



B A N K

2017

# Compensation Policy Side presentation

March 2017

# PURPOSE OF THE DOCUMENT

- This document aims at providing a brief **overview on FinecoBank 2017 Compensation Policy** key aspects, namely:
  - Policy **key principles and governance**;
  - **2017 Policy** main contents, also compared to 2016
  - **2016** Incentive Systems **payout**
  - **2017** Incentive Systems **features**

*For further details please refer to our whole 2017 [Compensation Policy](#)*

# AGENDA

- POLICY KEY PRINCIPLES & GOVERNANCE
- 2017 POLICY MAIN CONTENTS
- 2016 INCENTIVE SYSTEMS PAYOUT
- 2017 INCENTIVE SYSTEMS FEATURES

# POLICY KEY PRINCIPLES



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



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



- **Continuous monitoring of market trends and practices** and awareness of international practices, aimed at sound formulation of competitive compensation as well as at transparency and internal equity.



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



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

# GOVERNANCE



**Systematic involvement of Remuneration and Appointments Committee** in all the matters relating to compensation of the Bank's CEO and General Manager, the Top Executives and other Identified Staff. The Committee met **13 times** in 2016, providing the Board of Directors with more than **20 opinions** → *for further details see chapter 2.1 of the 2017 Annual Compensation Report*



Strong and continuous involvement of **Compliance, Risk and Finance** functions towards the various phases of Incentive Systems set up and implementation, guaranteeing consistency with regulatory framework, and sustainability of remuneration → *see, for instance chapters 2.4, 2.5 of the 2017 Compensation Policy and 2.1 of the 2017 Annual Compensation Report*



Overall remuneration processes are subject to **annual Audit scrutiny**, thus guaranteeing the overall consistency of remuneration and incentive processes. The excerpt of the annual Audit (rated "satisfactory") is reported in the Policy section → *see chapter 2.2. of the 2017 Annual Compensation Report*

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# 2017 POLICY MAIN CONTENTS 1/2

## *An overview vs 2016*

Maximum **2:1 variable/fixed pay ratio** for all employees and Identified Staff in **business** roles; **1:1** is provided for **other roles** while for Company **Control Functions** variable pay is capped at **1/3 of fixed pay**. 2:1 is provided for Personal Financial Advisors (PFA) Identified Staff.

**Full description of execution of 2016 Incentive Systems** for Identified Staff, defined according to the Group standards and in line with regulatory provisions .

**Full description of the features of 2017 Systems for Identified Staff (both employees and PFA selected according to EBA criteria)**. As every year, Systems are set in such a way to guarantee the full consistency with regulatory requirements, by linking the bonus pool to profitability and risk sustainability.

Specific **Compliance drivers** are defined in order to design Incentive Systems which are consistent with the most recent regulations.

**Transparent disclosure of remunerations of Non-Executives Directors and Identified Staff** according to the provisions set at EU and Italian level (CRR, Bank of Italy, Consob).

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

**Severance Policy with stricter rules** in respect of those approved in 2015.


**Share Ownership Guidelines** for the CEO and other Strategic Executives of the Bank to align the Top Management Interests with those of the Shareholders.

CONFIRMED	NEW	IMPROVEMENTS
●		
●		<i>More details on CEO's 2016 performance evaluation and PFA Incentive System</i>
●		
●		
●		<i>Graphic details on CEO's 2016 compensation package</i>
●		<i>New Peer Group for 2017</i>
	●	
	●	


*See next slide*

# 2017 POLICY'S MAIN CONTENTS 2/2

## *Focus on what's new*



**Severance Payments** are ruled by a specific “**Termination payments Policy**” approved by the AGM (originally in 2015). In 2017 a review of said Policy is proposed, providing stricter rules in terms of overall monthly pay maximum limit. Severances now must not exceed 24 months of total compensation, including the indemnity in lieu of notice. 2015 Policy provided for a maximum 24 months in addition to the indemnity in lieu of notice.



**Share Ownership Guidelines**, impose to the Bank's CEO and to the Strategic Executives to hold, in their portfolios, a certain % of FinecoBank shares in respect of their fixed pay. Targets are set for the CEO at 100% of the fixed pay, while for the other Strategic Executives at 50% of fixed pay. Such threshold shall be reached within 5 years from the appointment in the role through a linear pro-rata approach → *see chapter 3.5 of the 2017 Compensation Policy.*



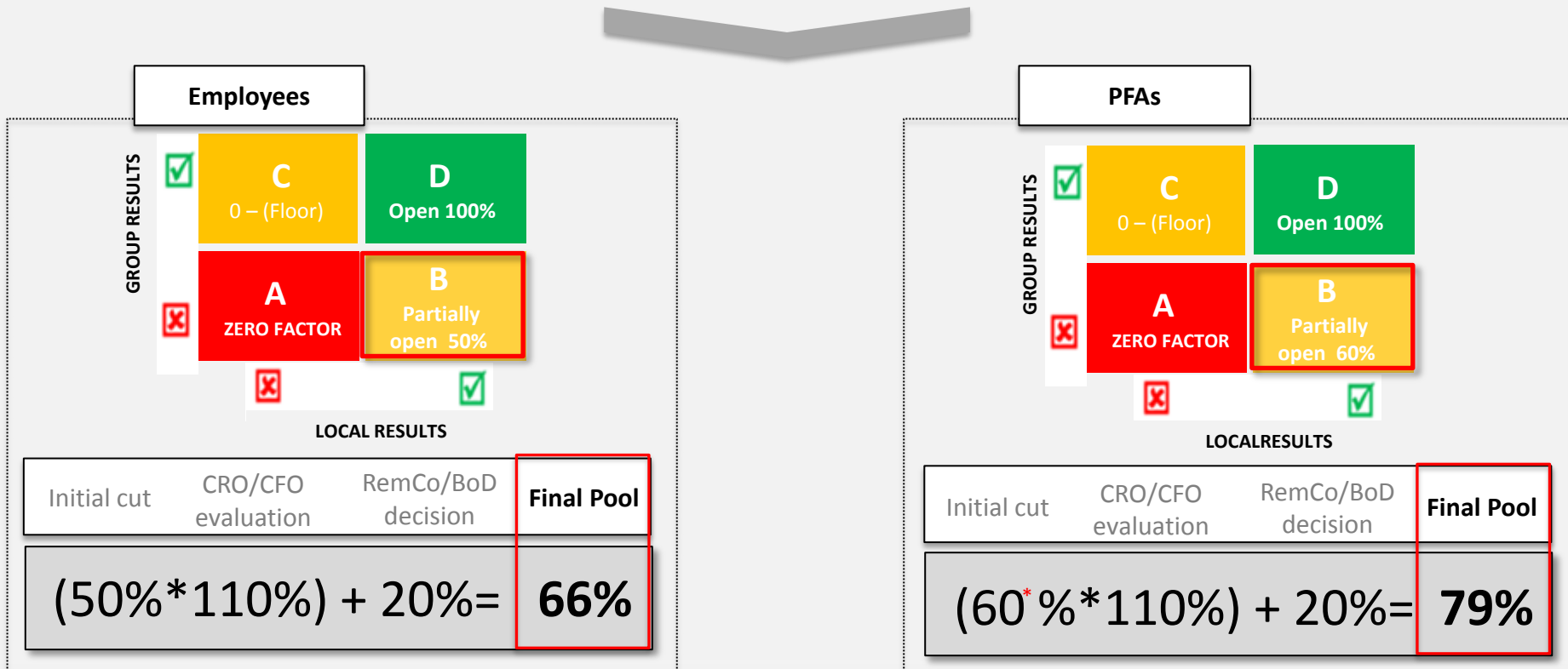
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# 2016 INCENTIVE SYSTEMS PAYOUT 1/3

- Following the schemes provided by the Group Incentive System (chapters 5.2.1 and 5.2.2 of the [Annual Compensation Report](#)), the combination
  - between **Group and Fineco results** in the “entry conditions matrix”
  - between **FinecoBank CRO and CFO evaluation (CRO and CFO dashboards) of Bank’s results**
 ...Plus the additional 20% that FinecoBank RemCo/Board decided to grant considering the actual 2016 Bank’s business results...

Led to the **reduction of FinecoBank pools for Employees and PFA populations as follows**



\* Underlying rationales for the different starting % are explained at chapter 5.4 of the Annual Report in the Compensation Policy

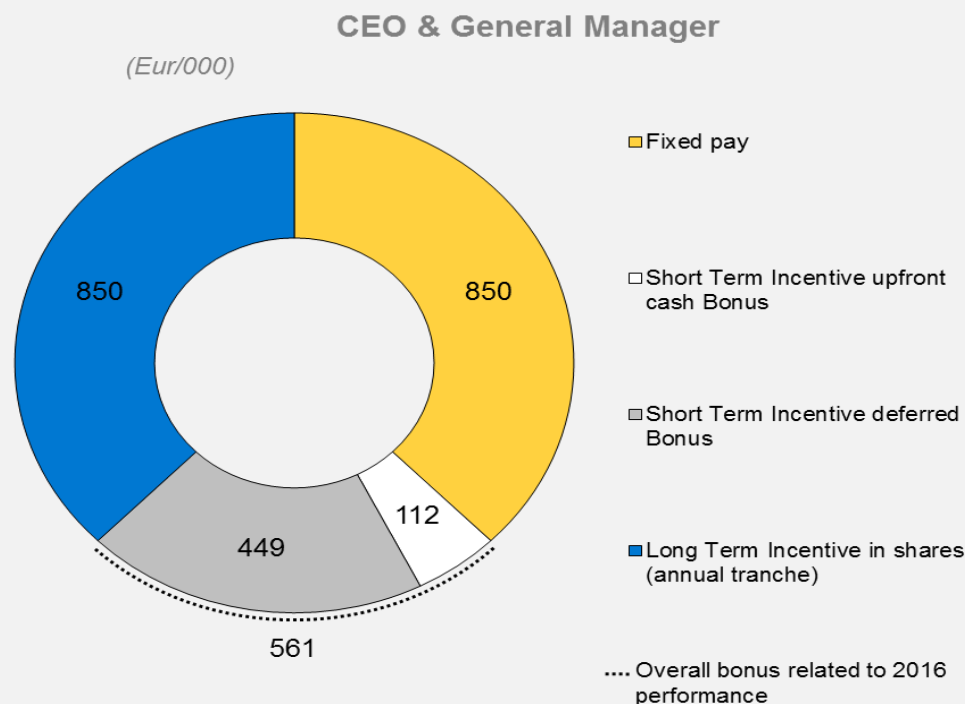
## Focus on CEO's performance evaluation

- Single individual bonus proposals reflect the bonus pools % of reduction and the individual performance assessment.
- Below, the **overall assessment of FinecoBank CEO/GM 2016 performance** is reported

GOAL	RESULT	ASSESSMENT				
		Below	Almost meets	Meets	Exceeds	Greatly exceeds
<b>Net Sales</b> <i>vs. budget</i>	<i>Net Sales above budget</i> (Bdg € 3,85 bln / Act: € 5 bln)					
<b>Net Profit</b> <i>vs. budget</i>	<i>Net Profit above budget</i> (Bdg € 188,2 mln / Act € 211,8 mln)					
<b>Net growth of number of clients</b> <i>vs. budget</i>	<i>More than 11.800 new clients vs. budget (+13%/y)</i> (Bdg: 1.106.033/Act: 1.117.876)					
<b>Stakeholder Value: Customer satisfaction (TRI*M external); People Engagement, Reputation</b> <i>vs target</i>	1) TRI*M and People Engagement Indexes remain within the excellence range (TRI*M index at 94%/ People Engagement Index at 83%) 2) Reputation: Best website of 2016; Global Finance Award 2016 (Best digital bank, Best online deposit); Global Brands Magazine 2016 (Most innovative financial brand in Italy, best financial brand in Italy, Most innovative financial Advisory brand in Italy)					
<b>Operational Risk Management</b> <i>vs qualitative assessment considering:</i> *# Incidents *Losses *Launch of mitigation actions	1) Successful prevention and management of ICT incidents (small number of incidents, the largest part with low severity level) 2) The operational losses significantly decrease comparing with 2015 3) System of Fraud Identification & Analysis (SoFIA) has been object of further improvements and Operational Risk culture has been strengthened through governance initiatives and Permanent Work Groups ongoing oversight.					
<b>Execution of Strategic Plan</b> <i>vs qualitative assessment with a specific focus on:</i> *Loan business volume increase *Net sales of guided products	<i>Net Sales of Guided Products in line with the budget, while Loan Business Volume is almost in line with target and increasing in respect of 2015.</i>					
<b>Tone from the top on conduct and compliance culture, also coherent with FSB guidelines</b> <i>vs qualitative assessment considering:</i> *Initiatives aimed at promoting staff integrity towards internal/external conduct principles *The overall status of findings or proceedings in place (internal or external) considering the trend, typology, severity and the timely completion of the related remediation actions	1) Tone from the top initiatives have been launched in order to strengthen compliance culture within the bank, such as discussions in Bank's Committees and direct communications to the employees via intranet website highlighting the importance of compliance culture. 2) Decreasing trend of the overall internal Audit findings and no critical findings in place. Overall evaluation of Internal Control System confirmed satisfactory.					

## Focus on CEO's compensation

- According to the overall performance assessment showed in the previous slide (*Exceeds Expectations*), the short term bonus proposal for the CEO & GM amounts to **€ 561.000**, which, compared to the **cap of € 850.000 for the short term variable pay**, fully reflects the *34% reduction of the bonus pool*.
- Below the overall **CEO & GM compensation package for 2016 performance** is reported .



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# 2017 INCENTIVE SYSTEMS FEATURES 1/4

- 2017 Systems for Identified Staff population introduce some new features in respect of 2016. Namely
  - some **changes in the entry conditions** at Group and Local Level
  - adjustments of pools **only up to CRO assessment** (no more CFO evaluations) – *see next slide*
- Hereinafter the features of 2017 Incentive System for Identified Staff (Employees and PFAs) are reported

## Changes in the Entry Conditions

### Employees

2016	
GROUP	LOCAL
Net Operating Profit adjusted $\geq 0$	Net Operating Profit adjusted $\geq 0$
Net Profit $\geq 0$	Net Profit $\geq 0$
Common Equity Tier 1 Ratio Transitional $\geq 10\%$	
Liquidity Coverage Ratio $\geq 75\%$	

2017	
GROUP	LOCAL
Net Operating Profit adjusted $\geq 0$	Net Operating Profit adjusted $\geq 0$
Net Profit $\geq 0$	Net Profit $\geq 0$
Common Equity Tier 1 Ratio Transitional $\geq 10,25\%$	Common Equity Tier 1 Ratio Transitional $\geq 10,25\%$
Liquidity Coverage Ratio $\geq 100\%$	Liquidity Coverage Ratio $\geq 100\%$
Net Stable Funding Ratio $\geq 100\%$	

### PFAs

2016	
GROUP	LOCAL
	Net Operating Profit adjusted $\geq 0$
	Net Profit $\geq 0$
Common Equity Tier 1 Ratio Transitional $\geq 10\%$	Common Equity Tier 1 Ratio Transitional $\geq 10\%$
Liquidity Coverage Ratio $\geq 75\%$	Liquidity Coverage Ratio $\geq 75\%$

2017	
GROUP	LOCAL
	Net Operating Profit adjusted $\geq 0$
	Net Profit $\geq 0$
Common Equity Tier 1 Ratio Transitional $\geq 10,25\%$	Common Equity Tier 1 Ratio Transitional $\geq 10,25\%$
Liquidity Coverage Ratio $\geq 100\%$	Liquidity Coverage Ratio $\geq 100\%$
Net Stable Funding Ratio $\geq 100\%$	

- Capital and Liquidity KPIs** are added at Bank level or respective thresholds are updated both at Group and Bank level
- In respect of 2016, a new liquidity indicator has been added at Group Level: the **Net Stable Funding Ratio**, which represents the ratio between the available amount of stable funding and the required amount of stable funding

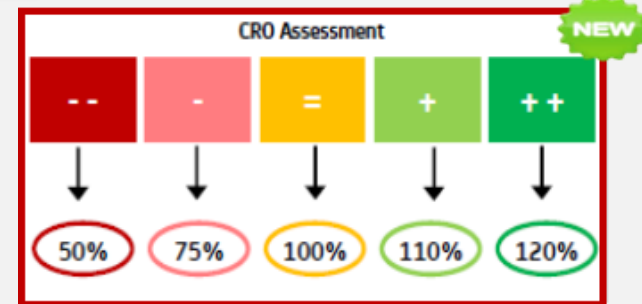
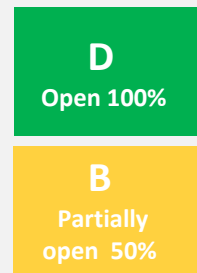
# 2017 INCENTIVE SYSTEMS FEATURES 2/4

## Changes in the CRO/CFO assessment

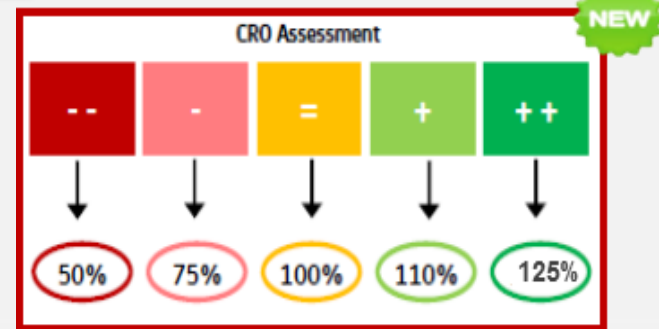
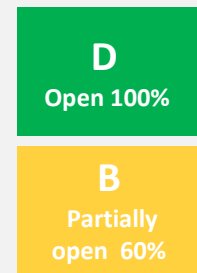
- Due to the **partial overlap** of some indicators in the **CFO and CRO dashboard** and with the **aim to simplify the process**, it has been decided to take into account **only the CRO dashboard** for Incentive System Purposes.
- Below a **sample picture of 2017 CRO dashboard** and the **consequent corrections** that may apply to the bonus pool, according to the dashboard evaluation results.

Pillar 1 KPIs		KPI	RAF Thresholds		
			Target	Trigger	Limit
Pillar 1 KPIs	Capital	CEY Ratio (%)	...	...	...
	Liquidity	LCR (%)	...	...	...
		NSFR (%)	...	...	...
Managerial KPIs	Risk & Return	ROAC (%)	...	...	...
	Credit	EL stock (%)	...	...	...
		EL new business (%)	...	...	...
Specific Risks KPIs	Financial Risks	Coverage on Impaired (%)	...	...	...
		EL Sensitivity (%)	...	...	...
	Operational	Op. Losses/ Operating Income (%)	...	...	...

Employees



PFA's



# 2017 INCENTIVE SYSTEMS FEATURES 3/4

## Focus on payout mechanisms

- 2017 Systems for Identified Staff provide **payout mechanisms in compliance with regulations and in continuity with 2016 Incentive Systems features**, as reported below.
- Payout view** for Employees is based on two different schemes, one longer (6 years) applicable to CEO's first reporting line, and one shorter (5 years) applicable to the other Identified Staff (including PFAs).

	2017	2018	2019	2020	2021	2022	2023
<b>CEO/GM AND 1<sup>ST</sup> REPORTING LINE</b>	<b>PERFORMANCE YEAR</b>	20% <b>UPFRONT CASH</b>	10% <b>DEFERRED CASH</b>	20% <b>UPFRONT SHARES</b>	10% <b>DEFERRED SHARES</b>	10% <b>DEFERRED SHARES</b>	20% <b>DEFERRED CASH</b> 10% <b>DEFERRED SHARES</b>
<b>OTHER IDENTIFIED STAFF</b>	<b>PERFORMANCE YEAR</b>	30% <b>UPFRONT CASH</b>	10% <b>DEFERRED CASH</b>	30% <b>UPFRONT SHARES*</b>	10% <b>DEFERRED CASH</b> 10% <b>DEFERRED SHARES*</b>	10% <b>DEFERRED SHARES*</b>	











\* FinecoBank shares used for the purpose of PFAs Incentive Systems are purchased on the market due to Italian Civil Code restrictions (differently to what happens for Employees, where shares for Incentive Systems are originated by a free capital increase).





# 2017 INCENTIVE SYSTEMS FEATURES 4/4

## Focus on CEO's performance screen

- CEO's **2017 performance goals** (see picture below) fully reflect the FinecoBank business, with a **strong link to sustainable profitability, risk and value creation**.
- Goals are defined according to **specific Group Guidelines** (the so called KPI Bluebook → see chapter 5.3.1 of Compensation Policy's Annual Compensation Report).

CORE GOALS	PERIMETER	REFERENCE TARGET	RISK ADJUSTMENT / SUSTAINABILITY GOAL
ROAC	FinecoBank	vs. budget	 
EVA	FinecoBank	vs. budget	 
Operating Costs	FinecoBank	vs. budget	
Net new clients	FinecoBank	vs. target	
Net Sales of guided products	FinecoBank	vs. budget	
New business EL	FinecoBank	vs. budget	 
Sustain value through people	FinecoBank	Qualitative assessment based on: <ul style="list-style-type: none"> <li>• Y/Y delta on Pay for Performance metrics on variable and fix pay</li> <li>• Y/Y delta on Gender Pay Gap / Gender Balance dashboard / Gender Diversity Initiatives</li> <li>• Succession Planning / Building up a sustainable Talent Management Support</li> <li>• People Engagement Index</li> </ul>	
Tone from the top on Compliance Culture	FinecoBank	Qualitative assessment based on: <ul style="list-style-type: none"> <li>• Scope, kind and numbers of documented initiatives - pre-committed with CEO Office / Country's CEO, aimed at promoting staff integrity / customer protection / trustworthiness</li> <li>• The overall status of findings or proceedings in place (internal or external) considering the trend, type, severity and the timely completion of the related remediation actions</li> </ul>	 

Goals marked with  are "sustainability goals", while those marked with  are risk adjusted or linked to a risk category