,120
Total liabilities and shareholders' equity	**23,425,360**	**22,340,335**

(Amounts in € thousand)

INCOME STATEMENT	First half 2018	2017
Net interest	137,646	127,297
30. Net interest margin	*137,646*	*127,297*
Dividends and other income from equity investments	20	12
70. Dividend income and similar revenue	*52*	*20*
less: dividends from held-for-trading equity instruments included in item 70	*(32)*	*(8)*
Net fee and commission income = *item 60*	145,978	129,707
60. Net fee and commission income	*145,978*	*129,707*
Net trading, hedging and fair value income	27,618	25,992
80. Gains (losses) on financial assets and liabilities held for trading	*25,980*	*25,998*
90. Fair value adjustments in hedge accounting	*70*	*(14)*
110. Gains (losses) on financial assets and liabilities	*1,402*	-
100. Gains (losses) on disposal or repurchase of: b) financial asset at fair value through other comprehensive income	*134*	-
+ dividends from held-for-trading equity instruments included in item 70	*32*	*8*
Net other expenses/income	583	(233)
230. Other net operating income	*48,082*	*44,506*
less: other net operating income - of which: recovery of expenses	*(48,623)*	*(46,492)*
less: adjustments of leasehold improvements	*1,124*	*1,753*
OPERATING INCOME	**311,845**	**282,775**
Staff expenses	(41,499)	(38,924)
190. Administrative costs - a) staff expenses	*(41,503)*	*(38,937)*
less: integration cost	*4*	*13*
Other administrative expenses	(126,931)	(123,893)
190. Administrative costs - b) other administrative expenses	*(125,807)*	*(122,140)*
+ adjustments of leasehold improvements	*(1,124)*	*(1,753)*
Recovery of expenses	48,623	46,492
230. Other net operating income	*48,623*	*46,492*
Impairment/write-backs on intangible and tangible assets	(4,836)	(4,833)
210. Impairment/write-backs on property, plant and equipment	*(2,399)*	*(2,418)*
220. Impairment/write-backs on intangible assets	*(2,437)*	*(2,415)*
Operating costs	**(124,643)**	**(121,158)**
OPERATING PROFIT (LOSS)	**187,202**	**161,617**
Net impairment losses on loans and provisions for guaranteed and commitments	(1,156)	(1,650)
130. Impairment losses/writebacks on: a) financial assets at amortised cost	*3,810*	*(1,650)*
less: impairment losses/writebacks on: a) financial assets at amortised cost - debt securities	*(5,354)*	-
130. Impairment losses/writebacks on: b) financial assets at fair value through other comprehensive income	*(53)*	-
less: impairment losses/writebacks on: b) financial assets at fair value through other comprehensive income - debt securities	*53*	-
200. Net provisions for risks and charges a) provision for credit risk of commitments and financial guarantees given	*388*	-
NET OPERATING PROFIT (LOSS)	**186,046**	**159,967**
Provisions for risks and charges	(3,699)	(3,150)
200. Net provisions for risks and charges b) other net provision	*(3,699)*	*(3,150)*
Integration costs	(4)	(13)
Net income from investments	5,158	(353)
+ impairment losses/writebacks on: a) financial assets at amortised cost - debt securities	*5,354*	-
+ impairment losses/writebacks on: b) financial assets at fair value through other comprehensive income - debt securities	*(53)*	-
280. Gains (losses) on disposal of investments	*(143)*	*(353)*
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**187,501**	**156,451**
Income tax for the period = *voce 290*	(62,322)	(52,184)
NET PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**125,179**	**104,267**
PROFIT (LOSS) FOR THE PERIOD	**125,179**	**104,267**
NET PROFIT (LOSS) BEFORE TAX ATTRIBUTABLE TO THE GROUP	**125,179**	**104,267**

(Amounts in € thousand)

Certification

CERTIFICATION OF CONSOLIDATED ANNUAL FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF MAY 14, 1999 AND SUBSEQUENT AMENDMENTS

1. The undersigned, Alessandro Foti, as Managing Director and General Manager of FinecoBank S.p.A., and Lorena Pelliciari, as Nominated Official in charge of drawing up company accounts of FinecoBank S.p.A, taking into account the provisions of Article 154-bis, par. 3 and 4 of Legislative Decree 58 of February 24, 1998, do hereby certify:

• the adequacy in relation to the Company's features and

• the actual application

of the administrative and accounting procedures employed to draw up the 2018 Condensed Interim Consolidated Financial Statements.

2. The adequacy of the administrative and accounting procedures employed to draw up the 2018 Condensed Interim Consolidated Financial Statements has been evaluated by applying a model defined by the UniCredit Group, in accordance with the "Internal Control - Integrated Framework (CoSO)" and the "Control Objective for IT and Related Technologies (Cobit)", which are international commonly accepted standards for the internal control system and, specifically, for financial reporting.

3. The undersigned also certify that:

3.1 the Condensed Interim Consolidated Financial Statements:

a) were prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation 1606/2002 of July 19, 2002;

b) correspond to the results of the books and accounting records;

c) are suitable to provide a fair and correct representation of the financial position and performance of the issuer and the group of companies included in the scope of consolidation;

3.2. the Consolidated Interim Report on Operations includes a reliable analysis of the most significant events in the first six months of the financial year and their impact on the Condensed Interim Consolidated Financial Statements, together with a description of the main risks and uncertainties concerning the remaining six months of the year. The Consolidated First Half Financial Report also contains a reliable analysis of information on significant related party transactions.

Milan, July 31, 2018

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

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

Report of the External Auditors

Deloitte.

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REPORT ON REVIEW OF THE HALF-YEARLY
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
FINECOBANK BANCA FINECO S.p.A.

Introduction

We have reviewed the accompanying half-yearly condensed consolidated financial statements of FinecoBank Banca Fineco S.p.A. and its subsidiary, which comprise the consolidated balance sheet as of June 30, 2018, and the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated equity and the consolidated statement of cash flow for the six-month period then ended, and the related explanatory notes. The Directors of FinecoBank Banca Fineco S.p.A. are responsible for the preparation of these half-yearly condensed consolidated financial statements in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the half-yearly condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange (Consob) for the review of the half-yearly financial statements under Resolution n. 10867 of July 31, 1997. A review of half-yearly condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly condensed consolidated financial statements of FinecoBank Banca Fineco S.p.A. and its subsidiary as of June 30, 2018 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

Signed by
Paolo Gibello Ribatto
Partner

Milan, Italy
August 3, 2018

This report has been translated into the English language solely for the convenience of international readers.

Glossary

GLOSSARY OF TECHNICAL TERMINOLOGY AND ACRONYMS USED

Accelerated book building offering

Procedure through which particularly large shareholdings are sold to institutional investors. This type of transaction is used by majority shareholders to sell share packages or by the company to rapidly obtain capital (for acquisitions or to refinance debt).

Adjusted ROE

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

AMA (Advanced Measurement Approach)

Applying this methodology, operational risk requirement is obtained using calculation models based on operational loss data and other evaluation elements collected and processed by the Bank. Admittance threshold and specific suitability requirements have been established for the use of the standard and advanced approaches. For the AMA approach the requirements regard the measurement system, as well as the management system.

Assets under management

Investment funds, segregated accounts and insurance products.

Assets Under Custody

Government securities, bonds and shares.

Audit

Audit Process of controlling a company's activities and accounting, carried out either by an internal body (internal audit) or by an external firm of auditors (external audit).

Available financial resources (AFR)

AFR are the resources that can be used to safeguard the bank from insolvency. The AFR are an economic measure that consider the potential reserves, hybrid debt instruments, IFRS reserves, goodwill and other intangible assets, treasury shares held and the expected profits.

Bad exposure

Exposures to borrowers in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the bank (i.e. irrespective of whether there are any – secured or personal – guarantees covering the exposures).

Banking book

Used in relation to financial instruments, particularly securities, this term identifies the portion of those portfolios intended for "proprietary" activities.

Bail-in

Resolution measures adopted by the competent authorities that can involve the conversion of debt instruments into shares or the reduction in the value of liabilities, imposing losses on certain categories of creditors in accordance with the BRRD.

Basel 2

International agreement on the capital requirements of banks in relation to the risks assumed by them. This agreement has been adopted, at national level, by the respective competent supervisory authorities, including the Bank of Italy. The new prudential regulations, which came into force in Italy in 2008, are based on three pillars.

- Pillar 1: while the objective of a level of capitalisation equivalent to 8% of the risk-weighted exposures remains unchanged, a new set of rules has been defined for measuring the typical risks associated with banking and financial activities (credit risk, counterparty risk, market risk and operational risk) which provides for alternative calculation methods characterised by different levels of complexity, with the ability to use internally developed models subject to prior authorisation by the Regulatory Authority;
- Pillar 2: requires banks to have processes and tools for determining the adequate level of total internal capital (Internal Capital Adequacy Assessment Process - ICAAP) for covering all types of risk, including risks other than those covered by the overall capital requirement (Pillar I), within the framework of an evaluation of current and future exposure that takes account of strategies and of changes in the reference context. It is the Supervisory Authority's task to examine the ICAAP process, formulate an overall judgement and, where necessary, apply the appropriate corrective measures;
- Pillar III: introduces obligations to publish information concerning capital adequacy, exposure to risks, and the general characteristics of the systems used for identifying, measuring and managing those risks.

Basel 3

International agreement amending Basel 2 adopted in December 2010, containing amendments to the prudential rules on the capital and liquidity of banks, with the gradual entry into force of the new capital requirements from January 1, 2014 until December 31, 2019. These rules have been implemented at European level through the CRD IV “Package”.

Bank Recovery and Resolution Directive or BRRD

Refers to the Directive approved by the European Parliament and the Council, respectively. On April 15 and May 6, 2014, regarding the establishment of a recovery and resolution framework for the crisis affecting credit institutions and investment firms.

Basis point

The bp or basis point represents 0.01% of a particular amount, or one hundredth of a percentage point. 100 basis points are equivalent to 1%.

Best practice

Behaviour commensurate with the most significant experience and/or the best level of knowledge achieved in relation to a given technical or professional field.

Budget

Statement forecasting the future costs and revenues of a business.

Capital conservation buffer

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

CDS – Credit Default Swap

A derivative in which a seller of protection engages, for a fee, to pay the buyer of protection a fixed amount if a certain event indicating a deterioration of the creditworthiness of a reference entity occurs.

CFO

Chief Financial Officer.

CGU – Cash Generating Unit

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Common Equity Tier 1 or CET 1

The Common Equity Tier 1 under Basel 3, mainly consisting of ordinary paid-up capital, the related share premium, operating profit, reserves and other regulatory adjustments, as provided for by the CRR regulation and the Supervisory Regulations (both during the transitional period and fully loaded).

Clawback clause

Action of repayment of the bonus received when, after its disbursement, intentional or negligent conduct of the employee emerges that, if it had been known at the time of disbursement, would have been sufficient not to satisfy the assessment of compliance, or that disbursement has been made in breach of legal or regulatory provisions.

Corporate

Customer segment consisting of medium to large businesses.

Cost/income ratio

The ratio of operating expenses to operating income. It is one of the main key performance indicators of the bank's efficiency: the lower the ratio, the more efficient the bank.

Cost of Risk

Cost of risk is the ratio of Net write-downs of loans and provisions for guarantees and commitments with customers to loans to customers (average of single quarters' averages). The scope only includes loans to ordinary customers. It is one of the risk indicators of bank assets: the lower the ratio, the less risky the bank assets.

CoR (incentive system)

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

Countercyclical capital buffer

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

Covenant

A loan agreement clause whereby the lender is entitled to restructure or call in the loan upon occurrence of the events specified in the clause, which ties changes in the borrower's earnings and financial performance to default events/events modifying the contractual terms and conditions (maturity, interest rates, etc.).

Covered bond

A bond which, in addition to being guaranteed by the issuing bank, may also be covered by a portfolio of mortgages or other high-quality loans transferred, for that purpose, to a specific SPV – Special Purpose Vehicle (q.v.).

Credit Quality – EL

EL%= EL/EAD

Represents the expected loss as a percentage of the exposure in the event of default (EAD) of the performing portfolio.

The perimeter is the customers of the performing portfolio.

Credit quality step

A Step, based on external ratings, which is used to assign risk weights under the standardised approach for credit risk.

CRD (Capital Requirements Directives)

EU Directives 2006/48 and 2006/49, adopted by Bank of Italy circular 263/2006 of December 27, 2006 as amended. The CRD IV "Package" has replaced the two aforementioned Directives and consists of the EU Directive 2013/36 on the taking up of the business of credit institutions and prudential supervision and the EU Regulation 575/2013 on prudential requirements, adopted by the Bank of Italy circular 285 of December 17, 2013 as amended.

Credit risk

The risk that an unexpected change in the credit rating of a counterparty, the value of the collateral they have provided, or of the amount used in the event of insolvency generates an unexpected change in the lending position of the Bank.

Credit counterparty risk

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

CRM - Credit Risk Mitigation

Credit Risk Mitigation is a set of techniques, ancillary contracts to the loan or other instruments (e.g. securities, guarantees), which reduces credit risk capital requirements.

CRO

Chief Risk Officer.

Default

A party's declared inability to honour its debts and/or the payment of the associated interest.

Direct deposits

Current accounts, repos and time deposits.

EAD – Exposure At Default

Relating to the on-balance and off-balance sheet positions, EAD is defined as the estimation of the future value of an exposure at the time of the debtor's default. Only banks that meet the requirements for adopting the "IRB – Internal Rating Based" advanced approach are allowed to estimate EAD (q.v.). Other banks are required to refer to regulatory estimations.

EBA European Banking Authority

The European Banking Authority is an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector.

ECA

Export Credit Agency.

ECAI

External Credit Assessment Institution.

ECB

European Central Bank. The ECB is the central bank for Europe's single currency, the euro.

Economic capital

Capital level that is required by a bank to cover the losses that may occur with at a time horizon of one year and a certain probability or confidence level. Economic Capital is a measure of the variability of the Expected Loss of the portfolio and depends on the degree of diversification of the portfolio itself.

EPS – Earnings Per Shares

An indicator of a company’s profitability calculated by dividing the net profit by the average total outstanding shares (excluding treasury shares).

EPS – Diluted Earnings Per Shares

An indicator of a company’s profitability calculated by dividing the net profit by the average total diluted outstanding shares (excluding treasury shares).

EVA (Economic Value Added)

EVA is an indicator of the value created by a company. It shows the firm's ability to create value; calculated as the difference between net operating profit and the figurative cost of the allocated capital. the latter was calculated using either the greater of the regulatory capital absorbed and the economic capital (in FinecoBank’s case, the economic capital) or the book value of shareholders' equity.

Expected Losses

The losses recorded on average over a one year period on each exposure (or pool of exposures).

Fair value

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

Forbearance/Forborne exposures

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

Funding

Provision, in various forms, of the funds necessary to finance business activities or particular financial transactions.

Futures

Standardised contracts through which parties undertake to exchange money, transferable securities or goods at a set price at a future date. These contracts are traded on regulated markets, where their execution is guaranteed.

Goodwill

The additional sum paid for the acquisition of an equity interest, equal to the difference between the cost and the corresponding share of net assets, for the portion not attributable to the identifiable assets of the acquired company.

Guided products & services

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

Guided Products & Services/AUM

The ratio of Guided Products & Services (q.v.) to Assets under Management (q.v.).

Guided Products & Services/TFA

The ratio of Guided Products & Services to Total Financial Assets.

HNWI

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

IAS/IFRS

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

ICAAP – Internal Capital Adequacy Assessment Process

See "Basel 2 – Pillar 2".

Impairment

Within the framework of the IAS/IFRS (q.v.), this refers to the loss of value of a balance sheet asset, recorded when the book value is greater than the recoverable value, i.e. the sum that can be obtained by selling or using the asset.

Impaired loans

Loans and receivables are reviewed periodically in order to identify those that, following events occurring after initial recognition (at market value, which is, usually, equal to the amount paid including transaction costs and income directly attributable to the disbursement of the credit) show objective evidence of possible impairment. These include a loans to which the status of non-performing, unlikely to pay and past due has been assigned, according to the Bank of Italy rules in line with the IAS/IFRS (q.v.).

Internal Capital

Represents the amount of capital required to cover potential losses and is required to support the business activities and positions held. Internal Capital is the sum of the aggregated Economic Capital and a cushion that considers the effects of the cycle and model risk.

(Internal) validation

Expert unit, internal but sufficiently independent, that verifies the adequacy of internal models for internal and regulatory purposes and issues a formal opinion about their usefulness and effectiveness. Usually a prerequisite for the validation process carried out by the authorities.

Index linked

Policies whose performance at maturity depends on a benchmark parameter that may be a share index, a basket of securities or another indicator.

IRB – Internal Rating Based

Method for determining the capital needed to cover credit risk within the framework of Pillar 1 of Basel 2 (q.v). The rules are applied to the exposures of the banking book. Furthermore, in the IRB methods the risk weightings of the assets are determined on the basis of the bank's own internal evaluations of the debtors (or, in some cases, of the transactions). Using systems based on internal ratings, the banks determine the weighted risk exposure. The IRB methods consist of a basic method and an advanced method, which differ in terms of the risk parameters that the bank must estimate: in the basic method, the banks use their own estimates for “PD – Probability of Default” and the regulatory values for the other risk parameters; in the advanced method, the banks use their own estimates for "PD – Probability of Default ", "LGD – Loss Given Default", "CCF – Credit Conversion Factors" and, where provided for, "M - Maturity" (q.v.). The use of IRB methods for the calculation of capital requirements is subject to authorisation from the Bank of Italy.

IRS – Interest Rate Swap

See "Swap".

Joint venture

Agreement between two or more companies for the conduct of a given economic activity, usually through the constitution of a joint stock company.

Ke

The cost of equity is the minimum return on investment required by the shareholder. It is the sum of a risk-free rate and an additional spread remunerating the shareholder for the credit risk and the volatility of the share price. The cost of capital is based on medium-long term averages of market parameters.

KPI - “Key Performance Indicators”

Set of indicators used to evaluate the success of a particular activity or process.

Key Risk Indicators

The risk indicators are quantitative metrics that reflect exposure to Operational Risks of specific processes or products: the value expressed by an indicator should be related to changes in risk levels.

Large exposures

The sum of all the exposures towards a counterparty that are equal to or more than 10% of the eligible capital of the Issuer, when: (i) the exposures are the sum of the on-balance-sheet risk assets and the off-balance-sheet operations with a counterparty, as defined by the regulations on credit risk, without applying the weighting factors established therein (these exposures do not include the risk assets deducted in the determination of the Own Funds); (ii) a counterparty is a customer or a group of connected customers; (iii) the eligible capital is equal to the Own Funds of the Issuer.

LCP

Loss Confirmation Period.

Leasing

Contract whereby one party (the lessor) grants to another party (the lessee) for a given period of time the enjoyment of an asset purchased or built by the lessor at the discretion and according to the instructions of the lessee, with the latter having the option of acquiring ownership of the asset under predetermined conditions at the end of the leasing contract.

LGD – Loss Given Default

Expected value (which may be conditional upon adverse scenarios) of the ratio, expressed as a percentage, between the loss giving rise to the default and the amount of exposure at the time of the default ("EAD - Exposure At Default", q.v.).

Liquidity risk

The risk of the company being unable to meet its payment commitments due to the inability to liquidate assets or obtain sufficient funding from the market (funding liquidity risk) or due to the difficulty/inability to easily liquidate positions in financial assets without significantly and unfavourably affecting the price because of insufficient depth or temporary malfunction of the financial market (market liquidity risk).

Long and Short Margining

Margining is a trading method that allows investors to buy (long leverage) or sell (short selling) by investing only a part of the liquidity required.

Market risk

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

Master servicing agreement

Type of contract under which two or more parties regulate the key terms of subsequent transactions and/or further agreements to be implemented between them in the future.

Maturity Ladder

Instrument for managing and monitoring short-term liquidity (operational liquidity), which, by offsetting assets and liabilities whose maturity falls within each individual time band, enables the identification of mismatches (periodic and cumulative) between incoming and outgoing cash flows and, therefore, to calculate the net financial requirement (or surplus) over the period of the year.

Model Risk Category

The MRCs have been introduced at the group level in order to characterise the types of operational loss in more detail. They are obtained from the combination of the seven event types established by Basel II with one or more of products offered to customers.

Non-performing exposures

According to the EBA Implementing Technical Standards, non-performing exposures are all on-balance-sheet and off-balance-sheet exposures that satisfy either or both of the following criteria:

(i) material exposures which are more than 90 days past due/overdrawn;

(ii) exposures for which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Operational risk

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

Option

The right, but not the commitment, acquired by the payment of a premium, to buy (call option) or sell (put option) a financial instrument at a given price (strike price) by or at a determined future date (American option/European option).

OTC – Over The Counter

Over-the-counter (OTC) trading consists of the exchange of financial instruments such as shares, bonds, derivatives or goods directly between two counterparties. The OTC markets do not have standardised contracts or buying/selling procedures and are not associated with a set of rules (admissions, controls, obligations of information, etc.) like those that govern the official markets.

Own funds or Total Capital

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

Past-due and/or overdrawn impaired exposures

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

Payout ratio

The percentage of net income that is distributed to shareholders. The percentage paid out is determined mainly on the basis of the company’s self-financing needs and the return expected by shareholders.

PD – Probability of Default

Default Probability of a counterparty entering into a situation of "default" (q.v.) within a period of one year.

Private banking

Financial services aimed at "high-end" private customers for the global management of financial needs.

RARORAC - Risk adjusted Return on Risk adjusted Capital

An indicator calculated as the ratio between EVA (using either the greater of the regulatory capital absorbed and the economic capital or using the book value of shareholders' equity) and Allocated/Absorbed Capital and expresses, in percentage, the capacity to create value for unit of risk taken.

Rating

Evaluation of the quality of a company or its issues of debt securities on the basis of the company's financial soundness and prospects. This evaluation is made either by specialist agencies or by the bank on the basis of internal models.

Retail

Customer segment consisting principally of private individuals, self-employed professionals, traders and artisans.

Risk Taking Capacity

Ratio between Available Financial Resources and Internal Capital.

Risk-weighted assets

See the item “RWA - Risk-Weighted Assets”.

ROAC – Return on Allocated Capital

An indicator calculated as ratio of net operating profit to allocated capital. Allocated Capital means the greater of internally calculated capital based on shared UniCredit Group models (Economic Capital) and regulatory capital or using the book value of shareholders' equity.

ROE

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

RWA - Risk-Weighted Assets

It is the value of on-balance sheet and off-balance sheet risk-weighted assets on the basis of different weighting factors according to the class in which the exposure is classified and its credit quality, in accordance with the banking regulations issued by the regulatory authorities for the calculation of the solvency ratios.

Sensitivity

The greater or lesser degree of sensitivity with which certain assets or liabilities react to changes in rates or other reference parameters.

Sensitivity Analysis

Sensitivity analysis quantifies the change in value of a financial portfolio resulting from an unfavourable change in major risk factors (interest rate, exchange rate, equity).

SME

Small and medium enterprises.

SPV –Special Purpose Vehicle

An entity – partnership, limited company or trust – set up to pursue specific objectives, such as isolating financial risk or obtaining special regulatory or tax treatment for specific portfolios of financial assets. SPV’s operations are accordingly limited by a set of rules designed for this purpose. In general the SPVs’ sponsors (q.v.) do not hold equity in them. The equity is held by other entities in order to ensure that there is no shareholder relationship with the Sponsor (q.v.). SPVs are usually bankruptcy-remote, in that their assets cannot be claimed by the creditors of the sponsor, even if the latter becomes insolvent.

Swap

A transaction that generally consists of the exchange of financial streams between operators according to different contractual arrangements. In the case of an interest rate swap (IRS), the counterparties exchange payment streams that may or may not be linked to interest rates, calculated on a notional principal amount (for example, counterparty pays a stream on the basis of a fixed rate, while the other does so on the basis of a variable rate). In the case of a currency swap, the counterparties exchange specific amounts in two different currencies, with these amounts being exchanged back in due course according to predefined arrangements that may concern both the capital (notional) and the streams of interest payments.

Tier 1 Capital

The most reliable and liquid part of a bank's capital, as defined by the regulatory rules.

Tier 1 Capital Ratio

The percentage of a bank's Tier 1 Capital to its risk weighted assets "RWA – Risk Weighted Assets" (q.v.).

Total Financial Assets - TFA

Assets Under Management (q.v.), Assets Under Custody (q.v.) and Direct Deposits (q.v.).

Trading Book

Positions held for trading are those held intentionally for a subsequent sale in the near term and/or assumed with the intention of benefiting, in the short term, from the differences between buying and selling prices, or other price or interest rate interest variations.

UCI – Undertakings for Collective Investment

This term includes "UCITS – Undertakings for Collective Investment in Transferable Securities" (q.v.) and collective investment funds (real estate collective investment funds, closed-end investment funds).

UCITS – Undertakings for Collective Investment in Transferable Securities

This term covers open-end real estate investment funds, both Italian and foreign, and investment companies with variable capital. The latter are joint stock companies that have the sole purpose of collective investment of the assets gathered through a public offer of their own shares.

Unlikely to pay

On-balance and off-balance sheet exposures that meet the definition of unlikely to pay, which do not meet the conditions to be classified as bad loans. The classification as "unlikely to pay" derives from the assessment of the debtor's unlikeliness (without actions such as realisation of collateral) to repay fully his credit obligation (principal and/or interest). This assessment is made independently of any past due and unpaid amount (or instalment). The classification of an exposure as unlikely to pay is not necessarily tied to evident issues (non-repayment), but is rather linked to indicators of a potential default of the borrower.

VaR – Value at Risk

A method used for quantifying risk. It measures potential future losses which will not be exceeded within a specified period and with a specified probability.