

# R E P O R T

## ON THE CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURES

pursuant to Article 123-*bis* of the Legislative  
Decree no. 58 of February 24, 1998 (traditional  
management and control model)

*Name of Issuer:*  
**“FinecoBank S.p.A.”**

*Website:*  
**[www.finecobank.com](http://www.finecobank.com)**

*Financial year of reference of the Report:*  
**January 1, 2016 / December 31, 2016**

*Date of approval of the Report:*  
**March 7, 2017**

*This is an English translation of the original Italian document. The original version in Italian takes precedence.*



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# Glossary

<b>Audit and Related Parties Committee:</b>	the internal committee of the Board of Directors, established in accordance with Articles 4 and 7 of the Corporate Governance Code for Listed Companies.
<b>Bank of Italy Circular:</b>	Bank of Italy Circular no. 263 of December 27, 2006 (laying down “ <i>New regulations for the prudential supervision of banks</i> ”) as amended.
<b>By-laws:</b>	the By-laws of the Company in force at the date of approval of this Report (available on the Company’s website).
<b>Board/Board of Directors:</b>	the Board of Directors of the Issuer.
<b>Board of Statutory Auditors:</b>	the Board of Statutory Auditors of the Issuer.
<b>Borsa Italiana:</b>	Borsa Italiana S.p.A.
<b>Civil Code:</b>	the Italian Civil Code approved by Royal Decree no. 262 of March 16, 1942 as amended.
<b>Code/Corporate Governance Code for Listed Companies:</b>	the Corporate Governance Code for Listed Companies approved in July 2015 by the Corporate Governance Companies Committee and endorsed by Borsa Italiana, ABI, Ania, Assogestioni, Assonime and Confindustria.
<b>Consob:</b>	Commissione Nazionale per le Società e la Borsa (National Commission for Companies and the Stock Exchange) with headquarters in Rome, Via G.B. Martini no. 3.
<b>Consolidated Law on Banking:</b>	Legislative Decree no. 385 of September 1, 1993 as amended.
<b>Consolidated Law on Finance:</b>	Legislative Decree no. 58 of February 24, 1998 as amended (containing the Consolidated Finance Act).
<b>Corporate Bodies Regulations</b>	The Regulations approved by the Board of Directors (last version August 2016) that govern the functioning and responsibilities of the Company’s corporate bodies and the related information flows, in compliance with the rules of law, including the regulatory provisions and the By-laws, as well as the principles contained in the Guidelines issued by UniCredit, in performing its management and coordination as the parent company of the UniCredit Group. This document is available on the Issuer’s website <a href="http://www.finecobank.com">www.finecobank.com</a> (“Governance/ Company Boards” Section).
<b>External Auditors:</b>	Deloitte & Touche S.p.A., with registered office in Via Tortona 25, Milan, VAT no. 03049560166, Tax ID no. and Milan Companies Register no. 03049560166, Economic and Administrative Index (REA) no. 1720239, a company registered in the Register of Auditors, engaged for the independent audit of the accounts of the Issuer.
<b>Group or UniCredit Group:</b>	UniCredit and its subsidiary companies pursuant to Article 2359 of the Civil Code and Article 93 of the Consolidated Law on Finance.
<b>Instructions on the Stock Exchange Regulations:</b>	instructions on the Regulations of the Markets organised and managed by Borsa Italiana, in force at the date of approval of this Report.
<b>Issuer or FinecoBank or Bank or Company:</b>	FinecoBank S.p.A., a company of the UniCredit Banking Group, Register of Banking Groups No. 020081, with registered office in Piazza Durante 11, Milan, Headquarters in Via Rivoluzione d’Ottobre 16, Reggio Emilia 42123, VAT no. 12962340159, Tax ID no. and Milan Companies Register no. 1392970404, Economic and Administrative Index (REA) no. 1598155, Member of the National Guarantee Fund and the Interbank Fund for the Protection of Deposits.
<b>Issuer Regulations:</b>	the Regulations issued by Consob by resolution no. 11971 of May 14, 1999 (as amended) laying down rules governing issuers.
<b>Market Regulations:</b>	the Regulations issued by Consob by resolution no. 16191 of October 29, 2007 (as amended), laying down rules governing markets.

<b>MTA:</b>	Borsa Italiana's Main Market (MTA) where FinecoBank's shares are also traded.
<b>Related-Party Regulations:</b>	the Regulations issued by Consob by resolution no. 17221 of March 12, 2010 (as amended), laying down provisions on related-party transactions.
<b>Remuneration and Appointments Committee:</b>	the internal committee of the Board of Directors, established in accordance with Articles 4, 5 and 6 of the Corporate Governance Code for Listed Companies.
<b>Report:</b>	this report on the corporate governance system and the ownership structures of the Issuer, drawn up pursuant to Article 123-bis of the Consolidated Law on Finance.
<b>Shareholders:</b>	owners of FinecoBank shares.
<b>Shareholders' Meeting:</b>	Shareholders' Meeting of the Issuer.
<b>Stock Exchange Regulations:</b>	the Rules of the Markets organized and managed by Borsa Italiana, approved by the Board of Directors of Borsa Italiana and approved by Consob, in force at the date of approval of the Report.
<b>Supervisory Regulations:</b>	the Supervisory regulations for banks set out in Bank of Italy Circular no. 285 of December 17, 2013.
<b>Supervisory Regulations on Corporate Governance:</b>	the Supervisory regulations for banks in relation to organisation and corporate governance set out in Bank of Italy Circular no. 285 of December 17, Part 1, Title IV, Chapter 1.
<b>UniCredit:</b>	UniCredit S.p.A., with Registered office in Via Specchi, no. 16, Rome, VAT no., Tax ID no. and Companies Register of Rome no. 00348170101, a bank registered Register of Banks and Parent of the UniCredit Group, Register of Banking Groups no. 2008.1, Italian Banking Association Code no. 02008, Member of the Interbank Fund for the Protection of Deposits.
<b>Year:</b>	the financial year of reference of the Report.

# Introduction

This Report has been prepared in accordance with Article 123-*bis* of the Consolidated Law on Finance according to the *“Format for the report on corporate governance and ownership structures”*, VI edition, January 2017. The information contained in the Report refers to the closure date of 2016 financial year, unless otherwise specified.

The Report, approved by the Company's Board of Directors by resolution of February 8, 2017, is published at the same time as the Management Report on the Issuer's website (in the Governance Section) and is also available on the website of the storage mechanism authorised and managed by Spafid Connect S.p.A. ([www.emarketstorage.com](http://www.emarketstorage.com)).

The Report has been submitted to the External Auditors for the verifications and the fairness opinion required by Article 123-*bis*, paragraph 4, Consolidated Law on Finance. The results of the work carried out by the External Auditors are contained in the report prepared by it in accordance with Article 14 of the Legislative Decree no. 39 of the January 27, 2010, attached to the 2016 annual financial statements of the Company.

# 1. Profile of the Issuer

FinecoBank is UniCredit Group's direct multichannel bank. It has one of the largest advisory networks in Italy, and is the number one broker in Italy for equity trades in terms of volume of orders and number one broker in Europe for number of executed orders. FinecoBank offers an integrated business model combining direct banking and financial advice, with a single free-of-charge account including a full range of banking, credit, trading and investment services, which are also available through applications for smartphone and tablet.

FinecoBank is listed on the MTA <sup>(1)</sup>.

## 1.1. Corporate governance model

The corporate governance system adopted by the Company is based on principles recognised by international best practices as fundamental for good governance: the central role of the Board of Directors, the correct management of conflicts of interest, an efficient internal control system and transparency in relations with the market, with particular reference to reporting corporate management decisions.

FinecoBank is part of the UniCredit group and it is managed and coordinated by the UniCredit parent company pursuant to and for the purposes of Articles 2497 et seq. of the Civil Code.

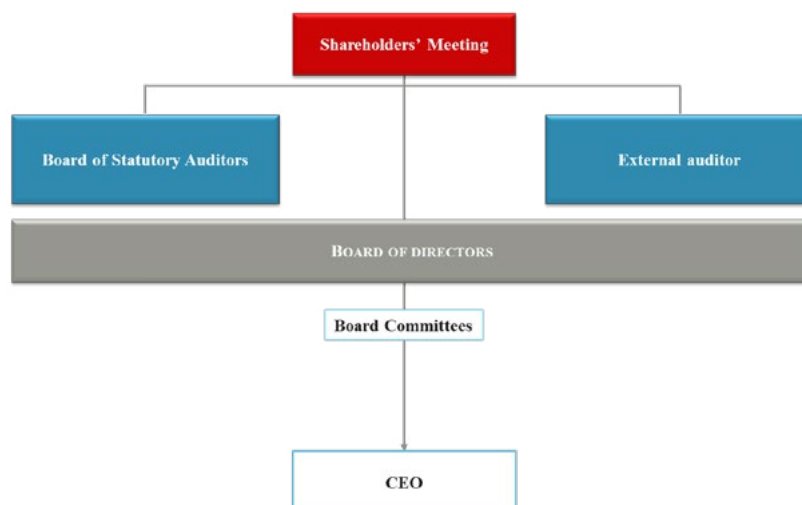
FinecoBank's overall corporate governance structure has been defined taking into account applicable laws and recommendations in the Corporate Governance Code. The Company must also meet the requirements of Supervisory Regulations issued by the Bank of Italy and, in particular, with regard to corporate governance, to the Supervisory Regulations on Corporate Governance. Pursuant to the aforementioned provisions, FinecoBank, as a listed bank and under the European Central Bank (ECB) prudential supervision qualifies as a Bank of significant size or operational complexity and, therefore, complies with the provisions applicable to such banks.

FinecoBank adopts a traditional administration and control system based on two bodies appointed by the Shareholders' Meeting: the Board of Directors, with strategic oversight and business management functions, and the Board of Statutory Auditors, with administration control functions. The independent audit of the accounts is assigned to an external independent auditing company, in compliance with applicable laws.

At the date of approval of these Report, the governance of FinecoBank also consisted of the following internal committees of the Board of Directors:

- the Audit and Related Parties Committee; and
- the Remuneration and Appointments Committee.

FinecoBank's governance structure is illustrated in the diagram below:



(1) FinecoBank was admitted for listing on the MTA on July 2, 2014. Since April 1, 2016, FinecoBank has been included in the FTSE-MIB index. For the purposes of this Report, please note that, pursuant to Paragraph VI of the Main Principles and temporary regime of the Corporate Governance Code for Listed Companies, an issuer is deemed to belong to the FTSE-MIB if its shares were included in the list of such index in the last trading day of the financial year before to the financial year covered by the corporate governance reports refers to.

# 1. Profile of the Issuer (CONTINUED)

## 1.1.1 Shareholders' Meeting

The **Shareholders' Meeting** represents the interests of shareholders as a whole, and through its decisions - of the company.

The Shareholders' Meeting has the authority to pass resolutions in ordinary and extraordinary session with the meeting and voting quorums provided for by law and by the By-laws, taking into account the specific matters under review.

The Ordinary Shareholders' Meeting approves, inter alia, the annual financial statements and decides on the distribution of dividends, the appointment of directors and statutory auditors and appoints the external auditors, determining their fees. It also resolves on remuneration and incentive policies and practices established by current regulations.

The Extraordinary Shareholders' Meeting resolves on amendments of the By-laws, capital increases and mergers and demergers.

Holders of voting rights and in respect of whom the Company has received, from the broker holding the relevant account, notification within the deadline set forth by applicable law (record date, the seventh open market day prior to the date established for the Meeting).

*For further information on the Shareholders' Meeting, see Section 16*

## 1.1.2 Board of Directors

The **Board of Directors**, pursuant to the By-laws, is the body, within the framework of the company object, given all powers according to law or the By-laws, that are not expressly conferred on the Shareholders' Meeting, and that exclusively oversees business management. For this purpose, the Board of Directors is vested with full powers for the ordinary and extraordinary management of the Company.

The members of the Board of Directors meet the professional competence, integrity and independence requirements of current and statutory regulations.

As established in the By-laws, members of the Board of Directors are appointed by the Shareholders' Meeting for a three-year term of office, save for a shorter term established by the Shareholders' Meeting when making appointments, based on a slate voting system, to guarantee an adequate number of board directors elected by the minority.

The Board of Directors elects a **Chairman** from amongst its members and – where appropriate – one or two **Vice Chairmen**, one of whom will act as a stand-in. The Chairman and Vice Chairman remain in office for the entire duration of the Board. The Board of Directors also appoints a **Secretary**, who is not necessarily a board member. The Board may establish committees or commissions with advisory, decision-making or coordination functions, in compliance with applicable current and statutory regulations.

The Board of Directors may also appoint a **Managing Director**, determining the term of office and relative duties and powers, and one or more Deputy General Managers, who form the Head Office. In line with the By-laws, the Board of Directors of the Company had appointed Alessandro Foti as Managing Director and General Manager of the Bank.

*For further information on the Board of Directors, see Section 4*

## 1.1.3 Audit and Related Parties Committee

The **Audit and Related Parties Committee** is a Board Committee which, pursuant to Article 7.P.4 of the Corporate Governance Code and Article 3 of the Related Parties Regulations, and as provided for by the Control and Risk Committee Regulations, comprises three independent directors, with adequate professional expertise of corporate governance and internal controls, capable of independent unbiased judgement in the duties assigned to them. This Committee (i) has advisory functions concerning internal control and company risk management (ii) issues preliminary and reasoned opinions, also in the interest of carrying out transactions with related parties and/or associated persons completed by the Bank and on the appropriateness and fairness of the relative terms and conditions, if the Bank internal procedures on the topic settle it.

*For further information on the Audit and Related Parties Committee, see Section 6.1*



### 1.1.4 Remuneration and Appointments Committee

The **Remuneration and Appointments Committee** is a Board Committee which, pursuant to Articles 5.P.1 and 6.P.3 of the Corporate Governance Code, comprises three independent directors, with advisory functions concerning the remuneration of directors and senior managers and the appointment of directors, the general manager and key management personnel.

*For further information on the Remuneration and Appointments Committee, see Sections 7 and 8*

### 1.1.5 Board Of Statutory Auditors

Pursuant to the By-laws, the **Board of Statutory Auditors** comprises three permanent and two alternate auditors. Auditors are appointed by the Shareholders' Meeting based on a slate voting system to guarantee an auditor elected by the minority, as well as compliance with regulations on gender balance.

Auditors remain in office for three years, they may be re-elected and their term ends on the date of the Shareholders' Meeting called to approve the financial statements relating to the third year of their appointment. The Board of Statutory Auditors performs the functions assigned to it by law and other applicable regulations. For the entire period while the Company's shares are admitted to trading on a regulated Italian market, the Board of Statutory Auditors also exercises all powers and carries out all duties provided for by special laws; with particular reference to disclosure, directors are required to report on a quarterly basis, pursuant to Article 150 of the Consolidate Law on Finance, according to the procedures in Article 15 of the By-laws. The Board of Statutory Auditors, acting as the "*Internal control and auditing committee*", pursuant to the Legislative Decree no. 39 of January 27, 2010, carries out all other activities provided for by this decree.

Members of the Board of Statutory Auditors are registered in the Register of Auditors and meet the professional competence, integrity and independence requirements of current and statutory regulations.

*For further information on the Board of Statutory Auditors, see Section 14*

### 1.1.6 External Auditors

As established in the By-laws, the accounts are audited, pursuant to applicable legal provisions, by an entity that meets the requirements of current regulations.

The **External Auditors** represent the external control body auditing the accounts. In particular, the External Auditors are required, during the year, to verify the accounts of the company, and to give an opinion on the financial statements and consolidated financial statements, in a relative report.

*For further information on the External Auditors, see Section 11.4*

\* \* \*

The powers and duties and operating procedures of corporate bodies are governed by law, by the provisions set forth in the By-laws and by decisions taken by competent bodies.

For further information on each body and/or entity comprising the Company's governance system, reference is made to specific Sections in this Report.

## 2. Information on ownership structures (pursuant to Article 123-bis, paragraph 1, Consolidated Law on Finance)

### a) Structure of Share Capital (pursuant to Article 123-bis, paragraph 1, letter g), Consolidated Law on Finance)

At the date of approval of this Report, the share capital, fully subscribed and paid up, was €200,540,166.09 divided into no. 607,697,473 ordinary shares with a nominal value of €0.33 each. The Board of Directors, in partial execution of the authority granted pursuant to Article 2443 of the Italian Civil Code by the Extraordinary Shareholders' Meeting of June 5, 2014, resolved on February 7, 2017 to increase the share capital, with effect from March 31, 2017, by a nominal amount of €5,237.76, corresponding to 15,872 ordinary shares with a par value of €0.33 each, to service the implementation of the Employee incentive plans.

In this regard, please note that the Board of Directors, in partial execution of the authority granted pursuant to Article 2443 of the Civil Code by the Extraordinary Shareholders' Meeting of June 5, 2014, has passed the following resolutions:

- (i) on February 8, 2016, to increase the share capital by a nominal amount of €95,601.99, corresponding to 289,703 ordinary shares with a par value of €0.33 each, to service the implementation of the Employee incentive plans;
- (ii) on February 7, 2017, to increase the share capital by a nominal amount of €294,372.21, corresponding to 892,037 ordinary shares with a par value of €0.33 each, to service the implementation of the Employee incentive plans.

The ordinary shares are registered.

The shares are indivisible, with cases of joint ownership governed by law.

The shares are not subject to any rights, privileges or constraints; there are no shares reserved for issue under option and sales contracts.

For equity-based incentive plans, which involve free share capital increases approved by the Shareholders' Meeting, see the relative prospectuses drawn up pursuant to Article 84-bis of the Issuer Regulations<sup>(2)</sup>, as well as the Remuneration Report drawn up pursuant to Article 84-quater of the Issuer Regulations<sup>(3)</sup>.

### b) Restrictions on the transfer of securities (pursuant to Article 123-bis, paragraph 1, letter b), Consolidated Law on Finance)

As at the date of approval of this Report, there were no restrictions on the transfer of securities.

### c) Major shareholdings in capital (pursuant to Article 123-bis, paragraph 1, letter g), Consolidated Law on Finance)

Based on the entries in the Shareholders' Register, integrated with the communications received pursuant to Article 120 of the Consolidated Law on Finance, and on other information available to the Company, the major stakes in share capital as at December 31, 2016 – both direct and indirect – are summarised below.

The table does not include entities that are exempt from the disclosure requirements pursuant to Article 119-bis of the Issuer Regulations.

DECLARER OR ENTITY AT THE TOP OF THE CHAIN OF OWNERSHIP	DIRECT SHAREHOLDER	NO. OF ORDINARY SHARES	% SHARE OF ORDINARY CAPITAL	% SHARE OF VOTING CAPITAL
UniCredit S.p.A.	UniCredit S.p.A.	215,066,403	35.443%	35.443%
	UniCredit Bank AG	219,550	0.036%	0.036%
	<b>Total</b>	<b>215,285,953</b>	<b>35.479%</b>	<b>35.479%</b>
Wellington Management Group LLP	Wellington Management International LTD	1,571,283	0.259%	0.259%
	Wellington Management Company LLP	29,976,253	4.940%	4.940%
	<b>Total</b>	<b>31,547,536</b>	<b>5.199%</b>	<b>5.199%</b>

(2) The information documents are available at the following address on the FinecoBank website: [https://images.fineco.it/pub-fineco/pdf/corporate/assemblea/2017/en/Annex\\_2\\_2017\\_FinecoBank\\_Compensation\\_Policy.pdf](https://images.fineco.it/pub-fineco/pdf/corporate/assemblea/2017/en/Annex_2_2017_FinecoBank_Compensation_Policy.pdf). See in particular the information provided on page 2 et seq.

(3) The remuneration report is available at the following address on the FinecoBank website: [https://images.fineco.it/pub-fineco/pdf/corporate/assemblea/2017/en/2017\\_compensation\\_policy.pdf](https://images.fineco.it/pub-fineco/pdf/corporate/assemblea/2017/en/2017_compensation_policy.pdf). See in particular the information provided on page 54 et seq. of the remuneration report.

#### **d) Securities conferring special rights (pursuant to Article 123-*bis*, paragraph 1, letter d), Consolidated Law on Finance)**

As at date of approval of this Report, FinecoBank has not issued any shares that grant special control rights and it has not adopted By-laws provisions which allow multiple or increased voting rights.

#### **e) Employee shareholdings: mechanism to exercise voting rights (pursuant to Article 123-*bis*, paragraph 1, letter e), Consolidate Law on Finance)**

There is no employee share ownership system in which the voting right is exercised by representatives of the employees.

#### **f) Restrictions on voting right (pursuant to Article 123-*bis*, paragraph 1, letter f), Consolidate Law on Finance)**

There are no restrictions on voting rights.

#### **g) Shareholder agreements (pursuant to Article 123-*bis*, paragraph 1, letter g), Consolidate Law on Finance)**

The Issuer is not aware of any shareholder agreements pursuant to Article 122 of the Consolidated Law on Finance.

#### **h) Change of control clauses (pursuant to Article 123-*bis*, paragraph 1, letter h), Consolidate Law on Finance) and statutory provisions on Takeover bids (pursuant to Articles 104, paragraph 1-*ter*, and 104-*bis*, paragraph 1, Consolidate Law on Finance)**

FinecoBank has not executed any significant agreements that become effective, are modified or are terminated in the event of a change in control of the contracting company.

The Bank's By-laws do not envisage any exceptions to the provisions on the passivity rule pursuant to Article 104, paragraphs 1 and 1-*bis* of the Consolidated Law on Finance, nor do they envisage application of the neutralisation provisions contemplated by Article 104-*bis*, paragraphs 2 and 3, of the Consolidated Law on Finance.

#### **i) Authorisations to increase share capital and purchase treasury shares (pursuant to Article 123-*bis*, paragraph 1, letter m), Consolidated Law on Finance)**

The Board of Directors has been authorised by the Extraordinary Shareholders' Meeting to carry out free capital increases, aimed at implementing the incentive plans for Bank personnel qualified as "identified staff". The Board of Directors was not assigned the power to issue equity-based financial instruments.

The Shareholders' Meeting by resolution of April 12, 2016, on proposal from the Board of Directors, authorised the purchase and disposition of no. 250,000 treasury shares to be granted to the personal financial advisors and network managers identified as key personnel.

On January 9, 2017, the Board of Directors resolved to submit the proposal to the Shareholders' Meeting called for the approval of the 2016 financial statements for the authorization to purchase and dispose of no. 346,000 treasury shares to be granted to the personal financial advisors and network managers identified as key personnel.

As at December 31, 2016, the Company held no. 714,325 treasury shares corresponding to 0.12% of the share capital.

## 2. Information on ownership structures (pursuant to Article 123-*bis*, paragraph 1, Consolidated Law on Finance) (CONTINUED)

### I) Management and coordination (pursuant to Article 2497 et seq. of the Civil Code)

UniCredit carries out management and coordination in conformity to and within the limits of the Consolidated Law on Banking and Supervisory Regulations, which includes the following activities: *(i)* proposing members of the board of directors and control bodies, and managerial positions, of Group companies, to the shareholders' meetings; *(ii)* disseminating best practices, methodologies, procedures and IT systems in order to standardise operating procedures within the Group; *(iii)* defining and implementing a managerial/functional system that defines mechanisms for managerial coordination at group level, assigning the managers of parent company functions specific responsibilities and powers vis-à-vis corresponding functions of subsidiaries, in order to ensure the overall consistency of the group's corporate governance system, through adequate coordination among bodies, structures and company functions of different entities comprising the group; and *(iv)* defining, disseminating and implementing group regulations for activities which are significant in terms of legal compliance and/or risk management, concerning, for example: (a) the reporting of inside information; (b) the preparation of periodic financial information; (c) the drafting of the strategic budget; (d) management control and the notification of management information; (e) the structure, composition and remuneration of the board of directors; (f) transactions with related parties and associated persons; (g) choice of suppliers; and (h) personnel and personnel training.

\* \* \*

The information required by Article 123-*bis*, paragraph 1, letter i), of the Consolidated Law on Finance is contained in the remuneration report published in accordance with Article 123-*ter* of the Consolidated Law on Finance<sup>(4)</sup>.

\* \* \*

The information required by Article 123-*bis*, paragraph 1, letter l), of the Consolidated Law on Finance regarding the appointment and replacement of the directors is provided in the section of this Report on the Board of Directors (Section 4.1).

<sup>(4)</sup> The remuneration report is available at the following address on the FinecoBank website: [https://images.fineco.it/pub-fineco/pdf/corporate/assemblea/2017/en/2017\\_compensation\\_policy.pdf](https://images.fineco.it/pub-fineco/pdf/corporate/assemblea/2017/en/2017_compensation_policy.pdf).

### 3. Compliance (pursuant to Article 123-*bis*, paragraph 2, letter a), Consolidated Law on Finance)

FinecoBank adheres to the Corporate Governance Code for Listed Companies, bringing its own conduct in line with the principles therein, where applicable.

The Code is available to the public on the website of the Corporate Governance Committee, at: <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf>.

For additional information on the corporate governance structure of FinecoBank, in addition to the specific sections of this Report, see the Company's website, where it is available together with economic-financial information, data and documents of interest to shareholders.

\* \* \*

The Issuer is not subject to provisions of law outside Italy that affect its corporate governance structure.

## 4. Board of Directors

### 4.1 Appointment and replacement (pursuant to Article 123-*bis*, paragraph 1, letter I), Consolidated Law on Finance)

In compliance with the laws and regulations applicable to listed companies, Article 13 of the By-laws requires that the Board of Directors be appointed by the Shareholders' Meeting, on the basis of lists of candidates submitted by Shareholders (each list shall contain the names of the candidates numbered progressively), according to the procedure described below.

Shareholders can submit a list for the appointment of Directors, provided that when they submit the list they hold, alone or together with others presenting shareholders, at least the minimum investment established by Consob pursuant to Article 147-*ter*, paragraph 1, of the Consolidated Law on Finance and in accordance with the relevant provisions set forth in the Issuers Regulations. Ownership of the minimum shareholding required is calculated based on the shares registered to each shareholder on the day when the lists are filed at the Company; the related certification may be submitted after the lists have been filed, provided that it is within the deadline for publication of the lists.

Each party entitled to vote (as well as *(i)* entitled persons belonging to the same group, intended as a party, which need not be a corporation, exercising control pursuant to Article 2359 of the Civil Code and any subsidiary controlled by, or under the control of the said party, or *(ii)* shareholders who are party to a shareholders' agreement as per Article 122 of the Consolidate Law on Finance, or *(iii)* entitled persons who are otherwise associated with each other in a material relationship pursuant to current and applicable statutory or regulatory provisions) may submit individually or with others only one list, just like each candidate can be included in only one list, or otherwise be considered ineligible.

Each list that has three or more candidates must be composed of candidates from both genders, so as to ensure compliance with at least the minimum requirements of current laws and regulations on gender equality.

The lists shall be submitted at the Registered Office or Head Office – also by means of remote communication and in accordance with the procedures stated in the notice of call, so as to allow the identification of the parties submitting the list – at least twenty-five days before the date of the Shareholders' Meeting called to appoint members of the board of directors, in single call. Furthermore, the Company shall ensure that the lists are made public on the Company's website and by the other means established by current provisions, at least twenty-one days prior to the above shareholders' meeting, in one session or on first call.

The lists also contain, in attachments, any additional documentation and declarations required by the laws and regulations in force at the time, as well as:

- information on the identity of those who have submitted the lists, specifying the total percentage of shares held;
- information on the personal and professional characteristics of the candidates included in the list;
- a statement whereby the individual candidates irrevocably accept the position (subject to their appointment) and attest, under their responsibility, that there are no grounds for their ineligibility or incompatibility to stand as candidate, and that they meet the professional competence and integrity requirements prescribed by current laws and regulations;
- a statement that the independence requirements set out in the By-laws have been met.

The lists that do not comply with the requirements set out above shall be considered not to have been submitted.

Each eligible voter may vote for one list only.

After the vote, candidates are elected from lists that have obtained the largest number of votes, with the following criteria:

- (a) a number of Directors equal to the number of board members, decreased by 1 (one), shall be drawn - in the order in which they appear on the list – from the list receiving the most votes. The remaining Director shall be drawn- in numerical order- from the minority list that received the most votes among the minority lists;
- (b) if the majority list does not reach a sufficient number of candidates for the election of the number of Directors to be appointed, according to the mechanism indicated in letter (a) above, all the candidates from the majority list shall be appointed and the remaining Directors shall be drawn from the minority list, in the order in which they appear on the list, receiving the highest number of votes; if necessary, directors shall also be drawn from the second most voted minority list, always in the order in which they appear on the list, until the number of Directors to elect has been reached;

- (c) if the number of candidates in the majority as well as minorities lists submitted is less than the number of the Directors to be elected, the remaining Directors shall be elected through a resolution made by the Shareholders' Meeting by relative majority, ensuring compliance with the principles of independence and gender equality prescribed by current law and regulations. If there is a tie vote between two or more candidates, a run-off will be held between these candidates by means of another vote at the Shareholders' Meeting;
- (d) where only one, or no lists have been submitted, the Shareholders' Meeting shall resolve in accordance with the procedures specified in subparagraph(c) above;
- (e) if the required minimum number of Independent Directors and/or Directors belonging to the least represented gender is not elected, the Directors of the most voted list who have the highest consecutive number and do not meet the requirements in question shall be replaced by the next candidates on the same list, who meet the necessary requirements. Should it prove impossible, even after applying this criterion, to identify the Directors who meet the above requirements, the above substitution criterion shall apply to the minorities lists receiving the highest votes from which the candidates elected have been drawn;
- (f) in the event that, following the application of the replacement criterion set out in (e), it is still not possible to identify any suitable directors, the shareholders' meeting shall resolve by relative majority. In this case, the substitutions shall be effected starting from the most voted lists and from the candidates bearing the highest number in consecutive order.

In the event of death, resignation, withdrawal or removal from office for any other reason of a Director, or where a Director no longer meets the professional competence and integrity requirements, the Board of Directors can take steps to co-opt a Director, in compliance with the principles of minority representation and gender equality. If, in the above cases, the minimum number of independent Directors falls below the level required by the laws and regulations in force at the time and/or the number of Directors belonging to the least represented gender falls below the level prescribed by law, the Board of Directors shall replace them.

For the appointment of Directors needed to fill vacancies on the Board of Directors, the Shareholders' Meeting shall resolve by relative majority, ensuring that the principles of independence and gender equality established by current law and regulations are met.

The Board of Directors shall elect a Chairman from among its members and - where appropriate - one or more Vice Chairmen, one of which will act as a stand-in.

## Succession plans

On July 6, 2016, the Board of Directors approved the Succession plan for the Chief Executive Office and General Manager and for the other Key Managers, in which the professional skills and expertise required for the possible candidates have been established.

Only the Chief Executive Officer and General Manager has a term of office with an expiry date, as the other key management personnel are employees of the Bank. For the Chief Executive Officer and General Manager, the succession plan provides information to support the appointment of the successor also in the event of early replacement, subject to the required involvement of UniCredit, as the parent company, in the replacement process. This succession plan is submitted annually for approval to the Board of Directors by the Human Resources function, after having received approval from the Remuneration and Appointments Committee. The annual review consists of a detailed analysis of the competences and requirements necessary to cover the individual positions. The supporting tools used to identify the pool of possible candidates for the succession plans include the assessment and development processes for staff in Band or higher (EDP – Executive Development Plan) and staff with high potential (TMR – Talent Management Review).

## 4.2 Composition (pursuant to Article 123-bis, paragraph 2, letter d), Consolidated Law on Finance)

Pursuant to Article 13 of the By-laws, the company is managed by a Board of Directors composed of a minimum of five and a maximum of thirteen Directors, elected by the Shareholders' Meeting. The Shareholders' Meeting shall also determine the term of office, on the understanding that said term may not be less than one year or more than three years from acceptance of office and shall expire on the date of the Shareholders' Meeting called to approve the financial statements relating to the last year of their appointment. The members of the Board of Directors may be re-elected.

All directors must meet the eligibility and professional requirements provided for by law and any other applicable regulations.

## 4. Board of Directors (CONTINUED)

As regards integrity requirements, given the important role played by directors in terms of reputation, the Corporate Bodies Regulations require that, in addition to meeting the integrity requirements set out in the Ministerial Decree no. 161 of March 18, 1998 and Ministerial Decree no. 162 of March 30, 2000, the Directors should avoid any situation that could be cause for suspension from their duties as Director pursuant to Article 6 of the Ministerial Decree no. 161 of March 18, 1998 and must refrain from engaging in conduct which, while not constituting an offence, appears to be inconsistent with the role of a bank director or that could seriously damage the bank's reputation.

The Board shall verify that its members meet the above requirements:

- (i) following appointment, the outcome of which shall be disclosed to the market by means of a press release;
- (ii) the respective results shall be reported on an annual basis in the annual corporate governance report.

Pursuant to Article 147-ter, of the Consolidate Law on Finance and Article 37 of the Market Regulations, as well as the Bank of Italy Rules on Corporate Governance, the majority of the members of FinecoBank's Board of Directors must meet the independence requirements provided in Article 3 of the Corporate Governance Code, as the Company is subject to management and coordination by another Italian company with shares listed in regulated markets (*i.e.* UniCredit).

The Board shall assess whether the independence requirements have been met with regard to the prevalence of substance over form. This assessment shall be performed:

- (i) following appointment of a new Director who qualifies himself/herself as independent;
- (ii) once a year for all Directors.

For this purpose, the Board of Directors, based on the statements provided and any other information available, shall examine the Director's direct or indirect commercial, financial or professional relationships with the Company, assessing their significance both in absolute terms and with regard to the economic and financial position of the individual concerned. The results of the Board's assessment shall be disclosed to the market. The Board of Statutory Auditors shall ascertain the correct application of the criteria and procedures adopted by the Board of Directors for the above-mentioned assessment. The results of this assessment shall be disclosed to the market.

The Company's Board of Directors was appointed by the Shareholders' Meeting held on April 15, 2014 and its term of office will end at the date of the Shareholders' Meeting called for the approval of the annual financial statements as at December 31, 2016.

Accordingly, at the next Shareholders' Meeting called for April 11, 2017, the Shareholders will be called upon, among other things, to approve the appointment of the new directors. In this regard, please note that this is the first reappointment after the admission to listing of FinecoBank's shares on the MTA and therefore this appointment will take place with the first time based on the list voting mechanism as governed by the Company's By-laws and described in Section 4.1 of this Report.

In view of the reappointment of the management body, the Board of Directors of FinecoBank was required to identify the theoretical profile (including the characteristics of professional competence and independence, where applicable) of the candidates for the appointment. To that end, by resolution of February 7, 2017, the Board of Directors approved the document "*Assessment of the Qualitative and quantitative composition of the FinecoBank S.p.A. Board of Directors*" (replacing the previous 2014 Qualitative and Quantitative Profile, as defined below), which contains the results of the preliminary analysis carried out by the Board of Directors (with the aid of the Remuneration and Appointments Committee) on its optimal qualitative/quantitative composition in view of properly performing its functions, in accordance, in particular, with the Supervisory Regulations on Corporate Governance. This document is available on the FinecoBank website ("*Governance/Shareholders' Meeting*" Section).

With regard to the Board of Directors in office at the date of approval of this Report, it is noted that, in accordance with the requirements of the Supervisory Regulations on Corporate Governance, the appointment of the Directors was proposed to the aforementioned Shareholders' Meeting of April 2014 after having determined their number and set their term of office. In this context, the Board of Directors, by resolution of March 27, 2014, determined and approved its qualitative and quantitative composition (hereinafter, the "**2014 Qualitative and Quantitative Profile**"), considered optimal in order to achieve the goal of correctly fulfilling the functions assigned to the management body, asking its sole shareholder to take it into account in doing the appointment of the management body (for more information, please see Section 4.3 "*Role of the Board of Directors*").



In line with the 2014 Qualitative and Quantitative Profile, the Corporate Bodies Regulations require that the number of Board members must be commensurate with the size and complexity of the bank's organizational structure, and allow for the supervision of all corporate operations, as far as management and controls are concerned.

Furthermore, this number should ensure the presence on the Board of (i) various representatives of the shareholder base, (ii) the professional skills necessary to foster internal dialogue and (iii) a sufficient number of independent members in accordance with the Corporate Governance Code. Lastly, the composition of the Board shall be gender balanced.

The table below provides relevant information about each member of the Board of Directors in office as of the date of approval of this report.

POSITION	MEMBERS	YEAR OF BIRTH	DATE OF FIRST APPOINTMENT (*)	IN OFFICE FROM	IN OFFICE UNTIL	% (**)	NUMBER OF OFFICES HELD IN OTHER COMPANIES (***)
Chairman	Enrico Cotta Ramusino (2)	1959	13.12.2001	15.04.2014	11.04.2017	100	1
Vice Chairman	Francesco Saita (1)-(2)	1967	15.04.2014	15.04.2014	11.04.2017	100	0
Managing Director and General Manager	Alessandro Foti (3)	1960	20.10.1999	15.04.2014	11.04.2017	100	0
Director	Gianluigi Bertolli (1)-(2)	1951	15.04.2014	15.04.2014	11.04.2017	100	0
Director	Manuela D'Onofrio (6)	1962	=	08.11.2016	11.04.2017	50	0
Director	Mariangela Grosoli (1)-(2)	1960	12.04.2011	15.04.2014	11.04.2017	91	0
Director	Pietro Angelo Guindani (1)-(2)	1958	15.04.2014	15.04.2014	11.04.2017	91	3
Director	Girolamo Ielo (1)-(2)	1947	14.04.2008	15.04.2014	11.04.2017	100	0
Director	Marina Natale (3)- (5)	1962	15.04.2014 (4)	15.04.2014	11.04.2017	67	0
Director	Laura Stefania Penna	1965	17.04.2012	15.04.2014	11.04.2017	91	1

(\*) The date of first appointment of each Director means the date when the Director was appointed for the first time (ever) to the Board of Directors of the Company.

(\*\*) Percentage attendance at Committee's meetings (no. of attendances/ no. of meetings held during the actual period of office of the person concerned during the reporting period).

(\*\*\*) Number of offices as Director or Statutory Auditor held in other companies listed in regulated markets, in financial, banking, insurance or large companies (please see Paragraph 4.2.1 below).

(1) Independent Director pursuant to Article 3 Corporate Governance Code for Listed Companies.

(2) Independent Director pursuant to Article 148, paragraph 3, of the Consolidated Law on Finance.

(3) Executive Director pursuant to the Corporate Governance Code for Listed Companies.

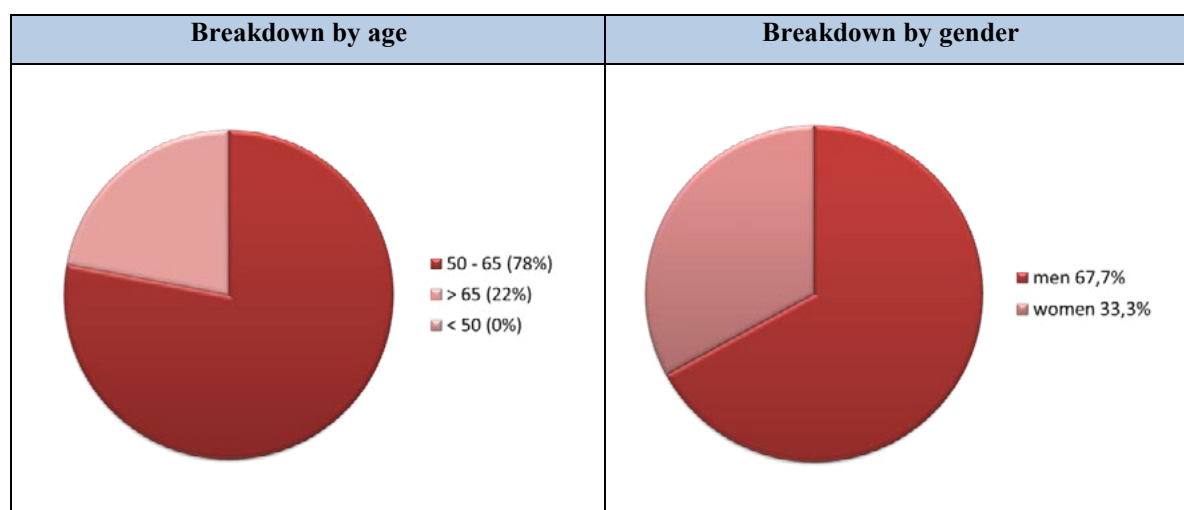
(4) Position of Director held from September 18, 2008 to May 21, 2009.

(5) Resignation with effect from October 28, 2016.

(6) Appointed pursuant to Article 2386 of the Civil Code on November 8, 2016 as a replacement to Mrs. Marina Natale.

For the personal and professional characteristics of each Director, see the information published on the FinecoBank website ([www.finecobank.com](http://www.finecobank.com)).

A breakdown is provided below of the members in office of the Board of Directors by age and gender.



## 4. Board of Directors (CONTINUED)

### 4.2.1. Maximum number of offices in other companies

Without prejudice to compliance with limits on the number of positions the members of the management body may hold according to the legal and regulatory provisions and the By-laws, Directors may accept a position on the Board if they believe they can dedicate the time necessary to diligently perform their duties, taking into account their participation in other Board committees and the number of posts they hold as directors or auditors at other companies (including non-Italian firms). Based on information submitted by the Directors, in the report on corporate governance and ownership interests the Board annually surveys and discloses any directorships or auditor positions held by the Directors in the aforementioned companies.

The Directors shall notify the Company regarding corporate offices acquired or disposed of during their mandate.

In this regard, please note that, when it approved the 2014 Qualitative and Quantitative Profile, the Board of Directors established the general criteria, summarised in the table below, for the maximum number of management and control positions in other companies that can be considered compatible with the effective performance of the role of director of the Issuer, taking into account the participation of the directors in the committees established within the Board of Directors:

FINCOBANK	LISTED COMPANIES AND/OR BANKS, FINANCIAL, INSURANCE COMPANIES AND/OR LARGE COMPANIES		TOTAL OFFICES(*)
	EXECUTIVE OFFICES	NON-EXECUTIVE OFFICES	
Director CEO and General Manager	NO	2	5
Chairman	NO	3	8
Non-executive directors	3 0	5 7	10

(\*) The calculation of the total number of positions also include those held in company other listed companies and/or banks, financial, insurance companies and/or large companies.

**Executive offices** are considered as: Managing Director, member of the Management Board, Chairman of the Board of Directors or of the Supervisory Board, General Manager; as a member of the Board of Directors with delegated powers; as a member of the Board of Directors with an executive position.

**Non-executive offices** are considered as: member of the Board of Directors without delegated powers, Member of the Supervisory Board, Member of the Board of Statutory Auditors.

The Managing Director and the Chairman are not allowed to accept positions as members of a Board of Statutory Auditors.

In addition to any other incompatibility prescribed by law, the rule of incompatibility with positions of a political or trade union nature shall apply.

Companies within the Group are not included in the calculation of the total number of companies in which Directors hold a position as Director or Statutory Auditor.

Up to 4 positions may be held as director or member of controlling bodies within the same Group (outside of FincoBank). Each position shall be counted as 1 executive position in listed companies, banks, financial and insurance companies or large companies; over 4 offices shall be counted as 2 executive positions in listed companies, banks, financial and insurance companies or large companies.

The current composition of the Board of Directors meets the above-mentioned general criteria <sup>(5)</sup>.

In addition to the above, please note that, in compliance with Article 36 of the Decree Law no. 201 of December 6, 2011, ratified with Amendments by Law no. 214 of December 22, 2011 laying down the provisions on “*personal crossholdings in the credit and financial markets ii*” it is forbidden for “*those who hold offices in the management, control and supervisory bodies and the top officers of firms or groups of firms engaged in credit, insurance and financial markets, to accept or exercise similar positions in competing firms or groups of firms*” (interlocking ban). Those who hold incompatible offices must notify the option exercised within 90 days of the appointment. Upon expiration of this period without any choice being made, they shall be removed from both offices.

The Directors are required to annually renew the certificate of not holding office in the management, supervisory or control bodies of competing companies or groups of companies to enable the Board to carry out its annual assessment. This verification was carried out again with a positive outcome for the year 2016.

The Directors are also required to inform the Bank regarding the offices held in other companies and entities. In the summary table presented in Paragraph 4.2 above, in accordance with the provisions of the Corporate Governance Code for Listed Companies, information is provided on the number of positions of director and control that the members of the management body of FincoBank have communicated that they hold in other companies listed in regulated markets (including foreign markets), in financial, banking insurance or large size companies.

(5) For the sake of completeness, please note that, in accordance with Article 2, paragraph 7, of the Legislative Decree no. 72 of May 12, 2015, when the management board is re-elected the new provisions of Article 26 of the Consolidated Law on Banking shall apply. In this regard, in the document containing the “*Assessment of the Qualitative and quantitative composition of the FincoBank S.p.A. Board of Directors*” approved on February 7, 2017, the Board of Directors decided to make reference to the provisions of the CRD IV Directive (Directive 2013/36 / EU), which establishes that each Director may only simultaneously occupy one of the following combinations of board member position (in any kind of society, except for organizations that do not primarily pursue commercial objectives):

- 1 executive position and 2 non-executive positions;

- 4 non-executive positions;

with the specification that the following are considered as a single position of director: (a) offices as executive or non-executive director held within the same group; and (b) offices as executive or non-executive director held within companies in which the entity has a qualified holding (see Article 91). Nevertheless without prejudice to the additional or different requirements on the subject that may arise from the enactment of the ministerial decrees implementing Article 26 of the Consolidated Law on Banking (as amended by the Legislative Decree no. 72 of May 12, 2015 to implement the CRD IV Directive into national law).

The table below, on the other hand, contains the list of those positions.

NAME	LIST OF OFFICES	COMPANY BELONGS TO UNICREDIT GROUP	
		YES	NO
Enrico Cotta Ramusino <i>Chairman</i>	Director, Salvatore Maugeri Foundation		X
Francesco Saita <i>Vice Chairman</i>	-	-	-
Alessandro Foti <i>Managing Director and General Manager</i>	-	-	-
Gianluigi Bertolli <i>Director</i>	-	-	-
Mariangela Grosoli <i>Director</i>	-	-	-
Pietro Angelo Guindani <i>Director</i>	Chairman, Vodafone Italia S.p.A. Director, ENI S.p.A. Director, Salini-Impregilo S.p.A.	- - -	X X X
Girolamo Ielo <i>Director</i>	-	-	-
D'Onofrio Manuela <i>Director</i>	-	-	-
Laura Stefania Penna <i>Director</i>	Director, BANK PEKAO	X	

#### 4.2.2. Induction initiatives and ongoing training

During the Year, at the request of the Chairman of Board of Directors and also taking into account the information received from the Directors during the previous self-assessments, three induction meetings were held involving the following matters: “*Transactions in financial derivatives*”; “*The management of the Personal Financial Advisors Network: controls, verifications and actions*” “*Risk Appetite in the new European regulatory environment and Credit Assessment, Reporting and Pricing of products*”.

In addition, as required by the Supervisory Regulations on Corporate Governance, during 2016 an off-site meeting was held on the subject of the initial introduction of the FinecoBank plan.

### 4.3 Role of the board of directors (pursuant to Article 123-bis, paragraph 2, letter d), Consolidated Law on Finance)

#### 4.3.1 Duties

Pursuant to current regulations for companies with shares listed on regulated markets and in accordance with the recommendations of the Corporate Governance Code, the Board of Directors plays a central role in the Company's governance system.

Article 17 of the By-laws requires that the Board of Directors be vested with the broadest powers for the ordinary and extraordinary management of the Company, without any exception whatsoever, and the power to carry out all the activities that it deems necessary to achieve the corporate purposes, except for those powers that are reserved by law to the Shareholders' Meetings.

The matters under the sole responsibility of the Board include the general guidelines, as well as the adoption and amendment of the Bank's industrial, strategic and financial plans.

In particular, in addition to those duties and powers that cannot be delegated under law, in accordance with the By-laws and the Corporate Bodies Regulations, the Board of Directors has exclusive jurisdiction over the following matters:

- the general guidelines, as well as the adoption and amendment of the Bank's industrial, strategic and financial plans, within the framework of the directives imparted by UniCredit;

## 4. Board of Directors (CONTINUED)

- the appointment and dismissal of the Chief Executive Officer and/or the General Manager and Deputy General Manager(s) and of the nominated official in charge of drawing up company accounts;
- assessments on the general performance of company management ();
- adjustments to the By-laws to bring them in line with legal requirements;
- corporate mergers and demergers in the cases provided under Articles 2505 and 2505 *bis* and 2506 of the Civil Code;
- the reduction of capital in the event of shareholder withdrawal;
- guidelines on which Directors, in addition to those indicated in these By-laws, may represent the Company;
- the establishment of committees or commissions with advisory, deliberative or coordination functions;
- the risk management policies, as well as the evaluation of the functioning, efficiency and effectiveness of the internal control system and the adequacy of the organisational, administrative and accounting structure within the framework of the directives issued by UniCredit;
- the purchase and sale of investments in associates and joint ventures, companies and/or company divisions, without prejudice to the provisions set out in Article 2361, paragraph 2, of the Civil Code;
- the purchase and sale of property;
- the approval and amendment of internal regulations;
- the appointment and dismissal of the heads of the Internal Audit, Compliance and Risk Control functions, having consulted the Board of Statutory Auditors;
- the opening and establishment, also for the purpose of structuring the signing authority, in Italy and abroad, of, in Italy and abroad, of secondary offices, branches, agencies, counters and representation offices, however named, as well as closing them.

In accordance with the Supervisory Regulations on Corporate Governance and the Corporate Governance Code for Listed Companies, consistent with the provisions of the By-laws and the Corporate Bodies Regulations, the Board of Directors, *inter alia*:

- (a) defines the nature and the level of risk consistent with the strategic objectives of the Bank, including in its assessment all those risks that could be relevant in view of sustainability in the medium to long term of the Bank's activity; approves the business model while being aware of the risks to which this model exposes the Bank; formalises policies for the management of those risks to which the Bank may be exposed, as well as the risk objectives and tolerance thresholds;
- (b) approves the Bank's organisational and corporate governance structure, ensuring clear separation of tasks and functions, the prevention of conflicts of interest, the corporate structure and the models/guidelines for governance;
- (c) approves the accounting and reporting systems;
- (d) approves the policies and processes for the assessment of corporate activities and, in particular, the financial instruments, ensuring the ongoing appropriateness; they also establish the bank's maximum exposure limits for financial instruments or products that are uncertain or difficult to measure;
- (e) approves the process for the development and validation of the internal risk measurement systems not intended for regulatory purposes, periodically assessing its correct functioning; also approves the adoption of internal risk measurement systems for assessing capital requirements, periodically checking their validity and adopting – annually, and after consulting the Board of Statutory Auditors – a formal resolution regarding compliance with the requirements for the use of such systems;
- (f) defines the process for approval of new products and services, the commencement of new business and the entry into new markets;
- (g) approves the company's policy on the outsourcing of business functions;
- (h) in order to mitigate the bank's operational and reputational risks and encourage the dissemination of a culture based on internal controls, approves a code of ethics which must be complied with by all members of the corporate bodies and employees. The code defines the principles of conduct (e.g. rules of professional conduct and rules to follow in dealings with clients) of which company activities must be based on;

(6) Taking into account the information received from the authorised bodies, and periodically comparing the results achieved with those planned. In this regard, it is noted that this assessment was conducted monthly during the Year.

- (i) approves the internal systems of reporting of violations;
- (j) approves, with regard to ICT matters: *(i)* the development strategies of the information system and the reference model for the architecture of the system; *(ii)* the policy on information security; *(iii)* the guidelines relating to the selection of personnel with technical functions and the procurement of systems, software and services, including the use of outside suppliers, and promotes the development, sharing and updating knowledge on ICT; *(iv)* the organisational and methodological framework for the analysis of IT risk; *(v)* the IT risk appetite, regarding internal services and those offered to customers, in accordance with the risk objectives and the framework for the determination of risk appetite defined at corporate level; *(vi)* the corporate documents required by law for the management and supervision of the information system; the Board shall be informed at least once a year regarding the adequacy of the services provided and the support given by such services to the evolution of business operations compared to the costs incurred and, promptly, in the event of serious problems arising for the business from accidents and/or malfunctions within the information system;
- (k) on the subject of business continuity: *(i)* defines the objectives and business continuity strategies of the service, ensuring adequate human, technological and financial resources; *(ii)* approves the business continuity plan and subsequent amendments as a result of technological and organisational adjustments, accepting residual risks not managed by the business continuity plan, and also promoting development, periodic monitoring and updating following significant innovations, or any deficiencies/gaps or risks that may occur; *(iii)* appoints the operating continuity plan manager; *(iv)* approves the annual plan for testing of business continuity measures and examines the test results documented in writing;
- (l) defines the criteria for identifying the most significant transactions to be submitted for prior examination by the Internal Audit and Related Parties Committee, and decides on transactions with related parties and affiliated entities under the procedures adopted in this regard;
- (m) determines the remuneration/incentive systems in favour of top management and the checks to ensure that such systems do not increase business risks and are consistent with long-term strategies;
- (n) prepares and submits the remuneration and incentives policy to the Shareholders' Meeting, on an annual basis, and is responsible for its proper implementation;
- (o) approves the processes concerning the provision of investment services and periodic testing of their adequacy.

Furthermore, the Board of Directors ensures that:

- (i) the bank's structure is consistent with the activities carried out and with the business model adopted, avoiding the creation of complex structures which are not justified by an operational aim;
- (ii) the implementation of the relevant framework for determining the Risk Appetite Framework ("RAF") is consistent with the approved risk objectives and tolerance thresholds (where identified); in this regard, the Board of Directors periodically assesses the suitability and effectiveness of the RAF and the compatibility between the actual risk and the risk objectives;
- (iii) the strategic plan, RAF, Internal Capital Adequacy Assessment (ICAAP) process, the budget and internal control system are consistent, also bearing in mind the changing internal and external conditions within which the bank operates;
- (iv) the quantity and allocation of capital and liquidity held is consistent with the risk appetite, the risk governance policies and the risk management process;
- (v) in the case where the bank operates in jurisdictions lacking transparency or through especially complex structures, the Board assesses the related operational risks, especially those of a legal, reputational and financial nature, identifying oversight measures to mitigate them and ensure that they are effectively monitored;
- (vi) the Board approves, at least once a year, the plan of activities (including the audit plan) and reviews the annual reports prepared by the corporate control functions (Compliance, Internal Audit and Risk Management). In this context, the Board also approves the long-term audit plan.

The Board of Directors also ensures the adoption of the directives issued by UniCredit in exercising the powers attributed to UniCredit as the parent company – by the relevant laws and regulations – to give instructions to the various legal entities of the Group.

Lastly, it is the exclusive task of the Board to report to the shareholders at the Shareholders' Meeting.

## 4. Board of Directors (CONTINUED)

### 4.3.2 Meetings and functioning

The Board of Directors held 11 meetings during the Year, each with an average duration of 2 hours and forty minutes. For details of the percentage attendance by each directors see the table in Section 4.2 above.

For 2017, 13 (thirteen) meetings have been scheduled, of which 3 (three) have been already held at the date of approval of this Report.

The Chairman shall be responsible for planning the Board's schedule with regard to the agenda, based on input from the Managing Director and General Manager. The Chairman shall also ensure that enough time is dedicated to the topics in the agenda in order to permit an effective discussion, encouraging directors to actively contribute to the meetings.

Article 16 of the By-laws requires that the Company's Board of Directors be convened, also using telecommunication facilities, at the Registered Office or elsewhere, provided that it is in Italy by the Chairman (or his/her representative), usually at least once every three months and however any time the Chairman feels it necessary, or if requested in writing by the Managing Director or by least two Directors of the Board of Directors. A Board meeting may also be convened on the initiative of one permanent Statutory Auditor.

The Board of Directors shall be validly composed even without a call notice, provided that all Directors and permanent Statutory Auditors are present.

Article 16 of the By-laws envisages the possibility for participants of the Board of Directors' meetings to attend remotely, through audio-visual communication systems (video conference or conference call) where the conditions are in place to identify the attendees, allow their real-time participation in discussing the topics examined and receive, transmit and examine any documents not previously seen.

Pursuant to the Corporate Bodies Regulations, notice of meetings must be given to all Directors and permanent Statutory Auditors within a reasonable period of time, except in the case of emergency. The notice should include, except in cases where this is not possible due to confidentiality issues, the items on the agenda so that the attendees can read the issues ahead of time and come prepared to the meeting. The Corporate Bodies Regulations also provides that documentation in support of proposals and any information needed is provided to the Directors at least 3 (three) business days prior to the meeting (with the exception of the financial documents, that must be provided at least one business day before the meeting), so that the Directors are able to express an informed opinion on the issues being decided. In this regard, it is noted that – with regard to the Year – the above term was complied with.

The Chairman shall be responsible for planning the Board of Directors' schedule with regard to the agenda, based on input from the Managing Director and General Manager. Furthermore, the Chairman shall ensure that adequate information – both in terms of quality and quantity – on the items placed on the agenda are provided to all Board members, so as to allow the Board to make informed decisions on the business to be discussed and approved and shall endeavour to ensure that the necessary time is devoted to an effective discussion of the items on the agenda during the meetings, encouraging directors to actively contribute to the meetings.

The Chairman of the Board of Directors, also at the request of one or more Directors, may request the Managing Director and General Manager that the senior managers of the issuer and those of group companies, in charge of the pertinent management areas related to the Board agenda, attend the meetings of the Board, in order to provide appropriate supplemental information on the items on the agenda. In this regard, it is noted that – with regard to the year – there was effective attendance by the executives in the meetings of the Board of Directors.

Pursuant to Article 15 of the By-laws, the General Manager, if appointed, may take part, without voting rights, at the meetings of the Board of Directors. If a Managing Director has not been appointed, the General Manager shall take part in Board meetings with the power to make proposals.

In addition, pursuant to Article 16 of the By-laws, the Chairman may invite Deputy General Managers and other employees from the management team to take part in Board meetings.

Apart from the Board meetings, the Directors attend "off-site" meetings, in order to investigate and discuss strategic issues.

The independent directors shall meet at least once a year in an ad hoc closed session without the other Directors.

In these meetings, the role of Chairman is performed by an independent Director appointed at the first meeting of the independent Directors.

### 4.3.3 Self-assessment

The Board of Directors conducted the annual self-assessment on the functioning of the Board and its committees, as well as on their size and composition. The self-assessment was conducted in compliance with the provisions of the Corporate Governance Code for Listed Companies and the Supervisory Regulations on Corporate Governance, with the aid of the external consultant Egon Zehnder International S.p.A., as independent expert, which FinecoBank has already used in previous years.

The self-assessment also analysed the work carried out by the bodies during the year and examined the improvements achieved with respect to the weaknesses identified in the previous self-assessment.

More specifically, in accordance with the Corporate Bodies Regulations, the self-assessment, with the aid of the external consultant, consisted of: (i) a preliminary phase of information and data gathering through questionnaires completed between December 27, 2016 and January 13, 2017 – which formed the basis for the assessment; (ii) a phase of processing and preparation of the outcome of the process, with the identification of the strengths and weaknesses observed; (iii) a phase of preparation of the summary document on the results of the process, which concluded with the board discussion of the results.

\* \* \*

The Board's self-assessment it clearly emerged that the Board composition set by Shareholders' at the previous election is adequate. Specifically, all directors agreed that the current size of the board of directors is just about optimal to make discussions and subsequent decision-making easier. The directors also agreed with the current balance between independent and non-independent directors, and recommended that it be retained when the new board is appointed.

Since the current term of office for the Board of Directors ends with the approval of the 2016 financial statements, the Directors as part of the board evaluation process also provided some guidance on the managerial and professional profile that FinecoBank directors (who will be appointed by the Shareholders' Meeting) should ideally meet. The results of those suggestions The document named "*Assessment of the qualitative and quantitative composition of the FinecoBank Board of Directors*" describes in detail such qualitative criteria (please see note 7 of this Report). That document also showed, ahead of the re-election of the Board, a desirable increase of minority shareholders' representatives within the administrative body, raising up to two the total number of directors expressed by the minorities themselves. The directors support the idea of building a governance system that provides stronger protection of minority interests. They believe this approach is in the interest of all shareholders and in line with best practices on the composition of listed companies' boards of directors

### 4.3.4 Competing activities

The Company has not authorised any exceptions to the non-competition clause pursuant to Article 2390 of the Civil Code.iv.

## 4.4 Executive bodies and officers

The Corporate Bodies Regulations establish that powers be delegated in such a way that does not deprive the Board of its fundamental rights and prerogatives.

The Board establishes the content of the delegated powers in a detailed, clear and precise manner, also indicating the limits in terms of quantity and amount, as well as the means of exercising the delegated powers; this will also allow the Board of Directors to accurately check that the delegated powers have been correctly complied with, as well the possibility to exercise its overriding executive and evocation rights.

### 4.4.1 Managing Director and General Manager

Pursuant to Article 15 of the By-laws, the Board of Directors may appoint a Managing Director, determining the term of office and the respective duties and powers, a General Manager and one or more Deputy General Managers, who form the Head Office, together with the other employees of this office.

The Managing Director or – where not appointed – the General Manager shall oversee the Head Office.

## 4. Board of Directors (CONTINUED)

The Managing Director shall take up the powers and duties of the General Manager if the latter has not been appointed.

If a Managing Director and General Manager are appointed, both positions must be held by the same person.

The Managing Director, or where not appointed, the General Manager shall be responsible for implementing the resolutions passed by the Board of Directors, with the assistance of the Head Office.

If a Managing Director has not been appointed, the General Manager shall take part in the meetings of the Board of Directors with the power to make proposals and without voting rights.

The Managing Director and other Directors vested with particular responsibilities, as well as the General Manager, where no Managing Director has been appointed, shall report to the Board of Directors on their activities, according to the procedures and time limits established by the Board, in accordance with law.

The Managing Director or, where not appointed, the General Manager at the request of the Managing Director, shall be responsible for the implementation of the resolutions passed by the Board of Directors, with the assistance of the Head Office.

Effective July 1, 2014, the Board of Directors confirmed Alessandro Foti as Managing Director, also assigning him the role of General Manager, effective from the same date.

The Managing Director and General Manager is responsible for managing the company and does not fall within the interlocking directorate scenario envisaged by the Corporate Governance Code for Listed Companies (Application Criterion 2.C.5.).

### 4.4.2 Chairman of the Board of Directors

Pursuant to Article 14 of the By-laws, the Board of Directors shall elect a Chairman from amongst its members and – where appropriate – one or two Vice Chairmen, one of which will act as a stand-in. The Board of Directors shall elect the Chairman and Vice Chairman from amongst its members, who shall remain in office for the entire duration of the Board.

The Board of Directors appointed, by resolution on 15 April 2014, Mr. Enrico Cotta Ramusino as Chairman of the Board of Directors.

Article 10 of the By-laws, provides that the Chairman of the Board of Directors is responsible for presiding over the Shareholders' Meeting, as well as directing and moderating the discussions, establishing the voting procedures and confirming the results, in compliance with the provisions of current regulations and the procedures for Shareholders' meetings.

The Chairman of the Board of Directors has not been granted any management powers and therefore does not have any executive role. He also does not have a specific role in the development of the business strategies.

The Chairman does not hold, directly or indirectly, relevant shares in the Company's capital share.

### 4.4.3 Reporting to the Board of Directors

The Corporate Bodies Regulations require that the flow of information amongst and within Corporate Bodies is an essential condition for ensuring that the objectives of efficient management and effective control of the company are actually achieved.

In order to ensure the continuous and comprehensive flow of information amongst and within the corporate bodies, the Board is called on to approve and oversee the maintenance and update of a structured information flow system over time that regulates the circulation of information and ensures the correct flow in a timely and comprehensive manner, whilst respecting the responsibilities of the various bodies with supervisory and control functions.

The analytical identification of these flows, their content and timing was carried out by the Board of Directors, among other places, in the "*Document on the corporate bodies and functions with supervisory tasks*" approved by it. With regard to transactions with related parties and associated



persons, please refer to the “*Procedures for the management of transactions with persons in conflict of interest*” (below “**RPT Procedures**”) and information flows therein<sup>(7)</sup>.

The Corporate Bodies Regulations of FinecoBank identify the persons required to submit, on a regular basis, information flows to the corporate bodies and describes the minimum content and the timing of the main participation flows.

Furthermore, in order to implement the necessary organisational controls for the proper management of information flows and to provide the necessary information on other aspects (forms, tasks and duties and other content), not covered in the Regulation, approves specific organisational procedures are adopted that accurately describe the activities and controls related to the “*Management of the Board of Directors*”, the “*Management of inside information*”, in relation to the complexity of the information processed, as well as the “*Procedures for the management of transactions with persons in conflict of interest*”.

Article 21 of the By-laws provides that the decisions made by those with delegated powers must be disclosed to the Board according to the procedures and frequency (at least quarterly) established by the Board. In particular, the executive bodies and officers shall report to the Board of Directors and the Board of Statutory Auditors, at least on a quarterly basis, on the general performance of the company, the business outlook, and transactions that have a significant effect on the results of operations and financial position – with particular regard to those that could potentially give rise to conflict of interest – carried out by the Company and its subsidiaries.

In this regard, the delegated bodies reported to the Board of Directors and the Board of Statutory Auditors, on at least a quarterly basis, on the activities performed in the exercise of their delegated powers.

## 4.5 Other executive directors

At the date of approval of this Report, no other Directors have been granted management powers besides the Managing Director.

## 4.6 Independent directors

At the date of approval of this Report, the Board of Directors had five independent Directors pursuant to Article 3 of the Corporate Governance Code for Listed Companies, as identified below.

Subject to that already stated in paragraph 4.2 above regarding the procedures and timing for the verification of the independence of the directors, please note that the Board of Directors: (i) pursuant to Article 144-*novies*, paragraph 1-*bis*, of the Issuer Regulations and Application Criterion 3.C.4. of the Corporate Governance Code for Listed Companies, assessed, at the first available opportunity after the appointment, the possession of the independence requirements by each of the non-executive directors and disclosed the results of its assessments through a press release; (ii) assessed, before the approval of this Report, the continued status of independence of the Directors. To enable the Board of Directors to assess the position of the requirements of independence by its members, each Director was asked to make a personal updated assessment of their status of independence, taking into account the criteria set out in Articles 147-*ter*, paragraphs 3 and 4, and 148 paragraphs 3 and 4, of the Consolidated Law on Finance and Article 3 of the Corporate Governance Code for Listed Companies, providing a specific certification in that regard.

Having received an opinion from the Remuneration and Appointments Committee on February 2, 2017, the Board of Directors, in its meeting of February 7, 2017, verified the existence of the independence requirements for Directors, pursuant to Article 148 of the Consolidated Law on Finance and Article 3 of the Corporate Governance Code for Listed Companies. In performing the above assessments, the Board of Directors applied all the criteria established by the Corporate Governance Code for Listed Companies.

The results of this verification are as follows:

- *Independent Directors pursuant to Article 148 of the Consolidated Law on Finance and Article 3 of the Corporate Governance Code for Listed Companies*: Francesco Saita, Gianluigi Bertolli, Mariangela Grosoli, Pietro A. Guindani, Girolamo Ielo;

(7) The RPT Procedures are available at the following address on the FinecoBank website: <https://images.fineco.it/pub-fineco/pdf/corporate/Procedures-for-the-management-of-transactions-with-persons-in-conflict-of-interest.pdf>.

## 4. Board of Directors (CONTINUED)

- *Independent directors pursuant to Article 148 of the Consolidated Law on Finance:* Enrico Cotta Ramusino;
- *Non-independent directors pursuant to Article 148 of the Consolidated Law on Finance:* Alessandro Foti, Manuela D'Onofrio, Laura Stefania Penna.

The Board of Statutory Auditors ascertained the correct application of the assessment criteria and procedures adopted by the Board for evaluating the independence of its members. In this regard, the results of the checks carried out will be made known in the annual report to the shareholders' meeting which will be published together with the annual report and accounts at December 31, 2016 in accordance with the procedures and timing established by law.

According to the Criteria 3.C.6 of the Corporate Governance Code for Listed Companies, the Independent Directors meeting took place on April 1, 2016. The Independent Directors met to discuss corporate governance issues without the presence of the other directors.

### 4.7 Lead Independent Director

As the conditions envisaged by the Code for such an office do not exist, the Board of Directors has not appointed any independent Director as lead independent director<sup>(8)</sup>.

<sup>(8)</sup> In accordance with Application Criterion 2.C.3. of the Corporate Governance Code for Listed Companies, the Board of Director designates an independent director as the lead independent director in the following cases: *i)* if the chairman of the board of directors is the chief executive officer; *ii)* if the office of chairman is held by the person that controls the issuer; *iii)* if the issuer is part of the FTSE-Mib index when has been requested by the majority of the independent directors.

## 5. Processing of company information

In compliance with Stock Exchange Regulations and relative Instructions, as well as relevant provisions of the Consolidate Law on Finance and Issuer Regulations, which require directors and statutory auditors to keep documents and information acquired in performing their duties confidential, the Board of Directors' Rules and Corporate Bodies Regulations assign the Board the responsibility for establishing the procedures for the internal management and disclosure of documents and information on the Company, also with reference to inside information.

In the meeting of 15 April 2014, the Board of Directors approved the procedure for the processing of inside information (hereinafter, the "**Procedure for processing Inside Information**").

The aim of the Procedure for processing Inside Information is to prevent the processing of Inside Information (as defined below) in a manner which is not prompt, is incomplete or inadequate and in any case may result in inconsistent disclosure.

In particular, the disclosure of Inside Information, as regulated by this Procedure, makes it possible to protect the market and investors, giving them adequate knowledge of matters concerning the Issuer, on the basis of which they may make investment decisions.

The Procedure for processing Inside Information also aims to prevent some persons or categories of persons from acquiring information which is not in the public domain in order to carry out speculative transactions on markets to the detriment of investors, that are not aware of this information.

The Procedure explains:

- with reference to FinecoBank as the entity controlled by the listed issuer UniCredit, the process to assess inside information concerning UniCredit, as well as requirements for managing the List of Persons who have access to the inside information (hereinafter, the "**UCI List**");
- with reference to FinecoBank as a listed issuer, the process to assess and disclose inside information concerning FinecoBank, as well as requirements for managing the List of Persons who have access to this information (hereinafter, the "**Fineco List**").

The Procedure regulates the management of company information (meaning all information and data concerning Fineco, UniCredit and/or other Group companies, which is not in the public domain, acquired by persons required to comply with the Procedure, in performing their duties), with particular reference to "*Inside Information*" as defined in Article 181 Consolidate Law on Finance.

It establishes, firstly, the obligation for all persons that perform activities within the Group to keep company information acquired in performing their duties confidential and to use this information exclusively for carrying out their duties.

The Procedure for processing Inside Information now establishes:

- (a) responsibility for assessing whether information is classified as inside information, also for the purpose of disclosure to the public, shall be assigned,
  - as regards information relative to UniCredit, to the Planning, Finance and Administration Department (hereinafter, the "**UCI CFO**"), assisted as necessary by the Group Investor Relation Department and the Legal & Compliance Department, for areas in their responsibility;
  - as regards information relative to the Company, to the Chief Financial Officer of FinecoBank (hereinafter, the "**FinecoBank CFO**") assisted, as required by heads of Investor Relations, Legal and Compliance, for areas in their responsibility. In any case, the FinecoBank CFO shall notify the UCI CFO of its assessments, to verify whether inside information relative to the Issuer may also have an impact on UniCredit.

In particular, the Procedure for processing Inside Information establishes that anyone who has inside information relative to UniCredit and/or Fineco and/or the Group shall promptly report the circumstance – as necessary – to the FinecoBank CFO and/or UCI CFO to allow for an assessment of the inside nature of the information disclosed and to take the necessary measures to correctly manage the information, including its prompt disclosure to the market, as applicable;

- (b) appropriate, effective measures to ensure the confidentiality of information until it is disclosed to the public shall be adopted.

To this end, FinecoBank has established a "List of persons who have access to inside information" which is price sensitive, as regards the Company's shares, in compliance with applicable regulations. It has also established a process to add data to, update and maintain the List, identifying the head of the Company's Compliance function as the person responsible for the management of the Fineco List.

## 5. Processing of company information (CONTINUED)

With reference to price sensitive information about UniCredit shares, the Issuer has assigned UniCredit to keep the UCI List, that shall add data to the list, notified as and when necessary by the Compliance function of the Issuer;

- (c) FinecoBank's CFO shall be responsible for assessing disclosure to the public of information about the Company, and – in agreement with the UCI CFO – the advisability of delaying disclosure to the public of Inside Information, in cases specifically indicated by the Procedure for processing Inside Information;
- (d) the FinecoBank CFO and the Head of Investor Relations shall be responsible for preparing press releases in which Inside Information is disclosed, assisted by Company units involved and with the equivalent units at UniCredit (if UniCredit is also required to disclose the same information);
- (e) FinecoBank's CFO shall be responsible for sending the prepared press release to the UCI CFO, so that he/she, if the Inside Information is also relevant for UniCredit shares, may submit it to the Board of Directors of UniCredit for approval or, when relative to delegated transactions, to the Chairman, Managing Director, General Manager or one of the Deputy General Managers, for areas in their responsibility;
- (f) the press release shall be disclosed, subject to approval from the Managing Director of the issuer, via the "eMarket-SDIR" system, to Borsa Italiana and Consob.

As established by the procedure, if the press release concerns particularly significant events, the Head of Media Relations and Executive Communications, assisted by the Legal & Compliance Unit, informs Consob and Borsa Italiana before sending the press release.

Press releases are published on the Company's website before the opening of the market on the day after disclosure and are available on the site for at least five years from publication.

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In compliance with provisions set forth in Article 114, paragraph 7, of the Consolidate Law on Finance and Articles 152-*sexies* et seq. of the Issuer Regulations – and in order to reflect changes in laws resulting from the entry into force of Regulation (EU) No. 596/2014 of the European Parliament and Council of April 16 2014 - on Market Abuse (Regulation on market abuse) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Directives 2003/124/EC, 2003/125/EC and 2004/72/EC of the Commission – on September 20, 2013 the Board of Directors approved the current version of the code of conduct on internal dealing, which regulates the management, processing and disclosure of information relative to transactions on FinecoBank's listed shares and debt instruments (and on the derivatives and financial instruments connected to them) undertaken by insiders and by persons strictly related to them (hereinafter, the "**Internal Dealing Code**"). This procedure regulates disclosure obligations to be complied with and conduct to be observed by the above persons and by FinecoBank in order to ensure maximum transparency in disclosure to the market.

The main aim of the Internal Dealing Code is to improve transparency and uniformity in disclosure relative to financial transactions undertaken by the above persons, to give investors an idea of how these persons perceive the prospects of the company and/or the group it belongs to. Thus the Code does not directly address whether significant persons have acquired confidential information and used said information unlawfully (a conduct which instead constitutes the offence of insider trading), assuming that the undertaking of certain financial transactions by particular persons considered "significant" (*i.e.* by persons that, due to their position, are able to acquire information on matters of the company and the group it belongs to), is, per se, price sensitive.

The Internal Dealing Code identifies "Significant Persons" and "Closely-Related Persons" to the Significant Persons in compliance with the Issuer Regulations and establishes that "Material Transactions" (and thus which are subject to the disclosure obligations of the Internal Dealing Code) are transactions concerning the purchase, sale, underwriting or exchange of shares and debt instruments issued by FinecoBank (admitted to trading – or for which an application has been made for admission to trading – in a regulated market or and MTF), or derivatives or other financial instruments linked to those instruments carried out by the above persons, directly or through intermediaries, trusts or subsidiaries. The Internal Dealing Code also identifies some types of transactions which are exempt from disclosure obligations.

The Internal Dealing Code also contains regulations on the management, processing and disclosure of information relative to these transactions. To this aim, it regulates:

- (a) disclosure obligations of Significant Persons *vis-à-vis* the Company;
- (b) disclosure obligations of Significant Persons and the Company *vis-à-vis* Consob;
- (c) cases in which the undertaking of transactions on financial instruments by Significant Persons is prohibited or limited.

In compliance with the Internal Dealing Code, the Bank's Compliance Officer is the Officer Responsible for providing information to the public and to Consob with regard to the Declaration given by the Relevant People.

## 6. Internal Committees of the Board of Directors (pursuant to article 123-bis, paragraph 2, letter d), consolidated law on finance)

At the date of approval of this Report, the Board of Directors had to committees with proposal, consultation and coordination functions: (i) Audit And Related Parties Committee; and (ii) Remuneration and Appointments Committee.

In this regard, it is noted that, for reasons of efficiency and simplification of the governance structure, the Company considered it appropriate to make use of the option allowed by the Corporate Governance Code to combine the functions of its Appointments Committee and Remuneration Committee into one committee, as described in further detail below. It is noted, however, that in the document containing the “*Assessment of the qualitative and quantitative composition of the Board of Directors of FinecoBank*” approved by resolution of the Board of Directors of February 7, 2017, in view of the forthcoming re-election of the management body of the Company (please see note 7 of this Report), the management body, in accordance with the Supervisory Regulations on Corporate Governance, recommends that three board the committees be appointed instead of the two currently present (namely (i) an Appointments Committee, (ii) a Remuneration Committee and (iii) a Risks and Related Parties Committee), hoping that each committee, as well as the three members that should constitute each of them, confirms the exclusive presence confirmed of independent directors in accordance with the Consolidated Law on Finance and the Corporate Governance Code for Listed Companies.

In the performance of their duties, the committees set up within the Board of Directors are entitled to access the company's information and functions required for the performance of their respective tasks. Furthermore, the committees may avail themselves of external advisers at the Company's expense, within the budget limits approved by the Board of Directors. The committees established within the Board of Directors are described below.

### 6.1 Audit and related-parties committee

FinecoBank's Board of Directors, by resolution of June 17, 2008, established the Audit Committee (now the Audit and Related Parties Committee) to provide support with information, advisory, recommendation and investigation functions, using a risk-oriented approach to identify the guidelines for the entire internal control system and assess its effectiveness and efficiency, so that key risks are correctly identified, as well as adequately measured, managed and monitored, with the Board of Directors responsible for making any decisions on the matter.

The Audit and Related Parties Committee's mission includes assessing the proper use of the accounting principles for drawing up the financial statements and supervising the efficacy of the audit process and the activities of the auditors.

The aforementioned Committee is also responsible for related-party transactions pursuant to Regulation adopted by Consob Resolution no. 17221 of 12 March 2010 and with associated persons pursuant to the applicable Supervisory Regulations on Corporate Governance.

#### 6.1.1. Composition

The Board of Directors appointed new members of the Audit and Related-Parties Committee on 15 April 2014, in application of the provisions referred to in Article 37 of the Market Regulations, according to which – since FinecoBank is subject to the management and coordination of UniCredit – all members of this Committee must be independent directors.

Furthermore, in accordance with Principle 7.P.4 of the Corporate Governance Code, under which at least one member of the committee is required to have an adequate experience in the area of accounting and finance or risk management, all members of the Committee meet the requirements indicated above.

The members of the Committee shall remain in office for as long as they are members of the Board of Directors, unless a shorter term is decided on at the time of their appointment. They may resign as member of the Committee, without this necessarily entailing resignation from the Board of Directors.

If, for any reason whatsoever, a member no longer holds the position, the Board of Directors will replace the member. The expiry of the new member's term of office coincides with that of the outgoing member. If the Chairman of the Committee ceases to hold office, the Board of Directors will appoint a new Chairman with the decision to appoint the replacement member.

At the date of approval of this Report, the composition of the Audit and Related Parties Committee was as follows:

NAME	EXECUTIVE	NON-EXECUTIVE	INDEP. CODE	INDEP. CONSOLIDATE LAW ON FINANCE	%(*)	(**)
Francesco Saita		X	X	X	100%	C
Pietro Angelo Guindani		X	X	X	92.30%	M
Mariangela Grosoli		X	X	X	100%	M
<b>No. of Committee meetings: 13(*)</b>						

(\*) This column shows the percentage attendance at Committee meetings (no. of attendances/ no. of meetings held during actual period office of the person concerned during the Year).

(\*\*) This column shows the position of the director within the Committee ("C": Chairman; "M": member).

All the members of the Audit and Related Parties Committee will end their term of office at the time of the next Shareholders' Meeting called to approve the annual financial statement at December 31, 2016.

## 6.1.2. Functioning

In compliance with the provisions set forth in Criterion 4.C.1 of the Corporate Governance Code, the composition, functioning, organization and activities of the Audit and Related Parties Committee are regulated by the specific section of the Corporate Bodies Regulations.

The Committee shall meet, also by means of telecommunication media, as often as necessary to perform its functions, as well as at the request of any of its members or the Chairman of the Board of Statutory Auditors, through a notice of call sent by the Chairman of the Committee, also through the Secretary of the Committee, usually at least three days before the scheduled date of the meeting. In case of an emergency, determined to be so by the Chairman of the Committee, meetings may be convened with one day notice.

The notice it can also be sent via fax or email and shall state the date, time and venue of the meeting, together with the list of items to be discussed. The Committee shall be considered valid with the presence of the majority of its members in office and with the absolute majority vote of those present for resolutions.

In the event the Chairman is absent or incapacitated, the oldest member of the Committee shall act as Chairman.

Should the Chairman of the Committee so decide, their meetings may be held using telecommunication means, provided that each attendee can be identified by all the other attendees, and that each attendee is able to intervene in real time during discussions, and is able to receive, transmit and view the documents.

The minutes of the Committee meetings shall be transcribed briefly by the Secretary, who need not be a member of the Committee. The minutes contain, amongst other things, the reasons for any disagreements expressed by the Committee members. The Secretary shall retain the minutes of the meeting for consultation by Committee members who did not attend the meeting, as well as Directors and Statutory Auditors. The Chairman of the Committee shall report on the meeting held to the next available Board of Directors' meeting.

The Nominated Official in charge of drawing up company accounts, the head of the Internal Audit function and the Chairman of the Board of Statutory Auditors, or other permanent statutory auditor by him designated, shall participate in the Committee meetings; executive directors, senior managers of the Company and external auditors may be invited to attend the meetings for specific issues.

The Chairman of the Board of Directors and the Chief Executive Officer of the Company are entitled to participate in the meetings.

In carrying out their duties, the Committee may rely on adequate financial resources for the performance of their duties, within the limits of the budget approved annually by the Board of Directors.

The Shareholders' Meeting resolves the annual remuneration for the members and/or an attendance fee for participating in the Audit and Related Parties Committee.

The Corporate Bodies Regulations also lay down the rules for temporary replacement of a Committee member with reference to, in particular, cases where the Committee is called on to express an opinion on transactions with related parties and/or associated persons.

## 6. Internal Committees of the Board of Directors (pursuant to article 123-bis, paragraph 2, letter d), consolidated law on finance) (CONTINUED)

In this regard, the Corporate Bodies Regulations, after making it clear that, for each transaction considered, the members of the Audit Committee must be different from the counterparty and parties related thereto, establishes that, in the event a member of the Committee is a counterparty of the transaction (or a person associated to the counterparty), they must promptly inform the Chairman of the Board of Directors and the Chairman of the Committee about this situation, and refrain from taking part in any further work of the Committee concerning the relevant transaction.

In this event, the Chairman of the Board of Directors, having consulted with the Chairman of the Audit Committee, immediately replaces the member who is in conflict of interest by appointing, after having contacted him/her, another independent and unconnected member of the Board of Directors.

In case of transactions with related parties and/or associated persons whose completion is urgent and for which the Committee is involved in the negotiation and diligence phases and/or when issuing an opinion, the Chairman of the Audit and Related-Parties Committee, after having acknowledged the urgency of the transaction and having established that the majority or all members are unavailable to meet or to carry out the required activities in time for the transaction to be concluded, shall promptly notify the Chairman of the Board of Directors of this situation.

This communication must be sent no later than the day after the Chairman of the Committee learns that the majority or all of the members are unavailable.

The Chairman of the Board of Directors, having consulted with the Managing Director to assess the actual urgency of the transaction, shall immediately reform the Committee by appointing the required number of Independent Directors, following the same procedure followed for temporary replacement of a member in case of a conflict of interest (appointment of the replacement(s) from amongst the independent members of the Board of Directors).

The above shall also apply if the unavailability of the majority is due to the resignation of a member of the Committee.

### 6.1.3 Duties and Responsibilities

In accordance with the recommendations contained in Criteria 7.C.1 and 7.C.2 of the Corporate Governance Code for Listed Companies, the role of the Committee is to provide information, advice, make proposals and enquiries, in defining, based on a risk-oriented approach, the guidelines for the entire internal control system, and to assess its effectiveness and efficiency, so that the main risks are properly identified, as well as appropriately measured, managed and monitored, without prejudice to the Board of Director's power to make all decisions on the issue at hand.

The Committee helps to promote a corporate culture that values the control function, steering it towards a risk-oriented approach.

The Committee's mission includes assessing the proper use of the accounting principles for drawing up the financial statements and supervising the efficacy of the audit process and the activities of the auditors.

The Committee is also responsible for related-party transactions in accordance with the Regulation on transactions with related parties and associated persons pursuant to the Supervisory Regulations on Corporate Governance.

The Audit Committee, among other things:

- (a) in relation to the model for outsourcing audits adopted by the Bank (please see Section 11.2 below) is called upon to perform the following activities:
  - acting as a liaison between the Bank and the Group's Independent Auditors, in line with the instructions provided by the Appointed Director and the Regulatory Authority;
  - verifying that the service levels covered by outsourcing contracts for audit activities are complied with at all times, providing support to the Board of Directors and Appointed Director in evaluating the adequacy of the services received, and verifying that the audits conducted by the internal audit function are primarily based on the constantly updated risk assessment analyses;
  - monitoring compliance with Group Audit Standards and the Group Audit Policies;



- (b) identifying and proposing to the Board of Directors, making use of the Remuneration and Appointments Committee, the heads of the Compliance, Internal Audit and Risk Management functions to be appointed;
- (c) helping to identify internal control system guidelines, based on a risk-oriented approach, so that the main risks concerning the Company are correctly identified and adequately measured, managed and monitored, which it concludes with assessments and the making of recommendations to the Board of Directors on compliance with the principles with which the system of internal controls and business organisation need to be defined and the requirements that need to be met by the Compliance, Internal Audit and Risk Management functions, bringing to the attention of the Board any weaknesses, along with the resulting corrective actions to be promoted;
- (d) reporting to the Board of Directors, at least every six months, when the annual financial statements and the half-yearly financial statements are approved, on activities carried out and the adequacy of the internal control and risk management system;
- (e) makes a prior examination of the activity schedules (including the Internal Audit plan) and the annual reports by the Compliance, Internal Audit and Risk Management functions as submitted to the Board;
- (f) examines the periodic reports and audit reports produced by the internal audit function, and evaluating any findings, following actions taken to remedy deficiencies/anomalies identified, as well as the implementation of corrective measures proposed and adoption of suggested recommendations;
- (g) supports, with proper preliminary investigation, the assessment and decisions of the Board of Directors in relation to the management of risks arising out of prejudicial acts of which the Board of Directors is aware;
- (h) contributes, through assessments and opinions, to the definition of the company's policy of outsourcing control functions;
- (i) verifies that the Compliance, Internal Audit and Risk Management functions conform exactly to the indications and guidelines of the Board and assist the latter in preparing the coordination documents required by the Supervisory Regulations;
- (j) evaluates the proper use of accounting standards and their uniformity for preparing the financial statements, in conjunction with the company financial reporting officer and external auditors;
- (k) examines the process of formation of infra-annual reports required by law, as well as the annual financial statements, on the basis of the relevant departments in charge of the applicable functions;
- (l) evaluates the proposals made by external auditors seeking to obtain the relevant appointment, including the amount of their remuneration;
- (m) oversees the audit process, reviewing the audit work plans and the findings contained in the audit report and any letter of recommendations;
- (n) meets with the external auditors at least once a year;
- (o) examines the reports received from the Board of Statutory Auditors, from the Supervisory Board under the Legislative Decree no. 231 of June 8, 2001, and the Regulatory Authorities, assessing the findings therein and ensuring the rectification of any abnormal situations and possible deficiencies noted therein;
- (p) it may ask the Internal Audit function to make assessments on specific operating areas, giving simultaneous notice to the Chairman of the Board of Statutory Auditors, the Chairman of the Board of Directors and to the Supervisory Director;
- (q) expresses its opinion on the corporate governance report to the Board of Directors, for the purposes of describing the main features of the internal control and risk management system, and its evaluation on its adequacy;
- (r) formulates preliminary opinions (binding, where appropriate) on procedures for the identification and management of transactions with related parties and/or associated persons carried out by the Company as well as on the relevant changes thereof;
- (s) formulates preliminary, reasoned opinions, when explicitly required, also in the interest of carrying out transaction with related parties and/or associated persons to be completed by the Bank, and on the appropriateness and fairness of the relative terms and conditions;
- (t) in case of material transactions with related parties and/or associated persons, the Committee is involved – if considered necessary by the Committee, through one or more of its members – in the negotiation and the preliminary investigation phase by being sent a complete and prompt stream of information, with the right to request information and make observations to the appointed bodies and persons in charge of conducting the negotiations or diligence phases.

## 6. Internal Committees of the Board of Directors (pursuant to article 123-bis, paragraph 2, letter d), consolidated law on finance) (CONTINUED)

With particular reference to the tasks in matters of risk management and control, the Committee performs support functions to the Board:

- in the definition and approval of strategic guidelines and the risk management policies, with particular reference to risk appetite and the risk tolerance threshold;
- in the verification of the correct implementation of strategies, governance policies on risk and the Risk Appetite Framework (RAF);
- in the definition of policies and processes for evaluating company activities, including verification such that the price and conditions of transactions with customers are consistent with the business model and strategies as regards risk.

Without prejudice to the powers of the Remuneration and Appointments Committee, the Committee ensures that the incentives underlying the remuneration and incentive system are consistent with the RAF, particularly in view of capital and liquidity risks.

### 6.1.4 Activities performed

During 2016, the Committee carried out the duties assigned to it by the Board of Directors, operating with advisory and recommendation functions with regard to the topics concerning the internal control system and management of risk.

In this respect, it met 13 (thirteen) times, with an average duration of three hours, examining the results of the activities performed by the control functions (audit, compliance and risk management) through an in-depth analysis of the quarterly reports prepared by said functions. The Committee also examined the annual report prepared by the head of the Accidents and Controls function (relating to the controls carried out on the work of the network of personal financial advisors authorised to sell the bank's products outside its premises), the periodic reports on the work carried out by the competent units in relation to anti-money laundering and anti-terrorist financing, and the process for the preparation of the periodic accounting statements, assessing the proper use of the accounting principles for the preparation of the annual financial statements.

With regard to transactions with related and/or associated parties, it drew up, in the cases expressly envisaged by the internal procedures, preventive and justified opinions on the Bank's interest in carrying out said transactions and on the advantage and substantial fairness of the relative conditions.

Particular attention was paid to examining the risk and governance aspects connected to the use of funds from customer deposits, as well as analysis of outsourced services contracts.

The Committee also monitored the insourcing of the Compliance function and the Investor Relations function and examined the pricing, assessment and reporting procedures used for the management of credit, with a specific focus on the policy for granting residential mortgages to current account holders of the Bank.

The meetings of the Committee were attended, in accordance with the requirements described above and upon invitation by the committee, by people who were not members in regard to individual items on the agenda.

For this year (*i.e.* 2017 financial year), 13 meetings of the Committee were scheduled, of which 4 have already been held.

## 7. Remuneration and Appointments Committee

Without prejudice to that already stated in Section 6 above, regarding the incorporation of the related functions within a single committee, it is noted that, at the date of approval of this Report, the composition of the Remuneration and Appointments Committee was as follows:

NAME	EXECUTIVE	NON-EXECUTIVE	INDEP. CODE	INDEP. CONSOLIDATE LAW ON FINANCE	%(*)	(**)
Gianluigi Bertolli		X	X	X	100%	C
Mariangela Grosoli		X	X	X	92%	M
Girolamo Ielo		X	X	X	100%	M
<b>No. of Committee meetings: 13</b>						

(\*) This column shows the percentage attendance at Committee meetings (no. of attendances/ no. of meetings held during actual period office of the person concerned during the Year).

(\*\*) This column shows the position of the director within the Committee ("C": Chairman; "M": member).

All the members of the Remuneration and Appointments Committee will end their term of office at the time of the next Shareholders' Meeting called to approve the annual financial statement at December 31, 2016.

For the additional information requested with regards to the set-up, tasks and functioning of the Remuneration Committee, please refer to the Chapter "*Remuneration and Appointments Committee*" of the "*Annual Remuneration Report*" published, within the context of the "2017 FinecoBank Compensation Policy", according to Article 123-ter of the Consolidated Law on Finance, Article 84-*quater* of the Issuer Regulations and the provisions set forth in Title IV, Chapter 1, Table 15 of Bank of Italy Circular no. 263.

## 8. Remuneration Committee

As a single Remuneration and Appointments Committee has been established, please see Section 7 above.

## 9. Remuneration of Directors

For the information requested with regard to the compensation for the executive directors, the non-executive directors and the key management personnel and for that concerning the indemnities to directors in the event of resignation, dismissal or termination of employment following a public purchase offer (as per Article 123-bis, paragraph 1, letter i), of the Consolidated Law on Finance), please refer to the Chapter “*Remuneration paid to the members of the Management and Control Bodies, the General Managers and other Key Management Personnel*” contained in the “*Annual Compensation Report*” published – as part of the “*2017 FinecoBank Compensation Policy*” – according to Article 123-ter of the Consolidated Law on Finance, to Article 84-quater of the Issuer Regulation (as amended by resolution 18214 of May 9, 2012) and the provisions set forth in Title IV, Chapter 1, Table 15 of Bank of Italy Circular no. 263.

## 10. Control and risks committee

The functions that the Corporate Governance Code assigns to the Control and Risks Committee have been assigned to the Audit and Related Parties Committee.

# 11. Internal control and risk management system

The internal control system is a fundamental part of the overall governance system of banks. It has a central role in the organisation and ensures the effective monitoring of risk, so as to guarantee that operations are in line with company strategies and policies and based on principles of sound and prudent management.

An efficient and effective internal control system forms the basis for creating value in the medium and long term, for safeguarding the quality of operations and for a correct perception of risk and appropriate allocation of capital.

The Company's internal control system is based on the principles of the Corporate Governance Code for Listed Companies, applicable regulations and best practices, and:

- concerns control function and positions, involving within their area of responsibility, the Board of Directors, the Audit and Related-Parties Committee, the Internal Control System and Risk Management System Director, the Board of Statutory Auditors, as well as company functions with specific internal control duties;
- establishes procedures for entities involved in the internal control and risk management system to work together.

On 15 April 2014, the Board of Directors, in compliance with Stock Exchange Regulations and relative Instructions, approved the Memorandum describing the management control system adopted by FinecoBank and certified that the Company had adopted a management control system that could promptly and periodically give managers sufficiently in-depth information on the economic and financial situation of the company and main group subsidiaries, and provided for the following: *(i)* the monitoring of main key performance indicators and risk factors of companies and main group subsidiaries; *(ii)* the production of data and information with particular reference to financial information, according to analysis profiles that are adequate for the type of business, organisational complexity and specific information needs of management; *(iii)* the processing of forward-looking financial data for the industrial plan and budget, as well as the monitoring of company objectives being achieved, based on deviation analysis.

## 11. Internal control and risk management system (CONTINUED)

### **Board of Directors and Audit and Related Parties Committee**

The guidelines of the internal control and risk management system (hereinafter, the “**Internal Control and Risk System**”) are established by the Board of Directors. Accordingly, the Board ensures that the main risks to which the Bank is exposed are adequately identified, measured, managed and monitored.

In this context, the Board of Directors revises and updates the Risk Appetite Framework (or “**RAF**”) on an annual basis, and in line with schedules for the budget process and definition of the financial plan, in order to guarantee a business development that has a correct risk profile and complies with national and international regulations.

During 2016, the Board approved the “Group Risk Appetite Framework” Global Policy and new “2016 FinecoBank Risk Appetite” (replacing the same document for 2015), which sets out the risk profile in relation to three areas (capital adequacy, profitability and risk, monitoring of specific risks such as credit risk, operational risk, market risk and funding and liquidity), defining reference metrics for each one.

The definition process, revised from the previous version, is structured so as to guarantee consistency with the budget, while the performance indicator (hereinafter, the “**KPIs**” or “**Key Performance Indicators**”) were revised to include simple, comprehensible metrics.

The Risk Appetite Framework of FinecoBank not only includes the list of relevant metrics, but also the targets, triggers and reference limits: (i) targets represent the extent of risk the Bank is prepared to undertake to achieve its budget objectives and defines the constraints for development of the business, (ii) triggers represent alarm thresholds which activate the analysis of possible mitigation actions and require reporting to the Chief Executive Officer; (iii) limits are the values that must not be exceeded; if exceeded, the Board of Directors must be informed.

As regards competencies, the Corporate Bodies Regulations establish that the Board is responsible for the Internal Control and Risk System, and provides guidelines for and assesses the adequacy of the system; from its members the Board appoints:

- the director for establishing and maintaining an effective internal control and risk management system (hereinafter the “**Internal Control and Risk Management System Director**”);
- an Audit and Related-Parties Committee (hereinafter, also abbreviated to the “**Audit Committee**”) consisting entirely of independent directors. This Committee assists the Board of Directors, based on adequate preliminary activities, in its assessments and decisions concerning the internal control and risk management system, as well as the approval of periodical financial reports.

The Board of Directors, with the prior approval of the Audit Committee:

- (a) establishes the guidelines of the Internal Control and Risk Management System, assesses at least annually the consistency and adequacy of the company’s characteristics, its strategic direction and its risk profile, as well as its effectiveness, in terms of the ability to grasp the evolution of the business risks and the interaction between them, assigning the Director in charge of establishing and maintaining an effective Internal Control and Risk System; (please see the Corporate Bodies Regulations, page 5);
- (b) appoints, after consulting with the Board of Statutory Auditors, an Internal Audit Manager (hereinafter, the “**Head of Internal Audit**”), who ensures that the Internal Control and Risk system is functioning and adequate and that internal audit activities are carried out independently and in such a way as to guarantee their effectiveness and efficiency;
- (c) approves, at least annually, the work plan prepared by the Head of Internal Audit, after consulting with the Board of Statutory Auditors and obtaining approval from the Audit Committee and Director;
- (d) assesses, after consulting with the Board of Statutory Auditors, the results of the external auditors in the opinion letter and report on fundamental issues identified during auditing.



The Board of Directors assesses, among others and at least annually, the adequacy, functioning and effectiveness of the Internal Control and Risk System, assisted by the Audit Committee, based on:

- reports from the Managers of: the Compliance function, the Risk Management function and the Internal Audit function;
- reporting from the Financial Reporting Officer on the proper use of accounting standards and their consistency for preparing consolidated financial statements;
- all useful information on the monitoring of overall company risk which is provided by relevant units and/or the External Auditors.

The Board globally monitors main company risks, assisted by the Audit Committee (see Section 6.1 above).

In accordance with the Supervisory Regulations on internal control systems, the Bank – in April 2016 and subsequently in February 2017 – carried out the annual assessment on the adequacy of the internal control and risk management system with respect to the characteristics of the business and the risk profile assumed, together with its effectiveness. With regard to the results of this assessment process, the Internal Control and Risk Management System was found to be Mostly Satisfactory on an assessments scale structured on four levels in increasing order: “Unsatisfactory”, “Nearly Satisfactory”, “Mostly satisfactory” and “Adequate” since, although there were some areas of improvement for which corrective actions have been identified, its components as a whole generated an overall satisfactory level of functioning of the system.

In this regard, the Audit Committee, based on the results of the checks conducted above, together with the additional projects being implemented, in turn provided this assessment which found that the Internal Control and Risk Management System, can be considered adequate for the size and complexity of the Bank with respect to the business and its operating environment and that its design is capable, within reasonable limits, of preventing all in any event of avoiding, in a prompt manner, any significant errors in the financial statements.

The Board of Directors also determines the objectives and strategies to guarantee the operating continuity of the service, ensuring adequate resources to achieve established objectives. It approves the operating continuity plan and subsequent amendments, accepting residual risks not managed by the operating continuity plan.

It is informed, at least annually, of the results of controls on the plan's adequacy and on operating continuity measures. It appoints an operating continuity plan manager.

With specific reference to non-compliance risk<sup>(9)</sup>, the Board of Directors, after consulting with the Board of Statutory Auditors, approves risk management policies, evaluates, at least once a year and with the technical support of the Audit Committee, the adequacy of the organizational unit, the quality and amount of resources of the Compliance function and analyses periodic reports on its controls on non-compliance risk management.

Moreover, the Board of Directors accepts general responsibility for direction and control of the information system, with optimal use of the technological resources supporting the company strategies (ICT governance). In this respect, it:

- approves the IT development strategies and architectural model for the system, the sourcing strategies and the IT risk propensity, in accordance with the risk objectives and the reference framework for determination of risk propensity at company level;
- approves the IT security policy;
- approves the guidelines on recruitment of personnel with technical functions and on the acquisition of systems, software and services, including the use of external suppliers;
- promotes development, sharing and updating of ICT knowledge in the company.

(9) Non-compliance risk may be defined as the risk of incurring legal or administrative sanctions, financial losses or sustaining reputational damage, as a result of non-compliance with financial and banking laws, regulations, codes of conduct and good practices.

## 11. Internal control and risk management system (CONTINUED)

With specific regard to exercising its supervisory responsibility in the analysis of ICT risk, the Board:

- approves the organisational and methodological reference framework for analysis of ICT risk, promoting the appropriate enhancement of information on technological risk within the ICT function and integration with the risk measurement and management systems (in particular, operational, reputational and strategic risks);
- approves the ICT risk propensity, having considered internal services and those offered to clientele, in accordance with the risk objectives and the reference framework to define risk propensity at the company level.

With regard to the aforementioned responsibility, it is informed at least annually on the adequacy of services offered in relation to costs sustained and on the ICT risk situation with regard to risk propensity.

### **Board of Statutory Auditors**

The Board of Statutory Auditors of FinecoBank monitor the effectiveness, completeness, adequacy, functioning and reliability of the internal control and risk management system, and of the Risk Appetite Framework, in line with requirements of the Corporate Governance Code for Listed Companies and the Supervisory Regulations.

It also monitors compliance with the Internal Capital Adequacy Assessment Process (ICAAP) and the completeness, adequacy, functioning and reliability of the operating continuity plan.

With specific reference to the possibility of the Board of Statutory Auditors to undertake Supervisory Board functions pursuant to Legislative Decree no. 231 of June 8, 2001, the Company considered it appropriate to assign these functions to a specifically established Body (please see below Section 11 of the Report).

The Board of Statutory Auditors establishes appropriate working relations with the Audit Committee to carry out joint activities, in compliance with individual areas of responsibility.

To carry out its duties, the Board of Statutory Auditors may use the aid of the company's internal control departments and functions to carry out an guide its checks and the necessary assessments. In order to accomplish this, it receives adequate regular data flows and information on specific situations/company performance. Given this close connection, the Board of Statutory Auditors is specifically heard not just on decisions regarding the appointment and dismissal of the Heads of control-related corporate functions (Compliance, Group Risk Management and Internal Audit), but also on defining the essential elements of the control system's overall architecture (powers, responsibilities, resources, data flows and handling conflicts of interest). Regarding their own activities, Auditors may ask the Internal Audit department to carry out specific audit activities in the operational and business operations departments. The Board of Statutory Auditors verifies and investigates the causes of and remedies to operational irregularities, performance anomalies, and shortcomings in the organizational and accounting structure. Particular attention must given to compliance with regulations on conflicts of interest.

### **Control functions**

FinecoBank's internal control system is based on four types of controls:

- level one controls* ("line controls"): these are controls relative to individual activities and are carried out according to specific operational procedures based on a specific internal regulation. "Process supervisors" monitor and continually update these processes, establishing appropriate controls to ensure the proper performance of daily activities by personnel concerned, as well as compliance with delegated powers. Formalised processes concern units that have contacts with customers and Company units that are exclusively internal;
- 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/yield objectives; the Compliance function controls non-compliance risks;
- 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 identify any anomalous trends, or infringements of procedures or regulations. These controls are assigned to the Internal Audit function, which operates at a central level, at UniCredit, based on a specific service agreement;

(iv) *institutional supervisory controls*: these refer to controls by Company bodies, including in particular the Board of Statutory Auditors and Supervisory Board pursuant to Legislative Decree no. 231 of June 8, 2001.

### **The Risk Management function**

The Risk Management function prevents and monitors different components of Bank risks. In particular the Risk Management Function controls credit, market and operational risk to which the Bank is exposed. Risk Management also involves monitoring business, reputational and liquidity risk.

The risk control function:

- (i) is involved in defining the RAF, risk governance policies and various stages comprising the risk management process, as well as establishing operating limits for various types of risk. In this context, it proposes quantitative and qualitative parameters necessary to define the RA, which refer to stress scenarios and, in the case of changes the bank's internal and external operating context, modifications to these parameters;
- (ii) checks the adequacy of the RAF and on an ongoing basis the adequacy of the risk management process and operating limits;
- (iii) is responsible for developing, validating and maintaining the independence of risk measurement and control systems in order to report periodically to Control Bodies, the Board of Directors and UniCredit;
- (iv) defines the metrics to use to assess operational risk in line with the RAF, coordinating with the compliance function, ICT function and operating continuity function;
- (v) defines procedures for assessing and controlling reputational risk, coordinating with the compliance function and with company functions that are most exposed;
- (vi) assists company bodies in assessing strategic risk, monitoring significant variables;
- (vii) ensures the consistency of risk control and measurement systems with processes and methodologies to assess company activities, coordinating with company units concerned; develops and adopts indicators that can identify anomalies and inefficiencies in risk control and measurement systems;
- (viii) analyses the risks of new products and services and risks from entering new operating and market segments;
- (ix) gives prior opinions on the consistency of material transactions with the RAF, and obtains the opinion of other functions involved in the risk management process, depending on the nature of the transaction;
- (x) monitors actual risk undertaken by the bank, on an ongoing basis, and consistency with risk objectives, as well as compliance with operating limits assigned to operating units in relation to the undertaking of different types of risk;
- (xi) checks the adequacy and effectiveness of measures taken to remedy inefficiencies identified in the risk management process.

The Risk Management function also develops the ICAAP - Internal Capital Adequacy Assessment Process - in compliance with Basel II requirements, updates to Basel III requirements and indications from the parent company UniCredit.

The function also carries out monitoring and reports to company bodies (Managing Director and General Manager, Board of Directors, Audit Committee and Board of Statutory Auditors) and to internal committee with advisory functions concerning strategic guidelines and policies referred to any type of risk (hereinafter, the "**Risk Committee**").

Reporting to corporate bodies consists of the quarterly report on the Bank's risk exposure; specific reporting is also prepared for the Risk Committee, with operating information in relation to key risk indicator performance and consequent corrective measures.

## 11. Internal control and risk management system (CONTINUED)

### **The Compliance Function**

The Compliance function monitors non-compliance risk management<sup>(10)</sup> with a risk-based approach, referring to all company operations and ensuring that internal procedures are appropriate for preventing this type of risk.

The Compliance function assists/supports the management and Company employees in managing non-compliance risk and monitoring the correct performance of business operations so as to ensure compliance with current regulations, internal procedures and applicable best practices.

For an effective management of non-compliance risk, the Company shall have a Compliance function. This function must be independent, with a sufficient number and quality of human and technical resources for duties to perform, and may deal freely with Senior Management and company bodies; it shall have access to all resources and company information and may report any matter directly to higher hierarchical levels.

In February 2016 the Board of Directors approved the insourcing, with effect from April 1, 2016, of the Compliance function, previously centralised at the parent company UniCredit based on a specific outsourcing agreement and with a centre (hereinafter, the “**Compliance Officer Unit**”) at FinecoBank, responsible for applying the methods for assessing and monitoring non-compliance risk.

In this regard, the Compliance Officer unit was reorganised was renamed the Compliance unit.

The role and requirements of the Compliance function are regulated in specific global rules issued by UniCredit and implemented by the Company.

The mission of the Compliance reference unit is to support the Company, the Company Bodies and personnel in managing the risks of non-compliance with regulations with regard to all company operations, verifying that internal procedures are adequate in preventing this risk.

The above is in compliance with the provisions of the Supervisory Regulations and with the Global Compliance Rules and Group methods.

In particular, management of the risk of non-compliance with regulations is carried out through:

(a) Pro-active consulting, as well as on request

- ongoing identification of the laws applicable to the bank and of the consequent risks of non-compliance; definition of the impact on company processes and procedures, including the information system (ICT Compliance);
- ex ante assessment of compliance with regulations applicable to products, processes, organisational structures, incentive system, training modules and, in particular, innovative projects (including operations in new business lines and geographical areas) that the bank intends to undertake – also through the participation in specifically designated committees – as well as prevention and management of conflicts of interest among the various activities carried out by the bank, with regard to employees and collaborators;
- carrying out requests for opinions and prior assessments on compliance matters originating from the various internal units in relation to external regulations, with the aid of those units by analysing and interpreting those regulations;
- assessments, for the areas under its responsibility, of the Bank’s remuneration policy and in particular of the remuneration/incentive systems for personnel and the personal financial advisors network authorised for cold calling;
- participation, where required, in Group projects and work groups according to area of responsibility.

(b) Communication

- promotion of a culture based on compliance with internal and external regulations and international best practices, through adoption (upon the appropriate adjustments in order to incorporate the specific characteristics of Fineco) of the Global Compliance Rules (Policies and Operational Regulation) issued by the parent company UniCredit, drawing up of Circulars and Service Orders, notes, memoranda, opinions and communications, as well as through personnel training activities;
- collaboration with the other Bank functions and, in particular, with those that oversee management and control of risks (starting with Internal Audit and Risk Management), in order to improve overall consistency and ensure mutually adequate and ongoing flows of information;

(10) Non-compliance risk may be defined as the risk of incurring legal or administrative sanctions, financial losses or sustaining reputational damage, as a result of non-compliance with financial and banking laws, regulations, codes of conduct and good practices.

- development of FinecoBank's annual training plan, in line with the UniCredit guidelines.

(c) Interaction with the Authorities

- management of the relationship with the Authorities together with other relevant functions (such as participation in discussions on significant legislative and regulatory news, assistance in the preparation of comments on bills, monitoring of requests and inspections by the Authorities and the relative corrective measures).

(d) Monitoring, surveillance and reporting

- assessment of the non-compliance risks identified (so-called compliance risk assessment), also through level two controls, definition of corrective measures to mitigate said risks, monitoring of the measures, and initiation of procedures to involve the relevant higher hierarchical levels by topic (escalation) to resolve the critical issues identified;

- verification of the effectiveness of organisational adjustments (structures, processes and procedures, operational and commercial) recommended to prevent the risk of non-compliance with regulations.

The function is directly responsible for non-compliance risk management in the case of regulations that are more significant as regards non-compliance risk, *i.e.* on banking and the provision of investment services, the management of conflicts of interest, transparency in customer relations and, more in general, on consumer protection and regulations for which strategic oversight at the bank is not already provided for.

With reference to other regulations for which specific types of strategic oversight (e.g. occupational safety, tax laws, etc.) are provided, the Bank, based on an assessment of the adequacy of specialist controls for managing non-compliance risk profiles, adopted the indirect coverage model:

- the specialist unit to adopt the risk assessment methodologies and second level controls defined by the Compliance function;

- the Compliance function verifies that the units operate in compliance with the methodologies and procedures provided, by ensuring suitable control of non-compliance risk and establishes and validates the reporting with the aim of providing an overall view of non-compliance risk.

In performing its duties, the Compliance function has access to all bank operations, both central and peripheral, and to all information considered significant in this regard, also through direct interviews with personnel.

The Anti-Money Laundering and Anti-Terrorism Service, charged with managing the proper application of regulations with regard to fighting money laundering and the financing of terrorism, was established within the Compliance Officer Unit.

## 11. Internal control and risk management system (CONTINUED)

### 11.1 Director in charge of the Internal Control System and Risk Management

To comply with the recommendation set forth in Principle 7.P.3 of the Corporate Governance Code for Listed Companies, and with the Supervisory Regulations, the Managing Director and General Manager Mr Alessandro Foti has been appointed Internal Control and Risk System Director.

As part of the internal control system, the Managing Director and General Manager, acting as Internal Control and Risk System Director, is tasked with and is responsible for the following:

- (i) identifying the main business risk, and ensuring effective risk management and execution of the instructions from the Board of Directors in the presence of a defined, managed and monitored Internal Control System;
- (ii) defining the means and methods for implementing the control and risk system, using guidelines from the Board of Directors, undertaking the design, management and monitoring of the internal control and risk management system, establishing operating limits for different types of risk and facilitating the development and dissemination of a culture of risk, assisted by relevant functions; the Chief Executive Officer and General Manager is responsible for the annual assistance assessment of the Internal Control and Risk System;
- (iii) ensuring the overall adequacy of the Control and Risk System, its actual functioning, amendments to take into account changes in operating conditions and the legal and regulatory framework; the Chief Executive Officer and General Manager and his first-line managers are called upon to provide a professional judgement on matters relating to the Internal Control System referring to their activities, taking into account the level of compliance with regulations, procedures and controls;
- (iv) establishing and overseeing the implementation of process to approve investments in new products, the distribution of new products or services or start of new activities or entry on new markets, or the implementation of processes and methods to evaluate company operations, in particular financial instruments, overseeing ongoing updates;
- (v) defining and overseeing the implementation of company policy on the outsourcing of company functions;
- (vi) defining internal information flows to ensure that company control bodies are fully aware of and can govern risk factors and compliance with the Risk Appetite Framework;
- (vii) authorizing, within the Risk Appetite Framework and where a tolerance threshold has been defined, the risk appetite being exceeded - within the tolerance threshold limit, reporting to the Board of Directors and identifying the management actions necessary to return the risk to within the established limit;
- (viii) implementing follow-up measures for the control and risk system after controls have been carried out, adopting necessary corrective measures or actions if inefficiencies or anomalies are identified, or after the introduction of new products, activities, services or processes that are significant;
- (ix) submitting proposals to the Chairman of the Board of Directors to appoint or remove from office the Head of Internal Audit, ensuring that the Manager has adequate resources to carry out his/her responsibilities;
- (x) promoting the development, periodic control of the operating continuity plan and its updating, approving the annual plan to control operating continuity measures and examining results of tests documented in a written form;
- (xi) ensuring completeness, adequacy, functionality (in terms of efficacy and efficiency) and reliability of the Bank's information system.

The Managing Director and General Manager implements the ICAAP (Internal Capital Adequacy Assessment Process), ensuring it conforms to the strategic guidelines and RAF and meets the following requirements: (a) it considers all relevant risks; (b) it includes forward-looking valuations; (c) it uses appropriate methodologies; (d) it is distributed to internal units; (e) it is adequately formalised and documented; (f) it identifies the roles and responsibilities assigned to company functions and units; (g) it is managed by an adequate number of competent resources, in a hierarchical position appropriate for complying with planning; (h) it is an integral part of management activities.

As regards credit and counterparty risk in particular, the Managing Director and General Manager, in line with strategic guidelines, approves specific guidance to guarantee the effectiveness of the system to manage risk mitigation techniques and compliance with the general and specific requirements of these techniques.

With specific reference to internal risk measurement systems to define capital requirements, the Managing Director and General Manager has the following duties:

- responsibility for the structure and functioning of the selected system; to perform this duty, members shall have an adequate knowledge of relevant aspects;
- issuing instructions so that the selected system is developed based on identified guidelines, assigning duties and responsibilities to company functions and ensuring the formalization and documentation of risk management process stages;
- ensuring that risk measurement systems are part of decision-making processes and use tests;
- considering observations made following the validation process and internal audits.

With regard to non-compliance risk in particular, they ensure the effective management of this risk, also establishing suitable policies and procedures for compliance for with the applicable regulations to be adhered to within the Bank, verifying, in cases of violations, whether the appropriate remedies have been implementing and establishing the reporting flows aimed at ensuring that the Bank's corporate bodies are fully informed about the for the management of non-compliance risk.

Assisted by the Compliance function, the Managing Director and General Manager identifies and evaluates at least annually, the main non-compliance risks to which the Bank is exposed, and plans relative management measures, as well as reporting at least once a year to the Board of Directors on the adequacy of non-compliance risk management.

Pursuant to the Corporate Bodies Regulations, the Managing Director and General Manager promptly reports to the Audit and Related Parties Committee (or Board of Directors) on problems and critical aspects identified or notified while carrying out his/her activities, also reporting to the Chairman of the Board of Directors, so that the Audit and Related Parties Committee (or the Board of Directors) may take appropriate measures.

The Managing Director and General Manager takes part in meetings of the Risk Committee, which as already noted is an internal committee with advisory functions concerning strategic guidelines and policies referred to any type of risk and with decision-making functions in relation to internal rules of an operational nature.

## 11.2 Head of the Internal Audit Function

The Internal Audit function, pursuant to Supervisory Regulations, is independent of other company functions and reports on its activities directly to the Board of Directors (also through the Audit Committee) and to the Board of Statutory Auditors on a quarterly basis; it also attends Audit Committee meetings, which are usually held monthly. As already indicated, (please see Section 6.1.3 above) and as detailed below, FinecoBank's Internal Audit function is outsourced to UniCredit based on a specific service agreement which governs procedures for performing activities.

The Internal Audit function operates in accordance with the audit mandate, most recently approved by the Board of Directors on September 20, 2016. This document defines its mission, responsibilities, organisational positioning, independence, duties and authority. The purpose of audits is to provide an independent assessment of the adequacy and functionality of the Bank's internal control systems (line or operating controls, or risk management controls), by evaluating the efficiency and effectiveness of information systems, organizational processes and company procedures, as well as the models and mechanisms for controlling and managing risks, including compliance risk.

The methodology used is based on the following main stages: *(i)* definition of the "Audit Universe", i.e. organizational and process analysis to identify elements involved in audit activities; *(ii)* risk assessment, i.e. identifying, assessing and measuring risks to which elements of the "Audit Universe" are exposed; *(iii)* definition of the annual and long-term audit plan, which establishes the objectives, types and frequency of audits and resources to use based on risk assessment results. Planning for the personal financial advisors network is based on a combined assessment using a risk-based approach while also considering the frequency of audits.

The audit measures carried out on the Bank as well as on the personal financial advisors network may include: *(i)* **audit processes** aimed at verifying the effective and efficient performance of activities and proper monitoring of risks implicit in the subject audit process; *(ii)* **audit of the personal financial advisors network**, carried out within the operating points of the sales network, with the objective of verifying the definition and functioning of level 1 and 2 controls on the main company processes impacting the personal financial advisors network. Remote audit activities are carried out predominantly with the support of anomaly indicators, together with subsequent on-site analysis to complete the activity; *(iii)* **specific**

## 11. Internal control and risk management system (CONTINUED)

**assessments** referring to individual behaviours or types of behaviours that aim to identify the causes and responsibilities for specific events, accidents or conduct (e.g., measures for cases of fraud and disloyalty belong to this type).

After completing audits and based on findings, the Internal Audit function makes suggestions to relevant company structures. It also informs other company control functions of any inefficiencies, weaknesses and irregularities identified during audits of specific areas or matters within their remit. Actions to remedy identified anomalies and inefficiencies are monitored by a systematic audit tracking process, and if particular risk situations and/or weaknesses in the internal control system are noted, by specific follow up.

Internal Audit may also carry out advisory services which, while not compromising its independence, aim to provide added value and support to the Bank in achieving its objectives, by offering advisory support on the design, functioning and improvement of the internal control system.

Internal Audit achieves its mission and conducts activities in accordance with the Internal Audit Group Standards, which include the Code of Ethics, approved by the Company's relevant Governing Bodies and which are based on International Standards for the Professional Practice of Internal Audit.

The Company has outsourced the Internal Audit function to UniCredit, through a services contract, the last version of which was signed on December 19, 2014. Under this agreement, the Chief Audit Executive manages the agreement and this position is assigned to the Company's Internal Audit Manager (hereinafter, the "**Chief Audit Executive**"), with the same duties and responsibilities as those in Application Criterion 7.C.5 of the Corporate Governance Code for Listed Companies.

In particular, the agreement gives the Chief Audit Executive the task of assessing the Bank's Internal Control and Risk System on an ongoing basis, making observations, proposals and suggestions and providing advice, in order to contribute to improving the effectiveness and efficiency of the system and correcting relative vulnerability factors. The Chief Audit Executive also assists Company bodies in planning audit activities.

With regard to the tasks required of the Head of the Internal Audit Function, the Audit Mandate specifies that said individual shall provide an annual evaluation of the adequacy and effectiveness of the Company's risk management and control processes in the areas covered by the mission and with respect to the relative scope of responsibility, with the objective of assessing, providing added value and contributing to improving the Company's internal control system.

In this scenario, the Head of the Internal Audit Function:

- develops a flexible, annual and long-term Audit plan, through an appropriate evaluation of risks, submitted to the Board of Directors for approval;
- implements the annual Audit plan, as approved, including the tasks or special projects requested by Management and/or by the Audit Committee;
- conducts special investigations on operational events;
- informs the corporate bodies, summarising the results of the Audit activities and the implementation status of Management's action plans.

Moreover, under the agreement, FinecoBank's Board of Statutory Auditors may request the Chief Audit Executive to report in full on activities carried out. In particular, in order to provide the corporate bodies and Senior Management with an overall evaluation of the internal control system, the Chief Executive Officers prepares the quarterly report entitled "*Internal Audit Activities and Results (IAAR)*". In addition to an assessment of the internal control system, the IAAR contains summary information on the Audit activities performed, on the main risks identified and on the implementation status of Management's action plans. An update on the progress of the annual plan is also provided on a periodic basis. The Chief Audit Executive also submits Audit Reports with a "critical" or "unsatisfactory" assessment directly to the Board of Statutory Auditors and to the Audit Committee; in any case, it may send additional audit reports to the Audit Committee and the Board of Statutory Auditors which, regardless of the overall assessment, contain significant shortcomings.



With specific reference to the planning of activities, the Head of the Internal Audit Function has drawn up:

- the audit plan, based on the results of the Risk Assessment, in accordance with the Group's Audit Guidelines. FinecoBank's Audit Plan also takes into consideration the requirements of the Supervisory Authorities and corporate bodies;
- FinecoBank's audit plan as part of the 5-year audit plan based on mandatory audits and on the risk assessment of FinecoBank's Audit Universe (AU). The long-term audit plan, revised annually based on the risk assessment, permits efficient and effective coverage of the AU, in line with the Bank's risks. IT auditing activities are included within the aforementioned plans.

The Internal Audit function is authorised by the Board of Directors to have unlimited access to all company functions, entries, property and personnel.

On May 13, 2014, the Board of Directors of the Company confirmed Mr Alessandro Carè as Internal Audit Manager of FinecoBank, pursuant to Article 7 of the Corporate Governance Code for Listed Companies.

The Internal Audit Manager, in compliance with Application Criterion 7.C.5 of the Corporate Governance Code for Listed Companies, is not responsible for any operating area and does not report hierarchically to any operating area manager. He also has direct access to all information useful for carrying out his duties.

### 11.3 Compliance programme pursuant to Legislative Decree no. 231 of June 8, 2001

On March 15, 2010, the Board of Directors approved FinecoBank's Organisation Management and Control Model (hereinafter, the "**Model**"), pursuant to Legislative Decree no. 231 of June 8, 2001, on "*Provisions for the administrative liability of corporate bodies, Companies and associations also without legal status*" (hereinafter, the "**Legislative Decree 231/2001**"). This document was amended to take into account subsequent regulations and the current version was approved by the Board of Directors by resolution of November 8, 2016.

The Model is made up of:

- A **general part**, divided into seven chapters that describe: the scope and purposes of the Model; the applicable regulatory framework; the description of the management and control system adopted by FinecoBank to mitigate the risk of commission of the crimes pursuant to Legislative Decree 231/2001; the functioning of the body appointed to supervise the functioning and compliance with the Model; the disciplinary system and related penalties; the information and training plan to be adopted in order to guarantee knowledge of the measures and provisions of the Model; the criteria for updating and adapting the Model;
- A **special part**, containing the decision protocols and the schedule of the sensitive processes.

The Model is completed with the following annexes, which are integral part of the Model:

- Annex 1 containing the "*List of predicate crimes and individual criminal offences*";
- Annex 2 containing the "*Code of ethics pursuant to Legislative Decree 231/01*" which sets out the rules designed to guarantee that the conduct of the recipients of the Model is always based on the criteria of fairness, collaboration, loyalty, transparency and mutual respect, and also to avoid conduct capable of constituting the criminal offences and the predicate administrative offences;
- Annex 3 "*Information flows to the Supervisory Board*".

Furthermore, on May 11, 2012 the Board of Directors resolved to adopt the Integrity Charter and Code of Conduct of the UniCredit Group, along with the supplementary FinecoBank regulations. The document combining these (hereinafter, the "**Code**"), as last amended with resolution of January 27, 2014, integrates the current regulations on banking, investment services and employment, identifying the fundamental principles of conduct for those working for the company. The Regulations therefore concern all persons performing activities on behalf of the Company: members of supervisory, management and control bodies of the Company, employees, personal financial advisors authorised for cold-calling, outsourcers.

In accordance with the provisions set forth in Article 6, paragraph 1, of the Legislative Decree 231/2001, the Company has also established a specific body (hereinafter, the "**Supervisory Board**") to monitor the functioning of and compliance with the Model, and its continual updating.

## 11. Internal control and risk management system (CONTINUED)

To that end, Supervisory Board, among other things: *(i)* has independent powers to act and carry out controls, and independent spending powers, *(ii)* periodically reports to the Audit and Related Parties Committee on the Programme's functioning, and *(iii)* gives the Board of Directors, on an annual basis, a written report on the implementation status of the Programme, and in particular, on controls carried out and on critical aspects and anomalies identified.

The Supervisory Board was appointed by the Board of Directors on April 15, 2014, for a term of three years; subsequently the composition was modified by the February 8, 2016 Board of Directors resolution, valid up to April 12, 2016 (date of the Shareholder Meeting that approved the 2015 annual financial report), which appointed two "external members" replacing the independent director who acted as Chairman of the Supervisory Board, according to the previous Model; subsequently, the Board of Directors, by resolution of June 16, 2016, establish the introduction of the Head Legal & Corporate Affairs as a replacement to the Head of GBS and the Head of Human Resources. Accordingly, at the date of approval of this Report, the composition of the Supervisory Board was as follows:

NAME AND SURNAME	POSITION
Marianna Li Calzi	(Chairman)
Gian-Carlo Noris Gaccioli	<i>Chairman of the Board of Statutory Auditors</i>
Andrea Pepe	Head of Legal & Corporate Affairs
Alessandro Carè	Head of internal Audit
Silvio Puchar	Head of Compliance

Compliance Program adopted by the Company, as above described is available on the Issuer web site: [www.finecobank.com](http://www.finecobank.com). at the following link [https://images.fineco.it/pub-fineco/pdf/popup/modello\\_organizzazione\\_gestione.pdf?v=1](https://images.fineco.it/pub-fineco/pdf/popup/modello_organizzazione_gestione.pdf?v=1).

### 11.4 External Auditors

The Shareholders' Meeting of April 16, 2013 appointed Deloitte & Touche S.p.A., pursuant to Article 16, paragraph 1, of the Legislative Decree no. 39 of January 27, 2010, *(i)* to audit the financial statements of the Issuer for the years from December 31, 2013 to December 31, 2021 (included), including the auditing of the company's accounts, and *(ii)* the limited auditing of interim reports from 30 June 2013 to 30 June 2021 (included).

### 11.5 Nominated Official in charge of drawing up company accounts

As established by Article 28 of the By-laws and subject to the mandatory opinion of the Board of Statutory Auditors, the Board of Directors appoints the Officer responsible for preparing the financial reports (hereinafter the "**Financial Reporting Officer**"), pursuant to Article 154-*bis* of the Consolidated Law on Finance.

The Financial Reporting Officer is selected by the Board of Directors from the executives of the Company that have specific expertise, in administrative and accounting terms, of lending, finance, securities or insurance. This expertise, verified by the Board of Directors, shall be gained from professional experience in a position of adequate responsibility for a suitable period of time and in like-for-like companies. The Financial Reporting Officer shall also meet the good standing requirements of laws in force for positions indicated in the By-laws. If the Financial Reporting Officer no longer meets the good standing requirements, he/she shall be removed from office.

As provided for by Article 154-*bis* of the Consolidated Law on Finance, the Financial Reporting Officer is responsible for the following: *(i)* preparing adequate administrative and accounting procedures for preparing financial statements and as well as any other kind of financial disclosure; *(ii)* including a written statement with the documents and notices required by law or disclosed to the market, containing information and data on the financial position and performance of the Company, that said information and data is truthful; *(iii)* arranging for the preparation of the financial statements, interim reporting and *(iv)* within relative areas of responsibility, representing the Bank in relations with the international financial community.

By resolution of 13 May 2014, subject to approval from the Board of Statutory Auditors and in compliance with Article 154-*bis*, paragraph 1, of the Consolidate Law on Finance and Article 28 of the By-laws, the Board of Directors of the Company appointed Ms. Lorena Pellicciari (already the Chief Financial Officer of the Bank) as the Financial Reporting Officer of the Company, assigning her the duties established in Article 154-*bis* of the Consolidated Law on Finance described above. This appointment became effective from July 2, 2014 (date of listing on the MTA).

Ms. Pelliciarì has gained considerable experience as Chief Financial Officer of FinecoBank and therefore has an excellent knowledge of processes for preparing the Company's accounting and financial documents. She therefore meets the professional requirements established in Article 28 of the By-laws.

The Board of Directors also gave Ms. Pelliciarì the following powers, in order for her carry out her duties as Financial Reporting Officer:

- (i) having free access to all information considered relevant for her duties, within the Company;
- (ii) taking part in Board Meetings dealing with issues in her area of responsibility;
- (iii) engaging with the Company's administrative and control bodies;
- (iv) approving company procedures, when they have an impact on the financial statements or other documents which are certified;
- (v) being involved in the design of information systems that have an impact on the financial position and performance of the Company;
- (vi) using the internal auditing, organization and compliance function to map and analyze processes within her area of responsibility and carry out specific controls;
- (vii) using information systems;
- (viii) updating, amending and supplementing, also with the assistance of external advisors, procedures on: (a) the standardisation of information flows to the Financial Reporting Officer and (b) the preparation of financial statements and all other types of financial disclosure.

Lastly, the Board of Directors, in exercising its supervisory powers, established that the Financial Reporting Officer shall report at least quarterly to the Board of Directors on activities carried out, as well as on any critical aspects identified.

### ***Financial reporting process***

As regards the main characteristics of the internal control and risk system in relation to financial reporting, including the reporting of consolidated information, under article 154-bis of the Consolidate Law on Finance, the financial reporting officer of FinecoBank is responsible for preparing and adopting adequate administrative and accounting procedures for the preparation of the financial statements, as well as all other forms of financial reporting to the market.

The Financial Reporting Officer, along with the Managing Director and General Manager, in a report on the financial statements and interim abbreviated financial statements shall also certify:

- the adequacy and actual adoption of administrative and accounting procedures;
- compliance with applicable international accounting standards endorsed by the European Community pursuant to Regulation (EC) no. 1606/2002;
- the consistency of accounting records;
- the accurate representation of the financial position and performance of the Company;
- the inclusion in the Directors' report on operations of reliable analysis of the company's performance, operations and situation, along with a description of main risks and uncertainties to which it is exposed.

As established by Article 28 of the By-laws, the Board of Directors ensures that the Financial Reporting Officer has adequate powers and resources to carry out the duties established by current regulations, and to comply with administrative and accounting procedures. In carrying out his/her duties, the Financial Reporting Officer may be assisted by all Bank units.

## 11. Internal control and risk management system (CONTINUED)

### 11.6 Procedures for the coordination of entities involved in the internal control and risk management system

Procedures for interaction among company functions and entities involved in the risk management and control system have been designed to prevent as far as possible overlapping or gaps, or to alter, even in essence, the main responsibilities of company bodies as concerns the risk management and control system.

Specifically, the Company has significantly consolidated cooperation among control functions, through specific formalised information flows on internal regulations and through managerial committees dedicated to control issues.

Interaction among level two and level three control functions is part of a more general framework of ongoing, proactive cooperation, which is mainly formalized in specific regulations/internal regulations and includes:

- involvement in the process to define and/or update internal regulations on risks and controls;
- the exchange of information flows, documents or data, as well as access to all resources or company information in line with the control requirements of functions;
- involvement in Board and Managerial Committees, systematically or on request;
- involvement in working parties, which are set up from time to time for risk and control issues.

The purpose of improved interaction between control functions and their continual reporting to company bodies is to ultimately establish a corporate governance system that guarantees sound and prudent management, also through a more effective monitoring of risk, at all company levels.

To ensure coordination and interaction among the various functions and bodies with control duties (envisaged by company, accounting or supervisory regulations), after the meeting of the Audit and Related Parties Committee, the Board of Directors has approved a specific document "*Document on Bodies and functions with supervisory tasks*" – sent to all the areas involved – outlining duties, responsibilities of the various Bodies and functions with supervisory tasks and methods of coordination/collaboration and the information flows transferred among them pursuant to Supervisory Regulations on Corporate Governance.

## 12. Directors' interests and Related-Party transactions

By resolution of September 22, 2015, the Board of Directors approved the adoption of the new procedures to manage transactions with related parties and associated persons (hereinafter, the “**Procedures for Related Parties and Associated Persons**”).

The Procedures for Related Parties and Associated Persons were previously reviewed and approved by the Audit and Related Parties Committee.

The Procedures for Related Parties and Associated Persons address governance issues, the scope of the procedures and the procedural and organizational profiles relative to managing transactions with related parties, associated persons and corporate officers pursuant to applicable regulations, as regards the operations of the Issuer.

The Procedures for Related Parties and Associated Persons are designed to govern the:

- identification, updating and ongoing monitoring of persons in conflict of interest (previously identified);
- management of transactions with persons in conflict of interest, with reference to, among others:
  - identification of transactions (including exemptions and exclusions);
  - management of the deliberative process;
  - reporting and transparency obligations to company bodies, the Supervisory Authorities and the market.

They also define:

- procedures for activities to manage transactions with persons in conflict of interest;
- organizational structures involved and their relative role;
- internal and external information flows;
- monitoring and control activities;
- methods for updating the procedures.

The Procedures for Related Parties and Associated Persons, in line with the Global Policy issued by UniCredit, are adopted for transactions undertaken by FinecoBank with parties in the “Combined Perimeter” which means the related parties and associated persons of UniCredit (“*UniCredit Perimeter*”), of FinecoBank (“*FinecoBank Perimeter*”) and of other banks and intermediaries supervised by UniCredit (“*Banks and Supervised Intermediaries Perimeter*”) combined.

The FinecoBank perimeter includes persons defined as “*Consob Related Parties*”, pursuant to the Related-Parties Regulations, and “*Associated Persons*”, or Related Parties identified as such pursuant to the Bank of Italy Circular no. 263 of December 27, 2006, as well as persons connected to them, in addition to persons who are included in the Perimeter on a voluntary and discretionary basis and not on the basis of the current regulations.

In compliance with Related-Parties Regulations, the Procedures for Related Parties and Associated Persons identify, as regards the materiality threshold, material transactions, non-material transactions and minor transactions.

As regards Transactions with the members of the Combined Perimeter, the Procedures for Related Parties and Associated Persons require specific information flows to:

- the Board of Directors and Board of Statutory Auditors
- Audit and Related Parties Committee;
- The Compliance Function;
- the CFO
- the parent company Central Oversight Unit.

## 12. Directors' interests and Related-Party transactions (CONTINUED)

The full text of the Procedures for Related Parties and Associated Persons, to which reference is made for further details, is available on the Issuer's website: [www.finecobank.com](http://www.finecobank.com) at the following *link* <https://images.fineco.it/pub-fineco/pdf/corporate/Procedures-for-the-management-of-transactions-with-persons-in-conflict-of-interest.pdf>.

\* \* \*

Under the principle set out in Article 2391 of the Civil Code concerning the interests of company Directors and the procedures for related parties and associated persons, considering that FinecoBank is a banking company also has to comply with Article 136, Consolidated Law on Banking, according to which officers cannot take on any obligation, directly or indirectly, with the bank they manage, direct or control, unless it is approved unanimously by the supervisory body and with the favourable vote of the members of the controlling body, without prejudice of the requirements of the Civil Code regarding the interests of company Directors.

Accordingly, corporate officers are required to report the names of individuals or companies with whom their entering into relations might constitute an indirect obligation substantially related to the corporate officers.

# 13. Appointment of Statutory Auditors

In accordance with the recommendations set forth in Application Criterion 8.C.1 of the Corporate Governance Code, statutory auditors shall be chosen among people who may be qualified as independent also on the basis of the criteria provided by the above Code with reference to directors.

In compliance with the laws and regulations applicable to listed companies, Article 23 of the By-laws requires that the Board of Statutory Auditors be appointed by the Shareholders' Meeting based on the lists presented by the entitled persons, in which the candidates are listed in sequential order, according to the procedure described below.

Shareholders can submit a list for the appointment of Auditors, provided that when they submit the list they hold, alone or in conjunction with other presenting shareholders, at least the minimum percentage of share capital established by the laws and regulations in force at the time. Ownership of the minimum shareholding required is calculated based on the shares registered to each shareholder on the day when the lists are filed at the Company; the related certification may be submitted after the lists have been filed, provided that it is within the deadline for publication of the lists.

Each party entitled to vote (as well as *(i)* entitled persons belonging to the same group, intended as a party, which need not be a corporation, exercising control pursuant to Article 2359 of the Civil Code and any subsidiary controlled by, or under the control of the said party, or *(ii)* shareholders who are party to a shareholders' agreement as per Article 122 of the Consolidate Law on Finance, or *(iii)* entitled persons who are otherwise associated with each other in a material relationship pursuant to current and applicable statutory or regulatory provisions) may submit individually or with others only one list, just like each candidate can be included in only one list, or otherwise be considered ineligible.

Lists shall be divided in two sections, containing respectively up to three candidates for the position of Statutory Auditor and up to two candidates for the position of Stand-in Statutory Auditor.

At least the first two candidates for the position of Statutory Auditor and the first candidate for the position of Stand-in Statutory Auditor in the respective lists must be entered in the Register of Auditors and have experience as statutory auditors.

Each list for the appointment of Statutory Auditor and Stand-in Statutory Auditor must have a certain number of candidates belonging to the least represented gender, so as to ensure compliance with at least the minimum requirements for gender equality prescribed by current law and regulations.

In order to be valid, the lists must be filed at the Registered Office or the Headquarters, also by means of remote communication and in accordance with the procedures stated in the notice of call which allows the identification of the parties filing the lists, no later than twenty-five days before the date of the Shareholders' Meeting (or within a different period of time according to applicable laws in force at the time) and must be made available to the public at the registered office, on the Company's website and through other channels provided for under current laws at least twenty-one days prior to the date of the Shareholders' Meeting (or within a different deadline as per applicable regulations).

Minority shareholders who are not affiliated with the shareholders concerned shall be entitled to extend the deadline for presenting lists in the circumstances and according to the procedures set forth in current laws and regulations.

Each eligible voter may vote for one list only.

The members of the Board of Statutory Auditors shall be elected as follows:

- (a) two (2) permanent Statutory Auditors and one (1) alternate Statutory Auditor are taken from the list that has obtained the highest number of votes cast by the entitled persons, in the order in which they appear on the list;
- (b) the remaining permanent Statutory Auditor and the remaining alternate Statutory Auditor shall be taken from the list that has obtained the most votes after the one referred to in (a) and the first candidates of the relevant section shall be appointed as regular Statutory Auditor and Alternate Statutory Auditor, respectively.

The Chairmanship of the Board of Statutory Auditors will go to the first candidate of the minority list of Standing Auditors receiving the most votes.

## 13. Appointment of Statutory Auditors (CONTINUED)

If, in accordance with the deadlines and procedures set forth above, only one list or no list has been presented, or the lists do not contain the required number of candidates to be elected, the Shareholders' Meeting shall pass a resolution for the appointment or completion of the Board of Statutory Auditors by relative majority. If there is a tie vote between several candidates, a run-off election shall be held between them with a further vote of the Shareholders' Meeting. The Shareholders' Meeting shall be required to ensure compliance with the provisions of applicable laws and regulations concerning gender balance.

In the event the death, resignation, withdrawal or removal from office for any other reason of a permanent Statutory Auditor, he/she shall be replaced by the alternate Statutory Auditor, from the same list as the outgoing Statutory Auditor, in the order in which they appear on the list, complying with the minimum number of members entered in the Register of Auditors who have been engaged in auditing activities, and in compliance with gender equality principles. If this is not possible, the outgoing Statutory Auditor shall be replaced by the alternate Statutory Auditor meeting the specified requirements, drawn from the minority list which obtained the most votes, following the order in which they appear on the list. Where the appointment of Statutory Auditors is not carried out using the slate voting system, the alternate Statutory Auditor shall take over pursuant to statutory provisions. Should it be necessary to replace the Chairman, the alternate Statutory Auditor taking over shall also serve as Chairman. The Shareholders shall appoint or replace Statutory Auditors in meetings called in accordance with Article 2401, paragraph 1, of the Civil Code in compliance with the principle of adequate representation of minority shareholders and gender equality. Where the appointment of the alternate Statutory Auditor in lieu of the permanent Statutory Auditor is not confirmed by the Shareholders' Meeting, he/she shall return to his/her position as alternate Auditor.



## 14. Composition and functioning of the Board of Statutory Auditors

Pursuant to Article 23 of the By-laws and in compliance with current rules and regulations, at least 2 (two) Standing Auditors and 1 (one) Stand-in Auditor must have been entered in the Register of Auditors for at least three years and have not less than three years of experience as a statutory auditor. The Auditors who are not entered in the Register of Auditors must have gained at least three years of experience in:

- (a) performing professional activities as a business accountant or lawyer, mainly in the banking, insurance and finance sector;
- (b) performing university teaching on subjects relating to - in the legal field - banking, commercial, tax and financial markets law and - in the business / finance field - banking operations, business economics, accountancy, economics of the securities market, economics of financial and international markets, corporate finance;
- (c) management functions at public entities governmental authorities operating in the credit, financial or insurance sector, as well as in the provision of investment services sector or collective portfolio management sector, both of which are defined in the Consolidated Law on Finance.

All Auditors must meet the eligibility, professional competence and integrity requirements provided for by law and any other applicable regulations.

Furthermore, in application of the recommendations contained in the Application Criterion 8.C.1 of the Corporate Governance Code for Listed Companies, the Auditors of FinecoBank must meet the independence requirements set forth in Article 3 of the Corporate Governance Code for Listed Companies, as well as the requirements provided in Article 148, paragraph 3, of the Consolidated Law on Finance.

In application of Article 144-*novies* of the Issuer Regulations and the above Criterion, the Board of Directors and the Board of Statutory Auditors are responsible for evaluating whether the members of the Board of Statutory Auditors meet the requirements specified above:

- (i) following appointment, the outcome of which shall be disclosed to the market by means of a press release;
- (ii) on an annual basis, reporting the results thereof in the annual corporate governance report.

The Company's Board of Statutory Auditors currently in office was appointed by the Shareholders' Meeting held on April 15, 2014. It shall remain in office until approval of the financial statements for the year ending on December 31, 2016.

In the light of the foregoing, the slate voting system (described in Section 13 of this Report) shall be used, for the first time, for the appointment of the new Board of Statutory Auditors to be carried out during the Shareholders' Meeting for approval of the financial statements for the year ending on December 31, 2016.

The table below provides relevant information about each member of the Board of Statutory Auditors in office as of the date of approval this Report.

POSITION	MEMBERS	YEAR OF BIRTH	DATE OF FIRST APPOINTMENT (*)	IN OFFICE FROM	IN OFFICE UNTIL	INDEP. CORPORATE GOVERNANCE CODE FOR LISTED COMPANIES	% (**)	NUMER OF OTHER POSITIONS (***)
Chairman	Gian-Carlo Noris Gaccioli	1951	14.04.2008	15.04.2014	11.04.2017	X	100	0
Statutory Auditor	Barbara Aloisi	1967	17.04.2012	15.04.2014	11.04.2017	X	93	2
Statutory Auditor	Marziano Viozzi	1946	16.04.2013	15.04.2014	11.04.2017	X	83	0
Alternate Statutory Auditor	Federica Bonato	1955	15.04.2014	15.04.2014	11.04.2017	X	=	1
Alternate Statutory Auditor	Marzio Duilio Rubagotti	1965	8.05.2012	15.04.2014	11.04.2017	X	=	0

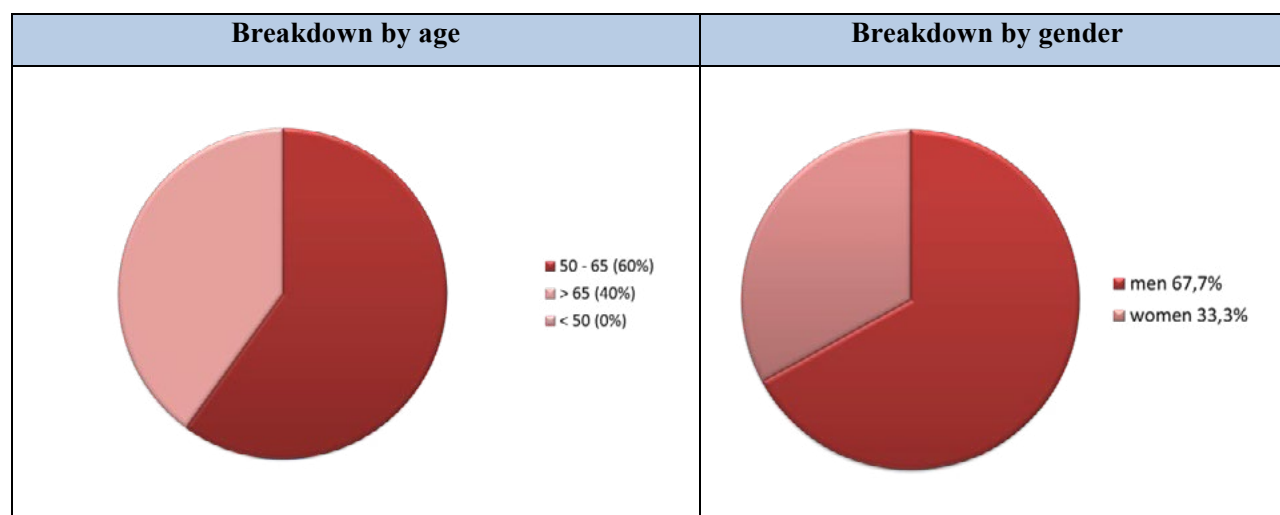
(\*) The date of first appointment of each Statutory Auditor means the date when the statutory auditor was appointed for the first time (ever) to the Board of Statutory Auditors of the Company.

(\*\*) Percentage attendance at Committee's meetings (no. of attendances/ no. of meetings held during the actual period office of the person concerned during the reporting period).

(\*\*\*) Number of offices as Director or Statutory Auditor in other companies listed in regulated markets, in financial, banking, insurance or large companies.

## 14. Composition and functioning of the Board of Statutory Auditors (CONTINUED)

A breakdown is provided below of the members in office of the Board of Statutory Auditors by age and gender.



A brief *curriculum vitae* of each member of the Board of Statutory Auditors, highlighting their professional and personal details along with their expertise and experience, is available on the FinecoBank website at the following link <https://finecobank.com/en/public/corporate/governance/cariche-sociali>.

The members of the Board of Statutory Auditors have not provided advisory services to the Issuer.

During the year, the Board of Statutory Auditors met 30 times. The average duration of the meetings was approximately 4 hours.

For the year 2017, 30 meetings of the Board of Statutory Auditors have been scheduled. At the date of approval of this Report 10 meetings had been held since the beginning of 2017.

All members of the Board of Statutory Auditors meet the professional competence and integrity requirements provided for by Article 148 of the Consolidated Law on Finance and Ministerial Decree no. 162 of March 30, 2000.

To the best of the Company's knowledge, none of the members of the Board of Statutory Auditors exceeded the limits on the number of board mandates specified in Article 144-*terdecies* of the Issuer Regulations, at the date of approval of this Report.

After its appointment, the Board of Statutory Auditors verified that each of its members possess the requirements of independence provided for by the Consolidated Law on Finance and the Corporate Governance Code for Listed Companies and communicated to the results of those checks to the Board of Directors.

During the meeting held on January 30, 2017, the Board of Statutory Auditors verified the independence of its members in accordance with the Corporate Governance Code for Listed Companies and Article 1148 of the Consolidated Law on Finance and Article 144-*novies* of the Issuers Regulations and communicated that the result of those of those checks to the Board of Directors.

In the assessment of the position of the requirements of independence no additional criteria were applied with respect to those envisaged by Article 148, paragraph 3, of the Consolidated Law on Finance, those established by any applicable industry sector regulation, and those envisaged by the Corporate Governance Code for Listed Companies.

Article 24 of the By-laws provides that, in order to properly perform its tasks, and in particular to fulfil its obligation to promptly inform the Bank of Italy, and other Supervisory Authorities if required, on management irregularities or violations of the law, the Board of Statutory Auditors is vested with the broadest powers provided for by current laws and regulations.

The Board of Statutory Auditors, without prejudice to any other or more specific duty and power assigned to it by primary and secondary laws and regulations in force, monitors compliance with laws, regulations and the By-laws, as well as the correct administration, adequacy of organisational and accounting arrangements of the Bank, of the risk management and control system, as well as the functioning of the overall internal control system, of the external auditing of the accounts, of the independence of external auditors and on the financial reporting process. The Board of Statutory Auditors works in close cooperation with the corresponding body of the UniCredit.

The Board of Statutory Auditors takes part in periodic meetings with the Chairman of the Board and with the Managing Director and General Manager, during which they exchange information.

In performing its duties, the Board of Statutory Auditors liaises with the Internal Audit function and the Audit and Related Parties Committee, through ongoing communication and the exchange of information, as well as by taking part in the meetings of the above mentioned Committee.

The Statutory Auditors are subject to the limit of the cumulation of positions pursuant to Article 144-*terdecies* of the Issuer Regulations.

The Statutory Auditors must also take into account the provisions of Article 36 of Law Decree no. 201 of December 6, 2011, converted into a law, after amendment by Law no. 214 of December 22, 2011 according to which holders of a seat in managerial, supervisory and controlling bodies, as well as top management officers in companies or groups of companies active in banking, insurance and financial markets are forbidden to hold similar offices, or to exercise similar duties, in competing companies or groups of companies (interlocking ban). Those who hold incompatible offices must notify the option exercised within 90 days of the appointment. Upon expiration of this period without any choice being made, they shall be removed from both offices.

The table below shows the offices held by statutory auditors of Finecobank in other companies listed in regulated markets, in financial, banking, insurance or large companies:

NAMES	LIST OF OFFICES	COMPANY BELONGS TO UNICREDIT GROUP	
		YES	NO
Gaccioli Gian-Carlo Noris <i>Chairman</i>	-	-	-
Viozzi Marziano <i>Statutory Auditor</i>	-	-	-
Alosi Barbara <i>Statutory Auditor</i>	Permanent Statutory Auditor, SIAD S.p.A.	-	x
Bonato Federica <i>Stand-in Statutory Auditor</i>	Permanent Statutory Auditor, Cattolica Assicurazione	-	x
Rubagotti Marzio Duilio <i>Stand-in Statutory Auditor</i>	-	-	-

The special authorization procedure set out in Article 136 of the Consolidated Law on Banking applies to obligations of any kind or to purchase/sale agreements executed, directly or indirectly, by the Board of Statutory Auditors members with the bank for which they perform their duties.

The Statutory Auditors, who on their own behalf or for third parties, have an interest in a particular transaction of the Issuer promptly and comprehensively inform the other Statutory Auditors and the Chairman of the Board of Directors, regarding the nature, terms, origin and extent of their interest.

For more information regarding the establishment, duties and functioning of the Board of Statutory Auditors, see the chapter "Board of Statutory Auditors" of the Corporate Bodies Regulations of FinecoBank.

## 15. Relations with Shareholders

The Company considers it fitting in its own interests and a duty for the market to forge an ongoing dialogue with its shareholders and institutional investors, in compliance with the procedure for disclosing company documents and information to the market, and in general in compliance with laws and regulations that govern the disclosure of inside information applicable to listed companies.

In this context, the Company, in compliance with the provisions of Article 9 of the Corporate Governance Code for Listed Companies, considers the Shareholders' Meeting as an important opportunity for shareholders and directors to engage, and consequently adopts measures that encourage shareholders to take part in the Shareholders' Meeting and exercise their right to vote. In this respect, subject to that described in Paragraph 16, below, it is noted that in accordance with Article 7 of the By-laws the Shareholders' Meeting held on single call, unless the Board of Directors establishes that they be held in more than one session.

Pursuant to Article 135-*undecies* of the Consolidate Law on Finance, the Company may appoint, for each Shareholders' Meeting, with information given in the notice of meeting, a person (company-appointed representative), that shareholders may appoint to act as proxy with instructions to vote on all or some items on the agenda, according to terms and procedures established by law.

Pursuant to Application Criterion 9.C.1 of the Corporate Governance Code for Listed Companies, relations with institutional investors are instead overseen by the Investor Relator. In this regard, the Board of Directors resolve to insource the Investor Relations function, with effect from October 6, 2016, previously assigned to UniCredit, through a specific service agreement. In keeping with previous resolutions, the Board also appointed Ms. Stefania Mantegazza as the head of the Investor Relations function, assigning her the position of Investor Relator of the Company.

The Investor Relator reports continually to the Company's Senior Management on requirements concerning disclosure to the financial market and in particular to investors.

The Investor Relator is therefore the point of contact between the Issuer and the market and works with the entire company to maintain and promote compliance with regulations on corporate reporting.

\* \* \*

The Company has created a specific section, on its website [www.finecobank.com](http://www.finecobank.com) – which is easily identifiable and accessible – in which the information is made available regarding the Company that is of significance for its shareholders, in order to enable them to exercise their rights in an informed manner. In particular, in that section updated information is made available on the Company, and services offered, providing the key documents on corporate governance, as well as all press releases on the main company events, in addition to financial and accounting data. Information on the website is updated as promptly as possible, to guarantee the transparency and effectiveness of disclosure to the public.

## 16. Shareholders' meetings (pursuant to Article 123-bis, paragraph 2, letter c), Consolidated Law on Finance)

In compliance with regulatory and legal provisions in force, the Ordinary Shareholders' Meeting, pursuant to the By-laws, is convened at least once a year, within 120 (one hundred and twenty) days from the end of the financial year, to resolve on items in its remit as established by laws in force and the By-laws. The Extraordinary Shareholders' Meeting is convened whenever there is a need to resolve on items in its remit as established by the applicable regulations.

The Shareholders' Meeting is convened as one session in compliance with laws in force, however in order to maintain adequate organisational flexibility, the By-laws establish that the Board may convene several sessions for individual Shareholders' Meetings.

Meetings are convened according to law, by notice published on the Company's website, as well as by other procedures required by law. The Agenda is established according to law and the By-laws by the person with powers to convene Shareholders' Meetings.

Before the deadline for publishing the notice convening the meeting, based on each item on the agenda – or another term established by law – the Board of Directors shall make available to the public a report on each item on the Agenda.

The Agenda may be supplemented - according to the circumstances, procedures and terms established by laws in force - by shareholders that, even jointly, represent at least 2.50% of the share capital. Shareholders that request an item on the agenda to be added shall prepare a report stating the reasons for proposals to resolve on new items. Shareholders may also submit further proposals for resolutions on items already on the Agenda, giving relative reasons.

The Shareholders' Meeting meets at the Registered Office of the company or at another venue in Italy, indicated in the notice of meeting, and resolves with the majorities established by laws in force.

Quorums are not established in the By-laws, therefore in order for the Shareholders' Meeting to be duly established and for resolutions to be passed, laws in force shall be observed.

Pursuant to the By-laws, and in line with laws in force on remuneration and incentive policies and practices issued by Consob, and, for banks and banking groups, issued by the Bank of Italy, the Ordinary Shareholders' Meeting establishes the fees of the bodies it appoints, and also approves: (i) remuneration policies for Board Directors, employees and persons working for the company on a self-employed basis; (ii) remuneration plans based on financial instruments; (iii) payments agreed on in the event of the early termination of employment or early termination of an appointment, including the limits established for said fees in terms of annual fixed remuneration.

When approving remuneration policies, the Shareholders' Meeting may increase the limit of the ratio between variable and fixed remuneration up to a maximum of 2:1 or, if lower, to the maximum allowed by applicable laws in force. The Shareholders' Meeting votes on the Company's policy on the remuneration of Board Directors, the General Manager and Key Management Personnel, and the procedures used to adopt and implement this policy.

### 16.1 Legitimation, procedures for taking the floor and voting

According to applicable regulations, referred to in Article 8 of the By-laws, persons may take part in the shareholders' meeting and exercise their voting rights following notification sent to the Company, within the legal established time limits, by the intermediary authorized by law to keep the accounts, based on the entries in the accounting records relative to the end of the accounting day of the seventh open market day prior to the date established for the shareholders' meeting convened as a single session, or as a first session if the Board of Directors has planned for further sessions to take place.

The By-laws enable shareholders to take part in the Shareholders' Meeting using telecommunication means and to exercise voting rights digitally. The decision to activate these means is to be taken by the Board of Directors for each Shareholders' Meeting.

Pursuant to Article 8 of the By-laws, each shareholder who may take part in Shareholders' Meetings can be represented by written proxy by another person, who is not necessarily a shareholder, provided this complies with legal provisions. Voting by proxy may also be authorized by a document signed digitally pursuant to laws in force and notified to the Company at the email address and according to procedures indicated in the notice of meeting, or by another procedure established by current laws in force.

## 16. Shareholders' meetings (pursuant to Article 123-bis, paragraph 2, letter c), Consolidated Law on Finance) (CONTINUED)

In compliance with the Application Criterion 9.C.2 of the Corporate Governance Code for Listed Companies, which recommends the involvement of directors in Shareholders' Meetings as an important opportunity for director/shareholder engagement, all directors usually take part in the Shareholders' Meetings of the Company. On these occasions, the Board of Directors, in particular, reports on past and planned activities and ensures shareholders are given sufficient information on items necessary for them to make informed decisions during shareholders' meetings.

The Board reports to the Shareholders' Meeting on past and planned activities within the context of the Directors' Report on Operations. It also gives shareholders sufficient information on items necessary for them to make informed decisions during shareholders' meetings, ensuring that Directors' reports and additional documents are made available within the times established by regulations and laws.

### 16.2 Proceedings of shareholders' meetings

In accordance with the recommendations of the Corporate Governance Code for Listed Companies (Application Criterion 9.C.3), on proposal by the Board of Directors, the Shareholders' Meeting adopted regulations for the orderly and functional proceedings of shareholders' meetings (hereinafter, the "**Shareholders' Meeting Regulations**"). The Regulations for Shareholders' Meetings, is available on the Company's website at the following link [https://images.fineco.it/pub-fineco/pdf/corporate/RegolamentoAssemblea-All-B\\_EN.pdf](https://images.fineco.it/pub-fineco/pdf/corporate/RegolamentoAssemblea-All-B_EN.pdf).

Pursuant to Article 8 of the Regulations for Shareholders' Meetings, persons who are entitled to take part in shareholders' meetings may take the floor as regards each item to discuss. Persons intending to take the floor shall request permission from the Chairman, submitting a written request with details of the issue the request refers to, after the Chairman has read the items on the Agenda and before he declares discussions the request to take the floor refers to as closed. The Chairman may authorise requests to take the floor to be made with a show of hands, and in this case persons take the floor in the alphabetical order of their surnames.

Article 10 of the By-laws also establishes that the Chairman is aided by a Secretary, selected by the attendees, who may also be a non-shareholder, by majority of those attending. In addition to the cases provided for by law, when the Chairman considers it appropriate, a notary may perform the function of Secretary, selected by the Chairman.

### 16.3 Significant changes in the capitalisation and in the ownership structure

The capitalisation of FinecoBank fell by around €1,391,000.00 during the Year compared to the previous year, to a figure of €3,234,000.00 at December 31, 2016.

With regard to the changes in the ownership structure during the year, the following is noted:

- UniCredit announced, in July 2016, that it had reduced its shareholding from 65.500% to 54.457% and then announced, in October 2016, that it had further reduced its shareholding to below the material limit of 50% (namely from 54.457% to 35.479%);
- Norges Bank announced that it had exceeded the material limit of 3% in October 2016 and then announced, in November 2016, that it had fallen back below that limit;
- Wellington Management Group LLP announced that it had exceeded the limit of 5% in October 2016.

No proposals were made to the Shareholders' Meeting for amendments of the By-laws regarding the percentages established for the exercise of the shares and the prerogatives imposed for the protection of non-controlling interests.

## 17. Additional corporate governance practices

Among the corporate governance practices – in addition to those already indicated above – currently applied by the Company beyond the obligations provided for by laws or regulations it is noted that – in compliance with the established by the Supervisory Regulations on Corporate Governance (Part I, Title IV, Chapter 3, Section VIII) – the Company has adopted a system of internal reporting of violations (whistleblowing).

In this context, the Company has head of the compliance function as the person responsible for the whistleblowing process, vested with the necessary autonomy and independence for the assigned control functions, who ensures the proper conduct of the procedure and reports directly and without delay to the governing bodies on the information reported, where relevant.

## 18. Changes after the end of the Year

At the date of approval of this Report there were no changes to the corporate governance structure that had taken place after the end of the Year.









